

Report of Examination of

Ohio Indemnity Company
Columbus, Ohio

As of December 31, 2011

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Columbus, Ohio
August 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

Ohio Indemnity Company

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, 2006. The Department’s current examination covers the period of January 1, 2007 through December 31, 2011.

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 Skoda, Minotti and Company 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
Kenton R. Bowen	Chairman of the Board, CallCopy, Inc.
Ann Marie LoConti	Managing Member, Tower 1 Partnership LLC
Robert W. Price	Vice President, Summit Materials, LLC
John S. Sokol	Chairman of the Board, Chief Executive Officer and President, Ohio Indemnity Company
Mathew D. Walter	Chairman of the Board, Sarnova, Inc.

Officers

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

Name	Principal Occupation
John S. Sokol	Chairman of the Board, Chief Executive Officer and President
Mathew C. Nolan	Vice President, Chief Financial Officer, Secretary and Treasurer
Daniel J. Stephen	Senior Vice President
Stephen J. Toth	Vice President
Margaret A. Noreen	Vice President

Insurance Holding Company System

The Company is a member of an insurance holding company system as defined in ORC Section 3901.32 and is a wholly-owned subsidiary of Bancinsurance Corporation (“Bancinsurance”). All of the outstanding stock of Bancinsurance is owned by Fenist, LLC. John Sokol, the Company’s Chairman, President and Chief Executive Officer, has a controlling interest in Fenist, LLC and is thereby the ultimate controlling person in the holding company system. The chart below illustrates key companies within the holding company system:

Fenist, LLC
 Bancinsurance Corporation
 Ohio Indemnity Company
 Ultimate Services Agency, LLC
 BIC Statutory Trust I
 BIC Statutory Trust II

Territory and Plan of Operations

The Company is specialty property/casualty insurer licensed in fifty states and the District of Columbia. Premiums are derived from three distinct product lines: (1) lender services, consisting of vendor single interest, creditor placed insurance, guaranteed auto protection and equipment physical damage insurance; (2) unemployment compensation; and (3) waste industry products, including waste, contract and escrow surety bonds produced and administered by a general insurance agent.

The Company’s distribution channels include approximately thirty independent agents, four managing general agents and direct sales.

The following schedule illustrates the Company’s premium written in 2011 by line of business, reported in thousands:

Line of Business	<u>Direct</u>	<u>Assumed</u>	<u>Ceded</u>	<u>Net</u>
Collateral protection	\$ 18,227	\$ 0	\$ 61	\$ 18,166
Surety	9,338	5,177	2,862	11,654
Credit	11,195	0	2,483	8,711
Inland marine	43,777	0	38,846	4,932
Excess of loss	4,404	0	200	4,204
Guaranteed auto protection	6,194	0	2,585	3,609
Auto physical damage	2,669	0	59	2,610
Other liability	819	0	0	819
Warranty	<u>45</u>	<u>0</u>	<u>14</u>	<u>30</u>
Total	<u>\$ 96,668</u>	<u>\$ 5,177</u>	<u>\$ 47,110</u>	<u>\$ 54,735</u>

Reinsurance

The Company maintains 100% quota share agreements with a number of producer-owned reinsurance companies related to its lender services business. Collateral in the form of letters of credit and funds held secure the obligations under these agreements.

A facultative reinsurance arrangement was in place for the Company's unemployment compensation program, which terminated on December 31, 2011.

Within its waste industry products, the Company assumes, writes on a direct basis and cedes certain waste surety bond business under various quota share reinsurance arrangements. In addition, certain contract and escrow surety bond business is ceded under several quota share arrangements.

Significant Operating Results

The Company reported the following underwriting results during the examination period:

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Loss and loss adjust. expense ratio	33.9	38.4	48.6	55.1	55.0
Underwriting expense ratio	<u>41.9</u>	<u>42.1</u>	<u>42.3</u>	<u>43.9</u>	<u>34.8</u>
Combined ratio	<u>75.8</u>	<u>80.5</u>	<u>90.9</u>	<u>99.0</u>	<u>89.8</u>

