Report

of the

Examination of

Germantown Mutual Insurance Company

Germantown, Wisconsin

As of December 31, 2014

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, *Governor*
Theodore K. Nickel, *Commissioner*

Wisconsin.gov

125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
E-Mail: ociinformation@wisconsin.gov
Web Address: oci.wi.gov

September 16, 2015

Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

GERMANTOWN MUTUAL INSURANCE COMPANY
Germantown, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Germantown Mutual Insurance Company (the company) was conducted in 2010 as of December 31, 2009. The current examination covered the intervening period ending December 31, 2014, and included a review of such 2015 transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. This approach sets forth guidance for planning and performing the examination of an insurance company to evaluate the financial condition, assess corporate governance, identify current and prospective risks (including those that might materially affect financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately at the end of the “Financial Data” section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of the company’s loss and loss adjustment expense reserves. The actuary’s results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary’s conclusion.

II. HISTORY AND PLAN OF OPERATION

The company was organized in 1854 as the state's first mutual insurance company. The company operated as a stock company from 1903 to 1906. In 1906 the company reverted to mutual company status. Germantown Mutual Insurance Company is a nonassessable, multiple-line property and casualty insurer.

In June 1999, the company completed a merger with Retail Lumbermen's Mutual Insurance Company of Wisconsin (Retail). Retail was also licensed in Michigan, Minnesota, and South Dakota, and owned an agency. Since the merger, the company sold the agency in 2000 and withdrew its license in South Dakota in 2003. In 2002 the company obtained a license in Utah to reduce its geographic concentration of property risks.

In 2014 the company wrote direct premium in the following states (where it is licensed):

Wisconsin	$45,571,615	94.2%
Utah	2,824,953	5.8
Minnesota	(200)	0.0
Total	$48,396,568	100.0%

Note: The company is also licensed in Michigan but did not write business there during 2014.

The major products marketed by the company include homeowner's, personal automobile, commercial multi-peril and farmowners. The company also provides fire, allied lines, inland marine, worker's compensation and general liability coverage. The major products are marketed through approximately 2,000 independent agents operating out of 231 agencies.

The following table is a summary of the net insurance premiums written by the company in 2014. The growth of the company is discussed in the "Financial Data" section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Fire	$ 2,784,977	$	$ 327,781	$ 2,457,196
Allied lines	1,024,488		147,654	876,834
Farmowners multiple peril	1,819,707		279,645	1,540,062
Homeowner's multiple peril	15,885,404		1,627,257	14,258,147
Commercial multiple peril	10,610,492		1,671,713	8,938,779
Inland marine	473,211		55,959	417,252
Worker's compensation	942,186		83,881	858,305
Other liability – occurrence	721,031		424,422	296,609
Private passenger auto liability	7,628,193		704,951	6,923,242
Commercial auto liability	736,327		60,988	675,339
Auto physical damage	5,770,352		137,561	5,632,791
Reinsurance – non-proportional assumed property		175,007		175,007
Reinsurance – non-proportional assumed liability		21,303		21,303
Total All Lines	$48,396,368	$196,310	$5,521,812	$43,070,866

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of nine members. Directors are elected annually to serve a three-year term. Officers are elected at the board's annual meeting. The board members currently receive $2,000 for each board meeting attended and $450 for each committee meeting attended.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Richard R. Smith West Bend, WI	Germantown Mutual Insurance Company Chairman, President, and Treasurer	2017
Dean E. Gunderson Germantown, WI	Commercial Real Estate Developer	2017
Teresa S. Charewicz Port Washington, WI	Germantown Mutual Insurance Company Corporate Secretary (Retired in 2015)	2017
Donald W. Sturm Germantown, WI	Germantown Mutual Insurance Company Vice President Commercial Underwriting	2016
David R. Begalke Sheboygan, WI	Owner, Accounting Firm	2016
Kevin P. O'Meara West Bend, WI	Investment Advisor	2016
Thomas J. Albiero Germantown, WI	Dentist	2015
Jay L. Johnson Bonita Springs, FL	Retired Funeral Director	2015
Mel A. Wifler Fond du lac, WI	Retired Insurance Company Executive	2015

