

Report of Examination of

Springfield Township Mutual Insurance Association
New Springfield, Ohio

As of December 31, 2010

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Columbus, Ohio

November 8, 2011

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

Springfield Mutual Insurance Association

an Ohio domiciled, mutual protective property 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, 2010.

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 Ohio regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

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
J. Paul Good	Retired
Lee F. Kohler	Farmer
Jack G. Massengill	Insurance Agent
J. Daniel Simon	Insurance Agent and Farmer
Donald Snyder	Farmer and Owner Snyder Antique Auto Parts
Marlene M. Wentz	Secretary and Treasurer The Company

Officers

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

Name	Title
J. Paul Good	President
Lee F. Kohler	Vice President
Marlene M. Wentz	Secretary and Treasurer

Insurance Holding Company System

The Company is a member of an insurance holding company system as defined in ORC Section 3901.32. The Company is the ultimate controlling entity and owns an insurance agency.

Territory and Plan of Operations

The Company is authorized to write in the State of Ohio and writes lines of business as authorized under ORC 3939.

Reinsurance

The Company has a per risk excess of loss agreement that provides coverage of \$15,000 above the Company's retention of \$30,000. A surplus share treaty provides coverage of \$225,000 above the per risk coverage and the Company's retention.

An aggregate excess of loss agreement provides coverage of 95% of the lesser of \$15.00 per \$1,000 of average net fire insurance in force or \$2,025,000 above the greater of \$5.00 per \$1,000 of average net fire insurance in force or \$450,000.

Significant Operating Results

The Company reported the following net underwriting results during the examination period.

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Premiums earned	\$ 837,787	\$ 735,001	\$ 720,678
Losses incurred	446,606	199,813	329,719
Loss adjustment exp. incurred	70,799	60,706	61,298
Underwriting expenses incurred	<u>896,836</u>	<u>667,815</u>	<u>659,963</u>
Total underwriting deductions	<u>1,414,241</u>	<u>928,334</u>	<u>1,050,980</u>
Net underwriting loss	<u>\$ (576,454)</u>	<u>\$ (193,333)</u>	<u>\$ (330,302)</u>
Pure loss ratio	53.3	27.2	45.8
Loss adjustment expense ratio	<u>8.5</u>	<u>8.3</u>	<u>8.5</u>
Loss ratio	61.8	35.4	54.3
Underwriting expense ratio	<u>107.0</u>	<u>90.9</u>	<u>91.6</u>
Combined ratio	<u>168.8</u>	<u>126.3</u>	<u>145.8</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 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, 2010**

Preferred stocks, common stocks and mutual funds	\$ 10,950
Real estate	124,128
Cash	<u>1,985,566</u>
Subtotal, cash and invested assets	2,120,645
Investment income due and accrued	7,539
Amounts recoverable from reinsurers	11,615
Aggregate write-ins for other than invested assets	<u>134,414</u>
Total admitted assets	<u>\$ 2,274,214</u>
Unpaid losses	\$ 21,593
Unpaid loss adjustment expenses	1,200
Commissions due and payable to agents	18,219
Other expenses	2,259
Taxes, licenses and fees	611
Unearned assessment/premium reserve	432,113
Ceded reinsurance premiums payable	<u>34,979</u>
Total liabilities	<u>510,973</u>
Surplus as regards policyholders	<u>1,763,241</u>
Total liabilities, capital and surplus	<u>\$ 2,274,214</u>

Statement of Income
As of December 31, 2010

Premiums earned	<u>\$ 837,787</u>
Losses incurred	446,606
Loss adjustment expenses incurred	70,799
Other underwriting expenses incurred	<u>896,836</u>
Total underwriting deductions	<u>1,414,241</u>
Net underwriting loss	<u>(576,454)</u>
Net investment income earned	<u>43,950</u>
Net investment gain	<u>43,950</u>
Finance and other charges	23,411
Miscellaneous income	<u>290,270</u>
Total other income	<u>313,681</u>
Net loss before federal income taxes	(218,823)
Federal income taxes incurred	<u>0</u>
Net loss	<u>\$ (218,823)</u>

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Capital and surplus, beginning of the year	<u>\$1,899,810</u>	<u>\$1,852,131</u>	<u>\$1,729,387</u>
Net income/(loss)	(218,823)	154,493	51,296
Change in non-admitted assets	(7,695)	0	0
Aggregate write-ins for gains and losses in surplus	<u>89,948</u>	<u>(106,815)</u>	<u>71,448</u>
Change in surplus during the year	<u>(136,569)</u>	<u>47,679</u>	<u>122,744</u>
Capital and surplus, end of the year	<u>\$1,763,241</u>	<u>\$1,899,810</u>	<u>\$1,852,131</u>

Notes to Financial Statements

Investments

The Company's investments were in compliance with ORC Section 3939 and valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

Conclusion

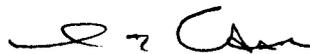
The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2010, and is summarized as follows:

Total Assets	<u>\$ 2,274,214</u>
Liabilities	510,973
Capital and Surplus	<u>1,763,241</u>
Total Liabilities, Capital and Surplus	<u>\$ 2,274,214</u>

Acknowledgement

In addition to the undersigned, Jeffrey K. Ebert, CFE, of the Department, participated in this examination.

Respectfully,



David A. Cook, 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, 2010.

[Signature] 11/8/11
Assistant Chief Examiner Date

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 8 day of November, 2011.

Elizabeth Chase
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2012
My Commission Expires