

Report of Examination of

Buckeye State Mutual Insurance Company
Piqua, Ohio

As of December 31, 2010

Table of Contents

Subject	Page
Salutation.....	1
Description of Company.....	1
Scope of Examination.....	1
Management and Control:	
Board of Directors.....	2
Officers.....	2
Insurance Holding Company System.....	3
Reinsurance:	
Intercompany Pooling.....	3
Ceded.....	3
Assumed.....	3
Territory and Plan of Operations.....	4
Financial Statements:	
Statement of Assets, Liabilities, Surplus and Other Funds.....	5
Statement of Operations.....	6
Statement of Changes in the Capital and Surplus Account.....	6
Notes to Financial Statements:	
Investments.....	7
Loss and Loss Adjustment Expense Reserves.....	7
Subsequent Events.....	7
Conclusion.....	7
Acknowledgement.....	8

Columbus, Ohio
April 4, 2012

Honorable Mary Taylor
Lieutenant Governor/Director
State of Ohio
Department of Insurance
50 West Town Street
3rd Floor – Suite 300
Columbus, Ohio 43215

Dear Madam:

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

Buckeye State Mutual Insurance 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 One Heritage Place, Piqua, Ohio.

Scope of Examination

The Company was last examined as of December 31, 2007, by the Ohio Department of Insurance (“Department”). Representatives of the Department conducted the current examination covering the intervening period to and including December 31, 2010.

The examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that the Department plan and perform the examination to evaluate the Company’s financial condition and identify prospective risks including corporate governance, identify and assess inherent risks and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

For all years under examination, the Certified Public Accounting firm of Ernst & Young LLP provided an unqualified opinion on the Company’s financial statements based on

Statutory Accounting Principles. The audited financial reports were reviewed during the examination.

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
R. Douglas Haines	President and Chief Executive Officer The Company
Donald E. Benschneider	Retired
John S. Halderman, II	Managing Director Guy Carpenter & Company, LLC
Thomas C. Lynch	Managing Director Jones Lang LaSalle
Richard J. Seitz	Retired
J. MacAlpine Smith	Retired
James A. Stahl	Retired
William L. Sweet, Jr.	Attorney
Ralph F. Thiele	President Echo-German Mutual Insurance Company

Officers

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

Name	Title
R. Douglas Haines	President and Chief Executive Officer
Robert E. Bornhorst	Senior Vice President, Treasurer and Chief Financial Officer
John M. Brooks	Senior Vice President – Insurance Operations
John E. Davis	Senior Vice President – Claims
Craig A. Curcio	Vice President – Controller

R. Christopher Haines	Vice President – Technical Operations
Steven C. Moeller	Vice President – Sales and Marketing
Lisa L. Wesner	Vice President and Secretary

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, 2010:

Buckeye State Mutual Insurance Company
Hetuck Insurance Agency
Marias Technology, Inc.
Home and Farm Insurance Company
Home and Farm Insurance Agency

Reinsurance

Intercompany Pooling

During the examination period, the Company had an intercompany Reinsurance Pooling Agreement with its affiliate, Home and Farm Insurance Company (“Home and Farm”) whereby all underwriting operations and business was conducted by the Company on behalf of Home and Farm. All business was allocated via mutual reinsurance 98% to the Company and 2% to Home and Farm.

The contract contained the necessary clauses to meet the guidelines prescribed by the NAIC.

Ceded

The largest net amount insured in any one risk of the pooled business is \$225,000 on property and \$250,000 on casualty risks. Excess of loss agreements cover \$1.275 million in excess of \$225,000 on property and \$2.75 million in excess of \$250,000 on casualty risks. Catastrophe coverage is provided by a named peril property quota share agreement whereby the Company retains 5% on each property or auto physical damage comprehensive loss. Certain pooled risks are also covered under facultative placements.

All contracts reviewed contained the necessary clauses to meet the guidelines prescribed by the NAIC.

Assumed

The Company’s only assumed business during the examination period resulted from an intercompany Reinsurance Pooling Agreement.

Territory and Plan of Operations

The Company was licensed to transact business in the States of Arizona, Colorado, Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Nebraska, New Mexico, North Dakota, Ohio, South Dakota, and Wisconsin.

The following table illustrates the percentage of net premiums written by line of business in 2010:

<u>Description</u>	<u>%</u>
Private passenger auto liability	31.4
Auto physical damage	22.7
Farmowners multiple peril	19.1
Homeowners multiple peril	18.1
Fire	7.3
Other	1.4
Total	<u>100.00</u>

Financial Statements

The financial condition and the results of its operations for the three-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, Liabilities, Surplus and Other Funds

December 31, 2010

Admitted assets

Cash and invested assets:

Bonds	\$36,502,623
Preferred Stocks	525,102
Common Stocks	7,081,879
Real estate	1,881,623
Cash and short-term investments	848,145
Total cash and invested assets	46,839,372

