

Changes made to Footnote 25 - Changes in Incurred Losses and Loss Adjustment Expenses, adjusting breakout of Current Year and Prior Year for both Total Incurred and Total Paid in 2011. Also updated the related amounts in the preceding paragraph.



ANNUAL STATEMENT  
For the Year Ended December 31, 2011  
OF THE CONDITION AND AFFAIRS OF THE  
GRANGE MUTUAL CASUALTY COMPANY

NAIC Group Code	00267	00267	NAIC Company Code	14060	Employer's ID Number	31-4192970
	(Current Period)	(Prior Period)				
Organized under the Laws of	Ohio			State of Domicile or Port of Entry		Ohio
Country of Domicile	United States					
Incorporated/Organized	03/25/1935			Commenced Business		04/20/1935
Statutory Home Office	671 South High Street			Columbus, OH 43206-1014		
	(Street and Number)			(City or Town, State and Zip Code)		
Main Administrative Office	671 South High Street			Columbus, OH 43206-1014		614-445-2900
	(Street and Number)			(City or Town, State and Zip Code)		(Area Code) (Telephone Number)
Mail Address	671 South High Street			Columbus, OH 43206-1014		
	(Street and Number or P.O. Box)			(City or Town, State and Zip Code)		
Primary Location of Books and Records	671 South High Street			Columbus, OH 43206-1014		614-445-2900
	(Street and Number)			(City or Town, State and Zip Code)		(Area Code) (Telephone Number)
Internet Web Site Address	www.grangeinsurance.com					
Statutory Statement Contact	David Sidney Ackermann			614-445-2900		
	(Name)			(Area Code) (Telephone Number) (Extension)		
	ackermannd@grangeinsurance.com			614-449-3757		
	(E-Mail Address)			(Fax Number)		

OFFICERS

Name	Title	Name	Title
THOMAS HOWARD WELCH	PRESIDENT & CEO	DAVID TRUFANT ROARK	VP & SECRETARY
JOHN PAUL MCCAFFREY	VP & CFO		

OTHER OFFICERS

JOHN (NMN) AMMENDOLA	PRESIDENT - PERSONAL LINES	ALAN DUANE BRANNAN	VP - CHIEF STRATEGY OFFICER
MICHAEL ANTHONY BUZEK	VP - CUSTOMER EXPERIENCE	LAVAWN DEE COLEMAN	VP - ASSISTANT SECRETARY
	VP - CHIEF HUMAN RESOURCES OFFICER		PRESIDENT - COMMERCIAL LINES
DOREEN YVONNE DELANEY		ELIZABETH MARIE DINNIN	VP -CHIEF INFORMATION OFFICER
CAROL LYNN DRAKE	VP - MARKETING	MICHAEL CHARLES FERGANG	VP - CHIEF CLAIMS OFFICER
BARRY EUGENE HUNLOCK	VP - PERSONAL LINES	PETER MICHAEL MCMURTRIE	
JOHN CHRISTOPHER MONTGOMERY	VP - INVESTMENTS	CURTIS MARTIN PARKER	VP - CHIEF ACTUARY
MARK CLARENCE RUSSELL	VP - INSURANCE OPERATIONS	DOUGLAS LEWIS SHARP	VP - SALES

DIRECTORS OR TRUSTEES

DOUGLAS PAUL BUTH	GLENN EUGENE CORLETT	ELWOOD GORDON GEE	ROBERT ENLOW HOYT #
JOHN PAUL MCCAFFREY #	ROBERT JOHN O'BRIEN	MICHAEL VERNE PARROTT	MARY MARNETTE PERRY
MELVIN GEORGE PYE JR	THOMAS SIMRALL STEWART	PHILIP WAYNE STICHTER	THOMAS HOWARD WELCH
DAVID CHARLES WETMORE			

State of .....Ohio.....  
County of .....Franklin.....

The officers of this reporting entity, being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

THOMAS HOWARD WELCH PRESIDENT & CEO	LAVAWN DEE COLEMAN VP & SECRETARY	JOHN PAUL MCCAFFREY VP & CFO
Subscribed and sworn to before me this 15th day of June, 2012		a. Is this an original filing? Yes [ ] No [ X ] b. If no: 1. State the amendment number 1 2. Date filed 06/15/2012 3. Number of pages attached 16
Teresa J. Burchwell, Notary Public April 28, 2012		

**ANNUAL STATEMENT FOR THE YEAR 2011 OF THE  
GRANGE MUTUAL CASUALTY COMPANY**

**NOTES TO FINANCIAL STATEMENTS**

**1. BASIS OF PRESENTATION**

**A. Accounting Practices**

The Company prepares its statutory financial statements in conformity with accounting practices prescribed or permitted by the State of Ohio. The State of Ohio requires that insurance companies domiciled in the State prepare their statutory basis financial statements in accordance with the NAIC Accounting Practices and Procedures manual subject to any deviations prescribed or permitted by the State of Ohio insurance commissioner. The Company does not employ accounting practices that depart from the NAIC Accounting Practices and Procedures Manual.

**B. Use of Estimates in the Preparation of the Financial Statements**

The preparation of financial statements in conformity with Statutory Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

**C. Accounting Policy**

Premiums are earned over the terms of the related insurance policies and reinsurance contracts. Unearned premium reserves are established to cover the unexpired portion of premiums written. Such reserves are computed by daily pro rata methods for direct business and are based on reports received from ceding companies for reinsurance.

Expenses incurred in connection with acquiring new insurance business, including such acquisition costs as sales commissions, are charged to operations as incurred. Expenses incurred are reduced for ceding allowances received or receivable.

In addition, the company uses the following accounting policies:

- (1) Short-term investments are stated at amortized cost.
- (2) Bonds not backed by other loans are stated at amortized cost using the interest method.
- (3) Common Stocks at market except that investments in stocks of uncombined subsidiaries and affiliates in which the Company has an interest of 20 % or more are carried on the equity basis.

(a) The Company owns 100% of the common stock of the following subsidiaries:

- (i) GrangeAmerica,
- (ii) Grange Indemnity Insurance Company
- (iii) Grange Insurance Company of Michigan
- (iv) Trustgard Insurance Company
- (v) Grange Property & Casualty Insurance Company

(b) The Company owns 79.21% of the common stock of its subsidiary Grange Life Insurance Company

- (4) Preferred stocks are stated at cost.
- (5) Mortgage loans on real estate are stated at the aggregate carrying value less accrued interest.
- (6) Loan-backed securities are stated at either amortized cost or the lower or amortized cost or fair market value. The retrospective adjustment method is used to value all securities except for interest only securities or securities where the yield had become negative, that are valued using the prospective method.
- (7) Accounting policies with respect to investments in affiliated companies; see Note 1.C.(3)
- (8) The company has minor ownership interests in joint ventures. The company carries these interests based on the underlying audited GAAP equity of the investee.
- (9) All derivatives are stated at fair value.
- (10) The Company anticipates investment income as a factor in the premium deficiency calculation, in accordance with SSAP No. 53, Property-Casualty Contracts - Premiums.
- (11) Unpaid losses and loss adjustment expenses include an amount determined from individual case estimates and loss reports and an amount, based on past experience, for losses incurred but not reported. Such liabilities are necessarily based on assumptions and estimates and while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liability is continually reviewed and any adjustments are reflected in the period determined.
- (12) The Company has not modified its capitalization policy from the prior period
- (13) The Company does not have pharmaceutical rebate receivables.

**2. ACCOUNTING CHANGES AND CORRECTIONS OF ERRORS**

Accounting changes adopted to conform to the provisions of the NAIC Accounting Practices and Procedures manual are reported as changes in accounting principles. The cumulative effect of changes in accounting principles is reported as an adjustment to unassigned funds (surplus) in the period of the change in accounting principle. The cumulative effect is the difference between the amount of capital and surplus at the beginning of the year and the amount of capital and surplus that would have been reported at that date if the new accounting principles had been applied retroactively for all prior periods. As a result of these changes, the Company reported a change of accounting principle, as an adjustment that increased (decreased) unassigned funds (surplus), of \$0 as of January 1, 2011.

