

Report of Examination of

Grange Mutual Casualty Company
Columbus, Ohio

As of December 31, 2014

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Columbus, Ohio
October 30, 2015

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”, 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.

Scope of Examination

The Department last examined the Company as of December 31, 2009. This examination covers the intervening period through December 31, 2014.

The Department, as the lead regulator of the Grange Insurance Group, led the multi-state coordinated examination. In addition to the Department, the Wisconsin Department of Insurance also participated in the examination. The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that the Department plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment is identified, the impact of such adjustment will be documented separately following the Company’s financial statements.

This examination report includes significant findings of fact, as mentioned in Section 3901.07 of the ORC and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report, but separately communicated to other regulators and/or the Company.

For all years under examination, the Certified Public Accounting firm of PricewaterhouseCoopers, LLP provided an unqualified opinion on the Consolidated Financial Statements of the Company based on Statutory Accounting Principles. Representatives of the Department reviewed the independent auditors’ reports and supporting work papers during the examination.

Management and Control

Directors and Officers

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
John Ammendola	President and Chief Executive Officer, Grange Insurance
Mark L. Boxer	Global Chief Information Officer, Cigna
Douglas P. Buth	Retired
Glenn E. Corlett	Retired
Robert E. Hoyt	Professor and Department Head of Risk Management and Insurance, Terry College of Business University of Georgia
John P. McCaffrey	Executive Vice President and Chief Financial Officer, Grange Insurance
Mary M. Perry	Senior Vice President, Kroger Company
Melvin G. Pye, Jr.	President and Chief Executive Officer, Fairfax Place
Thomas S. Stewart	Retired
David C. Wetmore	Retired
Christiana Wood	President and Chief Executive Officer, Gore Creek Capital

Officers:

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

Name	Title
John Ammendola	President and Chief Executive Officer
John P. McCaffrey	Executive Vice President and Chief Financial Officer
LaVawn D. Coleman	Executive Vice President, Secretary and General Counsel
Michelle R Benz	Executive Vice President and Chief Marketing Sales & Strategy
Doreen Y. Delaney	Executive Vice President, Chief Human Resources and Administrative Officer
Mark C. Russell	Executive Vice President - Insurance Operations
Michael A. Winner	Executive Vice President - Commercial Lines
Douglas L. Sharp	Executive Regional Vice President of Sales
John C. Montgomery	Vice President - Investments
Kenneth Lin	Vice President - Chief Actuary
Michael C. Fergang	Vice President - Chief Information Officer
Carol L. Drake	Vice President - National Accounts
Kenneth R. Kozek	Vice President - Claims

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, 2014:

Company Name	Domicile	Owned
Grange Mutual Casualty Company	OH-14060	
Trustgard Insurance Company	OH- 40118	100%
Grange Indemnity Insurance Company	OH- 10322	100%
Grange Insurance Company of Michigan	OH- 11136	100%
Grange Property & Casualty Insurance Company	OH- 11982	100%
Grange America Corporation	(Inactive)	100%
Grange Life Insurance Company	OH- 71218	79.21%
Northview Insurance Agency	(Inactive)	100%
Grange Life Reinsurance Company	VT-14917	100%
Integrity Mutual Insurance Company	WI-14303	Affiliate
Integrity Property & Casualty Insurance Company	WI- 12986	100%
Grange Life Insurance Company	OH- 71218	20.79%

Territory and Plan of Operations

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

The Company writes homeowner, both private passenger and commercial auto insurance and commercial multiple peril. The Company's products are all written by independent agents.

Reinsurance

Ceded

The Company's property excess of loss treaty protects against severity of individual property losses greater than \$1,250,000, up to \$15,000,000 per risk. In addition, the Company has an automatic facultative treaty that covers preferred classes of property risks greater than \$15,000,000, up to \$50,000,000 per risk. The Company's casualty excess of loss coverage protects against individual losses greater than \$2,000,000 for casualty and umbrella losses, up to \$15,000,000 per risk and workers' compensation losses greater than \$1,500,000, up to \$25,000,000 per occurrence.

Additionally, the Company's catastrophic excess of loss treaty protects against 100% of losses up to \$250,000,000, with \$20,000,000 retained by the Company from a single occurrence after a \$10,000,000 otherwise recoverable amount is satisfied. The Company's catastrophic aggregate excess of loss treaty protects against 100% of losses up to \$50,000,000 in excess of \$85,000,000 retained by the Company for weather related loss occurrences exceeding \$1,000,000.

