

Report of Examination of

United Ohio Insurance Company
Bucyrus, Ohio

As of December 31, 2010

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Columbus, Ohio
July 8, 2011

Honorable Joseph Torti, III, Chair
Financial Condition (E) Committee
National Association of Insurance Commissioners (“NAIC”)
Division of Insurance
Department of Business Regulation
State of Rhode Island
1511 Pontiac Avenue, Bldg. #69-2
Cranston, Rhode Island 02920

Honorable Mary Taylor
Lieutenant Governor/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

United Ohio 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 1725 Hopley Avenue, Bucyrus, Ohio.

A report of this examination is hereby respectfully submitted.

The Company was last examined as of December 31, 2005, by the Department. Representatives of the Department conducted the current examination covering the intervening period to and including December 31, 2010.

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
R. Bruce Albro	Retired
A. Michael Heister	President A. M. Heister Associates Agency
James J. Kennedy	President and Chief Executive Officer The Company
Susan Porter	Partner Schottenstein Zox & Dunn Co., LPA
John R. (Jack) Purse	Retired
David A. Siebenburgen	Independent Consultant
Randy L. Walker	President Randy Walker Real Estate Services, LLC
Thomas E. Woolley	President Allenbaugh Insurance Agency, Inc.

Officers

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

Name	Title
James J. Kennedy	President and Chief Executive Officer
John R. Purse	Secretary
David G. Hendrix	Treasurer and Chief Financial Officer
Todd E. Albert	Vice President – Information Systems
Michael A. Brogan	Vice President – Claims
Thomas M. Holtshouse	Vice President – Product Management
Michael R. Horvath	Vice President – Human Resources
Randy T. O'Conner	Vice President – Underwriting

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, 2010:

Ohio Mutual Insurance Company
United Premium Budget Service, Inc.
United Ohio Insurance Company
Centurion Financial, Inc.
Ohio United Agency, Inc.

Reinsurance

Ceded

As of the examination date, the Company and its affiliate, Ohio Mutual Insurance Company (“Ohio Mutual”) had in place reinsurance coverage that provided protection for both the property and casualty writings. The excess casualty per occurrence treaty covered \$4.5 million in excess of \$500,000 and the excess property per occurrence treaty covered \$2.0 million in excess of \$500,000. Protection for property exposure was supplemented by catastrophe reinsurance coverage of 95% of \$46 million in excess of \$4 million retention, with an additional layer at 100% of \$5 million in excess of \$50 million, bringing total coverage to to \$55 million in excess of \$4 million.

All contracts reviewed contained appropriate clauses that meet the guidelines prescribed by the NAIC.

Assumed

The Company does not assume a material amount of business except for business assumed through an intercompany pooling agreement.

Pooling

The Company and Ohio Mutual entered into a reinsurance pooling agreement effective January 1, 2006 whereby the underwriting results are pooled and split 75% to the Company and 25% to Ohio Mutual.

Territory and Plan of Operations

The Company was licensed to transact business in the states of Connecticut, Indiana, Iowa, Kansas, Minnesota, Nebraska, Ohio, Oregon, Rhode Island, Tennessee, Virginia, and Wisconsin.

The following table depicts the Company’s percentages of net business written by line in 2010:

<u>Description</u>	<u>%</u>
Private passenger auto liability	25.83
Auto physical damage	19.83
Homeowners multiple peril	17.17
Farmowners multiple peril	10.03
Fire	8.90
Commercial multiple peril	8.65
Commercial auto liability	6.15
All other	3.44
Total	<u>100.00</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, 2010. 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 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 and Bylaws.

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, 2010

Admitted assets

Cash and invested assets:	
Bonds	\$179,790,038
Common Stocks	9,405,388
Cash and short-term investments	14,514,818
Total cash and invested assets	<u>203,710,244</u>
Accrued investment income	1,854,456
Uncollected premiums and agents' balances	1,775,214
Deferred premiums, agents' balances and installments booked but deferred and not yet due	22,936,629
Amounts recoverable from reinsurers	390,744
Other amounts receivable under reinsurance contracts	1,132
Current federal income tax recoverable	436,320
Net deferred tax asset	5,330,286
Receivables from parent, subsidiaries and affiliates	1,883,145
Aggregate write-ins for other than invested assets	1,000
Total admitted assets	<u>\$238,319,171</u>

Liabilities, capital and surplus

Liabilities:

