

Report of Examination of

German Mutual Insurance Company
Napoleon, 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.....	3
Insurance Holding Company System.....	3
Territory and Plan of Operations.....	3
Reinsurance:	
Assumed Reinsurance.....	3
Ceded Reinsurance.....	3
Significant Operating Results.....	4
Financial Statements:	
Statement of Assets, Liabilities, Surplus and Other Funds.....	5
Statement of Income	6
Statement of Changes in the Capital and Surplus Account.....	7
Notes to the Financial Statements:	
Investments.....	7
Loss and Loss Adjustment Reserves.....	7
Violation of Ohio Administrative Code 3901-3-04 (C) (1) (e) through (g)	7
Conclusion.....	8
Subsequent Events.....	8
Acknowledgement.....	8

Columbus, Ohio

March 8, 2013

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

Dear Madam:

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

German Mutual Insurance Company

an Ohio domiciled, mutual, property and casualty insurance company, hereinafter referred to as the “Company.”

Scope of Examination

The Department last examined the Company as of December 31, 2007. The Department’s current examination covers the period of January 1, 2008 to and including December 31, 2011.

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.

For all years under examination, the Certified Public Accounting firm of Penrod & George provided an unqualified opinion on the Company’s financial statements for

all years under examination based on Statutory Accounting Principles. The audited financial statements 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:

<u>Name</u>	<u>Principal Occupation</u>
Dr. Gregory A. Edwards	Licensed Veterinarian, Pfizer, Inc.
Lester L. Gericke	Insurance Consultant
Ronald H. Gerken	Retired
Philip W. Menzel	President and Chief Executive Officer, The Company
J. Scott Miller	Agricultural Banker, Farmers and Merchants State Bank
Lori B. Miller	Assistant Controller, Miller Brothers Construction
Gene A. Roth	Vice President and General Manager, Liechty Farm Equipment
Ronald D. Sands	Retired
Merlyn K. Wiemken	Insurance Agent and Farmer
Alan E. Wyse	Financial Advisor

Officers

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

<u>Name</u>	<u>Title</u>
Philip W. Menzel	President
Scott C. Piper	Chief Operating Officer
Ronald D. Sands	Secretary
Phyllis A. Knape	Vice President, Compliance
Rhonda K. Bockelman	Treasurer

Insurance Holding Company System

The Company is not a member of an insurance holding company system.

Territory and Plan of Operations

The Company is licensed to do business in the State of Ohio and writes personal and commercial lines of business through an agency force of approximately 225 independent agents representing approximately 80 independent agencies. The Company writes fire, allied lines, farmowners multiple peril, homeowners multiple peril, commercial multiple peril, inland marine, automobile, other liability, and burglary and theft insurance. Auto liability and physical damage policies account for approximately 40% of the Company's premium volume. A large portion of the Company's writings is concentrated in northwest Ohio.

Reinsurance

Assumed Reinsurance

The Company does not assume any reinsurance.

Ceded Reinsurance

The largest net amount insured in any single risk is \$200,000. Excess of loss agreements recover \$5 million excess of the Company's \$200,000 retention on property and casualty risks.

Catastrophe reinsurance is maintained for 97.5% of \$9,300,000 in excess of \$950,000 per occurrence, with upper layers of 95% of \$15,000,000 in excess of \$10,250,000, with one reinstatement provision.

In September 2011, the Company implemented a quota share reinsurance program ceding 30% of unearned premium on all lines of business.

Significant Operating Results

The Company reported the following net underwriting results during the examination period, reported in thousands.

	<u>2011*</u>	<u>2010*</u>	<u>2009</u>	<u>2008</u>
Premiums earned	\$ 23,516	\$ 24,062	\$ 22,063	\$ 21,556
Losses incurred	18,915	15,738	13,448	11,867
Loss adjustment exp. incurred	2,004	1,714	1,731	1,518
Underwriting expenses incurred	<u>8,635</u>	<u>9,463</u>	<u>8,569</u>	<u>8,052</u>
Net underwriting gain (loss)	<u>\$ (6,038)</u>	<u>\$ (2,853)</u>	<u>\$ (1,685)</u>	<u>\$ 119</u>

*Restated for Lime City Mutual merger that occurred in late 2011

Financial Statements

The financial condition and the results of its operations for the year ending December 31, 2011 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, Surplus and Other Funds
- Statement of Income
- Statement of Changes in the Capital and Surplus Account

**Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2011**

Bonds	\$ 12,195,261
Preferred stocks	204,400
Common stocks	8,361,046
Properties occupied by the company	1,382,121
Properties held for sale	107,916
Cash, cash equivalents and short-term investments	<u>1,568,851</u>
Subtotal, cash and invested assets	23,819,595
Investment income due and accrued	175,692
Uncollected premiums	3,690,062
Amounts recoverable from reinsurers	969,799
Current federal income tax recoverable	167,907
Net deferred tax asset	210,332
Electronic data processing equipment and software	<u>283,998</u>
Total assets	<u><u>\$ 29,317,385</u></u>
Losses	4,842,471
Loss adjustment expenses	1,199,751
Commissions payable and contingent commissions	566,680
Other expenses	1,230,873
Taxes, licenses and fees	363,546
Unearned premiums	8,682,485
Advance premium	265,157
Ceded reinsurance premiums payable	1,470,572
Amounts withheld or retained for account of others	<u>628</u>
Total liabilities	18,622,163
Unassigned funds	<u>10,695,222</u>
Total liabilities, surplus and other funds	<u><u>\$ 29,317,385</u></u>