**3. BUSINESS COMBINATIONS AND GOODWILL**

NONE

**4. DISCONTINUED OPERATIONS**

NONE

ANNUAL STATEMENT FOR THE YEAR 2011 OF THE  
GRANGE MUTUAL CASUALTY COMPANY

NOTES TO FINANCIAL STATEMENTS

5. INVESTMENTS

- A.

Mortgage Loans, including Mezzanine Real Estate Loans

N/A - The Company did not originate any new loans during 2011. The Company did not purchase new loans in 2011.

1.

During 2011, the Company did not reduce interest rates of any outstanding mortgage loans.

3.

N/A – The Company did not originate any new loans.

As of yearend, the Company held mortgages with interest more than 180 days past due with a recorded investment, excluding accrued interest

4.

a.

Total interest due on mortgages with interest more than 180 days past due

5.

Taxes, assessments and any amounts advanced and not included in the mortgage loan total

6.

Current year impaired loans with a related allowance for credit losses

a.

Related allowance for credit losses

7.

Impaired Mortgage loans without an allowance for credit losses

8.

Average recorded investment in impaired loans

9.

Interest income recognized during the period the loans were impaired

Amount of interest income recognized on a cash basis during the period the loans were impaired

10.

11.

Allowance for credit losses:

a.

Balance at beginning of period

b.

Additions charged to operations

c.

Direct write-downs charged against the allowance

d.

Recoveries of amounts previously charged off

e.

Balance at end of period

12.

The Company recognizes interest income on impaired loans upon receipt.
- B.

DEBT RESTRUCTURING

NONE
- C.

REVERSE MORTGAGES

NONE
- D.

LOAN-BACKED SECURITIES

1)

Prepayment assumptions for single class and multi-class mortgage-backed/asset-backed securities were obtained from Hub Data and Bloomberg. These assumptions are consistent with the current interest rate and economic environment.

2)

	(1) Amortized Cost Basis Before Other- than- Temporary Impairment	(2) Other-than- Temporary Impairment Recognized in Loss	(3) Fair Value 1-2
OTTI recognized 1st Qtr			
a) Intent to Sell	0	0	0
b) Inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis.	0	0	0
c) Total 1st Qtr	0	0	0
OTTI recognized 2nd Qtr			
d) Intent to Sell	0	0	0
e) Inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis.	0	0	0
f) Total 2nd Qtr	0	0	0
OTTI recognized 3rd Qtr			
g) Intent to Sell	1,363,411	0	1,363,411
h) Inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis.	0	0	0
i) Total 3rd Qtr	1,363,411	0	1,363,411
OTTI recognized 4th Qtr			
j) Intent to Sell	0	0	0
k) Inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis.	0	0	0
l) Total 4th Qtr	0	0	0

ANNUAL STATEMENT FOR THE YEAR 2011 OF THE  
GRANGE MUTUAL CASUALTY COMPANY

NOTES TO FINANCIAL STATEMENTS

3)

(1)	(2)	(3)	(4)	(5)	(6)	(7)
CUSIP	Book/Adjusted Carrying Value Amortized Cost Before Current Period OTTI	Present Value of Projected Cash Flows	Recognized Other-Than- Temporary Impairment for the Current Period	Amortized Cost After Other- Than Temporary Impairment	Fair Value at end of Current Period	Date of Financial Statement – End of Period
65535VPD4	1,928,088	1,961,700	33,612	1,961,700	1,957,026	3/31/2011
225470M75	1,811,405	1,465,042	346,363	1,465,042	860,358	6/30/2011
525221CL9	1,414,021	1,364,400	49,621	1,364,400	1,370,428	6/30/2011
65535VPD4	1,959,668	1,923,300	36,368	1,923,300	1,896,042	6/30/2011
525221CL9	1,363,411	1,331,754	31,657	1,331,754	1,331,754	9/30/2011

4) As impaired securities (fair value is less than cost or amortized cost) for which an other-than-temporary impairment has not been recognized in earnings as a realized loss (including securities with a recognized other-than-temporary impairment for non-interest related declines when a non-recognized interest related impairment remains:

a.

Aggregate Amount of Unrealized Losses:		
1	Less than 12 Months	(121,601)
2	Greater than 12 Months	0

b.

The Aggregate Related Fair Value of Securities with Unrealized Losses:		
1	Less than 12 Months	7,999,585
2	Greater than 12 Months	0

5) According to SSAP 43R, loan-backed and structured securities with an unrealized loss position were reviewed according to the pronouncement that became effective on 9/30/09. The best estimate of future cash flows using the appropriate discount rate was calculated for each affected security, with other-than-temporary impairments realized to the extent that present value was less than amortized cost. Securities held with an intent to sell were other-than-temporarily impaired to current fair value. Securities with a present value greater than amortized cost were not other-than-temporarily impaired.

E. REPURCHASE AGREEMENTS AND SECURITIES LENDING TRANSACTIONS

1. NONE
2. NONE
3. AGGREGATE AMOUNT CASH COLLATERAL RECEIVED

Securities Lending Collateral Received

	Fair Value
Open	50,994,760
Securities Received	4,759,253
Total Collateral Received	55,754,013

4. NONE
5. COLLATERAL REINVESTMENT

Aggregate Amount Cash Collateral Reinvested

	Amortized Cost	Fair Value
Open	51,067,508	51,067,723
Securities Received	4,759,253	4,759,253
Total Collateral Reinvested	55,826,761	55,826,976

F. REAL ESTATE

- (1) Not Applicable
- (2) Real Estate Held for Sale

(a) Real estate classified as held for sale consists of properties owned by the Company that were residential mortgage loans that have been foreclosure on and subsequently transferred from Schedule B to Schedule A. See Schedule A – Part 1 for a complete list of the residential properties held for sale at December 31. Properties held for sale are actively marketed using local real estate agents through a third-party administrator in order to maximize exposure to the market, the timeliness of the sale and the sale proceeds. The Company fully intends to dispose of these assets within the next 12 months.

(b) See Schedule A – Part 3 for a complete list of the properties disposed of during the year and the respective gain or loss recognized on the sale.
- (3) None
- (4) None
- (5) None

G. LOW INCOME HOUSING TAX CREDITS  
NONE

6. JOINT VENTURES, PARTNERSHIPS AND LIMITED LIABILITY COMPANIES

The Company has no investments in Joint Ventures, Partnerships or Limited Liability Companies that exceed 10% of its admitted assets.

7. INVESTMENT INCOME

NONE EXCLUDED

8. DERIVATIVE INSTRUMENTS  
NONE

ANNUAL STATEMENT FOR THE YEAR 2011 OF THE  
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NOTES TO FINANCIAL STATEMENTS