Officers of the Company

The officers serving at the time of this examination are as follows:

Name	Office	2014 Compensation
Richard R. Smith	Chairman, President, and Treasurer	$460,852
Donald W. Sturm	VP, Commercial Underwriting	167,350
Arthur L. Hintz *	VP, Personal Lines Underwriting	96,528
Leslie G. Ibach	VP and Controller	90,550
Ronald R. Vermillion	VP, Marketing	159,241
James R. Weninger	VP, Claims	148,216
Teresa S. Charewicz **	Corporate Secretary	94,561
Thomas A. Galle	VP, Finance and Technology	174,756
Steven A. Havey	Associate VP, Personal Lines Underwriting	20,011

* Mr. Hintz retired from the company effective October 3, 2014. Mr. Havey succeeded Mr. Hintz as the AVP, Personal Lines Underwriting.

** Ms. Charlewicz retired from the company effective February 6, 2015.

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Executive Committee
Richard R. Smith, Chair
Teresa S. Charewicz
Donald W. Sturm

Audit Committee
Mel A. Wifler, Chair
David R. Begalke
Thomas J. Albiero

Compensation Committee
Kevin P. O’Meara
David R. Begalke
Richard R. Smith

V. REINSURANCE

The company's reinsurance portfolio and strategy is described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows. The contracts contained proper insolvency provisions.

The company has multiple ceding reinsurance agreements with Mutual Reinsurance Bureau (MRB), an unincorporated reinsurance association. MRB is composed of five member companies; each company automatically assumes equal risk, and the five member companies are jointly liable. The current MRB members are:

Church Mutual Insurance Company
Employers Mutual Casualty Company
Farm Bureau Mutual Insurance Company of Michigan
Kentucky Farm Bureau Mutual Insurance Company
Motorists Mutual Insurance Company

Nonaffiliated Ceding Contracts

1.	Type:	Casualty Excess of Loss	
	Reinsurer:	50.0%	Mutual Reinsurance Bureau
		50.0	General Reinsurance Corporation
		100.0%	Total
	Scope:	All liability including worker's compensation	
	Retention:	Section One:	
		$250,000	Per Occurrence
		$250,000	Basket Retention*
		$250,000	Basket Limit
		* In the event of a loss involving a combination of the casualty business subject to this agreement and property business subject to the company's property excess of loss reinsurance agreement, further reinsurance is provided when the combined loss exceeds the retention under section one.	
		Section Two:	
		$500,000	Per Occurrence
		N/A	Basket Retention
		N/A	Basket Limit
		Section Three:	
		$1,000,000	Per Occurrence
		N/A	Basket Retention
		N/A	Basket Limit

Coverage:	Section One: $250,000 Per Occurrence Limit $500,000 Terrorism Aggregate Limit Section Two: $500,000 Per Occurrence Limit $1,000,000 Terrorism Aggregate Limit Section Three: $1,000,000 Per Occurrence Limit $1,000,000 Terrorism Aggregate Limit
Premium:	Section One: 3.90% of direct subject earned premium Section Two: 1.50% of direct subject earned premium Section Three: 0.70% of direct subject earned premium For the purposes of this agreement, it is understood that 10% of the company's total direct earned premium as respects farmowners multiple peril, homeowner's multiple peril, and mobile homeowner's multiple peril policies, and 35% of businessowners and commercial multiple peril policies will be considered as subject premium under this agreement. Premium is payable 45 days after the close of the respective calendar month.
Commissions:	None
Effective date:	This agreement is effective January 1, 2015, and will continue in force for an unlimited period subject to the provisions for termination contained in this agreement and will apply to losses which occur during the term of this agreement.
Termination:	This agreement may be terminated as of December 31st of any year by either party giving to the other a 60-day notice in writing.