Losses	\$43,971,439
Loss adjustment expenses	9,356,798
Commissions payable	3,312,850
Other expenses	2,555,411
Taxes, licenses and fees	149,898
Borrowed money	9,944,704
Unearned premiums	48,217,608
Advance premium	988,544
Policyholder dividends	
Ceded reinsurance premiums payable	750,594
Funds held by company under reinsurance treaties	772,916
Amounts withheld or retained by company for account of others	17,246
Remittances and items not allocated	23,595
Payable for securities	751,701
Aggregate write-ins for liabilities	<u>2,647,077</u>
Total liabilities	<u>123,460,381</u>
Capital and surplus:	
Common capital stock	1,495,210
Gross paid in and contributed surplus	3,715,912
Unassigned funds	<u>109,647,668</u>
Total capital and surplus	<u>114,858,790</u>
Total liabilities, capital and surplus	<u>\$238,319,171</u>

Statement of Operations

**For the Year Ended
December 31, 2010**

Premiums earned	\$112,822,511
Losses incurred	67,124,656
Loss expenses incurred	8,131,519
Other underwriting expenses incurred	36,515,321
Underwriting gain	1,051,015
Net investment income earned	6,337,633
Net realized capital gains	1,341,659
Net investment gain	7,679,292
Net (loss) from agents' or premium balances charged off	(549,961)
Finance and service charges not included in premiums	2,534,284
Aggregate write-ins for miscellaneous income	(1,903)
Total other income	1,982,420
Income before federal income taxes	10,712,726
Federal income taxes	2,538,072
Net income	\$8,174,654

Statement of Changes in the Capital and Surplus Account

(In thousands)

	2006	2007	2008	2009	2010
Capital and surplus December 31, previous year	\$69,419	\$83,425	\$90,325	\$95,980	\$111,258
Net income	11,545	6,415	7,821	11,886	8,175
Net unrealized capital gains (losses)	1,154	283	(1,694)	1,612	1,096
Change in net deferred income tax	352	129	2,687	(1,421)	(1,072)
Change in nonadmitted assets	495	65	(3,337)	3,406	1,733
Change in provision for reinsurance			(224)	168	56
Cumulative effect of changes in accounting principles	917				
Dividends to stockholders					(7,000)
Aggregate write-ins	(457)	8	402	(373)	613
Net change in capital and surplus	14,006	6,900	5,655	15,278	3,601
Capital and surplus December 31, current year	\$83,425	\$90,325	\$95,980	\$111,258	\$114,859

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, Robert H. Wainscott, FCAS, MAAA of Ernst & Young, LLP, opine on the reasonableness of the total reserves for the last three years covered by the examination. Another outside actuary, Charles H. Boucek, FCAS, MAAA of Ernst & Young, LLP, opined on the reasonableness of the total reserves for the first two 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, 2010.

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, 2010.

Subsequent Events

On January 1, 2011, the Ohio Mutual acquired all outstanding common shares of N.E. Corporation, a Maine stock corporation. N.E. Corporation's only assets are Casco Indemnity Company ("Casco"), a Maine property and casualty insurance company, and Casco's home office building located in Saco, Maine. Effective January 1, 2011, the reinsurance pooling agreement was amended to include Casco and the split of underwriting results was adjusted to 65% to the Company, 27% to Ohio Mutual and 8% to Casco.

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:

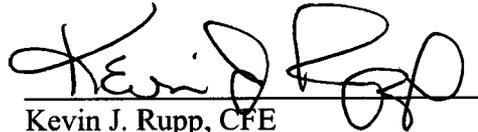
Total Admitted Assets	<u>\$238,319,171</u>
Liabilities	\$123,460,381
Surplus as Regards Policyholders	<u>114,858,790</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$238,319,171</u>

Acknowledgement

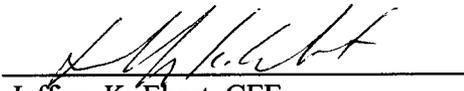
Appreciation is expressed for the assistance extended by the officers and employees of the Company during the course of this examination.

In addition to the aforementioned and the undersigned, the following representatives of the Department participated in this examination: Mohammad A. Arif, AES, CFE, CIDM, CISA, CISSP; Aaron R. Hibbs, CPA, FLMI, ChFC; Floyd D. Meeks, AES, CFE, CIDM, CISA, CPA, MBA; Leroy J. Moster, CFE, CPA; and Louis F. Radecky, CPA (Inactive).

Respectfully,

A handwritten signature in black ink, appearing to read "Kevin J. Rupp", written over a horizontal line.

Kevin J. Rupp, CFE
Examiner-In-Charge
Ohio Department of Insurance

A handwritten signature in black ink, appearing to read "Jeffrey K. Ebert", written over a horizontal line.

Jeffrey K. Ebert, 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, 2010.

Kevin J. Rupp 7/26/11
Examiner-In-Charge Date

[Signature] 7/26/11
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 knowledge and belief.

Subscribed and sworn to before me this 26 day of July, 2011.

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 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 knowledge and belief.

Subscribed and sworn to before me this 26 day of July, 2011.

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