9. FEDERAL INCOME

A. Components of deferred tax assets (DTAs) and deferred tax liabilities (DTLs):										
(1)	DTA/DTL Components	2011			2010			Change		
	Description	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
(a)	Gross deferred tax assets	62,604,323	9,632,213	72,236,536	61,702,091	9,543,804	71,245,895	902,232	88,409	990,642
(b)	Statutory valuation allowance adjustment (enter as "-")	0	0	0	0	0	0	0	0	0
(c)	Adjusted gross deferred tax assets	62,604,323	9,632,213	72,236,536	61,702,091	9,543,804	71,245,895	902,232	88,409	990,642
(d)	Gross deferred tax liabilities	(7,524,920)	(25,108,488)	(32,633,408)	(6,747,739)	(27,926,819)	(34,674,558)	(777,181)	2,818,331	2,041,150
(e)	Net deferred tax asset/(liability) before admissibil	55,079,403	(15,476,274)	39,603,129	54,954,352	(18,383,015)	36,571,337	125,051	2,906,741	3,031,792
(f)	Deferred tax assets nonadmitted	(12,590,208)	0	(12,590,208)	(11,281,214)	0	(11,281,214)	(1,308,994)	0	(1,308,994)
(g)	Net admitted deferred tax asset/(liability)	42,489,195	(15,476,274)	27,012,921	43,673,138	(18,383,015)	25,290,123	(1,183,943)	2,906,741	1,722,797
					2011	2010				
(2)	Has the Company elected to admit DTAs pursuant to paragraph 10.e.? ("Y" for yes or "N" for no)				Y	Y				
(3)	Increase in admitted adjusted gross DTAs as the result of the application of paragraph 10.e.:									
		2011			2010			Change		
	Description	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
	With ¶ 10.e.	42,489,196	(15,476,274)	27,012,921	43,673,138	(18,383,015)	25,290,123	(1,183,942)	2,906,741	1,722,798
	With ¶s 10.a.-c.	40,389,195	(15,476,274)	24,912,921	43,673,138	(18,383,015)	25,290,123	(3,283,943)	2,906,741	(377,202)
	Increase attributable to application of ¶ 10.e.	2,100,001	0	2,100,001	0	0	0	2,100,001	0	2,100,001
(4)	Admission calculation components:									
		2011			2010			Change		
	Description	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
(a)	Admitted pursuant to ¶10.a.	0	0	0	0	0	0	0	0	0
(b)	Admitted pursuant to ¶10.b.(lesser of i. or ii.)	24,912,921	0	24,912,921	25,290,123	0	25,290,123	(377,202)	0	(377,202)
(c)	¶10.b.i.	24,912,921	0	24,912,921	25,290,123	0	25,290,123	N/A	N/A	(377,202)
(d)	¶10.b.ii.	N/A	N/A	77,411,993	N/A	N/A	75,985,904	N/A	N/A	1,426,089
(e)	Admitted pursuant to ¶10.c.	23,001,194	9,632,213	32,633,407	25,130,754	9,543,804	34,674,558	(2,129,560)	88,409	(2,041,150)
(f)	Total admitted under ¶¶10.a.-10.c.	47,914,115	9,632,213	57,546,328	50,420,877	9,543,804	59,964,681	(2,506,761)	88,409	(2,418,352)
	Deferred tax liabilities	(7,524,920)	(25,108,488)	(32,633,408)	(6,747,739)	(27,926,819)	(34,674,558)	(777,181)	2,818,331	2,041,150
	Net admitted deferred tax asset/liability under ¶10.a.-¶10.c.	40,389,195	(15,476,274)	24,912,921	43,673,138	(18,383,015)	25,290,123	(3,283,943)	2,906,741	(377,202)

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NOTES TO FINANCIAL STATEMENTS

2011				2010			Change		
Admission calculation under ¶10.e.i.-10.e.iii.									
Admitted pursuant to ¶10.e.i.									
(g)	0	0	0	0	0	0	0	0	0
Admitted pursuant to ¶10.e.ii. (lesser of a. or b.)									
(h)	27,012,921	0	27,012,921	25,290,123	0	25,290,123	1,722,798	0	1,722,798
(i)	27,012,921	0	27,012,921	25,290,123	0	25,290,123	N/A	N/A	1,722,798
(j)	N/A	N/A	116,117,989	N/A	N/A	113,978,855	N/A	N/A	2,139,133
Admitted pursuant to ¶10.e.iii.									
(k)	23,001,194	9,632,213	32,633,407	25,130,754	9,543,804	34,674,558	(2,129,560)	88,409	(2,041,150)
Total admitted under ¶10.e.i.-10.e.iii.									
(l)	50,014,115	9,632,213	59,646,329	50,420,877	9,543,804	59,964,681	(406,761)	88,409	(318,352)
Deferred tax liabilities									
	(7,524,920)	(25,108,488)	(32,633,407)	(6,747,739)	(27,926,819)	(34,674,557)	(777,181)	2,818,331	2,041,150
Net admitted deferred tax asset/liability under ¶10.e.									
	42,489,196	(15,476,274)	27,012,921	43,673,138	(18,383,015)	25,290,123	(1,183,942)	2,906,741	1,722,798
Used in ¶10.d.									
Total adjusted capital from most recently filed statement									
(m)	N/A	N/A	836,490,409	N/A	N/A	816,762,735	N/A	N/A	19,727,674
Authorized control level									
(n)	N/A	N/A	84,902,563	N/A	N/A	90,743,568	N/A	N/A	5,841,005
Adjusted capital/Authorized control level									
	N/A	N/A	985.24%	N/A	N/A	900.08%	N/A	N/A	85.16%
(5) Impact of tax planning strategies on adjusted gross DTAs and net admitted DTAs:									
2011				2010			Change		
Description	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Adjusted gross DTAs - Amount									
	0	0	0	0	0	0	0	0	0
Adjusted gross DTAs - Percentage									
(a)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Net admitted DTAs - Amount									
	0	0	0	0	0	0	0	0	0
Net admitted DTAs - Percentage									
(b)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(6) Impact of ¶10.e. on the following:									
2011				2010			Change		
Description	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Admission calculation under ¶10.a.-¶10.c.									
Admitted DTAs									
(a)	40,389,195	(15,476,274)	24,912,921	43,673,138	(18,383,015)	25,290,123	(3,283,943)	2,906,741	(377,202)
Admitted assets									
(b)	N/A	N/A	1,714,371,577	N/A	N/A	1,725,877,543	N/A	N/A	(11,505,966)
Adjusted statutory surplus from most recently filed statement									
(c)	N/A	N/A	836,490,409	N/A	N/A	816,762,735	N/A	N/A	19,727,674
Total adjusted capital from DTAs included above									
(d)	N/A	N/A	836,490,409	N/A	N/A	816,762,735	N/A	N/A	19,727,674
Increases due to admission under ¶10.e.i.-10.e.iii.									
Admitted DTAs									
(e)	2,100,001	0	2,100,001	0	0	0	2,100,001	0	2,100,001
Admitted assets									
(f)	N/A	N/A	2,100,001	N/A	N/A	0	N/A	N/A	2,100,001
Statutory surplus									
(g)	N/A	N/A	2,100,001	N/A	N/A	0	N/A	N/A	2,100,001

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NOTES TO FINANCIAL STATEMENTS

B. Temporary differences for which a DTL has not been established:

NONE

C. Current tax and change in deferred tax:

(1) Current income taxes incurred consist of the following major components:

	Description	2011	2010
	Current federal income tax		
(a)	expense (benefit)	(6,164,028)	(5,503,228)
(b)	Foreign taxes	0	0
(c)	Subtotal	(6,164,028)	(5,503,228)
(d)	Tax on capital gains/(losses)	2,760,741	2,724,570
	Utilization of capital loss		
(e)	carryforwards	0	0
	Other, including prior year		
(f)	underaccrual (overaccrual)	4,645,564	2,472,178
	Federal and foreign income		
(g)	taxes incurred	1,242,276	(306,480)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are as follows:

	DTAs Resulting From	December 31, 2011	December 31, 2010	Change
(2)	Book/Tax Differences In			
(a)	Ordinary			
	Discounting of unpaid			
(1)	losses and LAE	9,084,740	10,276,843	(1,192,103)
(2)	Unearned premiums	22,983,586	23,868,907	(885,321)
(3)	Policyholder reserves	0	0	0
(4)	Investments	0	0	0
	Deferred acquisition			
(5)	costs	0	0	0
	Policyholder dividends			
(6)	accrued	0	0	0
(7)	Fixed assets	0	0	0
	Compensation and			
(8)	benefit accruals	12,705,656	14,026,340	(1,320,685)
(9)	Pension accruals	0	0	0
(10)	Nonadmitted assets	7,124,460	8,763,383	(1,638,924)
	Net operating loss			
(11)	carryforward	6,585,126	1,732,491	4,852,635
(12)	Tax credit carryforward	3,552,861	2,967,453	585,408
	Other (separately			
(13)	disclose items >5%)	567,894	14,481	553,413
	Gross ordinary DTAs	62,604,323	61,649,898	954,424
	Statutory valuation			
	adjustment adjustment -			
(b)	ordinary (-)	0	0	0
	Nonadmitted ordinary			
(c)	DTAs (-)	(12,590,208)	(11,281,214)	(1,308,994)
(d)	Admitted ordinary DTAs	50,014,115	50,368,685	(354,570)
(e)	Capital			
	Investments	9,588,463	8,493,029	1,095,434
	Net capital loss			
(2)	carryforward	0	963,275	(963,275)
(3)	Real estate	0	0	0
	Other (separately			
(4)	disclose items >5%)	0	0	0
	Unrealized capital losses	0	0	0
	Gross capital DTAs	9,588,463	9,456,304	132,159
	Statutory valuation			
(f)	adjustment - capital (-)	0	0	0
	Nonadmitted capital DTAs			
(g)	(-)	0	0	0
(h)	Admitted capital DTAs	9,588,463	9,456,304	132,159
(i)	Admitted DTAs	59,602,578	59,824,989	(222,410)



