2012 was an exciting year at Grange as we continued to grow our business profitably, diversify our revenue and build a financially stronger company. Remaining committed to our strategy resulted in a financially solid year with major highlights including the opening of the Grange Service Center and the launch of BusinessAssureSM, our new businessowners policy. Both of these new initiatives help us provide great value to our agents and policyholders.

At Grange, we continued to drive operational excellence to deliver not only financial strength, but to be competitive in the marketplace. You’ll read a lot about Agency Optimization and our commitment to take our agency relationships to the next level through custom interactions. Our goal is to be a valuable partner to every agent, based on their specific objectives. Grange’s dedication to the independent agent channel is stronger than ever, as is our desire to differentiate ourselves through this strategy.
Committed to the Grow-Diversify-Build strategy since early 2010, Grange has seen strong results and business success. So, the question now becomes, “What’s next and how do we continue this momentum?”

In 2013, we plan to utilize our current strategies to help us become a High-Performing Company. This means being recognized as a top performer across all dimensions of performance and includes:

- Building strong relationships with independent agents by delivering value
- Creating strong growth in policyholders and premiums produced by consistent, competitive pricing and underwriting
- Offering financial security for our current and future policyholders
- Delivering great claims service
- Providing consistent profitability
- Recruiting and retaining top talent
- Providing leadership in our civic and philanthropic communities

Being a high-performing company means growing faster than the competition and retaining policyholders, enjoying financial flexibility and cultivating deeper relationships with agents as Grange becomes their partner of choice.

While challenging, I truly believe this is a journey that Grange is ready for and can achieve, as you’ll see reflected visually throughout this year’s annual report. Like a high-performing athlete, our associates are dedicated, driven and committed to serving our agents and policyholders, and we have created a well-oiled machine to drive business results.

As always, I want to thank our network of more than 3,000 agency partners who continue to provide our products to consumers and make our business possible every day. To those of you who are part of the Grange family, thank you for your service and commitment to our company.

We look forward to continued growth and success with you.

Thomas H. Welch,
President and CEO
Every winning team needs a support system to help overcome hurdles, set the pace and drive results. At Grange, this begins with the ability to simply understand our agents. Determining what’s important to them will take on new meaning in 2013 as we put major horsepower behind optimizing and activating our understanding of what agencies need from us to be successful.

It starts by teaming up with our agent partners to understand their expectations and desires about our products and services. Clearly, not all agents have the same needs or run on the same fuel, so Grange will work to provide class-leading value for everyone. This means providing insight to help our agents navigate the road ahead in the most effective way possible.

This can be in the form of an outstanding Grange All Star who serves as a valued team member and business partner, new product support that informs and engages our agency partners or a comprehensive go-to-market strategy to drive sales. It’s also about services that help make our agents’ lives easier (think cruise control), like the new Grange Service Center and Quote Options. In the future, we will provide aggressive new offerings.

“Grange Underwriter Debbie Fambrough gets our approach to insurance. She’s always there to help and offer suggestions… and goes the extra mile to make Grange the easiest company to do business with. She really works hard to team with us to do the best underwriting possible. She is a very valuable part of our relationship with Grange!”

–Kathy Parrish, Harrison-Price Insurance Agency
such as lead generation, customized communication programs and turnkey sales ideas through extended marketing resources that will help agents put the pedal to the metal.

We recognize our agents' goals and partner with them for growth, while giving them powerful tools that deliver Ease of Doing Business®. Being a high-performing company means building strong relationships with independent agents by delivering value – and that's exactly what we’re committed to doing. When they win, we win.

Technology at Grange: Responding to Agent Needs

Technology is a key driver helping Grange outpace the competition as we continuously champion for ways to help agents deliver our products and services through award-winning technology tools. Here's some of our cutting-edge work from 2012.

- Chief Information Officer Michael Fergang was featured in Insurance & Technology magazine, which honors the most outstanding senior technology executives in the insurance industry with its Elite 8 Awards.