2. Type: Property Per Risk Excess of Loss

Reinsurer:	50.0% Mutual Reinsurance Bureau 50.0 General Reinsurance Corporation 100.0% Total
Scope:	All property lines
Retention:	Section One: $250,000 Per Risk $250,000 Basket Retention $250,000 Basket Limit Section Two: $500,000 Per Risk N/A Basket Retention N/A Basket Limit

	Section Three: $1,000,000 Per Risk N/A Basket Retention N/A Basket Limit
Coverage:	Section One: $250,000 Per Risk $750,000 Per Occurrence Limit $750,000 Terrorism Aggregate Limit Section Two: $500,000 Per Risk $1,500,000 Per Occurrence Limit $1,500,000 Terrorism Aggregate Limit Section Three: $1,000,000 Per Risk $2,000,000 Per Occurrence Limit $2,000,000 Terrorism Aggregate Limit
Premium:	Section One: 3.00% of direct subject earned premium Section Two: 0.65% of direct subject earned premium Section Three: 0.20% of direct subject earned premium For the purposes of this agreement, it is understood that 90% of the company's total direct earned premium as respects farmowners multiple peril, homeowner's multiple peril, and mobile homeowner's multiple peril policies and 65% of businessowners and commercial multiple peril policies, will be considered as subject premium under this agreement. Premium is payable 45 days after the close of the respective calendar month.
Commissions:	None
Effective date:	This agreement is effective January 1, 2015, and will continue in force for an unlimited period subject to the provisions for the termination contained in this agreement and will apply to losses which occur during the term of this agreement.
Termination:	This agreement may be terminated as of December 31st of any year by either party giving to the other a 60-day notice in writing.

3. Type: Casualty Excess of Loss

Reinsurer:	Safety National Casualty Corporation
Scope:	All liability, including worker's compensation
Retention:	$2,000,000 Per Occurrence
Coverage:	$2,000,000 Per Occurrence subject to a maximum limit of $4,000,000 Per Occurrence

Premium:	1.346% of net earned premium, subject to a minimum premium of $170,095. Premium will be payable 45 days after the close of the respective calendar month. For the purposes of this contract, 10% of the company's total net earned premium as respects farmowners multiple peril, homeowner's multiple peril, and mobile homeowner's multiple peril policies, and 35% of the company's total net earned premium as respects businessowners and commercial multiple peril policies will be considered subject premium.
Commissions:	None
Effective date:	This agreement is effective January 1, 2015, and will remain in force and effect until canceled.
Termination:	The agreement can be terminated by either party by providing the other party a 60-day notice in writing. Special circumstances allow the company to terminate the agreement by giving 10 days' prior written notice.
Intermediary:	Aon Benfield, Inc.

4. Type: First Layer Property Catastrophe Excess of Loss

Reinsurer:

40.0%	Mutual Reinsurance Bureau
25.0	R+V Versicherung AG
10.0	Allied World Reinsurance Management Company for and on behalf of Allied World Insurance Company
7.5	Shelter Mutual Insurance Company
7.5	Qatar Reinsurance Company LLC
5.0	American Agricultural Insurance Company
5.0	Employers Mutual Casualty Company
100.0%	Total

Scope:	All property
Retention:	$1,500,000 Per Occurrence
Coverage:	$2,500,000 Per Occurrence Limit $5,000,000 Per Term Limit
Premium:	2.93% of subject net earned premium For the purposes of this contract, 65% of the company's total net earned premium as respects farmowners multiple peril, homeowner's multiple peril, mobile homeowner's multiple peril, businessowners and commercial multiple peril policies will be considered subject premium. The company shall pay an annual deposit premium of $750,000 in equal quarterly installments of $187,500. Minimum premium for this agreement is $600,000.
Commissions:	None
Effective date:	January 1, 2015, and subject to the provisions of the special termination article.

