

Report of Examination of

West and Knox Mutual Insurance Company
Carrollton, Ohio

As of December 31, 2010

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Columbus, Ohio
September 9, 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 Director:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

West and Knox Mutual Insurance Company

an Ohio domiciled, mutual protective property company, hereinafter referred to as the “Company.” The examination was conducted at the Company’s home office, located at 355 Leatherberry Road SE, Carrollton, Ohio 44615.

A report of this examination is hereby respectfully submitted.

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 domestic state 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 |
|--------------------|---------------------------------|
| Charlotte Boord | Retired |
| Joseph Coniglio | Farmer |
| Donna Detchon | Deputy Auditor, Carroll County |
| Charles Kooser | General Contractor |
| Sherman Oyer | Farmer |
| Nicholas Puskarich | Store Manager, Frontier Rentals |
| Larry Romigh | Retired |
| Jason Whiteleather | Farmer |

Officers

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

| Name | Title |
|-------------------|----------------|
| Sherman Oyer | President |
| Joseph Coniglio | Vice President |
| Tennile Puskarich | Secretary |
| Elizabeth Barber | Treasurer |

Insurance Holding Company System

The Company is a member of a holding company as defined in Section 3901.32 of the ORC. The Company owns West and Knox Insurance Agency, Inc.

Territory and Plan of Operations

The Company is licensed to do business in the State of Ohio. The Company primarily writes fire, wind, and lightning. The Company operates in the following Ohio counties: Belmont, Carroll, Columbiana, Guernsey, Harrison, Jefferson, Mahoning, Monroe, Stark, Trumbull, and Tuscarawas.

Reinsurance

Ceded

The Company has a per risk excess of loss agreement that provides coverage above \$50,000. An aggregate excess of loss agreements provides 100% coverage above incurred losses greater than \$197,623.

All reinsurance agreements appear to transfer risk and have the NAIC required clauses.

Assumed

The Company did not assume any reinsurance.

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 | \$ 53,214 |
| Real estate | 95,479 |
| Cash | <u>642,762</u> |
| Subtotal, cash and invested assets | 791,455 |
| | |
| Assessment or premiums in the course of collection | 34,661 |
| Amount recoverable from reinsurers | <u>2,600</u> |
| Total admitted assets | <u>\$ 828,716</u> |

Statement of Assets, Liabilities, Capital and Surplus

| | |
|--|-------------------|
| Liabilities: | |
| Unpaid claims | \$ 50,100 |
| Unpaid loss adjustment expenses | 776 |
| Commissions due and payable to agents | 4,258 |
| Taxes, licenses and fees | 1,901 |
| Borrowed money and interest thereon | 500 |
| Unearned assessments/premium reserve | 127,839 |
| Ceded reinsurance premiums payable | 6,901 |
| Payable to parent, subsidiaries and affiliates | <u>924</u> |
| Total liabilities | <u>194,199</u> |
| | |
| Capital and surplus: | |
| Surplus as regards policyholders | <u>634,517</u> |
| Total capital and surplus | <u>634,517</u> |
| Total liabilities, capital and surplus | <u>\$ 828,716</u> |

Statement of Income
As of December 31, 2010

| | |
|---|--------------------|
| Income | |
| Total assessment or premium income | \$ 340,399 |
| Deduct: Premiums for reinsurance ceded | 81,431 |
| Net assessments/premiums earned | <u>258,968</u> |
| Deductions | |
| Losses incurred | 116,953 |
| Loss expenses incurred | 8,098 |
| Other underwriting expense incurred | 220,250 |
| Total underwriting deductions | <u>345,301</u> |
| Net underwriting loss | (86,333) |
| Investment Income | |
| Net investment income | 30,546 |
| Net investment gain | <u>30,546</u> |
| Aggregate write-ins for miscellaneous income | 21,424 |
| Total other income | <u>21,424</u> |
| Net income, after capital gains tax and before federal income | (34,363) |
| Federal income taxes incurred | (11,890) |
| Net loss | <u>\$ (22,472)</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>\$685</u> | <u>\$738</u> | <u>\$819</u> |
| Net (loss) | (23) | (87) | (42) |
| Change in net unrealized cap. gains (losses) | 11 | (1) | 0 |
| Change in non-admitted assets | (38) | 15 | (39) |
| Aggregate write-ins for gains and losses in surplus | <u>0</u> | <u>20</u> | <u>0</u> |
| Change in surplus during the year | <u>(50)</u> | <u>(53)</u> | <u>(81)</u> |
| Capital and surplus, end of the year | <u>\$635</u> | <u>\$685</u> | <u>\$738</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>\$ 828,716</u> |
| Liabilities | 194,199 |
| Capital and Surplus | <u>634,517</u> |
| Total Liabilities, Capital and Surplus | <u>\$ 828,716</u> |

Subsequent Events

There were no material subsequent events.

Acknowledgement

In addition to the undersigned, the following representative of the Department participated in this examination: Methuselah E. Nyangoro, CFE, CPA.

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.


Assistant Chief Examiner

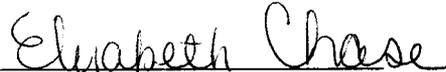
11/8/11
Date

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.


(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
~~MY COMMISSION EXPIRES MAY 22, 2012~~
My Commission Expires