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	December 31, 2011	December 31, 2010	Change
(3) DTLs Resulting From Book/Tax Differences In			
(a) Ordinary			
(1) Investments	(1,246,190)	(953,621)	(292,569)
(2) Fixed assets	(5,779,571)	(5,183,323)	(596,248)
Deferred and uncollected premiums	0	0	0
(3) Policyholder reserves/salvage and subrogation	(412,305)	(471,750)	59,444
(4) Other (separately disclose items >5%)	(86,854)	(86,854)	0
Ordinary DTLs	(7,524,920)	(6,695,547)	(829,373)
(b) Capital			
(1) Investments	0	0	0
(2) Real estate	0	0	0
(3) Other (separately disclose items >5%)	0	0	0
Unrealized capital gains	(25,064,738)	(27,839,319)	2,774,581
Capital DTLs	(25,064,738)	(27,839,319)	2,774,581
(c) DTLs	(32,589,657)	(34,534,866)	1,945,209
(4) Net deferred tax assets/liabilities	27,012,921	25,290,123	1,722,798

The change in net deferred income taxes is comprised of the following (this analysis is exclusive of nonadmitted assets as the Change in Nonadmitted Assets is reported separately from the Change in Net Deferred Income Taxes in the surplus section of the Annual Statement):

	December 31, 2011	December 31, 2010	Change
Total deferred tax assets	72,236,536	71,245,895	990,641
Total deferred tax liabilities	(32,633,408)	(34,674,558)	2,041,150
Net deferred tax assets/liabilities	39,603,129	36,571,337	3,031,791
Statutory valuation allowance (*see explanation below)	0	0	0
Net deferred tax assets/liabilities after SVA	39,603,129	36,571,337	3,031,791
Tax effect of unrealized gains/(losses)	25,064,738	27,839,319	(2,774,581)
Statutory valuation allowance adjustment allocated to unrealized (+)	0	0	0
Change in net deferred income tax [(charge)/benefit]	64,667,866	64,410,656	257,210

\*Statutory valuation allowance

NONE
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D. Reconciliation of federal income tax rate to actual effective rate:

The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate to income before income taxes. The significant items causing this difference are as follows:

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Description	Amount	Tax Effect	Effective Tax Rate
Income Before Taxes	26,396,657	9,238,830	35.00%
Tax-Exempt Interest	(12,825,372)	(4,488,880)	-17.01%
Dividends Received			
Deduction	(2,722,502)	(952,876)	-3.61%
Proration	2,332,181	816,263	3.09%
Change in non-admitted assets	4,682,639	1,638,924	6.21%
Meals & Entertainment	700,000	245,000	0.93%
Statutory Valuation			
Allowance Adjustment	0	0	0.00%
Non-admitted prepaid pension	(15,000,000)	(5,250,000)	-19.89%
Other, Including Prior Year True-Up	(1,305,823)	(262,195)	-0.99%
Total	2,257,780	985,066	3.73%
Federal income taxed incurred			
[expense/(benefit)]		(1,518,464)	-5.75%
Tax on capital gains/(losses)		2,760,741	10.46%
Change in net deferred income tax			
[charge/(benefit)]		(257,210)	-0.97%
Total statutory income taxes		985,066	3.73%

Carryforwards,  
recoverable taxes, and  
E. IRC §6603 deposits:

At December 31, 2011, the Company had net operating loss carryforwards  
expiring through the year  
2030 of: \$18,814,645  
At December 31, 2011, the Company had capital loss carryforwards  
expiring through the year  
2015 of: \$0  
At December 31, 2011, the Company had an AMT credit carryforwards,  
which does not expire, in the  
amount of: \$3,533,735

The following is income tax expense for 2009, 2010, and 2011 that is  
available for recoupment in the  
event of future net losses:

Year	Ordinary	Capital	Total
2009	0	0	0
2010	0	0	0
2011	0	0	0
Total	-	0	-

Deposits admitted under  
IRC § 6603  
None

F. The Company's federal income tax return is consolidated  
with the following entities:  
Trustgard Insurance  
Company  
Grange Indemnity  
Insurance Company  
Grange Insurance  
Company of Michigan  
Grange Property &  
Casualty Insurance  
Company  
Grange America  
Corporation  
T.G. Insurance Agency,  
Inc.

The method of allocating among companies is subject to a  
written agreement, approved by the Board of Directors,  
whereby allocation is made primarily on a separate return  
basis with a current credit for net losses.

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NOTES TO FINANCIAL STATEMENTS

10. INFORMATION CONCERNING PARENT, SUBSIDIARIES AND AFFILIATES

- A. NONE
- B. NONE
- C. NONE
- D. At December 31, 2011, the Company reported \$1,918,501 as amounts payable to its Subsidiaries and Affiliates. The terms of the settlement require that these amounts be settled within 45 days. Subsidiary, Grange Life Insurance Company , reimburse the parent company, Grange Mutual Casualty Company, for salaries, F.I.C.A., employee relations and welfare, directors' fees, travel, rent, equipment, and printing and stationery monthly. Subsidiaries, Trustgard Insurance Company, Grange Insurance Company of Michigan, Grange Property & Casualty Insurance Company, and Grange Indemnity Insurance Company reimburse the parent company, Grange Mutual Casualty Company, for salaries, F.I.C.A., and employee relations and welfare monthly. Other expenses and Intercompany receivable and/or payable balances are reimbursed quarterly on an as made basis.
- E. NONE
- F. NONE
- G. NONE
- H. NONE
- I. NONE
- J. NONE
- K. NONE

11. DEBT

- A. NONE
- B. 1) The Company is a member of the Federal Home Loan Bank (FHLB) of Cincinnati. Through its membership, the Company participated in the Cash Management Advance Program in 2011. During the year, a cash advance in the amount of \$1,000,000 was received and subsequently paid off after two weeks, in October 2011. It is the Company’s strategy to utilize cash advances for operations, and any funds obtained from the FHLB of Cincinnati for operations would be accounted for consistent with SSAP No. 15, Debt and Holding Company Obligations as borrowed money.

The table below indicates the amount of FHLB of Cincinnati stock purchased, collateral pledged, assets and liabilities related to the agreement with FHLB Cincinnati.

	2011	2010
2) FHLB stock purchased/owned as part of the agreement:		
Purchased:	115,200	43,700
Owned as of December 31:	2,608,900	2,493,700
3) Approved securities as collateral to the FHLB	85,264,120	63,835,029
4) Borrowing capacity currently available	57,926,014	29,810,170
4) Agreement assets and liabilities		
General Account:		
a. Assets	0	0
b. Liabilities	0	0
Separate Account:		
c. Assets	0	0
d. Liabilities	0	0

12. RETIREMENT PLANS, DEFERRED COMPENSATION, AND POSTRETIREMENT BENEFIT PLANS

The Company offers a defined benefit plan (Plan), amended and restated, to its full time employees that were hired on or before December 31, 2006. Under the terms of the Plan, participants are eligible to receive normal retirement benefits upon reaching age 65. A participant may elect an early retirement date at a reduced benefit upon reaching age 55 and completing 5 years of credited service. The normal form of benefits is a life annuity for single participants and a 50% joint and survivor pension for married participants. Optional forms of benefit payments are available at the election of the participant. Under the provisions of the Plan, benefits are determined by applying factors specified in the Plan to a participant’s defined average monthly compensation. The terms of the Plan provide that participants who were covered under the Plan prior to amendment and restatement, shall receive a benefit at least equal to that determined on the former basis. Complete vesting occurs with the completion of 5 years of credited service. The Company’s contributions to the Plan are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future. The Company uses a December 31 measurement date for the Plan.

