

Report of Examination of

The Eastern Ohio Mutual Fire and Tornado Insurance Company
Freeport, 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	2
Territory and Plan of Operations	2
Reinsurance.....	3
Significant Operating Results	3
Financial Statements:	
Statement of Assets, Liabilities, Capital and Surplus.....	4
Statement of Income	5
Statement of Changes in the Capital and Surplus Account	5
Notes to Financial Statements:	
Investments	6
Loss and Loss Adjustment Expense Reserves.....	6
Conclusion	6
Acknowledgement	6

Columbus, Ohio

July 21, 2011

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

Dear Lt. Governor/Director:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

The Eastern Ohio Mutual Fire and Tornado Insurance Company

an Ohio domiciled, mutual protective property company, hereinafter referred to as the “Company.”

Scope of Examination

The Department last examined the Company as of December 31, 2007. The Department’s current examination covers the period of January 1, 2008 through 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 Ohio 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 Combs & Company 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
William M. Bennett	Attorney
Marlene S. Bond	Funeral Director
Marydell Galloway	Secretary and Treasurer The Company
Robert C. Gray	Retired
Jeffrey T. Tucker	Partner, Tucker and Tucker, CPAs

Officers

As of the examination date, the following officers were serving in the designated position:

Name	Title
Marlene S. Bond	President
Marydell Galloway	Secretary and Treasurer

Insurance Holding Company System

The Company is a member of an insurance holding company system as defined in ORC Section 3901.32. The Company is the ultimate controlling entity and owns an insurance agency which is currently inactive.

Territory and Plan of Operations

The Company is authorized to write in the State of Ohio and writes lines of business as authorized under ORC 3939.

Reinsurance

The Company has a per risk excess of loss agreement that provides coverage above the Company's retention of \$50,000. An aggregate excess of loss agreement provides unlimited coverage above the Company's retention of \$478,355. The Company does not assume any reinsurance.

Significant Operating Results

The Company reported the following net underwriting results during the examination period.

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Premiums earned	\$ 510,102	\$ 613,611	\$ 578,798
Losses incurred	479,998	445,447	500,212
Loss adjustment exp. incurred	41,626	0	0
Underwriting expenses incurred	<u>314,511</u>	<u>318,340</u>	<u>324,762</u>
Total underwriting deductions	<u>836,135</u>	<u>763,787</u>	<u>824,974</u>
Net underwriting gain (loss)	<u>\$ (326,033)</u>	<u>\$ (150,176)</u>	<u>\$ (246,176)</u>
Pure loss ratio	94.1	72.6	86.4
Loss adjustment expense ratio	<u>8.2</u>	<u>0.0</u>	<u>0.0</u>
Loss ratio	102.3	72.6	86.4
Underwriting expense ratio	<u>61.6</u>	<u>51.9</u>	<u>56.1</u>
Combined ratio	<u>163.9</u>	<u>124.5</u>	<u>142.5</u>

Financial Statements

The financial condition and the results of its operations for the 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, Capital and Surplus

Statement of Income

Statement of Changes in the Capital and Surplus Account

**Statement of Assets, Liabilities, Capital and Surplus
December 31, 2010**

Bonds	\$ 465,034
Preferred stocks, common stocks and mutual funds	281,950
Real estate	12,356
Cash	<u>200,411</u>
Subtotal, cash and invested assets	959,751
Investment income due and accrued	4,902
Assessments or premiums in the course of collection	33,293
Earned but unbilled premiums	<u>37,247</u>
Total admitted assets	<u>\$ 1,035,193</u>
Unpaid losses	\$ 0
Unpaid loss adjustment expenses	0
Commissions due and payable to agents	12,451
Other expenses	5,337
Taxes, licenses and fees	1,200
Current federal income taxes	3,773
Unearned assessment/premium reserve	352,325
Ceded reinsurance premiums payable	17,184
Amounts withheld or retained by Company for account of other	<u>19,222</u>
Total liabilities	<u>411,492</u>
Surplus as regards policyholders	<u>623,701</u>
Total liabilities, capital and surplus	<u>\$ 1,035,193</u>

Statement of Income
As of December 31, 2010

Premiums earned	<u>\$ 510,102</u>
Losses incurred	479,998
Loss adjustment expenses incurred	41,626
Other underwriting expenses incurred	<u>314,511</u>
Total underwriting deductions	<u>836,135</u>
Net underwriting (loss)	<u>(326,033)</u>
Net investment income earned	37,370
Net realized capital gains	<u>22,530</u>
Net investment gain	<u>59,900</u>
Miscellaneous income	<u>21,420</u>
Total other income	<u>21,420</u>
Net loss before federal income taxes	(244,713)
Federal income taxes incurred	<u>4,050</u>
Net loss	<u>\$ (248,763)</u>

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Capital and surplus, beginning of the year	<u>\$861,400</u>	<u>\$881,840</u>	<u>\$1,086,814</u>
Net (loss)	(248,763)	(73,097)	(162,412)
Change in net unrealized cap. gains (losses)	9,333	50,639	(46,481)
Change in non-admitted assets	<u>1,731</u>	<u>2,018</u>	<u>3,919</u>
Change in surplus during the year	<u>(237,699)</u>	<u>(20,440)</u>	<u>(204,974)</u>
Capital and surplus, end of the year	<u>\$623,701</u>	<u>\$861,400</u>	<u>\$881,840</u>

Notes to Financial Statements

Investments

The Company's investments were in compliance with ORC Section 3939 and valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

Loss and Loss Adjustment Expense Reserves

In 2010, the Company exceeded their aggregate excess of loss retention and therefore was not required to establish any unpaid claims reserves.

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 Assets	<u>\$ 1,035,193</u>
Liabilities	411,492
Capital and Surplus	<u>623,701</u>
Total Liabilities, Capital and Surplus	<u>\$ 1,035,193</u>

Acknowledgement

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

In addition to the undersigned, Jeffrey K. Ebert, CFE, of the Department, participated in this examination.

Respectfully,



David A. Cook, CFE
Assistant Chief Examiner
Office of Risk Assessment
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.

David A. Cook 8/1/11
Assistant Chief Examiner Date

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 1st day of August, 2011.

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