

Report of Examination of

Grange Mutual Casualty Company
Columbus, Ohio

As of December 31, 2009

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Columbus, Ohio
October 25, 2010

Honorable Alfred W. Gross
Chair, Financial Condition (E) Committee
National Association of Insurance Commissioners (“NAIC”)
Virginia State Corporation Commission
Bureau of Insurance
Post Office Box 1157
Richmond, Virginia 23218

Honorable Mary Jo Hudson
Director
State of Ohio
Department of Insurance (“Department”)
50 West Town Street
3rd Floor – Suite 300
Columbus, Ohio 43215

Dear Sir and Madam:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), an examination was made of

Grange Mutual Casualty Company

an Ohio domiciled, mutual, property and casualty insurance company, hereinafter referred to as the “Company.” The examination was conducted at the Company’s home office, located at 671 South High Street, Columbus, Ohio.

A report of this examination is hereby respectfully submitted.

The Company was last examined as of December 31, 2008, by the Department. Representatives of the Department conducted the current examination covering the intervening period to and including December 31, 2009.

Management and Control

Board of Directors

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date.

Name	Principal Occupation
Douglas P. Buth	Retired, Chairman Appleton Papers
Glenn E. Corlett	Retired, Dean, Ohio University
Elwood G. Gee	President, The Ohio State University
Robert J. O'Brien	Retired, President Aqua Perfect of Central Ohio
Michael V. Parrott	Chairman, Highmark Technologies, LLC
Mary M. Perry	Senior Vice President, Kroger Company
Melvin G. Pye, Jr.	President and Chief Executive Officer, Fairfax Place
Thomas S. Stewart	Retired Vice President and General Manager, WBNS-TV
Philip W. Stichter	Retired Partner, Vorys, Sater, Seymour & Pease
Philip H. Urban	President and Chief Executive Officer, The Company
Thomas H. Welch	Vice President and Chief Financial Officer, The Company
David C. Wetmore	Former Managing Director, Updata Capital, Inc.

Officers

As of the examination date, the following officers were elected and serving in accordance with the Company's Bylaws:

Name	Title
Robert V. James	President and Chief Executive Officer
Thomas H. Welch	Vice President and Chief Financial Officer
David T. Roark	Vice President and Secretary
Gregory S. Adkins	President – Commercial
Alan D. Brannan	President – Property and Casualty
Michael A. Buzek	Vice President – EODB
Lavawn D. Coleman	Vice President – Assistant Secretary
Joseph F. DiMartino, Jr.	President – Personal
Elizabeth M. Dinnin	Vice President – Commercial
Carol L. Drake	Vice President – Marketing
Michael C. Fergang	Vice President – Chief Information Officer
Barry E. Hunlock	Vice President – Personal
John P. McCaffrey	Vice President – Finance
Peter M. McMurtrie	Vice President – Chief Claims Officer
John C. Montgomery	Vice President – Investments
Curtis M. Parker	Vice President – Chief Actuary
Robert C. Rissmeyer	Vice President – Human Resources
Mark C. Russell	Vice President – CAO
Douglas L. Sharp	Vice President – Agency Relations

Insurance Holding Company System

The Company is a member of a holding company system as defined in Section 3901.32 of the ORC. The following displays the chain of ownership of the insurance companies as of December 31, 2009:

Grange Mutual Casualty Company – Ohio
 Grange Life Insurance Company – Ohio (79%)
 Trustgard Insurance Company – Ohio
 Grange Indemnity Insurance Company – Ohio
 Grange Insurance Company of Michigan – Ohio
 Grange Property and Casualty Insurance Company – Ohio
 Integrity Mutual Insurance Company – Wisconsin
 Integrity Property and Casualty Insurance Company – Wisconsin
 Grange Life Insurance Company – Ohio (21%)

Reinsurance

Ceded

The Company has a property per risk excess of loss that provides coverage of \$11,000,000 in excess of \$1,000,000, a catastrophe excess of loss treaty that provides \$235,000,000 of coverage in excess of \$15,000,000 and catastrophe aggregate excess of loss treaty that provides coverage of \$30,000,000 excess of \$80,000,000 retention.