	Termination:	December 31, 2015; special termination provisions allow for earlier termination in the case of specific types of evidence of financial adversity by the company or insurer; 10 days' written notice by the company is required.
	Intermediary:	Aon Benfield Inc.
5.	Type:	Second Layer Property Catastrophe Excess of Loss
	Reinsurer:	25.0% Mutual Reinsurance Bureau 25.0 R+V Versicherung AG 15.0 Shelter Mutual Insurance Company 12.0 Qatar Reinsurance Company LLC 10.0 Allied World Reinsurance Management Company for and on behalf of Allied World Insurance Company 10.0 American Agricultural Insurance Company 3.0 Employers Mutual Casualty Company 100.0% Total
	Scope:	All property
	Retention:	$4,000,000 Per Occurrence
	Coverage:	$11,000,000 Per Occurrence Limit $22,000,000 Per Term Limit
	Premium:	2.41% of subject net premium earned For the purposes of this contract, 65% of the company's total net earned premium as respects farmowners multiple peril, homeowner's multiple peril, mobile homeowner's multiple peril, businessowners and commercial multiple peril policies will be considered subject premium. The company shall pay an annual deposit premium of $618,000 in equal quarterly installments of $154,500. Minimum payment per the agreement is $494,400.
	Commissions:	None
	Effective date:	January 1, 2015, and subject to the provisions of the special termination article.
	Termination:	December 31, 2015; special termination provisions allow for earlier termination in the case of specific types of evidence of financial adversity by the company or insurer; 10 days' written notice by the company is required.
	Intermediary:	Aon Benfield Inc.
6.	Type:	Third Layer Property Catastrophe Excess of Loss
	Reinsurer:	Mutual Reinsurance Bureau
	Scope:	All property lines
	Retention:	$15,000,000 Per Occurrence

Coverage:	$15,000,000 Per Occurrence Limit $30,000,000 Contract Year Limit
Premium:	0.76% of direct subject earned premium For the purposes of this agreement, 65% of the company's total net earned premium as respects farmowners multiple peril, homeowner's multiple peril, mobile homeowner's multiple peril, businessowners and commercial multiple peril policies will be considered subject premium under this agreement. The company has a $195,000 minimum and deposit premium that is payable in quarterly installments of $48,750.
Commissions:	None
Effective date:	This agreement is effective January 1, 2015, and subject to the provisions of the Special Termination Article.
Termination:	December 31, 2015; special termination provisions allow earlier termination; either party may termination the agreement at any time by providing a 90-day notice in writing.
Intermediary:	Aon Benfield, Inc.

7. Type: Umbrella Facultative – Personal, Farm, and Commercial

Reinsurer:	45.0%	Swiss Reinsurance America Corporation
	25.0	The Toa Reinsurance Company of America
	10.0	Alterra Reinsurance USA Inc.
	10.0	Hannover Ruck SE
	5.0	Transatlantic Reinsurance Company
	2.5	Allied World Insurance Company
	2.5	QBE Reinsurance Company
	100.0%	Total

Scope:	Personal, farm, and commercial umbrella liability
Retention:	5% of the first $1,000,000, each occurrence, each policy
Coverage:	First Layer: 95% of the first $1,000,000, each occurrence, each policy Second Layer: Up to 100% of $4,000,000 in excess or $1,000,000, each occurrence, each policy $10,000,000 Aggregate Limit
Premium:	95% of gross net written premium allocated to the first $1,000,000 and 100% of gross net written premium allocated to the next $4.000,000 of coverage.
Ceding commission:	32.5% of gross net written premium ceded
Effective date:	Effective January 1, 2015, and subject to the provisions of the Term Article and all other terms and conditions of the contract.

