

Report of Examination of

Citizens Insurance Company of Ohio
Columbus, Ohio

As of December 31, 2011

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Columbus, Ohio
September 24, 2012

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

Citizens Insurance Company of Ohio

an Ohio domiciled, stock, property and casualty insurance company, hereinafter referred to as the “Company.”

Scope of Examination

The Department last examined the Company as of December 31, 2008. The Department’s current examination covers the period of January 1, 2009 through December 31, 2011.

Representatives of the Michigan Office of Finance and Insurance Regulation (“MI OFIR”), as the coordinating state regulator of the insurance company affiliates of Citizens Insurance Company of America (“CICA”), a wholly-owned subsidiary of The Hanover Insurance Company (“Hanover”), led the multi-state coordinated examination that included representatives from the states of Indiana and Ohio. 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 PricewaterhouseCoopers, 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
Bryan Allen	Senior Vice President and Chief Human Resources Officer, The Hanover Insurance Group, Inc.
Robert Cohen	Regional Vice President, The Hanover Insurance Group, Inc.
Frederick Eppinger Jr.	President and Chief Executive Officer, The Hanover Insurance Group, Inc.
David Greenfield	Executive Vice President and Chief Financial Officer, The Hanover Insurance Group, Inc.
J. Kendall Huber	Executive Vice President and General Counsel, The Hanover Insurance Group, Inc.
Steven Morris	Executive General Adjuster, The Hanover Insurance Group, Inc.
John Roche	Senior Vice President and President, Business Insurance, The Hanover Insurance Group, Inc.
Gregory Tranter	Executive Vice President, Chief Information Officer and Chief Operations Officer, The Hanover Insurance Group, Inc.
Marita Zuraitis	President of the Property & Casualty Companies, The Hanover Insurance Group, Inc.

Officers

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

Name	Principal Occupation
Marita Zuraitis	President
David Greenfield	Executive Vice President and Chief Financial Officer
J. Kendall Huber	Executive Vice President and General Counsel
Andrew Robinson	Executive Vice President
Gregory Tranter	Executive Vice President
Byran Allen	Senior Vice President
Mark Desrochers	Senior Vice President
Richard Lavey	Senior Vice President
John Roche	Senior Vice President
Mark Welzenbach	Senior Vice President
Ann Tripp	Vice President and Treasurer
Charles Cronin	Secretary

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 a wholly-owned subsidiary of Hanover, domiciled in New Hampshire. Hanover is a wholly-owned subsidiary of Opus Investment Management, Inc., which, in turn, is a wholly-owned non-insurance subsidiary of The Hanover Insurance Group, Inc. (“THG”). The common stock of THG is traded on the New York Stock Exchange.

Territory and Plan of Operations

The Company is licensed in Michigan and Ohio and markets its products through independent agents. In Michigan, the Company writes workers' compensation business. Homeowners and other personal lines are the primary products in Ohio. The following schedule illustrates the Company's premium written in 2011 by line of business:

Line of Business	<u>Direct</u>	<u>Assumed</u>	<u>Ceded</u>	<u>Net</u>
Homeowners multi peril	\$12,495,495	\$ 0	\$12,495,495	\$0
Workers' compensation	4,655,184	228,490	4,883,674	0
Commercial multi peril	698,102	0	698,102	0
Other liability - occurrence	504,494	0	504,494	0
Inland marine	329,538	0	329,538	0
Private passenger auto liability	197,546	0	197,546	0
Auto physical damage	150,666	0	150,666	0
Fire	143,216	0	143,216	0
All other lines	<u>123,859</u>	<u>0</u>	<u>123,859</u>	<u>0</u>
Total	<u>\$19,298,100</u>	<u>\$228,490</u>	<u>\$19,526,590</u>	<u>\$ 0</u>

Reinsurance

The Company entered into a 100% quota share reinsurance agreement with CICA with an initial effective date of January 1, 1998. The reinsurance agreement was restated with an effective date of December 31, 2007. The Company continues to cede all liabilities and obligations of insurance in force on the initial effective date or issued on or after the effective date to CICA.

The assumed business represents the Company's participation in the Michigan Workers' Compensation Placement Facility, a mandatory pool.

