STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of Shelter Mutual Insurance Company for the period ended December 31, 2012.

ORDER

After full consideration and review of the report of the financial examination of Shelter Mutual Insurance Company for the period ended December 31, 2012, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant findings, subsequent events, company history, corporate records, management and control, fidelity bond and other insurance, pension, stock ownership and insurance plans, territory and plan of operations, growth of the company and loss experience, reinsurance, accounts and records, statutory deposits, financial statements, financial statement changes resulting from examination, and comments on financial statement items.

Based on such findings and conclusions, I hereby ORDER, that the report of the Financial Examination of Shelter Mutual Insurance Company as of December 31, 2012 be and is hereby ADOPTED as filed and for Shelter Mutual Insurance Company to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with each item, if any, mentioned in the Comments on Financial Statement Items and/or Summary of Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 28th day of May, 2014.

John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF THE

ASSOCIATION FINANCIAL EXAMINATION OF

SHELTER MUTUAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2012

FILED

JUN 6 2014

DIRECTOR OF INSURANCE, FINANCIAL INSTITUTIONS & PROFESSIONAL REGISTRATION

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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Columbia, Missouri
April 10, 2014

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial Institutions
and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Director Huff:

In accordance with your financial examination warrant, a full scope financial examination has been made of the records, affairs and financial condition of

Shelter Mutual Insurance Company

hereinafter referred to as Shelter Mutual, SMIC, or as the Company. Its administrative office is located at 1817 West Broadway, Columbia, Missouri, 65218, telephone number (573) 445-8441. This examination began on March 25, 2013, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

We have performed a multi-state examination of Shelter Mutual. The last examination was completed as of December 31, 2007. This examination covers the period of January 1, 2008, through December 31, 2012. This examination also included the material transactions or events occurring subsequent to December 31, 2012.

The examination was conducted concurrently with the examinations of the Company's Missouri domiciled subsidiaries, Shelter General Insurance Company (Shelter General or SGIC), Shelter Life Insurance Company (Shelter Life or SLIC), and Shelter Reinsurance Company (Shelter Re or SRC).

The examination of Shelter Mutual and its Missouri subsidiaries was coordinated with the concurrent examination of another subsidiary, Haulers Insurance Company (Haulers), a Tennessee domiciled insurer, that was conducted by the Tennessee Department of Commerce and Insurance.

Procedures

This examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook, except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) and statutes of the State of Missouri prevailed. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about corporate governance, identifying and assessing inherent risks, and evaluating the Company's 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.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. The key activities identified in our examination of SMIC were as follows:

- Investments
- Premiums
- Underwriting
- Claims Handling
- Reserving
- Reinsurance
- Related Party Transactions
- Employee Benefits

The examiners relied upon information supplied by the Company's independent auditor, Ernst & Young, LLP, of Kansas City, Missouri, for its audit covering the period from January 1, 2012 through December 31, 2012. Areas in which the testing and results from the CPA workpapers were relied upon in our examination included internal controls, bank reconciliations, investment impairment analysis, investment fair values, claims processing, risk transfer analysis, reinsurance treaty confirmations, profit sharing accrual, attorney representation letters, and fraud assessment.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, significant non-compliance issues, or material changes to the financial statements noted during the examination.

SUBSEQUENT EVENTS

There were no significant subsequent events noted from December 31, 2012 through the date of this report.

COMPANY HISTORY

General

Shelter Mutual was incorporated on August 31, 1945 and was originally named M.F.A. Mutual Insurance Company. It was issued a Certificate of Authority on December 31, 1945 and commenced business on January 1, 1946. The Company's name was changed to Shelter Mutual Insurance Company on July 1, 1981. The Company operates as a mutual property and casualty insurer under the insurance laws of Chapter 379 RSMo (Insurance Other Than Life).

Dividends and Capital Contributions

Shelter Mutual does not have any stockholders due to its organization as a mutual entity. The Company's Bylaws allow for dividends to be paid to its policyholders. However, no dividends were declared or paid during the examination period.

Mergers and Acquisitions

On June 30, 2008, Shelter Mutual purchased 100% of the common stock of Haulers Insurance Company, Inc. from its individual stockholders, of which a controlling interest was held by James H. and Nancy Walker. The purchase price of the acquisition was $50,819,095. Haulers is a property and casualty insurer that writes mostly private passenger and commercial auto lines of business.

