

Report of Examination of

Old Guard Insurance Company
Westfield Center, Ohio

As of December 31, 2012

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Columbus, Ohio
December 20, 2013

Honorable Mary Taylor
Lt. Governor/Director
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”), the Ohio Department of Insurance (“Department”) conducted an examination of

Old Guard Insurance Company

an Ohio domiciled, stock, property and casualty insurance company, hereinafter referred to as the “Company”. The Company is 100% owned by Ohio Farmers Insurance Company (“OFIC”). The examination was conducted at OFIC home office, located at One Park Circle, Westfield Center, Ohio.

Scope of Examination

The Company was last examined by the Department as of December 31, 2007. The current examination covers the period of January 1, 2008 through and including December 31, 2012.

The Department conducted the examination in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners 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 years covered by the examination, the certified public accounting firm of KPMG LLP (“KPMG”) provided an unqualified opinion based on statutory accounting principles.

Relevant work performed by KPMG during its annual audit of the Company was reviewed during the examination and incorporated into the examination work papers.

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

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

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.

<u>Name</u>	<u>Principal Occupation</u>
Michael John Bernaski	Independent Consultant
Cheryl Lila Carlisle	Ernst & Young Retired Audit Partner
James Robert Clay	Westfield Group Chairman and Chief Executive Officer
Fariborz Ghadar	Penn State University Professor and Consultant
Gary Dean Hallman	Medina General Hospital, Retired President and Chief Executive Officer
Susan Jane Insley	Cochran Group, Inc. Retired Executive Vice President & Principal
Edward James Largent	Westfield Insurance President
Deborah Denine Pryce	Attorney and Retired Congresswomen
John Lewis Watson	Brower Insurance Agency, LLC, Managing Principal
Thomas Eldon Workman	Life Insurance Council of New York, President and Chief Executive Officer

Officers

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

<u>Name</u>	<u>Title</u>
Edward James Largent	Westfield Insurance Leader and President
Joseph Christian Kohmann	Group Finance Leader and Treasurer
Frank Anthony Carrino	Group Legal Leader 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. OFIC is the ultimate controlling party of the insurance holding company system.

Territory and Plan of Operations

The State of Oregon is eligible or approved to write surplus lines and the Company was licensed to transact business in the following states:

Delaware	Indiana	Iowa	Kentucky	Maryland
North Dakota	Ohio	Pennsylvania	South Dakota	Virginia
West Virginia				

The following schedule illustrates the Company's premium written in 2012 by line of business:

	Direct	Assumed	Ceded	Net	Percent
Commercial multiple peril	(\$ 1,945)	\$ 30,323,228	(\$ 1,945)	\$ 30,323,228	21.0%
Auto physical damage	-	18,549,117	-	18,549,117	12.8%
Homeowners multiple peril	-	17,819,508	-	17,819,508	12.3%
Commercial auto liability	-14	16,414,915	-14	16,414,915	11.3%
Private passenger auto liability	-	15,783,089	-	15,783,089	10.9%
Workers' compensation	-	11,265,330	-1	11,265,331	7.8%
Other liability-occurrence	-	9,772,770	-	9,772,770	6.8%
Reinsurance-Nonproportional					
Assumed Property	-	6,694,300	-	6,694,300	4.6%
Inland marine	-	5,842,574	-	5,842,574	4.0%
Farmowners multiple peril	-	4,662,990	-	4,662,990	3.2%
Surety	-	4,213,997	-	4,213,997	2.9%
Fire	-	1,260,471	-	1,260,471	0.9%
Allied lines	-	1,058,354	-	1,058,354	0.7%
All other lines	<u>-43</u>	<u>967,742</u>	<u>-43</u>	<u>967,742</u>	<u>0.7%</u>
Totals	<u>(\$ 2,002)</u>	<u>\$ 144,628,385</u>	<u>(\$ 2,003)</u>	<u>\$ 144,628,386</u>	<u>100.0%</u>

Significant Operating Results

The Company reported the following net underwriting results, reported in thousands, during the examination period:

