Report of Examination of

Trustgard Insurance Company
Columbus, Ohio

As of December 31, 2009

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Columbus, Ohio
October 25, 2010

Honorable Alfred W. Gross
Chair, Financial Condition (E) Committee
National Association of Insurance Commissioners ("NAIC")
Virginia State Corporation Commission
Bureau of Insurance
Post Office Box 1157
Richmond, Virginia 23218

Honorable Mary Jo Hudson
Director
State of Ohio
Department of Insurance ("Department")
50 West Town Street
3rd Floor – Suite 300
Columbus, Ohio 43215

Dear Sir and Madam:

In accordance with Section 3901.07 of the Ohio Revised Code ("ORC"), an examination was made of

Trustgard 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.

A report of this examination is hereby respectfully submitted.

The Company was last examined as of December 31, 2008, by the Department. Representatives of the Department conducted the current examination covering the intervening period to and including December 31, 2009.

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
Douglas P. Buth	Retired, Chairman Appleton Papers
Glenn E. Corlett	Retired, Dean, Ohio University
Elwood G. Gee	President, The Ohio State University
Robert J. O'Brien	Retired, President Aqua Perfect of Central Ohio
Michael V. Parrott	Chairman, Highmark Technologies, LLC
Mary M. Perry	Senior Vice President, Kroger Company
Melvin G. Pye, Jr.	President and Chief Executive Officer, Fairfax Place
Thomas S. Stewart	Retired Vice President and General Manager WBNS-TV
Philip W. Stichter	Retired, Partner, Vorys, Sater, Seymour & Pease
Philip H. Urban	President and Chief Executive Officer, The Company
Thomas H. Welch	Vice President and Chief Financial Officer, The Company
David C. Wetmore	Former Managing Director, Updata Capital, Inc.

Officers

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

Name	Title
Robert V. James	President and Chief Executive Officer
Thomas H. Welch	Vice President and Chief Financial Officer
David T. Roark	Vice President and Secretary
John C. Montgomery	Vice President – Investments

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, 2009:

Grange Mutual Casualty Company – Ohio
- Grange Life Insurance Company – Ohio (79%)
- Trustgard Insurance Company – Ohio
- Grange Indemnity Insurance Company – Ohio
- Grange Insurance Company of Michigan – Ohio
- Grange Property and Casualty Insurance Company – Ohio

Integrity Mutual Insurance Company – Wisconsin
- Integrity Property and Casualty Insurance Company – Wisconsin
- Grange Life Insurance Company – Ohio (21%)

Reinsurance

Ceded

The Company has a property per risk excess of loss that provides coverage of $11,000,000 above retention of $1,000,000 and an aggregate excess of loss that provides coverage of various

percentages of $235,000,000 excess of $15,000,000 along with a catastrophe aggregate excess of loss that provides coverage of $30,000,000 in excess $80,000,000 retention.

The casualty lines of business have a per risk excess of loss coverage that provides coverage of $3,750,000 above a retention of $1,250,000 and clash coverage of $5,000,000 excess of $5,000,000. The workers compensation line of business has coverage of $29,250,000 above retention of $750,000.

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 percentages of the net underwriting results of the pool. The specified percentages of participation as of December 31, 2009 were as follows:

Grange Mutual Casualty	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%

All reinsurance contracts contained the required NAIC clauses.

Territory and Plan of Operations

The Company was licensed to transact business in the States of Colorado, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Minnesota, Missouri, Nebraska, North Dakota, Ohio, Oregon, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas, Virginia, Washington, and Wisconsin.

Percentage of Direct Business Written by Line

Description	2009
Homeowners multiple peril	22.7%
Private passenger auto liability	43.9%
Auto physical damage	27.7%
Other	5.7%
Total	100.0%

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, 2009. To substantiate the various items, tests were made either by complete audits of accounts or by sampling methods prescribed by the 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 the year under examination, the Certified Public Accounting (CPA) firm of PriceWaterhouseCoopers, LLP, 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 work papers.

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 and Bylaws.

Financial Statements

The financial condition and the results of its operations for the one 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

	December 31, 2009
Admitted assets	
Cash and invested assets:	
Bonds	$60,529,088
Common Stocks	2,000
Cash	1,704,417
Total cash and invested assets	62,235,505
Accrued investment income	647,305
Uncollected premiums and agents' balances	7,178,206
Deferred premiums	3,757
Amounts recoverable from reinsurers	
Net deferred tax asset	1,542,823
Receivables from parent, subsidiaries and affiliates	1,796,369
Aggregate write-ins for other than invested assets	25,251
Total admitted assets	$73,429,216

Liabilities, Surplus and Other Funds

	December 31, 2009
Liabilities:	
Losses	$13,984,334
Loss adjustment expenses	4,286,812
Commissions payable	502,113
Other expenses	793,886
Taxes, licenses and fees	419,099
Current federal and foreign income taxes	2,038,194
Unearned premiums	14,696,358
Policyholder dividends	29,948
Aggregate write-ins for liabilities	772
Total liabilities	36,751,516
Capital and surplus:	
Common capital stock	2,500,000
Gross paid in and contributed surplus	4,657,724
Unassigned funds	29,519,976
Total capital and surplus	36,677,700
Total liabilities, capital and surplus	$73,429,216

Statement of Operations

	December 31, 2009
Premiums earned	$38,442,326
Losses incurred	23,689,125
Loss expenses incurred	4,004,377
Other underwriting expenses incurred	12,630,127
Aggregate write-ins for underwriting deductions	
Total underwriting deductions	40,323,629
Underwriting loss	(1,881,303)
Net investment income earned	2,893,283
Net realized capital losses	(205,674)
Net investment gain	2,687,609
Net loss from agents' or premium balances charged off	(303,929)
Finance and service charges not included in premiums	5,500,414
Aggregate write-ins for miscellaneous income	237,141
Total other income	5,433,626
Income before dividends to policyholders and before federal and foreign income taxes	6,239,932
Dividends to policyholders	103,569
Income after dividends to policyholders but before federal and foreign income taxes	6,136,363
Federal income taxes	2,148,942
Net income	$3,987,421

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

	2009
Capital and surplus December 31, 2008	$32,466
Net income	3,987
Net unrealized capital losses	(85)
Change in net deferred income tax	81
Change in nonadmitted assets	228
Net change in capital and surplus	4,212
Capital and surplus December 31, 2009	$36,678

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 inside actuary, Curtis Parker, FCAS, MAAA, certify the total reserves for the years covered by the examination. The Department's actuary, Mary D. Miller, FCAS, MAAA, reviewed the detailed calculations for the reserves of the major lines of business as of December 31, 2009.

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, 2009.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2009, and is summarized as follows:

Total Admitted Assets	$73,429,216
Liabilities	$36,751,516
Surplus as Regards Policyholders	36,677,700
Total Liabilities and Surplus as Regards Policyholders	$73,429,216

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 undersigned, the following representatives of the Department participated in this examination: Jeff Ferris, CFE, AES; Dominic Ilc, CFE, AES; Floyd Meeks, CFE, CPA, AES; Mary Miller, FCAS, MAAA; Jyotika V. Patel, CPA; and Patricia Severs, CPA.

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, 2009.

Examiner-In-Charge	1/6/11 Date	Assistant Chief Examiner	1/6/11 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 6 day of January, 2011.

Elizabeth Chase
(Notary Public)

ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2012

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/her knowledge and belief.

Subscribed and sworn to before me this 6 day of January, 2011.

Elizabeth Chase
(Notary Public)

ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2012

My Commission Expires