

Report of Examination of
Buckeye State Mutual Insurance Company
Piqua, Ohio

As of December 31, 2007

Table of Contents

Subject	Page
Salutation.....	1
Description of Company.....	1
Management and Control:	
Board of Directors.....	1
Officers.....	2
Insurance Holding Company System.....	2
Reinsurance:	
Intercompany Pooling.....	3
Ceded	3
Assumed.....	3
Territory and Plan of Operations.....	3
Scope of Examination.....	4
Significant Operating Results.....	5
Financial Statements:	
Statement of Assets, Liabilities, Surplus and Other Funds.....	6
Statement of Operations.....	8
Statement of Changes in the Capital and Surplus Account.....	8
Summary of Examination Changes.....	9
Notes to Financial Statements:	
Investments.....	10
Loss and Loss Adjustment Expense Reserves.....	10
Conclusion.....	10
Acknowledgement.....	11

Columbus, Ohio
February 27, 2009

Honorable Mary Jo Hudson
Director
State of Ohio
Department of Insurance (“Department”)
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”, an examination was made of

Buckeye State Mutual Insurance 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 One Heritage Place, Piqua, Ohio.

A report of this examination is hereby respectfully submitted.

The Company was last examined as of December 31, 2002, by the Department. Representatives of the Department conducted the current examination covering the intervening period to and including December 31, 2007.

Management and Control

Board of Directors:

Members of the board of directors elected and serving on December 31, 2007, were as follows:

Name	Principal Occupation
Donald E. Benschneider	President Wildcat Creek Farms
R. Douglas Haines	President and Chief Executive Officer The Company
Thomas C. Lynch	Executive The Staubach Company

Richard J. Seitz	Director Lima Catholic Community Stewardship Office
J. MacAlpine Smith	Attorney and Partner Smith, Smith and Montgomery
James A. Stahl	President Stahl Stoller Meyer Insurance Agency
William L. Sweet, Jr.	Attorney and Partner Beckman Lawson LLP

Officers

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

Name	Title
R. Douglas Haines	President and Chief Executive Officer
Lisa L. Wesner	Assistant Vice President and Secretary
Robert E. Bornhorst	Senior Vice President, Treasurer and Chief Financial Officer
John M. Brooks	Senior Vice President – Insurance Operations
John E. Davis	Senior Vice President – Claims
Steven C. Moeller	Vice President – Sales and Marketing

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, 2007 (100% owned unless otherwise indicated):

- Buckeye State Mutual Insurance Company
 - Hetuck Insurance Agency
 - Commercial Security League
 - Home and Farm Mutual Insurance Company (Common Management)
 - Home and Farm Insurance Company
 - Home and Farm Insurance Agency

Reinsurance

Intercompany Pooling

The Company and its affiliate, Home and Farm Insurance Company, are participants in an intercompany pooling arrangement. Under the arrangement, the affiliate cedes 100% of its business to the Company. The Company's retention of the pooled results is 98% and the remaining 2% is retroceded back to the affiliate.

Ceded

The largest net amount insured in any one risk is \$250,000. Excess of loss agreements cover \$1,300,000 in excess of \$200,000 on property and \$1,250,000 in excess of \$250,000 on casualty risks. The reinsurance program includes a traditional catastrophe cover up to \$18,500,000 in excess of \$1,500,000 per occurrence and a catastrophe aggregate cover up to \$3,000,000 in excess of \$1,500,000 annually in which all individual loss occurrences over \$250,000 are aggregated. The Company also has individual facultative placement for risks over \$1,500,000. Umbrella exposure is reinsured at 95% of the first \$1,000,000, and 100% of the next \$4,000,000. In addition, the Company maintains a multi-line quota share agreement in which the Company cedes 10% per risk/occurrence.

Assumed

Aside from business assumed under the intercompany pooling arrangement, the Company does not assume any business.

Territory and Plan of Operations

The Company was licensed to transact business in the following states:

Arizona	Colorado	Illinois	Indiana
Iowa	Kansas	Michigan	Minnesota
Nebraska	New Mexico	North Dakota	Ohio
South Dakota	Wisconsin		

The Company reported the following percentages of net business written by line in 2007:

<u>Description</u>	<u>2007 %</u>
Fire	10.3
Farmowners multiple peril	19.6
Homeowners multiple peril	27.0
Inland marine	0.8
Other liability – occurrence	1.2
Private passenger auto liability	22.5
Auto physical damage	18.6
Total	<u>100.0</u>

Scope of Examination

One of the purposes of the examination was to make an assessment of the financial condition of the Company as of December 31, 2007. To substantiate the various items, tests were made either by complete audits of accounts or by sampling methods prescribed by the National Association of Insurance Commissioners (NAIC) Examiner's Handbook. In selecting the examination procedures used, due consideration was given to the importance of each account to overall solvency. Transactions occurring subsequent to the date of the examination were reviewed to the extent deemed necessary.

For each year during the period under examination, the Certified Public Accounting (“CPA”) firm of Ernst & Young LLP has provided an unqualified opinion based on statutory accounting principles. Relevant work performed by the CPA firm, during its annual audit of the Company, was reviewed during the examination and incorporated into the examination workpapers.

The Department’s property and casualty actuary reviewed the relevant work performed by the opining actuary, to report on the adequacy of the carried reserves, and to comment on any other statutory matters relating to reserves.