- Grange also received the following awards:
  - 2012 Interface Partnership Award from Applied Systems for our accomplishments in agency interface.
  - HP 2012 Visionary Award for the best interactive application for the development of our claims correspondence system which greatly improved the look and feel of our claims letters to insureds and claimants.
  - 2012 AUGIE Commercial Lines Download Accomplishment Award for an implementation that streamlined workflows and improved the quality of data available to Grange and our agents.
  - 2012 ACORD P&C Download Award with Grange among an elite group of 23 carriers and vendors recognized for our development of AL3 download. As a member company, we work closely with ACORD (Association of Cooperative Operations Research & Development) to help the industry implement data standards, forms and process improvements, saving our agents time.

“We're new to Grange and cannot express how happy we are to have joined the Grange family! One of the reasons for this is our underwriter, Myrtle Dalton. Her accessibility is unmatched with the other carriers we represent and it is appreciated! She is a wealth of knowledge and a true asset to Grange!”

--Brad Depugh, First American Financial Insurance
As Personal Lines continues its journey of steady growth, Grange is strategically committed to going the distance with projects that will provide our agents with the tools to succeed. A top-scoring initiative for 2012 was the Grange Service Center. It offers a customizable and co-branded service program with an experienced, world-class Grange team. This gives our agents more time to pump up new business, with less time spent on the sidelines running day-to-day servicing.

We also saw the launch of homeowners Quote Options in 2012, giving agents the ability to customize risk and rate to fit individual policyholder needs. This tool helps determine the right insurance choices for each budget and gets policyholders on the right track.

“Jon is the best personal lines underwriter I have worked with in the 43 years I have been in the insurance industry. He is fast to respond to any query and is extremely helpful. It is a pleasant experience working with someone like Jon in this often stressful industry.”

--Blackwood Insurance Associates, Inc.
What’s Next?

Personal Lines President John Ammendola and his crew have taken to the road and established a Products Actuarial Research and Development (PAR-D) team to define what the new Next Generation Auto and Home products should look like to better serve agents and customers in 2013. In addition, a target market team will identify new customer segments where Grange can sprint ahead of the competition and build greater market share. New marketing programs will support these new/updated products helping us cross the finish line first with a powerful new offering.

“We’re focusing on a product that appeals to the lifestyles of our policyholders. Relevancy is what it’s really all about. We’re confident our agents, policyholders and potential customers will be excited about this new class of product,” said David Johnson, AVP & Product Manager.

“I believe the work of PAR-D will result in more stable and competitive rates – which is a key driver for our agents – and will also allow us to roll out new versions of products to meet market demand quickly and efficiently,” added John. “This will give us the edge we need to run on all cylinders and showcase an impressive performance in Personal Lines.”

“When I need help with a quote or have a question about coverage, Connie in Personal Lines is ALWAYS quick to respond and is ALWAYS pleasant. Working with Connie makes me want to do more Personal Lines business.”

--Bill McCoy Insurance Agency, Inc.
Grange's Commercial business is full speed ahead racing toward a multi-year, multi-faceted approach to boldly grow the business. Our goal is not to let the competition lead the pack, but to navigate market trends as we strategize with our customers and agents to offer cutting-edge products.

With the launch of BusinessAssure℠, the new businessowners product, in fourth quarter 2012, Grange is proving its commitment to and confidence in the commercial business and it's been a real game changer. Results have been strong, meaning more opportunities, security, productivity and most importantly, growth, for Grange and its agency partners in 2013. Contributing to this success was the strong technology behind the product including the development and support of the Super EZ Quote system and a comprehensive marketing strategy.

And beyond new product implementation, Grange retooled its Commercial Complete teams in 2012. This means faster service and turbo-charged results for agents and policyholders by our skilled team of trained experts.
What’s Next?

BusinessAssure will see strong enhancements in 2013 across all markets that will include renewal launches and marketing support, along with continued technology improvements. It will offer diversity and distinctiveness in all its features. Grange remains optimistic about its ability to continue to execute our targeted pricing strategy into 2013. You can expect competitive pricing matched to risk, which will vary by account, line of business, class and geography. Grange’s actions are designed to support the growth strategy into 2013 and to ensure the ability to be a meaningful and competitive commercial lines provider now and into the future. We are on the fast track and gearing up for a strong 2013.