	2012	2011	2010	2009	2008
Premiums earned	\$ 142,500	\$ 135,671	\$ 132,739	\$ 129,947	\$ 148,278
Losses incurred	75,916	91,519	74,886	69,768	85,896
Loss adjustment expenses incurred	16,512	16,016	13,398	13,460	13,071
Other underwriting expenses incurred	<u>49,630</u>	<u>44,819</u>	<u>43,994</u>	<u>43,743</u>	<u>48,538</u>
Total underwriting deductions	<u>142,058</u>	<u>152,354</u>	<u>132,278</u>	<u>126,971</u>	<u>147,506</u>
Net underwriting gain (loss)	\$ 442	(\$ 16,683)	\$ 462	\$ 2,976	\$ 772
Loss ratio	53.3%	67.5%	56.4%	53.7%	57.9%
Loss adjustment expense ratio	<u>11.6%</u>	<u>11.8%</u>	<u>10.1%</u>	<u>10.4%</u>	<u>8.8%</u>
Loss and LAE ratio	64.9%	79.3%	66.5%	64.1%	66.7%
Other underwriting expense ratio	<u>34.3%</u>	<u>32.4%</u>	<u>33.1%</u>	<u>33.7%</u>	<u>32.9%</u>
Combined ratio	<u>99.2%</u>	<u>111.7%</u>	<u>99.6%</u>	<u>97.8%</u>	<u>99.6%</u>

Reinsurance

The Company participates in a single reinsurance pooling arrangement with its affiliated property and casualty companies. Each participating company shares in all lines and in all types of business.

The following companies are participants:

Westfield Insurance Company	54.0%
Ohio Farmers Insurance Company	19.0%
Westfield National Insurance Company	13.0%
Old Guard Insurance Company	9.0%
American Select Insurance Company	<u>5.0%</u>
	100.0%

The Company cedes insurance primarily to reinsurance contracts known as treaties, under which risks are ceded to a reinsurer on specific blocks of business where the underlying risks meet certain predetermined criteria and on a facultative basis, whereby the reinsurer's prior approval is required for each risk reinsured.

Treaty-basis excess of loss contracts in effect through December 31, 2012 generally protect against individual losses over \$3.0 million. These treaties provide a limit above the \$3.0 million retention of \$12.0 for both property and casualty losses. Property catastrophe coverage is also maintained by the Company. This coverage is in three layers with a total limit of \$265 million excess of a \$35.0 million retention per event with limited coverage for domestic terrorism.

The Company also assumes insurance through reinsurance contracts whereby coverage is provided to a reinsurer(s) for specific classes of business and geographic territories. The reinsured losses covered under a typical contract may be a proportion of all eligible losses or eligible losses in excess of defined retentions. Assumed reinsurance contracts in effect through December 31, 2012 provide coverage exclusively on a proportional basis. The Company focuses primarily on property catastrophe reinsurance written on a worldwide basis. The Company's most significant exposure is to losses from earthquakes and hurricanes, although the Company is also exposed to other claims, such as those arising from other natural and manmade catastrophes.

All significant contracts contained an insolvency clause, intermediary clause, errors and omission clause, arbitration clause and a service of suit clause applicable to foreign reinsurers, which meet the guidelines of the NAIC.

The examination noted that the Company has policies and procedures in place to comply with SSAP 62R and 63.

Financial Statements

The financial condition and the results of its operations for the five 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, Capital and Surplus
Statement of Income
Statement of Changes in the Capital and Surplus Account

**Statement of Assets
December 31, 2012**

Admitted assets

Bonds	\$ 198,026,077
Common stocks	96,116,806
Cash and short-term investments	716,009
Other invested assets	<u>3,283,594</u>
Total cash and invested assets	298,142,486
Investment income due and accrued	2,979,442
Uncollected premiums and agents' balances in the course of collection	7,078,909
Deferred premiums, agents' balances and installments booked but deferred and not yet due	43,694,223
Net deferred tax asset	3,483,812
Receivable from parent, subsidiaries and affiliates	<u>791,832</u>
Total admitted assets	<u>\$ 356,170,704</u>

**Statement of Liabilities, Capital and Surplus
December 31, 2012**

Liabilities

Losses	\$ 102,078,093
Loss adjustment expenses	31,126,407
Commissions payable, contingent commissions and other similar charges	9,079,991
Other expenses	4,861,160
Taxes, licenses and fees	2,122,417
Current federal and foreign income taxes	775,055
Unearned premiums	68,779,159
Ceded reinsurance premiums payable	<u>513,069</u>
Total liabilities	219,335,351