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

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

Significant Operating Results

The underwriting percentages summarized below are on an earned/incurred basis:

Description	2003	2004	2005	2006	2007
Losses incurred	54.9	55.3	60.7	55.2	63.8
Loss expenses incurred	6.5	6.7	6.2	5.6	6.0
Loss ratio	61.4	62.0	66.9	60.8	69.8
Other underwriting expenses	32.9	32.1	29.5	33.3	34.1
Combined ratio	94.3	94.1	96.4	94.1	103.9

The Company reported the following net underwriting, investment, and other gains or losses during the period under examination:

(In thousands)

Description	2003	2004	2005	2006	2007
Net underwriting gain (loss)	1,595	1,947	1,422	2,648	(1,857)
Net investment gain	614	823	682	834	1,205
Total other income	250	275	309	305	365
Federal income taxes incurred	713	1,370	1,055	1,450	(31)
Net income (loss)	1,746	1,675	1,358	2,337	(256)

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, Surplus and Other Funds
Statement of Operations
Statement of Changes in the Capital and Surplus Account

Statement of Assets, Liabilities, Surplus and Other Funds

December 31, 2007

Admitted assets

Cash and invested assets:

Bonds	\$48,196,322
Preferred stock	260,386
Common stock	3,589,186
Real estate	2,134,061
Cash and short-term investments	801,296
Total cash and invested assets	<u>54,981,251</u>
Agents' balances or uncollected premiums	3,468,899
Deferred premiums and agents' balances booked but deferred	8,267,661
Reinsurance balances recoverable	893,448
Electronic data processing equipment	348,358
Accrued investment income	473,214
Net deferred tax asset	1,910,416
Guaranty funds receivable or on deposit	22,755
Receivable from parent, subsidiaries and affiliates	5,064
Total admitted assets	<u>\$70,371,066</u>

December 31, 2007

Liabilities and capital and surplus

Liabilities:

Losses	\$13,809,870
Reinsurance payable on paid losses	21,760
Loss adjustment expenses	1,604,558
Commissions payable	3,211,940
Other expenses	801,918
Taxes, licenses and fees	375,332
Current federal and foreign income taxes	(200,872)
Borrowed money	70,337
Unearned premiums	23,846,670
Advance premiums	544,409
Ceded reinsurance premiums payable	595,398
Funds held by company under reinsurance treaties	900,000
Aggregate write-ins for liabilities	126,648
Total liabilities	<u>45,707,968</u>
Capital and surplus:	
Surplus notes	7,400,000
Unassigned surplus	17,263,098
Total capital and surplus	<u>24,663,098</u>
Total liabilities and capital and surplus	<u><u>\$70,371,066</u></u>

Statement of Revenue and Expenses

**For the Year Ended
December 31, 2007**

Premiums earned	\$47,100,500
Total revenues	<u>47,100,500</u>
Losses incurred	30,050,016
Loss expenses incurred	2,842,161
Other underwriting expenses incurred	16,065,572
Total underwriting deductions	<u>48,957,749</u>
Net underwriting loss	<u>(1,857,249)</u>
Net investment income earned	1,080,756
Net realized capital gains	123,977
Net investment gain	<u>1,204,733</u>
Finance and service charges not included in premiums	365,267
Total other income	<u>365,267</u>
Net income before dividends to policyholders and before taxes	(287,249)
Federal and foreign income taxes incurred	(30,824)
Net loss	<u>\$(256,425)</u>

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

	2003	2004	2005	2006	2007
Capital and surplus December 31, previous year	\$12,057	\$13,874	\$15,460	\$22,292	\$24,804
Net income	1,746	1,675	1,358	2,337	(256)
Net unrealized capital gains (losses)	104	90	128	224	10
Change in net deferred income tax	(2)	339	258	313	39
Change in nonadmitted assets	175	(304)	315	(64)	217
Change in provision for reinsurance	20	11	0	(75)	75
Change in surplus notes	(225)	(225)	4,775	(225)	(225)
Net change in capital and surplus	<u>1,817</u>	<u>1,586</u>	<u>6,833</u>	<u>2,511</u>	<u>(140)</u>
Capital and surplus end of period	<u>\$13,874</u>	<u>\$15,460</u>	<u>\$22,292</u>	<u>\$24,804</u>	<u>\$24,663</u>

Summary of Examination Changes

There were no changes made as a result of this examination.

Notes to Financial Statements

Investments

The Company's investments were in compliance with Section 3925.08 of the ORC.

Loss and Loss Adjustment Expense Reserves

The Company had an outside actuary, Charles H. Boucek, FCAS, MAAA, of Ernst & Young LLP, certify the total reserves for the years covered by the examination. The Department's actuary, Mary D. Miller, FCAS, MAAA, reviewed the calculations for the reserves as of December 31, 2007.

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, 2007.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2007, and is summarized as follows:

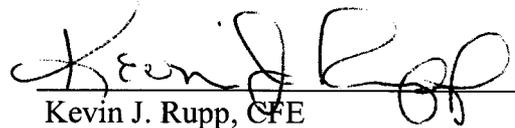
Total Admitted Assets	<u>\$70,371,066</u>
Liabilities	\$45,707,968
Surplus as Regards Policyholders	<u>24,663,098</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$70,371,066</u>

Acknowledgement

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

In addition to the aforementioned and the undersigned, the following representatives of the Department participated in the examination: Jeffrey J. Ferris, AES, CFE, CISA; Aaron R. Hibbs, CPA, ChFC, FLMI; Leroy J. Moster, CPA; and Methuselah E. Nyangoro, CPA.

Respectfully,



Kevin J. Rupp, CFE
Assistant Chief Examiner
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, 2007.

Kevin J. Rupp 4/16/09 [Signature] 4/16/09
Examiner-In-Charge Date Assistant Chief Examiner Date

State of Ohio
County of Franklin

Personally appeared before me the above named, Kevin J. Rupp, 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 16 day of April, 2009.

[Signature] Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
My Commission Expires MAY 22, 2012

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 16 day of April, 2009.

[Signature] Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
My Commission Expires MAY 22, 2012