	Termination:	The contract shall remain in effect until January 1, 2016, in respect of policies written or renewed during the term of this contract.
	Intermediary:	Guy Carpenter & Company, LLC
8.	Type:	Facultative Property Excess
	Reinsurer:	50.0% Catlin Underwriting, Inc. 50.0 Everest Reinsurance Company 100.0% Total
	Scope:	Commercial property business including restaurants, taverns, lumber mills, apartments, and dairy farms
	Retention:	Lumber business per risk of $300,000, commercial lines and farmowners per risk of $500,000
	Coverage:	A maximum amount of reinsurance of 50% or $1,000,000 of the total $2.000.000 excess layer
	Premium:	The company shall pay the reinsurer the respective percentage of each risk's original gross premium (per the table agreed upon by the reinsurer and the ceding company). Premium is payable 45 days after the end of the respective month.
	Commissions:	None
	Effective date:	Effective March 1, 2003, on all new and renewal business effective on or after the inception of this agreement and shall continue in force thereafter until cancelled.
	Termination:	Either party may withdraw this agreement by providing a 90-day notice in writing.
9.	Type:	Quota Share
	Reinsurer:	General Reinsurance Corporation
	Scope:	Employment practices liability insurance
	Retention:	30% of the $100,000 policy limit
	Coverage:	70% of the $100,000 policy limit. Extra contractual losses and losses in excess of policy limits are covered by the reinsurer at 70% pro rata, but this coverage is limited to $70,000 per loss and $1,000,000 in aggregate during any one annual period.
	Premium:	70% of subject premium written
	Commissions:	Subject to a fixed commission allowance of 20%
	Effective date:	Effective October 1, 2010, through 12 months following the effective date of the first policy written by the company and subject to reinsurance under this agreement.

	Termination:	This agreement can be terminated by either party by providing the other with 90 days' notice in writing.
10.	Type:	Equipment Breakdown Coverage/100% Quota Share Reinsurance Treaty
	Reinsurer:	Factory Mutual Insurance Company
	Scope:	Equipment breakdowns on commercial policies
	Retention:	$0
	Coverage:	$25,000,000 on any one risk
	Premium:	100% of direct subject earned premium
	Ceding commission:	40% on all premiums ceded.
	Contingent commission:	If losses incurred are less than 32% of premiums earned, then the reinsurer shall pay to the company an amount equal to one-half of the difference between the losses incurred and the 32% of premiums earned during the period.
	Effective date:	This treaty shall be effective January 1, 2006, and shall remain in force until terminated per the terms of the agreement.
	Termination:	This treaty can be terminated by either party effective on the first day of any calendar quarter by providing a 90-day notice in writing by certified mail.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2014, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination." Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation.

Germantown Mutual Insurance Company
Assets
As of December 31, 2014

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$70,168,883	$	$70,168,883
Stocks:			
Common stocks	9,161,011		9,161,011
Real estate:			
Occupied by the company	1,319,412		1,319,412
Properties held for the production of income	679,928		679,928
Cash, cash equivalents, and short-term investments	1,749,874		1,749,874
Other invested assets	433,200	$433,200	
Aggregate write-ins for invested assets	190,431	190,431	
Subtotals, cash and invested assets	83,702,739	623,631	83,079,108
Investment income due and accrued	730,290		730,290
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	637,751		637,751
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	7,250,205	275	7,249,930
Accrued retrospective premiums			
Reinsurance:			
Amounts recoverable from reinsurers	333,881		333,881
Net deferred tax asset	2,992,000	1,003,300	1,988,700
Electronic data processing equipment and software	57,477	21,073	36,404
Furniture and equipment, including health care delivery assets	193,396	193,396	
Aggregate write-ins for other than invested assets	91,665	41,981	49,684
Total Assets	$95,989,404	$1,883,656	$94,105,748