BusinessAssure℠ Results at a Glance:

- Businessowners new business premium tripled over the same time period in 2011.
- BusinessAssure’s “Contractor & Tradesmen” new business is up significantly (+31%) from the same period in 2011.
- Agents have provided consistent feedback that the new quoting system is intuitive and easy to use.
Grange Life Dives in to Give Agents Tools to Succeed

Grange Life continues in the fast lane to achieve bold growth via increased new business premiums and applications, as well as superior Ease of Doing Business (EODB®) through accelerated products and services like online Snap Ticket and simplified term quoting. The transition from quoting to applying for coverage using E-Snap Ticket, also known as Xpress Underwriting, became faster and easier in 2012 with the ability to completely submit applications online. And, our simplified Term quoting launch improved navigation, simplified input and enhanced output options, getting high scores from agents. These time-saving technology enhancements have provided some real traction for agents who appreciate EODB®, validating Grange Life’s commitment to focus on allowing the agent to maximize time with clients and minimize time on processes.
In addition to their highly competitive product set, these new enhancements have fueled solid performance for the company with a 40% increase in premium issued in 2012 and an increase in applications of more than 30%.

What’s Next?

Now that Grange Life has strengthened our product set and made great strides in underwriting, 2013 will be a year focused on continued enhancements to agent productivity including expanding our electronic application and electronic payment capabilities. At the same time we'll also work to increase our speed to issue policies and improve agent communications during the underwriting process. Our exceptional product and service line up is generating new interest in Grange Life appointments, and we intend to leverage this buzz with increased recruiting activities in expanded markets. Grange Life will be breaking the tape first in 2013 as it outruns the competition!

Top Life Agents Value New Ideas, Networking at Life Summit

Grange Life invited a select group of 75 top agents to participate in its Second Annual Summit meeting in October to explore new business-building strategies, exchange ideas with their peers and hear from motivational guest speakers. Designed to provide a top-notch networking and educational opportunity for agents, feedback was very positive. All respondents said they walked away with at least one new sales idea and 100% said they would attend again!
Grange couldn’t be more proud of our best-in-class claims service, especially when it comes to catastrophe response. Despite the fierce windstorms that throttled the Midwest in the summer of 2012 and Hurricane Sandy in October 2012, feedback from our agents and policyholders continues to prove that our claims service is both fast and furious. Think of us as a pit crew, getting our policyholders back on track quickly and efficiently. Grange is often the first on-site at catastrophic claims events, settling our policyholders’ claims ahead of other insurance companies with little to no independent adjuster involvement.

“It’s important to me that you know how I appreciated your assistance with a recent homeowners claim after my home was damaged. I’ve never had to call upon my home insurance so I truly had no idea what to expect. You all took care of us and repairs started within 24 hours. It sure is good to know there are people like you who are willing to help.”

--Matt Rechin, Grange Policyholder
Our highly experienced and dedicated Commercial team races to provide specialized claim service to help our commercial customers recover as quickly as possible. Building on this concept, and with a passion to provide customers with legendary claims service, we implemented a Commercial Auto specialty unit in 2012 to work in tandem with our Commercial Property and Liability units. This superstar team of dedicated claims specialists has trained vigorously to handle claims for damage on a variety of vehicles, including large pick-up trucks, dump trucks, tractor trailers and other heavy equipment.

Grange's dedicated Claims team delivers on the promises we make to our customers every day by being there for them on and off the track.

**Grange Aims to Please**

Grange regularly surveys agents and policyholders about their experiences with us through our Voice of the Customer (VOC) program, and results continue to be very solid with Likely to Recommend, Ease of Claim Process and Likely To Renew with Grange all receiving a 9.0 or above (on a scale of 1-10). Our claims reps and appraisers are doing a great job “selling” Grange and fulfilling our value proposition to policyholders!
Diversifying our Business for Opportunity

Grange continues to review companies we would consider affiliating with or acquiring. Our goal is to supplement our current business model with organizations that will enhance our product offerings and geographic footprint and enable our growth in a manner that we cannot achieve organically. In 2012 we celebrated the 10-year anniversary of the affiliation of Grange and Integrity Insurance—a partnership we continue to value and view as a template for a future affiliation.