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, 2014 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%

Financial Statements

The financial condition and the results of 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 Capital and Surplus Account

Statement of Assets

December 31, 2014

Admitted assets

Cash and invested assets:

Bonds	\$1,076,599,869
Preferred Stocks	5,838,446
Common Stocks	479,933,991
Mortgage Loans Real estate	3,238,716
Real estate/Occupied/Production of income	110,793,741
Cash and short-term investments	46,978,856
Other invested assets	114,928,173
Security lending reinvested	31,082,217
Total cash and invested assets	<u>1,869,394,009</u>

Investment income due and accrued	11,927,480
Uncollected premiums and agents' balances	199,815,304
Deferred premiums	433,299
Amounts recoverable from reinsurers	344,700
Current federal and foreign income tax recoverable	6,897,865
Net deferred tax asset	27,036,925
Electronic data processing equipment and software	1,946,855
Receivable from parent	2,285,289
Aggregate write-ins for other than invested assets	499,046
Total admitted assets	<u>\$2,120,580,772</u>

Liabilities, Surplus and Other Funds

December 31, 2014

Liabilities, capital and surplus

Liabilities:

Losses	\$ 387,073,373
Reinsurance payable on paid losses	(24,201)
Loss adjustment expenses	109,646,489
Commissions payable	15,622,142
Other expenses	31,840,950
Taxes, licenses and fees	11,765,450
Unearned premiums	405,451,936
Advanced premiums	2,881,521
Policyholder dividends	1,125,741
Ceded reinsurance premiums payable	3,608,763
Amounts withheld or retained by company for account of others	106,123
Drafts outstanding	(74,459)
Payable for securities	2,804,898
Payable for securities lending	31,082,216
Aggregate write-ins for liabilities	70,371,809
Total liabilities	<u>1,073,282,751</u>

Capital and surplus:

Surplus notes	35,000,000
Unassigned funds	1,012,298,021
Total capital and surplus	<u>1,047,298,021</u>
Total liabilities, capital and surplus	<u>\$ 2,120,580,772</u>

Statement of Income

December 31, 2014

Premiums earned	\$992,486,169
Losses incurred	570,546,707
Loss expenses incurred	113,615,579
Other underwriting expenses incurred	310,019,643
Total underwriting deductions	<u>994,181,929</u>
Underwriting loss	(1,695,760)
Net investment income earned	31,512,545
Net realized capital gains	10,368,320
Net investment gain	<u>41,880,865</u>
Net loss from agents' or premium balances charged off	(5,460,178)
Finance and service charges not included in premiums	10,262,797
Aggregate write-ins for miscellaneous income	965,819
Total other income	<u>5,768,438</u>
Income before dividends to policyholders and before federal and foreign income taxes	45,953,543
Dividends to policyholders	<u>2,763,600</u>
Income after dividends to policyholders but before federal and foreign income taxes	<u>43,189,943</u>
Federal income taxes	<u>10,079,976</u>
Net income	<u><u>\$33,109,967</u></u>

Statement of Changes in the Capital and Surplus Account

(In thousands)

	2010	2011	2012	2013	2014
Capital & Surplus, Beginning of Period	<u>\$781,053</u>	<u>\$816,763</u>	<u>\$838,590</u>	<u>\$915,323</u>	<u>\$1,010,247</u>
Net Income	13,644	25,154	37,726	47,391	33,110
Net Unrealized Capital Gains	31,463	7,195	33,299	43,042	22,947
Change in Deferred Income Tax	(518)	1,069	(2,785)	1,144	14,277
Change in Nonadmitted Assets	1,092	(11,626)	12,751	6,762	(3,053)
Change in Provision for Reinsurance	29	35	0	0	0
Change in Surplus Notes	(10,000)	0	0	0	0
Aggregate write-ins for gains and losses in surplus	<u>0</u>	<u>0</u>	<u>(4,258)</u>	<u>(3,415)</u>	<u>(30,230)</u>
Net Change in Surplus	<u>35,710</u>	<u>21,827</u>	<u>76,733</u>	<u>94,924</u>	<u>37,051</u>
Policyholders Surplus, Current Period Ended	<u><u>\$816,763</u></u>	<u><u>\$838,590</u></u>	<u><u>\$915,323</u></u>	<u><u>\$1,010,247</u></u>	<u><u>\$1,047,298</u></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 had its actuary, Kenneth Lin, FCAS, MAAA, certify the total reserves for the years covered by the examination. The Department's actuary, Thomas Botsko, FCAS, MAAA, reviewed the detailed calculations for the reserves of the major lines of business as of December 31, 2014.

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, 2014.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2014, and is summarized as follows:

Total Admitted Assets	<u>\$ 2,120,580,772</u>
Liabilities	\$ 1,073,282,751
Surplus as Regards Policyholders	<u>1,047,298,021</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$ 2,120,580,772</u>

Acknowledgement

In addition to the undersigned, the following representatives of the Department participated in this examination: Edward Nagorny, CPA, CFE, CISA, Patricia Severs, CPA, and Aaron R. Hibbs, CPA, CISA.

Also the following representatives of the Wisconsin Department of Insurance participated in this examination: Elena Vetrina, Examination Supervisor, Levi Olsen, Examiner-In-Charge, Thomas Hilger, Assisting Examiner, and Shelly Bueno, Examiner Analyst.

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, 2014.

[Signature]
Examiner-In-Charge

11/24/15
Date

[Signature]
Assistant Chief Examiner

11/24/15
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 knowledge and belief.

Subscribed and sworn to before me this 24 day of November, 2015.

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, 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 knowledge and belief.

Subscribed and sworn to before me this 24 day of November, 2015.

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