Germantown Mutual Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2014

Losses		$18,983,144
Loss adjustment expenses		3,938,087
Commissions payable, contingent commissions, and other similar charges		1,075,232
Other expenses (excluding taxes, licenses, and fees)		3,293,844
Taxes, licenses, and fees (excluding federal and foreign income taxes)		109,803
Current federal and foreign income taxes		112,731
Unearned premiums		21,047,166
Advance premium		644,932
Ceded reinsurance premiums payable (net of ceding commissions)		430,466
Remittances and items not allocated		6,054
Payable for securities		741,168
Total liabilities		50,382,607
Aggregate write-ins for special surplus funds:		
Non-assignable assessable guaranty fund	$ 437,500	
Unassigned funds (surplus)	43,285,641	
Surplus as regards policyholders		43,723,141
Total Liabilities and Surplus		$94,105,748

Germantown Mutual Insurance Company
Summary of Operations
For the Year 2014

Underwriting Income		
Premiums earned		$41,678,338
Deductions:		
Losses incurred	$28,168,462	
Loss adjustment expenses incurred	3,008,844	
Other underwriting expenses incurred	12,541,895	
Total underwriting deductions		43,179,201
Net underwriting gain (loss)		(2,040,863)
Investment Income		
Net investment income earned	2,499,625	
Net realized capital gains (losses)	1,628,262	
Net investment gain (loss)		4,127,887
Other Income		
Net gain (loss) from agents' or premium balances charged off	(58,539)	
Finance and service charges not included in premiums	114,469	
Aggregate write-ins for miscellaneous income:		
Miscellaneous income	13,298	
Total other income		69,228
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		2,156,252
Federal and foreign income taxes incurred		195,000
Net Income		$ 1,961,252

Germantown Mutual Insurance Company
Cash Flow
For the Year 2014

Premiums collected net of reinsurance			$42,574,127
Net investment income			3,238,298
Miscellaneous income			69,228
Total			45,881,653
Benefit- and loss-related payments		$24,933,479	
Commissions, expenses paid, and aggregate write-ins for deductions		15,299,492	
Federal and foreign income taxes paid (recovered)		(44,523)	
Total deductions			40,188,448
Net cash from operations			5,693,205
Proceeds from investments sold, matured, or repaid:			
Bonds	$11,602,453		
Stocks	3,438,089		
Miscellaneous proceeds	741,168		
Total investment proceeds		15,781,710	
Cost of investments acquired (long-term only):			
Bonds	19,032,336		
Stocks	3,620,258		
Other invested assets	21,200		
Total investments acquired		22,673,795	
Net cash from investments			(6,892,084)
Cash from financing and miscellaneous sources:			
Other cash provided (applied)		253,942	
Net cash from financing and miscellaneous sources			253,942
Reconciliation:			
Net change in cash, cash equivalents, and short-term investments			(944,937)
Cash, cash equivalents, and short-term investments:			
Beginning of year			2,694,812
End of Year			$ 1,749,874

Germantown Mutual Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2014

Assets		$94,105,748
Less liabilities		50,382,607
Adjusted surplus		43,723,141
Annual premium:		
Lines other than accident and health	$43,070,866	
Factor	20%	
Compulsory surplus (subject to a minimum of $2 million)		8,614,173
Compulsory Surplus Excess (or Deficit)		$35,108,968
Adjusted surplus (from above)		$43,723,141
Security surplus: (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum factor of 110%)		11,973,700
Security Surplus Excess (or Deficit)		$31,749,441

Germantown Mutual Insurance Company
Analysis of Surplus
For the Five-Year Period Ending December 31, 2014

The following schedule details items affecting surplus during the period under examination as reported by the company in its filed annual statements:

	2014	**2013**	**2012**	**2011**	**2010**
Surplus, beginning of year	$42,566,134	$38,964,284	$35,310,153	$34,899,260	$34,000,489
Net income	1,961,252	2,322,393	2,637,899	833,660	113,411
Change in net unrealized capital gains/losses	(1,311,835)	931,183	567,145	(414,342)	644,337
Change in net deferred income tax	462,764	250,100	(116,973)	707,800	626,496
Change in nonadmitted assets	10,014	83,521	442,830	(703,901)	(507,369)
Change in provision for reinsurance				29,652	7,656
Cumulative effect of changes in accounting principles			130,139		
Other	34,812		(6,909)	(41,976)	14,240
Nonadmitted agency notes - 12/31/12		14,653			
Surplus, End of Year	$43,723,141	$42,566,134	$38,964,284	$35,310,153	$34,899,260

Germantown Mutual Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2014

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. There were no unusual results.