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, 2011**

Assets

Bonds	\$ 13,700,323
Cash and short term investments	106,572
Receivables for securities	<u>5,625</u>
Subtotal, cash and invested assets	13,812,520
Investment income due and accrued	164,890
Uncollected premiums in course of collection	0
Deferred premiums and installments booked but not yet due	<u>0</u>
Total admitted assets	<u>\$ 13,977,410</u>

Liabilities

Losses and loss adjustment expenses	\$ 0
Commissions payable	0
Other expenses	0
Taxes, licenses and fees	0
Current federal income taxes	51,646
Net deferred tax liability	11,223
Unearned premiums	0
Payable to parent, subsidiaries and affiliates	<u>1,689</u>
Total liabilities	<u>64,558</u>

Capital and Surplus

Common capital stock	1,000,000
Gross paid in and contributed surplus	7,535,850
Unassigned funds	<u>5,377,002</u>
Total capital and surplus	<u>13,912,852</u>
Total liabilities, capital and surplus	<u>\$ 13,977,410</u>

Statement of Income
As of December 31, 2011

Premiums earned	\$ <u>0</u>
Losses incurred	0
Loss adjustment expenses incurred	0
Other underwriting expenses incurred	<u>0</u>
Total underwriting deductions	<u>0</u>
Net underwriting gain	<u>0</u>
Net investment income earned	<u>637,483</u>
Net realized capital gains (losses)	<u>(4,130)</u>
Net investment gain	<u>633,353</u>
Net income before federal income taxes	633,353
Federal income taxes incurred	<u>194,980</u>
Net income	<u>\$ 438,373</u>

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Capital and surplus, beginning of year	<u>\$ 13,485</u>	<u>\$ 13,068</u>	<u>\$ 12,420</u>
Net income	438	417	726
Change in net deferred income tax	(14)	(3)	(340)
Change in non-admitted assets	<u>3</u>	<u>3</u>	<u>262</u>
Change in surplus during the year	<u>427</u>	<u>417</u>	<u>648</u>
Capital and surplus, end of the year	<u>\$ 13,912</u>	<u>\$ 13,485</u>	<u>\$ 13,068</u>

Notes to Financial Statements

Investments

The Company's investments were in compliance with ORC Section 3925.08 and valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

Loss and Loss Adjustment Expense Reserves

The Company's Board of Directors appointed Gary Bujaucius, FCAS, Hanover's Vice President and Lead Reserving Actuary, to render the Company's Statement of Actuarial Opinion ("Opinion"). Mr. Bujaucius prepared an Actuarial Report supporting the Opinion in connection with the preparation of the Company's December 31, 2011 Annual Statement.

The MI OFIR retained Lee Smith, FCAS with Paradigm Actuaries, to evaluate the adequacy of reserves held by CICA on a gross and net basis. This analysis included the Company's business that is ceded to CICA pursuant to the 100% quota share reinsurance agreement. Based on his analysis, Mr. Smith concluded CICA's carried reserves fall within a reasonable range of reserve estimates at December 31, 2011.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2011, and is summarized as follows:

Total Assets	<u>\$ 13,977,410</u>
Liabilities	64,558
Capital and Surplus	<u>13,912,852</u>
Total Liabilities, Capital and Surplus	<u>\$ 13,977,410</u>

Subsequent Events

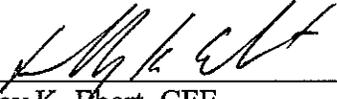
As of the date of this report, there are no subsequent events that would have a significant impact on the financial position of the Company.

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, Jim Luke, CPA; of the Department, participated in this examination.

Respectfully,



Jeffrey K. Ebert, CFE
Assistant Chief Examiner
Office of Risk Assessment

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, 2011.

J. K. Ebert
Assistant Chief Examiner

9/27/12
Date

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/her knowledge and belief.

Subscribed and sworn to before me this 24 day of September, 2012.

ELIZABETH CHASE
NOTARY PUBLIC STATE OF OHIO
~~MY COMMISSION EXPIRES MAY 22 2017~~
(Notary Public)

Elizabeth Chase
My Commission Expires