The top accomplishments of our successful partnership include:

- The collective agency force has been substantially strengthened and expanded; for example, Integrity has grown from 193 agency locations to more than 650.
- The combined group accounts for more than a billion dollars in direct written premium each year.
- Policyholders enjoy access to integrated, shared services that offer more access, information and services than ever before.
Grange’s High-Performing Financials

Grange set the bar high in 2012 with a strong financial performance across all lines of business. With a net combined operating ratio of 98.8% for 2012 and a return to premium growth, we have built a sound foundation for future success.
Grange Mutual  Financial Report  Casualty Group

Balance Sheet — December 31, 2012

**Assets**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and Short-Term Investments</td>
<td>$ 48,530,280</td>
</tr>
<tr>
<td>Bonds (at amortized cost)</td>
<td>1,215,181,629</td>
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<tr>
<td>Stocks (at market)</td>
<td>282,230,777</td>
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<tr>
<td>Mortgage Loans on Real Estate</td>
<td>4,221,763</td>
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<tr>
<td>Real Estate (at cost less accumulated depreciation and encumbrances)</td>
<td>123,423,489</td>
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<tr>
<td>Electronic Data Processing Equipment (at cost less accumulated depreciation)</td>
<td>2,544,672</td>
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<tr>
<td>Other Invested Assets</td>
<td>56,428,596</td>
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<tr>
<td>Securities Lending Reinvested Collateral Assets</td>
<td>86,010,122</td>
</tr>
<tr>
<td>Premiums in Course of Collection Net</td>
<td>194,823,350</td>
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<tr>
<td>Accrued Investment Income</td>
<td>13,668,748</td>
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<tr>
<td>Net Deferred Tax Asset</td>
<td>34,237,403</td>
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<tr>
<td>Other Miscellaneous Assets</td>
<td>14,299,949</td>
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<tr>
<td><strong>Total Assets</strong></td>
<td>$2,075,600,778</td>
</tr>
</tbody>
</table>
## Liabilities and Policyholders’ Surplus

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unearned Premiums</td>
<td>$414,203,766</td>
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<tr>
<td>Reserve for Losses</td>
<td>$390,177,587</td>
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<tr>
<td>Reserve for Loss Adjustment Expense</td>
<td>$116,814,710</td>
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<tr>
<td>Federal Income Tax Payable</td>
<td>$4,822,871</td>
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<tr>
<td>General Expenses Payable</td>
<td>$49,334,379</td>
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<tr>
<td>Payable for Securities Lending</td>
<td>$86,010,122</td>
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<tr>
<td>Other Liabilities</td>
<td>$58,678,131</td>
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<tr>
<td>Total Liabilities</td>
<td>$1,120,041,565</td>
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<tr>
<td>Policyholders’ Surplus</td>
<td>$955,559,212</td>
</tr>
<tr>
<td>Total Liabilities and Policyholders’ Surplus</td>
<td>$2,075,600,778</td>
</tr>
</tbody>
</table>

## Statement of Income and Surplus 2012

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premiums Earned</td>
<td>$1,034,681,601</td>
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<tr>
<td>Claims and Claim Adjustment Expense Incurred</td>
<td>$714,007,802</td>
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<tr>
<td>Other Underwriting Expenses Incurred</td>
<td>$333,194,696</td>
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<tr>
<td>Net Underwriting Loss</td>
<td>$(12,520,897)</td>
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<tr>
<td>Net Investment Gain</td>
<td>$52,118,092</td>
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<tr>
<td>Other Income Less Other Expense</td>
<td>$20,776,551</td>
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<tr>
<td>Dividends to Policyholders</td>
<td>$(3,148,759)</td>
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<tr>
<td>Income Before Federal Income Taxes</td>
<td>$57,224,987</td>
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<tr>
<td>Federal Income Taxes Incurred</td>
<td>$5,003,711</td>
</tr>
<tr>
<td>Net Income</td>
<td>$52,221,276</td>
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<tr>
<td>Other Surplus Changes</td>
<td>$28,871,596</td>
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<tr>
<td>Change in Policyholders’ Surplus</td>
<td>$81,092,872</td>
</tr>
<tr>
<td>Policyholders’ Surplus — January 1</td>
<td>$874,466,340</td>
</tr>
<tr>
<td>Policyholders’ Surplus — December 31</td>
<td>$955,559,212</td>
</tr>
</tbody>
</table>
Grange Life  
Financial Report  