	Ratio	2014	2013	2012	2011	2010
#1	Gross Premium to Surplus	111%	108%	109%	109%	101%
#2	Net Premium to Surplus	99	94	97	96	87
#3	Change in Net Premiums Written	8	6	11	12	6
#4	Surplus Aid to Surplus	0	0	0	0	0
#5	Two-Year Overall Operating Ratio	93	89	91	97	93
#6	Investment Yield	3.1	2.6	3.3	3.6	3.5
#7	Gross Change in Surplus	3	9	10	1	3
#8	Change in Adjusted Surplus	3	9	10	1	3
#9	Liabilities to Liquid Assets	53	50	51	51	51
#10	Agents' Balances to Surplus	1	1	2	2	2
#11	One-Year Reserve Development to Surplus	-2	-6	-7	-10	-5
#12	Two-Year Reserve Development to Surplus	-9	-10	-11	-10	-12
#13	Estimated Current Reserve Deficiency to Surplus	-9	-6	-9	-7	-10

Growth of Germantown Mutual Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2014	$94,105,748	$50,382,607	$43,723,141	$1,961,252
2013	86,861,587	44,295,433	42,566,134	2,322,393
2012	81,573,002	42,608,718	38,964,284	2,637,899
2011	72,800,000	37,489,847	35,310,153	833,660
2010	70,948,468	36,049,208	34,899,260	113,411
2009	67,229,127	33,228,638	34,000,489	985,349

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2014	$48,592,678	$43,070,866	$41,678,338	74.8%	29.0%	103.8%
2013	45,777,926	39,885,606	38,517,648	65.8	30.0	95.8
2012	42,464,554	37,700,849	35,981,546	63.5	30.4	93.9
2011	38,613,741	33,969,303	32,570,834	72.9	29.3	102.2
2010	35,341,231	30,327,476	29,346,031	72.1	32.1	104.2
2009	32,681,549	28,576,179	28,493,732	62.9	33.5	96.4

The company has remained well capitalized during the period under examination and reported net income in each year examined. Assets increased 40% from $67.2 million to $94.1 million and surplus increased 28.6% from $34.0 million to $43.7 million during the period.

Total gross premiums written increased in each year of the period under examination from $35.3 million in 2010 to $48.6 million in 2014. Homeowner's multiple peril was the company's largest line of business representing 32.8% of direct premium written and private passenger auto (liability and physical damage) accounted for 27.7% of direct premium written. Commercial multiple peril (non-liability portion) represents 20.9% of direct premium written. The company's direct premium written consisted of 94.2% written in Wisconsin and 5.8% written in Utah.

The company's net underwriting results were negative for three of the five years examined. The negative underwriting results were offset by strong investment gains reported for the period leading to net income reported in each year. The company's net loss ratio was between 63.5% and 74.8% and the company's expense ratio was consistent between 29.1% and 32.2% for the period examined.

The company's bond holdings remained consistent throughout the exam period as the company reported between 92.4% and 98.4% of bonds being NAIC Class 1. The company's entire bond holdings are rated NAIC Class 2 or higher. The company's distribution of bonds by maturity date has remained relatively consistent for the period under examination with the company holding between 78.4% and 81.7% with maturity dates over ten years. Likewise, bonds with maturity dates less than ten years were between 18.4% and 21.5% for the period examined.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2014, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were three specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Properties Held for the Production of Income—It is recommended that the company comply with SSAP 40 and obtain appraisals on investment real estate at least every five years.

   Action—Compliance

2. Properties Held for the Production of Income—It is recommended that the company monitor market conditions related to its real estate investments and investigate appropriately when an other-than-temporary impairment may have occurred.