In addition to the Plan, the Company sponsors a defined benefit plan (Postretirement Plan) that provides postretirement health care and life insurance benefits to participants upon reaching age 55 and completing 10 years of credited service. The Postretirement Plan covers employees that were hired on or before December 31, 2005. The Postretirement Plan is contributory, with retiree contributions adjusted annually, and contains other cost-sharing features, such as deductibles and coinsurance. The accounting for the Postretirement Plan anticipates future cost-sharing changes to the written plan that are consistent with the Company’s expressed intent to increase the retiree contribution rate annually for the expected general inflation rate for that year. The Company’s policy is to pay the cost of benefits with cash flows from current operations; therefore, there were no Postretirement Plan assets as of December 31, 2011 or 2010. The Company uses a December 31 measurement date for the Postretirement Plan.

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The following table sets forth the benefit obligation, fair value of plan assets, and funded status of the Plan and Postretirement Plan as of December 31, 2011 and 2010:

	Pension Benefits		Postretirement Benefits	
	12/31/2011	12/31/2010	12/31/2011	12/31/2010
Change in benefit obligation:				
Benefit obligation at beginning of year	118,879,163	99,376,413	28,392,635	27,356,699
Service cost	8,994,592	7,283,310	1,907,913	2,053,828
Interest cost	6,732,216	6,072,825	1,580,804	1,662,275
Actuarial loss	16,337,116	10,172,274	3,929,401	921,246
Benefits Paid	(8,128,467)	(4,025,659)	(2,249,120)	(1,420,146)
Plan Change	-	-	-	(2,181,267)
Benefit obligation at end of year	142,814,620	118,879,163	33,561,633	28,392,635
Change in plan assets:				
Fair value of plan assets at beginning of year	91,914,623	77,683,788	-	-
Actual return on plan assets	1,326,446	10,660,036	-	-
Employer contribution	24,784,899	7,596,458	2,249,120	1,420,146
Benefits Paid	(8,128,467)	(4,025,659)	(2,249,120)	(1,420,146)
Fair value of plan assets at end of year	109,897,501	91,914,623	-	-
Funded status	(32,917,119)	(26,964,540)	(33,561,633)	(28,392,635)
Unrecognized net actuarial loss	63,133,956	42,245,330	8,693,829	5,200,676
Unrecognized prior service cost	-	-	(3,038,744)	(3,725,804)
Unrecognized initial net (asset) obligation	(216,837)	(280,790)	-	-
Net amount recognized	30,000,000	15,000,000	(27,906,548)	(26,917,763)

There were no amendments to the Plan or Postretirement Plan during the years ended December 31, 2011 and 2010. During 2010 there was a change in the Postretirement Plan assumptions to reduce the anticipated participation rate at retirement from 80% to 70%. This change in assumptions is based on historical experience of the Postretirement Plan.

As of December 31, 2011 all participants in the Plan are 100% vested. The projected benefit obligation for non-vested employees covered under the Plan was \$0 and \$2,637,119 at December 31, 2011 and 2010, respectively. The accumulated benefit obligation for non-vested employees covered under the Plan was \$0 and \$1,386,900 at December 31, 2011 and 2010, respectively.

The accumulated benefit obligation for the Plan was \$108,730,239 and \$88,321,369 at December 31, 2011 and 2010, respectively.

Assumptions used in calculating the benefit obligations and funded status of the pension and postretirement benefits for 2011 and 2010 were as follows:

	Pension Benefits		Postretirement Benefits	
	12/31/2011	12/31/2010	12/31/2011	12/31/2010
Discount rate	4.90%	5.75%	4.90%	5.75%
Rate of future compensation increase	3.68%	3.86%	N/A	N/A

The components of the net periodic costs for the Plan and the Postretirement Plan for the years ended December 31, 2011 and 2010 were as follows:

	Pension Benefits		Postretirement Benefits	
	12/31/2011	12/31/2010	12/31/2011	12/31/2010
Service cost	8,994,592	7,283,310	1,907,913	2,053,828
Interest cost on projected benefit obligation	6,732,216	6,072,825	1,580,804	1,662,275
Expected return on plan assets	(7,961,781)	(7,008,596)	-	-
Amortization of prior service cost	-	-	(687,060)	(645,177)
Amortization of initial net (asset) obligation	(63,963)	(63,963)	-	-
Recognized net actuarial loss	2,083,825	1,312,882	436,248	250,651
Net periodic benefit cost	9,784,889	7,596,458	3,237,905	3,321,577

Assumptions used in calculating the net periodic pension cost for the Plan for 2011 and 2010 were as follows:

	12/31/2011	12/31/2010
Discount rate	5.75%	6.25%
Expected long-term rate of return on plan assets	8.00%	8.00%
Rate of future compensation increase	3.86%	3.92%

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Assumptions used in calculating the net periodic postretirement benefit cost for the Postretirement Plan for 2011 and 2010 were as follows:

	<u>12/31/2011</u>	<u>12/31/2010</u>
Discount rate	5.75%	6.25%
Assumed health care cost trend rate:		
Initial rate	8.00%	9.00%
Ultimate Rate	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2017	2015

The effect of a one percentage point change in the assumed health care cost trend rate would impact the postretirement benefit obligation as follows:

	<u>1-Percentage- Point Increase</u>		<u>1-Percentage- Point Decrease</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Effect on total of service and interest cost components	505,060	618,801	(413,306)	(501,797)
Effect on postretirement benefit obligation	4,039,183	2,899,138	(3,365,696)	(2,444,666)

The Plan’s asset allocation at December 31, 2011 and 2010 by asset category and the target asset allocation for 2012 are as follows:

	<u>Target Percentage Allocation</u>	<u>Percentage of Plan Assets At Fair Value</u>	
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Equity securities	65.0%	55.4%	65.4%
Debt securities	24.0%	22.4%	22.6%
Commodities	5.0%	3.6%	5.0%
Hedge Funds	5.0%	3.9%	3.6%
Cash equivalents	1.0%	14.7%	3.4%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

The assets of the Plan are managed to maximize total investment returns and provide sufficient funding for present and anticipated future benefit obligations within the constraints of a prudent level of portfolio risk and asset diversification.

To develop the expected long-term rate of return on assets assumption, the Company considered the historical compound rates of return realized on Plan assets and the future expectations for returns by each asset class, as well as the target asset allocation of the overall portfolio. Evaluation of these factors resulted in the selection of the 8.00% long-term rate of return assumption that was used to calculate the net periodic pension cost for the Plan. The expected long-term rate of return on assets is a long-term assumption and generally does not change annually.

The Company’s expected contributions to the Plan and Postretirement Plan are approximately \$7,695,000 and \$1,840,000 during 2012, respectively. The source for the funding will be cash flow from operating activities.

The following benefit payments, which reflect expected future service, are expected to be paid by the Plan and Postretirement Plan as follows:

<u>Calendar Year</u>	<u>Pension Benefits</u>	<u>Postretirement Benefits</u>	
		<u>Gross Payments</u>	<u>Subsidy Receipts</u>
2012	3,988,366	2,036,658	196,860
2013	4,758,106	2,064,694	236,722
2014	5,460,130	2,258,690	269,061
2015	5,714,850	2,366,583	309,542
2016	6,435,478	2,453,384	353,764
2017 through 2021	45,934,836	14,979,409	2,496,596

The benefits expected to be paid are based on the same assumptions used to measure the Company’s benefit obligation at December 31, 2011 and include estimated future employee service.

As a supplement to the benefits provided under the Plan, the Company sponsors an additional defined benefit plan (Supplemental Plan) for certain of its management and highly compensated employees (as defined). Under the terms of the Supplemental Plan, a participant’s benefit is equal to the benefit which would have been earned under the Plan, if the provisions of the Plan were administered without regard to the annual compensation limitations set forth in Section 401(a)(17) of the Internal Revenue Code of 1986, as amended, reduced by the benefits earned under the Plan. Participants are eligible to begin receiving benefits under the Supplemental Plan as of the date in which benefit payments begin under the Plan. The normal form of benefits is a life annuity for single participants and a 50% joint and survivor pension for married participants. Optional forms of benefit payments available under the Plan are also available to participants under the Supplemental Plan. The projected benefit obligation for the Supplemental Plan was \$1,278,512 and \$788,811 at December 31, 2011 and 2010, respectively. The net periodic cost for the Supplemental Plan was \$196,221 and \$98,349 in 2011 and 2010, respectively. The Company’s policy is to pay the costs arising from the Supplemental Plan with cash flows from current operations; therefore, there were no Supplemental Plan assets as of December 31, 2011 or 2010. The Company uses a December 31 measurement date for the Supplemental Plan.