Statement of Income
For the Year Ending December 31, 2011

Premiums earned	<u>\$ 23,515,725</u>
Losses incurred	18,915,186
Loss adjustment expenses incurred	2,004,372
Other underwriting expenses incurred	<u>8,634,575</u>
Total underwriting deductions	<u>29,554,133</u>
Net underwriting loss	(6,038,408)
Net investment income earned	953,273
Net realized capital losses	<u>(20,093)</u>
Net investment gain	933,180
Finance and service charges not included in premiums	107,818
Sale of fixed assets	(2,871)
Other income	<u>42,281</u>
Total other income	147,228
Net loss before federal income taxes	(4,958,000)
Federal income taxes incurred	<u>17,037</u>
Net loss	<u>\$ (4,975,037)</u>

Statement of Changes in the Capital and Surplus Account

	<u>2011*</u>	<u>2010*</u>	<u>2009</u>	<u>2008</u>
Capital and surplus, beginning of the year	\$16,370,857	\$17,671,643	\$15,391,681	\$18,851,815
Net income (loss)	(4,975,037)	(1,404,489)	(608,862)	300,097
Change in net unrealized capital gains or (losses)	(639,395)	1,023,913	2,359,381	(3,580,149)
Change in net deferred income tax	2,185,184	51,561	(445,233)	1,369,469
Change in non-admitted assets	<u>(2,246,387)</u>	<u>(971,771)</u>	<u>(214,069)</u>	<u>(1,549,551)</u>
Net change in capital and surplus during the year	<u>(5,675,635)</u>	<u>(1,300,786)</u>	<u>1,091,217</u>	<u>(3,460,134)</u>
Capital and surplus, end of the year	<u>\$10,695,222</u>	<u>\$16,370,857</u>	<u>\$16,482,898</u>	<u>\$15,391,681</u>

*Restated for Lime City Mutual merger which occurred in 2011

Notes to Financial Statements

Investments

The Company's investments in Loomis Sayles BN Institutional and Templeton Global Bond Fund securities exceeded permissible amounts as specified in ORC Section 3925.08 (D)(2) by \$126,251 and \$109,111 respectively.

Loss and Loss Adjustment Expense Reserves

The Company's Board of Directors appointed Chad C. Wischmeyer, FCAS, MAAA, CFA, of Oliver Wyman Actuarial Consulting, Inc., to render the Company's Statement of Actuarial Opinion ("Opinion"). Mr. Wischmeyer prepared an Actuarial Report supporting the Opinion in connection with the preparation of the Company's December 31, 2011 Annual Statement.

Thomas S. Botsko, ACAS, MAAA, Chief Property & Casualty Actuary of the Department, reviewed the actuarial report provided by Mr. Wischmeyer. Based on his review, Mr. Botsko determined that the loss and loss adjustment expense reserves presented in the Company's 2011 Annual Statement were reasonably stated.

Violation of Ohio Administrative Code ("OAC") 3901-3-04 (C) (1) (e) through (g)

In 2011, the Company was deemed by the Department to be hazardous to their policyholders, creditors, or the general public as result of violations of OAC 3901-3-04(C)(1)(e) through (g). The Company's reported net loss exceeded 50% of remaining surplus less minimum statutory requirement; caused a surplus decline that exceeded 50% of remaining surplus less the required minimum statutory requirement;

and, the net loss excluding net realized capital gains and losses, exceeded 20% of remaining surplus in excess of the minimum statutory requirement.

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>\$ 29,317,385</u>
Liabilities	\$ 18,622,163
Surplus	<u>10,695,222</u>
Total Liabilities and Surplus	<u>\$ 29,317,385</u>

Subsequent Events

The Company's 2012 Annual Statement filing with ODI showed a net loss for the year totaling approximately \$2.3 million. On January 1, 2013, the 30% quota share reinsurance program on all lines of business was not renewed.

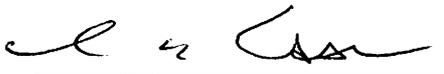
Acknowledgement

In addition to the undersigned, Louis Radecky, CPA (Inactive), CFE; Jeffrey Ferris, AES, CFE, CISA; David Finkler, CPA, CFE; Thomas Botsko, ACAS, MAAA; and Bradley Schroer of the Department participated in this examination.

Respectfully,



Nicholas J. Kostoff, CPA, CFE
Examiner-In-Charge
Ohio Department of Insurance



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 as of December 31, 2011.

Nicholas J. Kostoff 3/19/13
Examiner-In-Charge Date

[Signature] 3/19/13
Assistant Chief Examiner Date

State of Ohio

County of Franklin

Personally appeared before me the above named Nicholas J. Kostoff 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 19 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 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 19 day of March, 2013.

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