   Action—Compliance

3. Report on Executive Compensation—It is recommended that the company include all officer and director compensation when reporting the total compensation amounts on the reports in accordance with ss. 601.42 and 611.63 (4), Wis. Stat.

   Action—Compliance

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

Information Technology Controls

The examination included a review of the company information technology (IT) controls. It was noted that the company had contracted an independent third party to perform an evaluation of the company’s IT controls and system. The third-party IT audit resulted in a report that noted certain findings and provided the company with recommendations to correct the deficiencies. It is recommended that the company continue to implement the IT controls and documentation as noted in the third party’s IT report.

Conflict of Interest Disclosures

The examination included a review of the company's conflict of interest disclosures for the period under examination. The review included verification that the conflict of interest disclosure was signed by all officers and directors of the company. The review also included noting any disclosed conflicts of interest that could negatively impact the company.

The review revealed multiple instances in which the conflict of interest disclosures were not signed by the officer in the initial year of hire or by the director in the initial year of appointment. In addition, there were multiple instances in which officers or directors had not signed the conflict of interest disclosures on an annual basis. The lack of review by the company of its conflict of interest disclosure could lead to conflicts of interest not being disclosed to the company.

It is recommended that each of the company's officers, directors, and key employees annually make conflict of interest disclosure to the company and that the company retain the disclosures in the company's records from examination to examination, in compliance with the directive of the Commissioner of Insurance.

Custodial Agreement

The custodial agreement was reviewed to verify it met the applicable statutory requirements and the guidelines for custodial agreements contained in the NAIC Financial Condition Examiners Handbook. The following issues were noted as a result of the review.

1. The custody agreement has not been updated since Bank One was acquired by J.P. Morgan Chase.
2. There is no language expressing that the company's securities are separated from other clients' securities.
3. The agreement does not state the method in which the custodian would replace the securities or the value of the securities if the custodian is determined to be liable.
4. The agreement does not state that in the event the custodian uses an agent or sub-agent the agent should be subject to the same liability for loss of securities as the custodian.

It is recommended that the company amend its custodial agreement to include specific language prescribed in the NAIC Financial Condition Examiners Handbook.

Investment Policy

The examination included a review of the company's investment policy. The company's investment policy was determined to be very general in nature and does not provide sufficient direction or guidance which the company could utilize to manage its investment portfolio. It is recommended the company update its investment policy to provide better direction and guidance for the management of its investment holdings.

VIII. CONCLUSION

The current examination finds the company continues to be adequately capitalized. Assets increased 40% from $67.2 million to $94.1 million and surplus increased 28.6% $34.0 million to $43.7 million during the period. Both gross and net premiums written have increased in each year examined.

Increases in premium have come from both the liability and property lines of business. Negative underwriting results were offset by strong investment gains leading to net income in each year examined.

The company has complied with all three prior exam recommendations. The current examination resulted in four findings that are noted as recommendations.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 26 - Information Technology Controls—It is recommended that the company continue to implement the IT controls and documentation as noted in the third party's IT report.

2. Page 26 - Conflict of Interest Disclosures—It is recommended that each of the company's officers, directors, and key employees annually make conflict of interest disclosure to the company and that the company retain the disclosures in the company's records from examination to examination, in compliance with the directive of the Commissioner of Insurance.

3. Page 27 - Custodial Agreement—It is recommended that the company amend its custodial agreement to include specific language prescribed in the NAIC Financial Condition Examiners Handbook.

4. Page 27 - Investment Policy—It is recommended the company update its investment policy to provide better direction and guidance for the management of its investment holdings.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	**Title**
Vickie Ostien	Insurance Financial Examiner
Xiaozhou Ye	Insurance Financial Examiner
David Jensen	IT Specialist
Jerry DeArmond	Reserve Specialist

Respectfully submitted,

Brian Jeremiason, CPA
Examiner-in-Charge