The casualty lines of business have a per risk excess of loss coverage that provides coverage of \$3,750,000 above a retention of \$1,250,000 and clash coverage of \$5,000,000 excess of \$5,000,000. The workers compensation line of business has coverage of \$29,250,000 in excess of \$750,000 retention.

Intercompany Pooling

For the period covered by this examination, the Company was the lead participant in an intercompany pooling agreement with its subsidiaries and affiliates. The effect of the agreement is for the subsidiaries and affiliates to transfer all direct insurance liabilities to the Company and then to assume a specific percentages of the net underwriting results of the pool. The specified percentages of participation as of December 31, 2009 were as follows:

Grange Mutual Casualty Company	84.0%
Trustgard Insurance Company	3.5%
Grange Indemnity Insurance Company	4.0%
Grange Insurance Company of Michigan	2.5%
Grange Property & Casualty Insurance Company	2.0%
Integrity Mutual Insurance Company	3.3%
Integrity Property and Casualty Insurance Company	<u>0.7%</u>
	100.0%

All reinsurance contracts contained the required NAIC clauses.

Territory and Plan of Operations

The Company was licensed to transact business in the States of Alabama, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Minnesota, Missouri, Ohio, Pennsylvania, Tennessee, Virginia, and Wisconsin.

<u>Percentage of Direct Business Written by Line</u>	
<u>Description</u>	<u>2009</u>
Homeowners multiple peril	18.8%
Commercial multiple peril	12.5%
Private passenger auto liability	28.4%
Auto physical damage	24.0%
Other	16.3%
Total	<u>100.0%</u>

Scope of Examination

One of the purposes of the examination was to make an assessment of the financial condition of the Company as of December 31, 2009. To substantiate the various items, tests were made either by complete audits of accounts or by sampling methods prescribed by the NAIC Examiner's Handbook. In selecting the examination procedures used, due consideration was given to the importance of each account to overall solvency. Transactions occurring subsequent to the date of the examination were reviewed to the extent deemed necessary.

For each year during the period under examination, the Certified Public Accounting (CPA) firm of PriceWaterhouseCoopers, LLP, provided an unqualified opinion based on statutory accounting principles. Relevant work performed by the CPA firm, during its annual audit of the Company, was reviewed during the examination and incorporated into the examination work papers.

The Department's property and casualty actuary reviewed the relevant work performed by the opining actuary, to report on the adequacy of the carried reserves, and to comment on any other statutory matters relating to reserves.

In addition, the following items were reviewed during the course of this examination:

1. Company history;
2. fidelity bonds and other insurance;
3. officers', employees', and agents' welfare and pension plans;
4. growth of Company;
5. loss experience;
6. pending litigation; and
7. Articles of Incorporation and Bylaws.

Financial Statements

The financial condition and the results of its operations for the one year period under examination as reported and filed by the Company with the Department and audited by the Company's external auditors, are reflected in the following:

Statement of Assets, Liabilities, Surplus and Other Funds
Statement of Operations
Statement of Changes in the Capital and Surplus Account

Statement of Assets

December 31, 2009

Admitted assets

Cash and invested assets:	
Bonds	\$808,784,881
Preferred Stocks	1,932,697
Common Stocks	334,884,143
Mortgage loans on real estate	17,241,482
Real Estate	135,191,120
Cash	73,168,559
Other invested assets	48,833,376
Total cash and invested assets	<u>1,420,036,258</u>
Accrued investment income	10,355,399
Uncollected premiums and agents' balances	172,276,947
Deferred premiums	90,158
Amounts recoverable from reinsurers	1,132,722
Current federal and foreign income tax recoverable	16,587,512
Net deferred tax asset	35,473,770
Electronic data processing equipment and software	5,007,009
Aggregate write-ins for other than invested assets	1,469,223
Total admitted assets	<u>\$1,662,428,998</u>

Liabilities, Surplus and Other Funds

December 31, 2009

Liabilities:

