

Report of Examination of

American Family Insurance Company
Westerville, Ohio

As of December 31, 2011

Table of Contents

Subject	Page
Salutation	1
Description of Company	1
Scope of Examination	1
Management and Control:	
Board of Directors	2
Officers	2
Insurance Holding Company System	3
Territory and Plan of Operations	3
Reinsurance	3
Financial Statements:	
Statement of Assets, Liabilities, Capital and Surplus	4
Statement of Income	5
Statement of Changes in the Capital and Surplus Account	5
Notes to Financial Statements:	
Investments	6
Conclusion	6
Subsequent Event	6
Acknowledgement	7

Columbus, Ohio
March 1, 2013

Honorable Mary Taylor
Lt. Governor/Director
State of Ohio
Department of Insurance
50 West Town Street
3rd Floor – Suite 300
Columbus, Ohio 43215

Dear Lt. Governor/Director:

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

American Family Insurance Company

an Ohio domiciled, property and casualty insuring corporation, hereinafter referred to as the "Company."

Scope of Examination

The Department last examined the Company as of December 31, 2006. Representatives of the Department conducted the current examination covering the intervening period to and including December 31, 2011. Concurrently, representatives of the Wisconsin Office of the Commissioner of Insurance conducted an examination of American Family Mutual Insurance Company ("American Family"), the Company's indirect parent company.

The examination was conducted in accordance with the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook ("Handbook"). The Handbook requires that the Department plan and perform the examination to evaluate the financial condition and identify prospective risks of the company by obtaining information about the company, including corporate governance, identifying and assessing inherent risks within the company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, when applicable to domestic state regulations.

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

For each year during the period under examination, the Certified Public Accounting firm of PricewaterhouseCoopers, LLP ("PwC") provided an unqualified opinion based on statutory accounting principles. The audited financial reports were reviewed during the examination.

Management and Control

Board of Directors

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date.

Name	Principal Occupation
Gerry W. Benusa	Executive Vice President, American Family Mutual Insurance Company
David C. Holman	Chief Legal Officer and Secretary, American Family Mutual Insurance Company
Daniel J. Kelly	Chief Financial Officer and Treasurer, American Family Mutual Insurance Company
Jack C. Salzwedel	Chairman and Chief Executive Officer, American Family Mutual Insurance Company
Daniel R. Schultz	President and Chief Operating Officer, American Family Mutual Insurance Company
William B. Westrate	Executive Vice President, American Family Mutual Insurance Company

Officers:

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

Name	Position
Jack C. Salzwedel	Chairman and Chief Executive Officer
Daniel R. Schultz	President and Chief Operating Officer
Daniel J. Kelly	Chief Financial Officer and Treasurer
David C. Holman	Chief Legal Officer and Secretary
Kari E. Grasee	Vice President, Controller
Richard M. Steffen	Vice President, Agency Sales- East Region
Dean M. Fiorelli	Assistant Treasurer
Ann F. Wenzel	Assistant Secretary

Insurance Holding Company System

The Company is a member of a holding company system as defined in Section 3901.32 of the ORC. The Company is an indirect wholly-owned subsidiary of American Family, a Wisconsin domiciled mutual insurance corporation and the ultimate controlling person in the holding company system. American Family is a multi-line carrier engaged primarily in property and casualty insurance.

Territory and Plan of Operations

The Company primarily markets standard automobile and homeowners insurance in Ohio and Georgia through American Family's exclusive agency force. The following table illustrates the Company's direct premium written in 2011 by line of business:

Line of Business	Direct Premium Written	Percentage
Homeowners multiple peril	\$55,150,350	31.2%
Private passenger auto liability	67,366,585	38.1%
Auto physical damage	48,812,496	27.6%
All other lines	<u>5,258,572</u>	<u>3.1%</u>
Total	<u>\$176,588,003</u>	<u>100.0%</u>

Reinsurance

The Company cedes all of its business to American Family under the terms of a 100% quota share reinsurance agreement. The effect is to transfer all underwriting results to the parent company.

Financial Statements

The financial condition and the results of its operations for the period under examination as reported and filed by the Company with the Department and audited by the Company's external auditors, are reflected in the following:

Statement of Assets, Liabilities, Capital and Surplus

Statement of Income

Statement of Changes in the Capital and Surplus Account

**Statement of Assets, Liabilities, Capital and Surplus
December 31, 2011**

Assets

Bonds	\$ 19,109,680
Cash and short term investments	1,047,105
Receivable for securities	<u>1,806</u>
Subtotal, cash and invested assets	20,158,591
Investment income due and accrued	270,850
Uncollected premiums in course of collection	762
Deferred premiums and installments booked but deferred	95,605
Amounts recoverable from reinsurers	8,163,402
Receivable from affiliates	<u>(388,090)</u>
Total assets	<u>\$ 28,301,120</u>

