Report of Examination of

Grange Indemnity Insurance 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 Indemnity Insurance Company

an Ohio domiciled, stock, 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
John C. Montgomery	Vice President - Investments

Insurance Holding Company System

The Company is a member of an insurance holding company system as defined in ORC Section 3901.32. The following displays the chain of ownership of the 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 Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Minnesota, Missouri, Ohio, Pennsylvania, Tennessee, and Wisconsin.

The Company writes homeowner and both private passenger and commercial auto insurance. 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 a participant in an intercompany pooling agreement with its parent, Grange Mutual Casualty Company. The effect of the agreement is to transfer all direct insurance liabilities of the Company to the parent and then to assume a specific percentage 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	0.7%
	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	$ 78,981,363
Cash	1,139,515
Security lending reinvested	3,304,040
Total cash and invested assets	83,424,918
Accrued investment income	849,361
Uncollected premiums and agents' balances	9,515,014
Deferred premiums	20,633
Net deferred tax asset	1,581,588
Receivables from parent, subsidiaries and affiliates	1,179,408
Aggregate write-ins for other than invested assets	27,159
Total admitted assets	$ 96,598,081

Liabilities, Surplus and Other Funds

	December 31, 2014
Liabilities:	
Losses	$ 18,432,065
Loss adjustment expenses	5,221,261
Commissions payable	743,911
Other expenses	1,336,127
Taxes, licenses and fees	560,260
Current federal and foreign income taxes	1,188,737
Unearned premiums	19,307,235
Advanced premiums	(462,763)
Policyholder dividends	53,607
Payable for securities lending	3,304,041
Total liabilities	49,684,481
Capital and surplus:	
Common capital stock	2,000,000
Gross paid in and contributed surplus	5,000,000
Unassigned funds	39,913,600
Total capital and surplus	46,913,600
Total liabilities, capital and surplus	$ 96,598,081

Statement of Income

	December 31, 2014
Premiums earned	$ 47,261,246
Losses incurred	27,168,891
Loss expenses incurred	5,410,266
Other underwriting expenses incurred	14,762,840
Total underwriting deductions	47,341,997
Underwriting loss	(80,751)
Net investment income earned	2,878,138
Net realized capital losses	(26,180)
Net investment gain	2,851,958
Net loss from agents' or premium balances charged off	(260,008)
Finance and service charges not included in premiums	1,792,891
Aggregate write-ins for miscellaneous income	265,182
Total other income	1,798,065
Income before dividends to policyholders and before federal and foreign income taxes	4,569,272
Dividends to policyholders	131,600
Income after dividends to policyholders but before federal and foreign income taxes	4,437,672
Federal income taxes	1,202,834
Net income	$ 3,234,838

Statement of Changes in the Capital and Surplus Account

(In thousands)

	2010	2011	2012	2013	2014
Capital and surplus, prior year end	$ 34,426	$ 36,154	$ 38,312	$ 40,786	$ 43,733
Net income	$ 1,845	$ 2,226	$ 2,535	$ 2,811	$ 3,235
Net change in deferred income taxes	(144)	(79)	(62)	129	(28)
Change in non-admitted assets	27	11	1	7	(26)
Net change in capital and surplus	1,728	2,158	2,474	2,947	3,181
Capital and surplus, current year end	$ 36,154	$ 38,312	$ 40,786	$ 43,733	$ 46,914

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	$96,598,081
Liabilities	$49,684,481
Surplus as Regards Policyholders	46,913,600
Total Liabilities and Surplus as Regards Policyholders	$96,598,081

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.

Examiner-In-Charge — 11/24/15 Date

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
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