Losses	\$335,623,983
Reinsurance payable on paid losses	(48)
Loss adjustment expenses	102,883,512
Commissions payable	12,050,697
Other expenses	21,306,780
Taxes, licenses and fees	10,058,385
Unearned premiums	352,712,612
Policyholder dividends	718,753
Ceded reinsurance premiums payable	(793,281)
Amounts withheld or retained by company for account of others	412,430
Provision for reinsurance	64,467
Drafts outstanding	(126,015)
Payable to parent, subsidiaries and affiliates	1,066,668
Payable for securities	3,880,095
Aggregate write-ins for liabilities	41,516,640
Total liabilities	<u>881,375,678</u>

Capital and surplus:

Surplus notes	45,000,000
Unassigned funds	736,053,320
Total capital and surplus	<u>781,053,320</u>
Total liabilities, capital and surplus	<u>\$1,662,428,998</u>

Statement of Operations

December 31, 2009

Premiums earned	\$922,615,808
Losses incurred	568,539,030
Loss expenses incurred	96,105,052
Other underwriting expenses incurred	303,123,052
Aggregate write-ins for underwriting deductions	
Total underwriting deductions	<u>967,767,134</u>
Underwriting loss	(45,151,326)
Net investment income earned	30,185,863
Net realized capital losses	<u>(2,422,132)</u>
Net investment gain	27,743,731
Net loss from agents' or premium balances charged off	(7,294,302)
Finance and service charges not included in premiums	15,888,164
Aggregate write-ins for miscellaneous income	<u>1,066,899</u>
Total other income	9,660,761
Income before dividends to policyholders and before federal and foreign income taxes	<u>(7,746,834)</u>
Dividends to policyholders	<u>2,485,657</u>
Income after dividends to policyholders but before federal and foreign income taxes	<u>(10,232,491)</u>
Federal income taxes	<u>(23,627,386)</u>
Net income	<u><u>\$13,394,895</u></u>

Statement of Changes in the Capital and Surplus Account
(In thousands)

Capital and surplus December 31, 2008	<u>\$713,097</u>
Net income	13,395
Net unrealized capital gains (losses)	49,200
Change in net deferred income tax	(10,753)
Change in nonadmitted assets	15,640
Change in provision for reinsurance	<u>474</u>
Net change in capital and surplus	<u>67,956</u>
Capital and surplus December 31, 2009	<u><u>\$781,053</u></u>

Notes to Financial Statements

Investments

The Company's investments were in compliance with Section 3925.08 of the ORC.

Loss and Loss Adjustment Expense Reserves

The Company had an inside actuary, Curtis Parker, FCAS, MAAA, certify the total reserves for the years covered by the examination. The Department's actuary, Mary D. Miller, FCAS, MAAA, reviewed the detailed calculations for the reserves of the major lines of business as of December 31, 2009.

On the basis of the above-mentioned analysis, it was determined that the loss and loss adjustment expense reserves were reasonable as of December 31, 2009.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2009, and is summarized as follows:

Total Admitted Assets	<u>\$1,662,428,998</u>
Liabilities	\$881,375,678
Surplus as Regards Policyholders	<u>781,053,320</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$1,662,428,998</u>

Acknowledgement

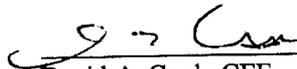
Appreciation is expressed for the assistance extended by the officers and employees of the Company during the course of this examination.

In addition to the undersigned, the following representatives of the Department participated in this examination: Jeff Ferris, CFE, AES; Dominic Ilc, CFE, AES; Floyd Meeks, CFE, CPA, AES; Mary Miller, FCAS, MAAA; Jyotika V. Patel, CPA; and Patricia Severs, CPA.

Respectfully,



Donnie G. Wells, CFE
Examiner-In-Charge
Ohio Department of Insurance



David A. Cook, CFE
Assistant Chief Examiner
Ohio Department of Insurance

Verification

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2009.

[Signature]
Examiner-In-Charge

1/6/11
Date

[Signature] 1/6/11
Assistant Chief Examiner Date

State of Ohio
County of Franklin

Personally appeared before me the above named Donnie G. Wells, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 6 day of January 11.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2012
My Commission Expires

State of Ohio
County of Franklin

Personally appeared before me the above named David A. Cook, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 6 day of January, 2011.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2012
My Commission Expires