Liabilities

Losses and loss adjustment expenses	\$ 0
Advance premiums	1,157,854
Ceded reinsurance premiums payable	(4,932,349)
Amounts withheld or retained by Company for account of others	(1,487)
Remittances and items not allocated	(5,808)
Drafts outstanding	10,945,486
Payable to affiliates	5,908,359
Other liabilities	<u>618,821</u>
Total liabilities	<u>13,690,876</u>

Capital and Surplus

Common capital stock	1,000,000
Gross paid in and contributed surplus	4,241,335
Unassigned funds	<u>9,368,909</u>
Total capital and surplus	<u>14,610,244</u>
Total liabilities, capital and surplus	<u>\$ 28,301,120</u>

Statement of Income
As of December 31, 2011

Premiums earned	\$ <u>0</u>
Losses and loss adjustment expenses incurred	0
Underwriting expenses incurred	<u>0</u>
Total underwriting deductions	<u>0</u>
Net underwriting gain	<u>0</u>
Net investment income earned	<u>904,867</u>
Net investment gain	<u>904,867</u>
Finance and service charges not included in premiums	<u>110</u>
Total other income	<u>110</u>
Net income before federal income taxes	904,977
Federal income taxes incurred	<u>16,204</u>
Net income	<u><u>\$ 888,773</u></u>

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

	2011	2010	2009	2008	2007
Capital and surplus, begin. of year	<u>\$ 13,721</u>	<u>\$ 12,923</u>	<u>\$ 12,447</u>	<u>\$ 11,924</u>	<u>\$ 11,035</u>
Net income	889	798	474	525	881
Change in non-admitted assets	19	(55)	0	0	0
Capital changes	0	0	0	1,000	0
Surplus changes	0	0	0	(1,000)	0
Other gains (losses) to surplus	<u>(19)</u>	<u>55</u>	<u>3</u>	<u>(2)</u>	<u>8</u>
Net change in capital and surplus	<u>889</u>	<u>798</u>	<u>476</u>	<u>523</u>	<u>889</u>
Capital and surplus, end of year	<u><u>\$ 14,610</u></u>	<u><u>\$ 13,721</u></u>	<u><u>\$ 12,923</u></u>	<u><u>\$ 12,447</u></u>	<u><u>\$ 11,924</u></u>

Notes to Financial Statements

Investments

The Company's investments were in compliance with ORC Section 3907.14 and valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2011, and is summarized as follows:

Total Admitted Assets	<u>\$28,301,120</u>
Liabilities	\$13,690,876
Capital and Surplus	<u>14,610,244</u>
Total Liabilities, Capital and Surplus	<u>\$28,301,120</u>

Subsequent Events

In June of 2012, American Family entered into an agreement to purchase Lumbermens Casualty Insurance Company ("LCIC"), as a "clean" shell company. LCIC has 41 full certificates of authority and 2 limited certificates of authority and had ceased writing business in 2003. LCIC was a subsidiary of the Illinois-based Lumbermens Mutual Casualty Company, which was placed in rehabilitation by order of an Illinois Circuit Court on July 2, 2012. The acquisition of LCIC closed on October 1, 2012.

During 2012, American Family reached an agreement to acquire PGC Holdings Corp. and its subsidiaries, including Permanent General Assurance Company, Permanent General Assurance Company of Ohio, and The General Automobile Insurance Company, collectively referred to as the "Permanent General Companies". The Permanent General Companies specialize in serving the non-standard auto insurance market and are licensed in 39 states (4 states only as reinsurer) marketing products through the internet, call centers, and independent agents. The acquisition of PGC Holdings Corp. closed on December 31, 2012.

Acknowledgement

Appreciation is expressed for the assistance extended by the officers and employees of American Family and its subsidiaries during the course of this examination.

In addition to the undersigned, Jyotika Patel, CPA, of the Department, participated in this examination.

Respectfully,



Donnie G. Wells, CFE
Examiner-in-Charge
Office of Risk Assessment
Ohio Department of Insurance



Jeffrey K. Ebert, CFE
Assistant Chief Examiner
Office of Risk Assessment
Ohio Department of Insurance

Verification

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2011.

[Signature]
Assistant Chief Examiner

3/7/13
Date

[Signature]
Examiner-in-Charge

3/7/13
Date

State of Ohio
County of Franklin

Personally appeared before me the above named Jeffrey K. Ebert personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 7 day of March, 2013.

Elizabeth Chase
(Notary Public) **ELIZABETH CHASE**
NOTARY PUBLIC, STATE OF OHIO
~~MY COMMISSION EXPIRES MAY 22, 2017~~
My Commission Expires

State of Ohio
County of Franklin

Personally appeared before me the above named Donnie G. Wells personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 7 day of March, 2013.

Elizabeth Chase
(Notary Public) **ELIZABETH CHASE**
NOTARY PUBLIC, STATE OF OHIO
~~MY COMMISSION EXPIRES MAY 22, 2017~~
My Commission Expires