The Company also offers a defined benefit plan (Board Plan), amended and restated, for non-employee members of the Board who were first elected to the Board on or before January 1, 1996. Under the terms of the Board Plan, participants are eligible to receive retirement benefits upon reaching age 60 and completing 5 years of credited service. Under the provisions of the Board Plan, benefits are equal to the participant’s annual retainer in effect on the date of retirement and continue for the lifetime of the participant. The projected benefit obligation for the Board Plan was \$4,828,053 and \$4,402,468 at December 31, 2011 and 2010, respectively. The net periodic cost for the Board Plan was \$247,951 and \$295,891 in 2011 and 2010, respectively. The Company’s policy is to pay the costs arising from the Board Plan with cash flows from current operations; therefore, there were no Board Plan assets as of December 31, 2011 or 2010. The Company uses a December 31 measurement date for the Board Plan.

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In addition to the defined benefit plans described in the preceding paragraphs, the Company offers a defined contribution plan (Grange DC Plan) in which employees who have not made an election whether to participate or not are automatically enrolled with a 6% of base pay contribution rate following thirty days of employment (was 3% of base pay for 2010). New employees may opt out of the automatic enrollment process. A participant may authorize payroll deductions ranging from 1% to 50% of their base salary (in 1% increments) utilizing one or more of the following contribution options available within the Plan: 1) basic contributions (before-tax contributions); 2) Roth contributions; 3) after-tax contributions; and 4) catch-up contributions, if the participant is age 50 or older. The total dollar amount that may be contributed by a participant each calendar year is subject to certain limitations, as defined by the Plan. In addition, the total percentage deducted as basic, Roth, and after-tax contributions may not exceed 50% of a participant's base salary. The Company contributes a 50% match of each participant's basic and Roth contributions that does not exceed 6% of compensation. Such contributions made by the Company were approximately \$2,343,000 and \$2,297,000 in 2011 and 2010, respectively.

There were no amendments to the Grange DC Plan during the years ended December 31, 2011 and 2010.

The Grange DC Plan also provides that additional employer contributions (as defined) may be made in such amounts as determined by the Board. Only participants who have made basic or Roth contributions during an accounting year (as defined) and have a basic or Roth contribution account on the last day of such accounting year are eligible to receive the additional employer contribution. Additional employer contributions are made in proportion to basic or Roth contributions made by eligible employee participants during such accounting year, less withdrawals. Additional employer contributions were approximately \$0 and \$460,000 in 2011 and 2010, respectively.

All employee contributions to the Grange DC Plan are 100% vested at all times. All employer matching and additional employer contributions are 100% vested after a participant has completed 2 years of service with the Company.

In addition to the Grange DC Plan described in the preceding paragraphs, the Company offers a defined contribution plan, referred to as RA Accounts, to employees of the Company who are hired on or after January 1, 2007, as they are not eligible to participate in the Plan. The Company makes a RA Account contribution to each participant who is in the active employment of the Company as of the last day of the RA Account plan year (December 31). The amount of the Company's contribution to each participant is determined based on a formula that takes into account an employee's salary, age and years of credited service.

Employer contributions to the RA Accounts become 100% vested upon the employee completing three years of credited service. The Company contributed approximately \$711,000 and \$572,000 to the RA Accounts in 2011 and 2010, respectively.

13. CAPITAL AND SURPLUS, DIVIDEND RESTRICTIONS AND QUSAI-REORGANIZATIONS

- 6. NONE
- 7. NONE
- 8. NONE
- 9. NONE
- 10. NONE
- 11. NONE
- 12. NONE
- 13. NONE
- 14. NONE
- 15. NONE
- 16.

	I-Preferred Term Securities III, LTD.	I-Preferred Term Securities III, LTD.
a. Date Issued	October, 29 2003	October, 29 2003
b. Assets received	\$15,000,000	\$20,000,000
c. Holder of the note	U. S. Bank, N.A.	U. S. Bank, N.A.
d. Par value	\$15,000,000	\$20,000,000
e. Carrying value of the note	\$15,000,000	\$20,000,000
f. Interest rate	3-Month LIBOR + 3.95%	3-Month LIBOR + 3.95%
g. Stated term of the note	30 years	30 years
h. Unapproved interest or principal	\$0	\$0
i. Interest and/or principal paid current year	\$646,846	\$862,461
j. Total interest/principal paid on surplus notes	\$8,040,999	\$10,721,309
k. Subordination terms: In the event of the rehabilitation, liquidation, conservation, dissolution, reorganization or receivership of the Company, the claims under the Surplus Notes shall be paid out of any assets remaining after payment of all Policy Claims and all Senior Indebtedness of the Company. Provided however that the claims of any holder of a Surplus Note shall not be subordinated to the claim of any other holder of a Surplus Note. The payment by the Company of the principal of, and premium, if any, and interest on all Surplus Notes shall, to the extent and in the manner hereinafter set forth, be subordinated and junior in right of payment to the prior payment in full of all Policy Claims an Senior Indebtedness of the Company, whether outstanding at the date of this Indenture or thereafter incurred.		
l. Liquidation preference to the reporting entity's common and preferred shareholders:	Not Applicable	
m. Repayment conditions and restrictions: All payments of interest on and repayment of principal of these Surplus Notes may only be made with the prior approval of The Ohio Department of Insurance (Department). There are no specific limitations on the extent of the Department's discretion in determining whether the financial condition of the Company warrants the making of such payments.		
n. NONE		

- 12. NONE
- 13. NONE

14. CONTINGENCIES

- A. Contingent Commitments – None
- B. Assessments – In the ordinary course of business, The Company receives notification of potential assessments as a result of the insolvency of insurance companies. It is expected that the insolvencies will result in a retrospective-based guaranty fund assessment against The Company. The Company has recorded a liability for these guaranty fund assessments in the amount of \$1,044,759. Included in this amount are the insolvencies of Legion Insurance Company in the amount of approximately \$262,000 and Reciprocal of America in the amount of approximately \$227,000. The remaining amount includes nearly 20 separate insolvencies. This amount includes assessments against all companies discussed in Footnote 1C above. The Company does not record premium tax offsets as an asset, since these amounts would be non-admitted, given the lengthy nature of insolvency assessments.
- C. Gain Contingencies – NONE
- D. Claims Related Extra Contractual Obligations and Bad Faith Losses Stemming from Lawsuits - Various lawsuits against the Company have arisen in the course of the Company's business. Contingent liabilities arising from litigation, income taxes and other matters are not considered material in relation to the financial position of the Company.

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15. LEASES

Leases are limited to branch claims office facilities and certain office equipment. None of the leases are material to the Company.

16. INFORMATION ABOUT FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK AND FINANCIAL INSTRUMENTS WITH  
CONCENTRATION OF CREDIT RISK.

NONE

17. SALE, TRANSFER AND SERVICING OF FINANCIAL ASSETS AND EXTINGUISHMENTS OF LIABILITIES

- A. NONE
- B. Transfer and Servicing of Financial Assets

1) NONE

2) The Company participates in a securities lending program with JPMorgan Chase Bank as lending agent. Securities on loan as of December 31, 2011 were fixed income bonds, totaling \$51.1 million. Collateral received from lending activities is maintained in accordance to the securities lending agreement, whereby the collateral requirement shall be an amount equal to 102% of the then current market value of the relevant loaned securities where securities and collateral are denominated in the same currency, and 105% for all other securities. The Company’s lending agent, JPMorgan Chase Bank, reinvests the cash collateral according to investment guidelines outlined in the securities lending agreement and is reported on-balance sheet. Collateral received in the form of securities are restricted and off-balance sheet. The Company is not able to sell or reinvest the securities received as collateral and according to the MLSA, the borrower bears all the risk associated with said securities.
- C. NONE

18. GAINS OR LOSS TO THE REPORTING ENTITY FROM UNINSURED A&H PLANS AND THE UNINSURED PORTION OF PARTIALLY INSURED  
PLANS.

NONE

19. DIRECT PREMIUM WRITTEN / PRODUCED BY MANAGING GENERAL AGENTS / THIRD PARTY ADMINISTRATORS

NONE

20. FAIR VALUE MEASUREMENTS

- A.