Capital and Surplus

Aggregate write-ins for special surplus funds	
General voluntary reserve	20,878,355
Common capital stock	2,500,000
Gross paid in and contributed surplus	31,870,941
Unassigned funds	<u>81,586,057</u>
Surplus as regards policyholders	<u>136,835,353</u>
Total liabilities, capital and surplus	<u>\$ 356,170,704</u>

Statement of Income
As of December 31, 2012

Premiums earned	<u>\$ 142,499,999</u>
Losses incurred	75,915,660
Loss adjustment expenses	16,512,101
Other underwriting expenses	<u>49,629,846</u>
Net underwriting gain	442,392
Net investment income earned	11,364,030
Net realized capital gain less capital gains tax	<u>7,687,322</u>
Net investment gain	<u>19,051,352</u>
Net loss from agents' or premium balances charged off	(172,768)
Aggregate write-ins for miscellaneous income:	
Net other interest income	<u>7,000</u>
Total other income	<u>(165,768)</u>
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	<u>19,327,976</u>
Federal and foreign income taxes incurred	<u>3,269,620</u>
Net income	<u>\$ 16,058,356</u>

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

<u>Capital and Surplus</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Capital & surplus, prior year end	\$ 118,163	\$ 121,888	\$ 108,166	\$ 96,511	\$ 106,372
Net income	16,058	(1,321)	8,453	12,334	(1,937)
Change in net unrealized capital gains	814	(378)	3,784	3,573	(6,104)
Change in net deferred income tax	28	(143)	714	(1,043)	914
Change in non-admitted assets	1,773	(1,884)	771	252	(1,234)
Dividends to stockholders	-	-	-	(3,462)	(1,500)
Net change in capital and surplus	<u>18,672</u>	<u>(3,725)</u>	<u>13,722</u>	<u>11,655</u>	<u>(9,861)</u>
Capital and surplus, current year end	<u>\$ 136,835</u>	<u>\$ 118,163</u>	<u>\$ 121,888</u>	<u>\$ 108,166</u>	<u>\$ 96,511</u>

Notes to Financial Statements

Investments

The Company's investment portfolio consists of bonds, stocks and alternatives and is in compliance with Section 3925.08 of the ORC. The investments were 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 Scott P. Weinstein, FCAS, MAAA, of KPMG to render a Statement of Actuarial Opinion ("Opinion") on the total reserves. Mr. Weinstein prepared an Actuarial Report supporting the Opinion in conjunction with the preparation of the Company's December 31, 2012 Annual Statement.

Thomas Botsko, ACAS, MAAA, the Department's Chief Property and Casualty Actuary, reviewed the Actuarial Report and performed other procedures as considered necessary to evaluate the loss and loss adjustment expense ("LAE") reserves. Mr. Botsko concluded the reserves fall within a reasonable range of reserve estimates at December 31, 2012.

Subsequent Events

There are no material subsequent events.

Conclusion

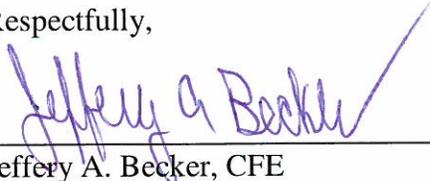
The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2012, and is summarized as follows:

Total Admitted Assets	<u>\$ 356,170,704</u>
Liabilities	219,335,351
Surplus as Regards Policyholders	<u>136,835,353</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$ 356,170,704</u>

Acknowledgement

In addition to the aforementioned and undersigned, the following representatives of the Department participated in this examination: Mohammad Arif, AES, CISA, CPA; Edward Nagorny, CFE, CPA; Kim Somogyi, CPA; Bryan Radecky, CPA; Stephen Bishel, CPA and Bradley Schroer.

Respectfully,



Jeffery A. Becker, CFE
Examiner-In-Charge
Office of Risk Assessment
Ohio Department of Insurance



William C. Harrington, CFE
Chief Examiner
Office of Risk Assessment
Ohio Department of Insurance

Verification

As required by Section 3901.07 of the ORC, 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, 2012.

Jeffery A. Becker
Examiner-In-Charge

1/2/14
Date

William C. Harrington
Chief Examiner

1/2/14
Date

State of Ohio

County of Franklin

Personally appeared before me the above named, Jeffery A. Becker, 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 2ND day of January, 2014.

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

State of Ohio

County of Franklin

Personally appeared before me the above named, William C. Harrington, 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 2ND day of January, 2014.

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