Shelter Mutual formed a limited liability company, Shelter Investments, LLC on October 11, 2012. The Company contributed $56,000,000 to Shelter Investments, LLC on January 4, 2013. Management plans to use this entity to place investments in limited partnerships that previously had been directly held by Shelter Mutual. Goldman Sachs (GS) Limited Partners will be the managing partner for the majority of future investments.

The Company's savings and loan subsidiary, Shelter Financial Bank, was converted to Shelter Bank, N.A. on March 22, 2013 as part of the process of merging with the direct parent, Shelter Financial Corporation (SFC). Shelter Financial Bank's deposits and loans were also transferred to third parties to facilitate the merger. The merger with SFC was completed on March 30, 2013.

CORPORATE RECORDS

The Company's Articles of Incorporation and Bylaws were reviewed. There were no amendments or changes to the Articles of Incorporation or Bylaws during the examination period.

The minutes of the Board of Directors' and policyholders' meetings were reviewed for proper approval of corporate transactions. In general, the minutes and written consents appear to properly reflect and approve the Company's major transactions and events for the period under examination.

MANAGEMENT AND CONTROL

Corporate Governance

The management of the Company is vested in a Board of Directors, which is appointed by the policyholders. The Company's Bylaws specify that the Board of Directors shall consist of nine (9) members. The Board of Directors appointed and serving, as of December 31, 2012, were as follows:

Name	Principal Occupation and Business Affiliation
J. Donald Duello (Chair)	Retired, former President and CEO, SMIC
Ann H. Covington [1] (Vice Chair)	Retired, former Justice, Missouri Supreme Court
Gerald T. Brouder	President, Columbia College
Deborah L. Douglas	President, Douglas Group
Randall C. Ferguson, Jr.	Retired, former Senior Location Executive, IBM
Don A. McCubbin	Retired, former Executive Vice President, SMIC
Barry L. McKuin	Retired, former Financial Manager, Winrock Farms, Inc.
Ricky L. Means	President and CEO, SMIC
J. David Moore	Retired, former President and CEO, SMIC

[1] Retired, effective March 1, 2013, and replaced by Andrez Jimenez

Committees

The Bylaws require an Audit Committee and an Executive and Compensation Committee to be maintained by the Board of Directors. The Bylaws allow for additional committees to be maintained, as deemed necessary. An Investment Committee of the Board of Directors has historically been maintained in addition to the mandatory committees. The committee members appointed and serving, as of December 31, 2012, were as follows:

Audit Committee	Executive and Compensation Committee	Investment Committee
Barry L. McKuin (Chair)	Ann H. Covington (Chair)	J. Donald Duello (Chair)
Deborah L. Douglas	Gerald T. Brouder	Gerald T. Brouder
Randall C. Ferguson, Jr.	J. Donald Duello	S. Daniel Clapp
	Barry L. McKuin	Ann H. Covington
	Ricky L. Means	Don A. McCubbin
		Ricky L. Means
		J. David Moore

Officers

The officers elected by the Board of Directors and serving as of December 31, 2012, were as follows:

Officer	Position
Ricky L. Means	President and Chief Executive Officer
Randa C. Rawlins	General Counsel and Secretary
S. Daniel Clapp	Executive Vice President and Treasurer
Teresa K. Magruder	Executive Vice President
Madison M. Moore	Executive Vice President
David N. Abbott	Vice President of Investments
Terry L. Dykes	Vice President of Claims
H. Lloyd Montgomery	Vice President of Alternate Channels
Joe L. Moseley	Vice President of Public Affairs
John T. Rooney	Vice President of Information Services
Frank L. Thompson	Vice President of Marketing
Todd J. Weyler	Vice President of Underwriting
Christina M. Workman	Vice President of Accounting, Assistant Treasurer

Holding Company, Subsidiaries and Affiliates

The Company is a member of an Insurance Holding Company System as defined by Section 382.010, RSMo (Definitions). An Insurance Holding Company System Registration Statement was filed by SMIC for each year of the examination period.