1. Fair Value Measurements as of December 31, 2011:

Description	Level 1	Level 2	Level 3	Total
a. ASSETS AT FAIR VALUE				
Perpetual Preferred Stock				
Industrial & Misc	595,276	0	0	595,276
Parent, Subs, & Affiliates	0	0	0	0
Total Perpetual Preferred Stock	595,276	0	0	595,276
Bonds				
US Governments	0	0	0	0
US States, Territories, & Possessions	0	0	0	0
US Political Subdivisions	0	0	0	0
US Special Rev & Assessment	0	0	0	0
Industrial & Misc	0	16,828,140	0	16,828,140
Parent, Subs, & Affiliates	0	0	0	0
Total Bonds	0	16,828,140	0	16,828,140
Common Stock				
Industrial & Misc	224,328,221	141,853	0	224,470,074
Parent, Subs, & Affiliates	0	0	170,929,069	170,929,069
Total Common Stock	224,328,221	0	170,929,069	395,399,143
Other Invested Assets	0	7,405,950	44,164,029	51,569,980
Total Other Invested	0	7,405,950	44,164,029	51,569,980
TOTAL ASSETS AT FAIR VALUE	224,923,496	24,375,944	215,093,098	464,392,538
b. LIABILITIES AT FAIR VALUE				
Derivative liabilities	0	0	0	0
Total Derivative Liabilities	0	0	0	0
TOTAL LIABILITIES AT FAIR VALUE	0	0	0	0

2. Fair Value Measurements in Level 3 of the Fair Value:

	Balance at 01/01/2011	Transfers in to Level 3	Transfers out Level 3	Total G/(L) included in Net Income	Total G/(L) included in Surplus	Purchases, Issuances, sales, & settlements	Balance at 12/31/11
Common Stock	157,769,096	0	0	0	13,159,973	0	170,929,069
Other Invested							
Assets	45,898,541	0	0	799,926	708,493	(3,242,931)	44,164,029
Total	203,667,637	0	0	799,926	13,868,466	(3,242,931)	215,093,098

3. The Company’s policy is to recognize transfers in and out as of the end of the reporting period.

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4. As of December 31, 2011, the reported fair value of the entity's investments categorized within Level 2 and Level 3 of the fair value hierarchy are as follows:

**Bonds** - According to statutory accounting rules, fixed income securities with a rating of NAIC 1 or 2 are reported at amortized cost. Securities with a rating of NAIC 3 thru 6, or non-investment grade ratings, are measured and reported at the lower of amortized cost or fair value on the statement of financial position. Therefore, the Company reported \$16.8 million of bonds with non-investment grade ratings at fair value on the statement of financial position as of December 31, 2011. At the end of every quarter and at year-end, the Company utilizes fair values provided by the Securities Valuation Office (SVO) of the National Association of Insurance Commissioners (NAIC). The SVO is responsible for the credit quality assessment and valuation of securities owned by state regulated insurance companies. Fair value is determined by evaluations that are based on observable market information rather than market quotes. Inputs to the evaluations include, but are not limited to, market prices from recently completed transactions and transactions of comparable securities, credit spreads, interest rate yield curves, and other market-observable information. Thus, fixed income securities measured and reported at fair value are included in the amounts disclosed in Level 2 of the hierarchy.

**Common Stocks, Industrial & Misc**– According to statutory accounting rules, common stocks are reported at fair value. The Company holds one position not actively traded, however it is frequently quoted. The manager is marking the position to market monthly based on indicated bid levels received from broker/dealers. Therefore this security is included in level 2.

**Parent, Subsidiaries, and Affiliates** – The Company’s investments in six subsidiaries are measured and reported at fair value as of December 31, 2011 for each respective entity totaling \$170.9 million in aggregate. Fair value measurement is determined by the individual entity’s surplus at the end of a period, or the amount by which assets exceed liabilities. Each subsidiary is in the insurance industry, whereby its assets are largely comprised of fixed income securities carried at amortized cost and its liabilities represent reserves for underwriting losses. Some inputs to the valuation methodology are unobservable and significant to the fair value measurement, and result in disclosure at Level 3.

**Other Invested Assets** - Included in other invested assets are five limited partnerships, two of which are considered private equity funds that invest in equity securities and debt or other securities providing equity like returns. The private equity funds are reported at their most recently available fair value provided by the Managing Member of the Fund, net any contributions or distributions since said report, totaling \$0.8 as of December 31, 2011. Fair value is the amount that would be received to sell an asset or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The Managing Member is required to make significant judgments that impact the reported fair value of investments. Fair value is determined using valuation methodologies after giving consideration to a range of factors including, but not limited to, the price at which the investment was acquired, the nature of the investment, relevant market conditions, trading values on public exchanges for comparable securities discounted accordingly for size, current and projected operating performance, and financing transactions subsequent to the acquisition of the investment. A financial instrument’s categorization within the fair value hierarchy is based on the lowest level of input that is significant to its fair value measurement. As of December 31, 2011 all investments related to the private equity funds are classified as Level 3 assets.

The other three limited partnerships, totaling \$50.8 million as of December 31, 2011 are considered hedge funds. Fair value reported on the statement of financial position represents the most recently available valuation provided by the fund manager, usually the previous month from the reporting date due to the timing for receipt of the monthly statement. One hedge fund, with a fair value of \$7.4 million, has underlying assets consisting of cash and marketable equity securities. The Company’s investment in the fund is valued at the proportionate interest in the net asset value of the marketable securities held by the partnership. Some investments are quoted prices in markets that are not considered to be active for identical assets or liabilities, quoted prices in active markets for similar assets or liabilities and inputs other than quoted prices that are directly observable or indirectly through corroboration with observable market data. As of December 31, 2011, the partnership is classified as Level 2 assets. The remaining two hedge funds, valued at \$43.4 million, report fair value based on values provided to a trustee by the fund manager. The Company’s investment in each is valued at the proportionate interest in the net asset value of the partnership. There are no unfunded commitments related to the hedge funds and units are redeemable at net asset value with the appropriate prior written notice. Inputs are unobservable and result in disclosure at Level 3 of the fair value hierarchy.

21. OTHER ITEMS

- A. NONE
- B. NONE
- C. NONE
- D. NONE
- E. NONE
- F. NONE
- G. Subprime Mortgage Related Risk Exposure
  - 1. Management Definition of Exposure to Subprime Mortgage Related Risk:

Management defines “subprime” mortgage loans as mortgage loans that are originated with an inherently higher risk profile or have a loan structure that is distinctly different from that of traditional mortgage loans. Management considers the following factors in determining whether or not a mortgage represents a subprime risk: borrowers with low credit ratings (FICO score); unconventionally high initial loan-to-value ratios (LTVs); unconventionally structured loans (option pay adjustable rate mortgages or negative amortizing loans); unconventionally high interest rates; and less than conventional documentation of the borrower’s income and/or assets.

The overall characteristics of Grange Mutual Casualty Company’s residential mortgage loan portfolio (the “Portfolio”) are positive and indicate that the Portfolio, as a whole, does not have significant exposure to subprime mortgage related risk. At origination, the Portfolio had an average FICO score of greater than 700 and an original LTV of less than 80%. There are no option pay adjustable rate mortgages and no negatively amortizing loans in the Portfolio. Additionally, the majority of the Portfolio was originated with conventional documentation to support borrower income and/or assets.

On a loan-by-loan basis, management recognizes that the Portfolio does contain individual mortgage loans that exhibit characteristics the industry commonly associates with subprime. Management considers individual loans to have higher exposure to subprime mortgage risk at origination if the credit (FICO score) of the borrower was less than 620 or if the LTV was greater than 95%. Although individual loans with such characteristics exist within the Portfolio, there are significant mitigating factors in place to reduce the Company’s exposure to subprime mortgage risk and reduce the likelihood of a loss on these loans. As of December 31, 2011, each of the 2 individual mortgage loans with an LTV greater than 95% (direct exposure of \$220,710 of outstanding principal) have private mortgage insurance (PMI) to guarantee the payment of outstanding principal in case of default. Additionally, of the 1 borrower with a FICO score less than 620 (direct exposure of \$125,283 of outstanding principal), this loan had an LTV equal to or less than 80% at origination.