Accrued investment income	343,250
Uncollected premiums and agents' balances	3,365,344
Deferred premiums, agents' balances and installments booked but deferred and not yet due	8,279,480
Amounts recoverable from reinsurers	921,642
Current federal and foreign income tax recoverable	312,392
Electronic data processing equipment and software	249,332
Net deferred tax asset	1,688,545
Receivables from parent, subsidiaries and affiliates	37,080
Total admitted assets	\$62,036,437

Liabilities, capital and surplus

Liabilities:

Losses	\$13,279,138
Reinsurance payable on paid losses	41,388
Loss adjustment expenses	1,594,659
Commissions payable	2,879,634
Other expenses	869,523
Taxes, licenses and fees	434,478
Borrowed money	37,669
Unearned premiums	18,021,417
Advance premium	751,436
Ceded reinsurance premiums payable	1,403,928
Funds held by company under reinsurance treaties	1,084,274
Aggregate write-ins for liabilities	476,879
Total liabilities	40,874,423

Capital and surplus:

Aggregate write-ins for special surplus funds	124,741
Surplus notes	6,200,000
Unassigned funds	14,837,273
Total capital and surplus	21,162,014
Total liabilities, capital and surplus	\$62,036,437

Statement of Operations

**For the Year Ended
December 31, 2010**

Premiums earned	\$38,082,312
Losses incurred	25,873,550
Loss expenses incurred	2,852,681
Other underwriting expenses incurred	11,903,447
Total underwriting deductions	<u>40,629,678</u>
Underwriting (loss)	(2,547,366)
Net investment income earned	595,038
Net realized capital (losses)	<u>(48,468)</u>
Net investment gain	546,570
Finance and service charges not included in premiums	<u>309,404</u>
Total other income	<u>309,404</u>
Income before federal and foreign income taxes	(1,691,392)
Federal income taxes	<u>(217,867)</u>
Net (loss)	<u><u>\$(1,473,525)</u></u>

Statement of Changes in the Capital and Surplus Account

(In thousands)

	2010	2009	2008
Capital and surplus December 31, previous year	<u>\$20,424</u>	<u>\$18,956</u>	<u>\$26,335</u>
Net income	(1,474)	1,474	(5,577)
Net unrealized capital gains (losses)	338	442	(284)
Change in net deferred income tax	920	(1,889)	800
Change in nonadmitted assets	38	1,351	(1,118)
Cumulative effect of changes in accounting principles	916	90	
Change in surplus			<u>(1,200)</u>
Net change in capital and surplus	<u>738</u>	<u>1,468</u>	<u>(7,379)</u>
Capital and surplus December 31, current year	<u><u>\$21,162</u></u>	<u><u>\$20,424</u></u>	<u><u>\$18,956</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 outside actuary, Robert H. Wainscott, FCAS, MAAA, of Ernst & Young LLP, opine on the reasonableness and propriety of the reserves for the years covered by the examination. The Department's actuary, Thomas S. Botsko, ACAS, MAAA, reviewed the detailed calculations for the reserves of the major lines of business as of December 31, 2010.

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, 2010.

Subsequent Events

During 2011, the Company affiliated with Middle Georgia Mutual Insurance Company ("MGMIC"), a Georgia domiciled insurer, through a service agreement effective October 1, 2011. MGMIC was made part of the intercompany pooling agreement effective January 1, 2012. Business is now allocated 70% to the Company, 25% to MGMIC and 5% to Home and Farm.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2010, and is summarized as follows:

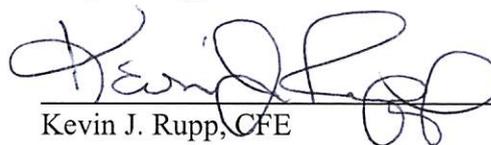
Total Admitted Assets	<u>\$62,036,437</u>
Liabilities	\$40,874,423
Surplus as Regards Policyholders	<u>21,162,014</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$62,036,437</u>

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 aforementioned and undersigned, the following representatives of the Department participated in this examination: Ryan S. Gibson, CFE, FLMI; Aaron R. Hibbs, ChFC, CPA, FLMI; and LeRoy J. Moster, AES, CFE, CISA, CPA.

Respectfully,



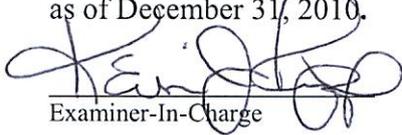
Kevin J. Rupp, CFE
Examiner-In-Charge
Ohio Department of Insurance



Jeffrey K. Ebert, 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, 2010.


Examiner-In-Charge 4/4/12
Date


Assistant Chief Examiner 4/4/12
Date

State of Ohio

County of Franklin

Personally appeared before me the above named Kevin J. Rupp, 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 knowledge and belief.

Subscribed and sworn to before me this 4 day of April, 2012.


(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
~~MY COMMISSION EXPIRES MAY 22, 2012~~ 2017
My Commission Expires

State of Ohio

County of Franklin

Personally appeared before me the above named Jeffrey K. Ebert, 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 knowledge and belief.

Subscribed and sworn to before me this 4 day of April, 2012.


(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
~~MY COMMISSION EXPIRES MAY 22, 2012~~ 2017
My Commission Expires