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**

Bonds	\$ 68,897,261
Preferred stocks	7,506,412
Common stocks	10,760,596
Cash and short term investments	13,442,850
Receivables for securities	<u>527,147</u>
Subtotal, cash and invested assets	101,134,266
Investment income due and accrued	989,109
Uncollected premiums in course of collection	5,983,906
Amounts recoverable from reinsurers	1,082,896
Net deferred tax asset	<u>2,745,778</u>
Total admitted assets	<u><u>\$ 111,935,955</u></u>
Losses	\$ 12,669,636
Loss adjustment expenses	316,365
Commissions payable	3,639,008
Other expenses	1,642,094
Taxes, licenses and fees	280,684
Current federal income taxes	1,627,932
Unearned premiums	29,427,160
Ceded reinsurance premiums payable	3,339,174
Funds held by company under reinsurance treaties	684,746
Amounts withheld or retained for account of others	5,903,606
Payable to parent, subsidiaries and affiliates	282,176
Payable for securities	715,625
Reserve for rate credits and retrospective adjustments	<u>6,215,443</u>
Total liabilities	<u><u>66,743,649</u></u>
Common capital stock	3,000,746
Gross paid in and contributed surplus	8,199,503
Unassigned funds	<u>33,992,057</u>
Total capital and surplus	<u><u>45,192,306</u></u>
Total liabilities, capital and surplus	<u><u>\$ 111,935,955</u></u>

Statement of Income
As of December 31, 2011

Premiums earned	<u>\$ 45,335,324</u>
Losses incurred	13,900,768
Loss adjustment expenses incurred	1,459,387
Other underwriting expenses incurred	<u>22,955,079</u>
Total underwriting deductions	<u>38,315,234</u>
Net underwriting gain	<u>7,020,090</u>
Net investment income earned	3,980,355
Net realized capital gains	<u>1,151,682</u>
Net investment gain	<u>5,132,037</u>
Miscellaneous income	<u>2,429,602</u>
Total other income	<u>2,429,602</u>
Net income before federal income taxes	14,581,729
Federal income taxes incurred	<u>3,871,465</u>
Net income	<u>\$ 10,710,264</u>

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Capital and surplus begin. of period	<u>\$ 45,202</u>	<u>\$ 45,188</u>	<u>\$ 45,168</u>	<u>\$ 45,065</u>	<u>\$ 40,459</u>
Net income	10,710	8,716	5,301	3,115	6,669
Net unrealized capital gains (losses)	(972)	(25)	1,413	(1,024)	(262)
Change in net deferred tax	(139)	(319)	139	664	(324)
Change in non-admitted assets	91	742	584	(661)	(1,471)
Change in provision for reinsurance	0	0	0	9	(6)
Dividends to stockholders	<u>(9,700)</u>	<u>(9,100)</u>	<u>(7,417)</u>	<u>(2,000)</u>	<u>0</u>
Change in capital and surplus	<u>(10)</u>	<u>14</u>	<u>20</u>	<u>103</u>	<u>4,606</u>
Capital and surplus, end of period	<u>\$ 45,192</u>	<u>\$ 45,202</u>	<u>\$ 45,188</u>	<u>\$ 45,168</u>	<u>\$ 45,065</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 Matthew Merlino, FCAS, MAAA, Principal with Merlino and Associates, Inc., to render the Company's Statement of Actuarial Opinion ("Opinion"). Mr. Merlino prepared an Actuarial Report supporting the Opinion in connection with the preparation of the Company's December 31, 2011 Annual Statement.

Thomas Botsko, ACAS, MAAA, the Department's Chief Property and Casualty Actuary, reviewed the Actuarial Report and performed other procedures as he considered necessary to evaluate the loss and loss adjustment expense reserves. On the basis of his analysis, Mr. Botsko concluded the 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>\$ 111,935,955</u>
Liabilities	66,743,649
Capital and Surplus	<u>45,192,306</u>
Total Liabilities, Capital and Surplus	<u>\$ 111,935,955</u>

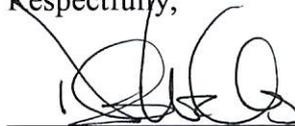
Subsequent Events

As of the date of this report, there are no subsequent events that would have a significant impact of 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, the following representatives of the Department participated in this examination: Thomas Botsko, ACAS; Jeffrey Ferris, CFE, AES; David Finkler, CFE; and Jyotika Patel, CPA.

Respectfully,



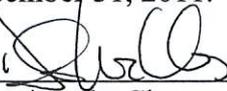
Donnie G. Wells, CFE
Examiner-in-Charge
Office of Risk Assessment
Ohio Department of Insurance



Jeffrey K. Ebert, CFE
Assistant Chief Examiner
Office of Risk Assessment
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, 2011.



Examiner-in-Charge

8/30/12
Date



Assistant/Chief Examiner

8/30/12
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/her knowledge and belief.

Subscribed and sworn to before me this 30 day of August, 2012.



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

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 30 day of August, 2012.



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

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Handwritten signature

ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2017

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NOTARY PUBLIC, STATE OF OHIO
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