The Company purchased the Portfolio on June 30, 2007 and management has no plans to originate new mortgage loans. As such, the Company considers the Portfolio to be a “closed block” of loans that are in run-off. Management mitigates the Company’s subprime mortgage risk exposure by monitoring individual mortgage loans in the Portfolio for signs of distress on a monthly basis through mortgage loan delinquency reports and other methods, as appropriate. On a quarterly basis, management analyzes the Portfolio for potential write-downs, which includes an evaluation of exposure to unrealized losses due to a decline in home values, as well as realized losses resulting from delinquent payments or instances of foreclosure where it is more likely than not a home will be sold for less than the amount of outstanding principal and interest due to the Company.



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2. Estimated Direct Exposure Through Investments in Subprime Mortgage Loans:

a. Book adjusted carrying value (excluding accrued interest): \$320,810

b. Fair value: \$297,000

c. Value of land and buildings: \$297,000

d. The Company did not recognize any other-than-temporary impairment losses with regard to other investments with subprime exposure during 2011. Of the 3 loans that meet management’s definition of subprime as of December 31, 2011, all are current on principal and interest payments. Therefore, the default rate for the subprime portion of the loan Portfolio is 0%.

3. Management considers the Company's holdings in securities with underlying subprime exposure to be minimal. The majority of residential mortgage backed securities (RMBS) in the portfolio are issued by government-sponsored enterprises (GSEs). Securities with collateral that contain subprime characteristics based on low credit (FICO scores less than 620) and/or high LTVs represent less than 1% of the Company's invested assets. In addition, these securities were issued prior to 2006. The Company's bond portfolio does not include any positions in collateralized debt obligations (CDOs) on a direct basis. On a quarterly basis, management reviews all loan-backed and structured securities with an unrealized loss position according to SSAP 43-R. The best estimate of future cash flows using the appropriate discount rate is calculated for each affected security. To assist in this effort, a brokerage firm provides forward-looking assumptions for default rates, voluntary prepayment speeds, and loss severities on a majority of the securities governed by SSAP 43R. The outcomes of this process assure that anticipated cash flows will not be less than the carrying value subsequent to other-than-temporary impairments. As of December 31, 201, management estimates there wee no unrealized losses present due to subprime mortgage exposure.

Estimated direct exposure to subprime mortgage risk through other investments:

a. Actual Cost: \$0

b. Book adjusted carrying value: \$0

c. Fair Value: \$0

d. The Company did not recognize any other-than-temporary impairment losses with regard to other investments with subprime exposure during fourth quarter, 2011.

4. Underwriting Exposure to Subprime Mortgage Risk:

The Company does not write Mortgage Guaranty or Financial Guaranty insurance coverage, nor does it write any other lines of insurance with underwriting exposure to subprime mortgage risk.

22. EVENTS SUBSEQUENT

There have been no events, which have occurred subsequent to the filing of this statement, which have a material effect upon the financial condition of the Company.

23. REINSURANCE

A. UNSECURED REINSURANCE RECOVERABLES

None exceed 3% of Surplus

B. REINSURANCE RECOVERABLE IN DISPUTE  
NONE

C. REINSURANCE ASSUMED AND CEDED

1.		Assumed Reinsurance		Ceded Reinsurance		Net	
		Premium	Commission	Premium	Commission	Premium	Commission
		Reserve	Equity	Reserve	Equity	Reserve	Equity
a.	Affiliates	178,130,880	32,063,558	62,540,370	11,257,267	115,590,511	20,806,292
b.	All Other	575,290	103,552	4,118,526	741,335	(3,543,236)	(637,782)
c.	TOTAL	178,706,170	32,167,111	66,658,895	11,998,601	112,047,275	20,168,509

- d. Direct Unearned Premium Reserve216,289,666

	<u>Direct</u>	<u>Assumed</u>	<u>Ceded</u>	<u>Net</u>
2. Contingent Commission	7,187,437	4,100,470	1,806,065	9,481,842

D. UNCOLLECTIBLE REINSURANCE  
NONE

F. RETROACTIVE REINSURANCE  
NONE

24. RETROSPECTIVELY RATED CONTRACTS & CONTRACTS SUBJECT TO REDETERMINATION  
NONE

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25. CHANGES IN INCURRED LOSSES AND LOSS ADJUSTMENT EXPENSES

Reserves for incurred losses and loss adjustment expenses attributable to insured events of prior years has increased (decreased) by \$(51.830) million from \$590.991 million in 2010 to \$539.161 million in 2011 as a result of re-estimation of unpaid losses and loss adjustment expenses principally on private passenger auto liability and homeowners lines of insurance. This increase (decrease) is generally the result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims. Included in this increase (decrease), the Company experienced \$0 million of unfavorable (favorable) prior year loss development on retrospectively rated policies. However, since the business to which it relates is subject to premium adjustments, there was no significant impact on surplus.

LOSSES AND LAE	2011	2010
BALANCE JANUARY 1	590,991,235	572,556,608
LESS REINSURANCE RECOVERABLES	149,155,470	134,049,112
NET BALANCE JANUARY 1	441,835,765	438,507,496
INCURRED RELATED TO:		
CURRENT YEAR	669,731,615	713,963,670
PRIOR YEAR	(51,829,524)	(38,680,858)
TOTAL INCURRED	617,902,092	675,282,812
PAID RELATED TO:		
CURRENT YEAR	442,005,507	464,831,527
PRIOR YEAR	191,324,767	207,123,016
TOTAL PAID	633,330,274	671,954,543
NET BALANCE AT DECEMBER 31	426,407,583	441,835,765
PLUS REINSURANCE RECOVERABLES	217,578,384	149,155,470
BALANCE AT DECEMBER 31	643,985,967	590,991,235

26. INTERCOMPANY POOLING AGREEMENTS

		Pool	
		NAIC#	Share
		-----	-----
Lead Company:	Grange Mutual Casualty Company	14060	84.0%
Affiliate:	Trustgard Insurance Company	40118	3.5%
	Grange Indemnity Insurance Company	10322	4.0%
	Grange Insurance Company of Michigan	11136	2.5%
	Grange Property & Casualty Insurance Company	11982	2.0%
	Integrity Mutual Insurance Company	14303	3.3%
	Integrity Property & Casualty Insurance Company	12986	0.7%

All lines of business are subject to the pooling agreement, with no exceptions. All members of the pool are parties to all reinsurance treaties entered into by the group with non-affiliated reinsurers. There are no discrepancies between the reinsurance schedules of the lead company's and the reinsurance schedules of the other participants.

27. STRUCTURED SETTLEMENTS

All unassigned structure settlements where the claimant is the payee have amortized values, by company, less than 1% of the Company’s surplus.

28. HEALTH CARE RECEIVABLES

NONE

29. PARTICIPATING POLICIES

NONE

30. PREMIUM DEFICIENCY RESERVES

- A. Liability carried for Premium Deficiency Reserves is zero.
- B. Date of the most recent evaluation of this liability was 12/31/2011.
- C. Anticipated investment income was not utilized in this calculation.

31. HIGH DEDUCTIBLES

NONE

32. DISCOUNTING OF LIABILITIES FOR UNPAID LOSSES OR UNPAID LOSS ADJUSTMENT EXPENSES

NONE

33. ASBESTOS/ENVIRONMENTAL RESERVES

NONE

34. SUBSCRIBER SAVINGS ACCOUNTS

NOT APPLICABLE

35. MULTIPLE PERIL CROP INSURANCE

NONE

36. FINANCIAL GUARANTY INSURANCE

NONE

37. CATASTROPHIC PLANNING

The Company uses a deterministic model, which returns period losses estimated using probabilities associated with a comprehensive set of earthquake scenarios. We run this model at least once each year and analyze return periods in excess of 250 years and adjust our catastrophe protection accordingly. The exposures analyzed are aggregated at the zip code level. The Company's highest concentration of exposure is in western Kentucky. The Company has a comprehensive catastrophic reinsurance program in place, developed by Guy Carpenter & Company, Inc. We currently buy coverage well in excess of our 250+ year event outcome for this exposure. We also use modeling to analyze our potential losses from our windstorm exposure.