Balance Sheet — December 31, 2012

Assets

Cash and Short-Term Investments ............................................................................................................................................ $ 14,561,124
Bonds (at amortized cost) .......................................................................................................................................................... 251,732,679
Common Stocks (at equity) ....................................................................................................................................................... 6,233,798
Premiums Due and Uncollected .................................................................................................................................................. 31,791,254
Policy Loans .............................................................................................................................................................................. 9,991,643
Securities Lending Reinvested Collateral Assets .......................................................................................................................... 18,415,885
Amounts Due from Reinsurers .................................................................................................................................................. 6,476,726
Accrued Investment Income .......................................................................................................................................................... 2,736,501
Federal Income Tax Receivable ................................................................................................................................................ 1,129,330
Net Deferred Tax Asset ............................................................................................................................................................... 4,516,019
Other Miscellaneous Assets ....................................................................................................................................................... 35,338

Total Assets .................................................................................................................................................................................. $ 347,620,297

Liabilities, Capital and Surplus

Aggregate Policy Reserves .......................................................................................................................................................... $ 252,291,244
Claims Payable .............................................................................................................................................................................. 4,460,233
General Expenses Payable .......................................................................................................................................................... 4,260,135
Securities Valuation Reserve ........................................................................................................................................................ 2,564,161
Payable for Securities Lending .................................................................................................................................................. 18,415,885
Other Liabilities ........................................................................................................................................................................ 16,501,518

Total Liabilities ............................................................................................................................................................................. 298,493,176
Total Capital and Surplus ......................................................................................................................................................... 49,127,121

Total Liabilities, Capital and Surplus ........................................................................................................................................... $347,620,297
Statement of Income and Surplus 2012

Premium Income...........................................................................................................................................................................  $ 44,925,945
Net Investment Income........................................................................................................................................................................... 12,520,418
Benefits Paid to Policyholders.............................................................................................................................................................. 38,287,732
Operating Expenses............................................................................................................................................................................... 15,568,991
Net Gain from Operations................................................................................................................................................................. 3,589,640
Dividends to Policyholders................................................................................................................................................................. 404,451
Income before Federal Income Taxes................................................................................................................................................... 3,185,189
Federal Income Taxes Incurred............................................................................................................................................................ 1,898,029
Net Gain from Operations after
Dividends to Policyholders & Federal Income Taxes.............................................................................................................. 1,287,160
Net Realized Capital Gain................................................................................................................................................................. 22,920
Net Income...................................................................................................................................................................................... $ 1,310,080
Other Surplus Changes......................................................................................................................................................................... 5,440,054
Net Change in Capital and Surplus................................................................................................................................................... 6,750,134
Capital and Surplus — January 1...................................................................................................................................................... 42,376,987

Capital and Surplus — December 31............................................................................................................................................... $ 49,127,121
Board of Directors

Grange Executive Leadership Team

Thomas H. Welch  
President & CEO

John Ammendola  
President, Personal Lines

Michelle R. Benz  
President, Grange Life

LaVawn D. Coleman  
Vice President, Secretary & General Counsel

Doreen Y. DeLaney Crawley  
Vice President, Chief Human Resources & Administrative Officer

