

Report of Examination of

**German Farmers Mutual Insurance Company
New Knoxville, Ohio**

As of December 31, 2012

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Columbus, Ohio

September 13, 2013

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

Dear Madam:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), an examination was made of

German Farmers Mutual Insurance Company

an Ohio domiciled, mutual protective property company, hereinafter referred to as the “Company.” The examination was conducted at the Company’s home office, located at 208 West Spring Street, New Knoxville, Ohio.

A report of this examination is hereby respectfully submitted.

The Department last examined the Company as of December 31, 2008. Representatives of the Department conducted the current examination covering the intervening period to and including December 31, 2012.

Scope of Examination

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

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

Management and Control

Board of Directors

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

Name	Principal Occupation
Daniel Bensman	Attorney, Garman, Faulner, Keister and Shenk
Joshua Buehler	Vice President, Peoples Federal Savings and Loan
Thomas Dickman	Farmer
Tim Hegemier	Farmer
Edythe Henschen	Retired
Timothy May	President, KBT, Inc.
David Wolters	Chief Financial Officer, Sidney Manufacturing

Officers

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

Name	Title
David Wolters	President
Edythe Henschen	Vice President
James Wellman	Secretary and Treasurer

Insurance Holding Company System

The Company is a member of a holding company system as defined by ORC 3901.32. The Company has a wholly owned agent (German Farmers Insurance Agency Inc.)

Reinsurance

Ceded

The Company has a per risk excess of loss agreement that provides coverage of \$1,000,000 above the Company's retention of \$75,000. An aggregate excess of loss agreement provides coverage of 100% of the losses above a retention of \$707,097.

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

Assumed

The Company did not assume any reinsurance.

Territory and Plan of Operations

The Company is licensed to do business in the State of Ohio, however, writes mostly in Allen, Auglaize, Darke, Logan, Mercer, Miami and Shelby Counties.

Significant Operating Results

The Company reported the following net underwriting results for the last 2 years.

	<u>2012</u>	<u>2011</u>
Net Premiums earned	<u>\$ 708,398</u>	<u>\$ 554,220</u>
Losses incurred	708,416	202,433
Loss adjustment exp. Incurred	46,157	6,553
Underwriting expenses incurred	<u>321,806</u>	<u>319,755</u>
Total underwriting deductions	<u>1,076,379</u>	<u>528,741</u>
Net underwriting gain or (loss)	<u>\$ (367,981)</u>	<u>\$ 25,479</u>
Pure loss ratio	100.0	36.5
Loss adjustment expense ratio	<u>6.5</u>	<u>1.2</u>
Loss ratio	106.5	37.7
Underwriting expense ratio	<u>45.4</u>	<u>57.7</u>
Combined ratio	<u>151.9</u>	<u>95.4</u>

Financial Statements

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

Statement of Assets, Liabilities, Capital and Surplus
Statement of Income
Statement of Changes in the Capital and Surplus Account

Statement of Assets, Liabilities, Surplus and Other Funds As of December 31, 2012

Bonds	\$ 169,184
Stocks	1,017,999
Real estate	11,007
Cash on deposit and checking	<u>1,599,470</u>
Cash and invested assets	<u>2,797,660</u>
Investment income due and accrued	6,244
Assessments or premiums in course of collection	167,701
Amounts recoverable from reinsurers	21,013
Current federal income tax recoverable	<u>1,583</u>
Total net admitted assets	<u>\$ 2,994,201</u>

Liabilities and Surplus	
Commissions due and payable to agents	\$ 35,198
Other expenses	3,742
Net deferred tax liability	2,493
Unearned assessment/premium reserve	536,473
Ceded reinsurance premiums payable	<u>21,637</u>
Total liabilities	<u>599,543</u>
Surplus	<u>2,394,658</u>
Total liabilities and surplus	<u>\$ 2,994,201</u>

Statement of Income
As of December 31, 2012

Net Premiums earned	<u>\$ 708,398</u>
Losses incurred	708,416
Loss expenses incurred	46,157
Other underwriting expenses incurred	<u>321,806</u>
Total underwriting deductions	<u>1,076,379</u>
Net underwriting loss	<u>(367,981)</u>
Net investment income earned	60,204
Net realized capital gains	<u>4,247</u>
Net investment gain	<u>64,451</u>
Miscellaneous income	<u>18,869</u>
Total other income	<u>18,869</u>
Net loss before federal income taxes	(284,661)
Federal income taxes incurred	<u>(4,880)</u>
Net loss	<u>\$ (289,541)</u>

Statement of Changes in the Capital and Surplus Account

	<u>2012</u>	<u>2011</u>
Capital and surplus, beginning of the year	<u>\$2,651,692</u>	<u>\$2,557,163</u>
Net income (loss)	(289,541)	95,958
Change in net unrealized gains or losses	32,219	(1,893)
Change in non-admitted assets	<u>288</u>	<u>464</u>
Change in surplus during the year	<u>(257,034)</u>	<u>94,529</u>
Capital and surplus, end of the year	<u>\$2,394,658</u>	<u>\$2,651,692</u>

Subsequent Events

There were no material subsequent events.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2012, and is summarized as follows:

Total Admitted Assets	\$ <u>2,994,201</u>
Liabilities	\$ 599,543
Surplus	<u>2,394,658</u>
Total Liabilities and Surplus	\$ <u>2,994,201</u>

Respectfully,



David A. Cook, CFE
Assistant Chief Examiner
Ohio Department of Insurance

Verification

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination of German Farmers Mutual Insurance Company as of December 31, 2012.

[Signature] 9/24/13
Assistant Chief Examiner Date

State of Ohio

County of Franklin

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

Subscribed and sworn to before me this 24 day of September 2013.

Elizabeth Chase
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2017
My Commission Expires