Joseph F. DiMartino, Jr.  
President & CEO, Integrity Mutual

Elizabeth M. Dinnin  
President, Commercial Lines

Carol L. Drake  
Vice President, Marketing

Michael C. Fergang  
Vice President, Chief Information Officer

Kenneth R. Kozek  
Vice President, Claims

Kenneth Lin  
Vice President, Chief Actuary

J. Paul McCaffrey, Jr.  
Vice President, Chief Financial Officer & Treasurer

Peter M. McMurtrie  
Vice President, Chief Sales & Marketing Officer

Mark C. Russell  
Vice President, Chief Insurance Operations Officer

Douglas L. Sharp  
Executive Regional Vice President

David S. Slavik  
Assistant Vice President, Corporate Financial Operations

Agent Advisory Board 2012

Agent Advisory Board 2012 continued

Art Gernt  
Crossville, TN

Lew Griffin  
Gahanna, OH

Tim Hartford  
Lockport, IL

Jerry Heming  
Bowling Green, KY

Rob Hutzelman, Jr.  
West Chester, OH

Kevin Johnson  
Athens, GA

John Kinkopf  
Loudonville, OH

Jon Mercer  
Navarre, OH

Jack Miller  
Grayson, KY

Todd Peterman  
Montgomeryville, PA

Paul Pittman  
Bedford, IN

Mike Rice  
Cincinnati, OH

Mike Salisbury  
Wayland, MI

Joya Schoolcraft  
Manassas, VA

Willard A. (Bill) Silcox, III  
Charleston, SC

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Crossville, TN

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Cincinnati, OH

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Wayland, MI

Joya Schoolcraft  
Manassas, VA

Willard A. (Bill) Silcox, III  
Charleston, SC

Leo Daprile, Chairperson  
Canfield, OH

John Scharver, Vice Chairperson  
New Albany, OH

Tim Bender  
Indianapolis, IN

Steve Brown  
Sunbury, OH

Tim Buren  
Ashland, OH

Lisa Dickerson  
Kennesaw, GA

Stephen Durham  
Madisonville, KY

Keith Sims  
Kingsport, TN

Mary Skeeles  
Atlanta, GA

Tom Skelley  
Downingtown, PA

Monica Surface  
Indianapolis, IN

Rex Templeton, Jr.  
Savannah, GA

Ric Walton  
Jackson, MI
Grange Wins Accolades for Community Support

In 2012, Grange was recognized for its outstanding efforts in Community Relations. The company was honored by Columbus’ Business First with a Corporate Caring Award in the large company-human services category. Grange’s work with the Community Shelter Board and St. Stephens Community House was highlighted, as well as the large base of associates who volunteer for various non-profit organizations throughout the community.

In addition, United Way of Central Ohio recognized Grange with a Celebration of Excellence Award for Corporate Philanthropy in 2012 for improving lives and strengthening communities. The award spotlights a corporate partner that has gone above and beyond in support of United Way and the community with their corporate giving, sponsorship, and in-kind donations.

Associates proved their passion for helping others once again by raising $505,305 during the 2012 United Way Campaign!
Grange Insurance was the key sponsor of a retreat for new nonprofit CEOs in our community in 2012. After surveying the group, Grange identified a number of areas in which they needed resources and tools to enhance, inform and advance their work. Executives attended this first-of-its-kind training in October at Grange Headquarters with sessions on leadership development, strategic planning, marketing strategies, crisis communication tips and HR landmines. Grange received very positive feedback from the attendees:

“I cannot tell you how appreciative I am for the time, effort and energy invested into us yesterday. I continue to reflect on the day and I am humbled by the opportunity. I appreciate your commitment to supporting our development as leaders, your understanding in presenting topics that are pertinent to our roles and your acknowledgement of our community leadership. Thank you!”

--Todd Tuney, Executive Director, City Year, Inc.
Grange Insurance is a $2 billion insurance provider based in Columbus, Ohio and rated “A” (Excellent) by A. M. Best. Through its network of more than 3,000 independent agents, Grange offers auto, home, life and business insurance protection. Established in 1935, the company and its affiliates serve policyholders in Georgia, Illinois, Indiana, Iowa, Kentucky, Michigan, Minnesota, Ohio, Pennsylvania, South Carolina, Tennessee, Virginia and Wisconsin.

For more information, visit grangeinsurance.com.