SMIC is the ultimate controlling entity in a holding company system that includes five insurance companies and seven non-insurance entities. The insurance companies consist of the four Missouri domiciled insurers plus Haulers Insurance Company, Inc., a Tennessee domiciled insurer. Below is a brief synopsis of the non-insurance entities:

Shelter Financial Corporation – A holding company for Shelter Bank with no business operations.

Shelter Financial Bank (Shelter Bank) – A former savings and loan company that sold certificates of deposits and provided auto loans and mortgage loans. It did not have any demand accounts (checking or savings). A press release was issued in September 2012 announcing that Shelter Bank was being closed due to increased regulation from the Dodd-Frank Act. Shelter Bank was merged into SFC in March 2013.

Shelter Financial Services, Inc. (SFS) – A holding company for Shelter Benefits Management, Inc. with no business operations.

Shelter Benefits Management, Inc. (Shelter Benefits or SBMI) – Manages various agent and employee services for Shelter Mutual employees. Services provided include human resource functions, payroll services, and benefits administration for the employees, agents, and retirees of Shelter Mutual.

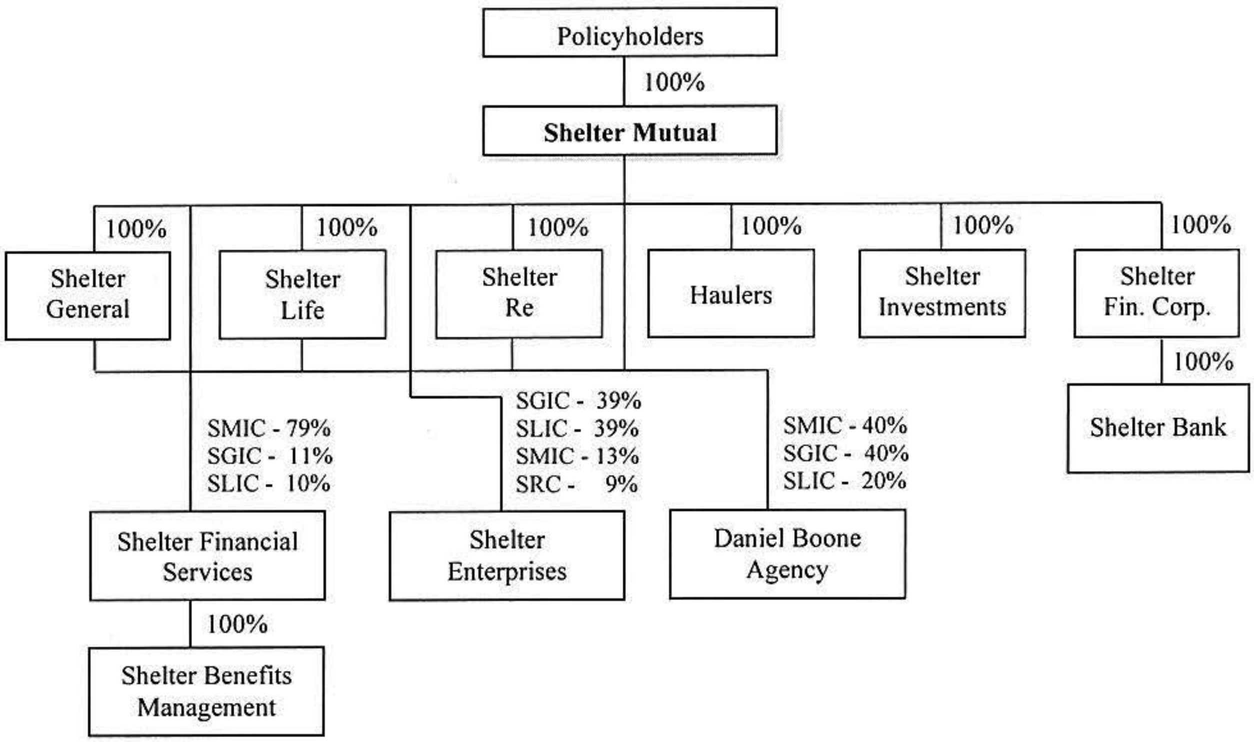
Shelter Enterprises, LLC (Shelter Enterprises) – Owns real estate, property and equipment and derives its income from leasing the assets to affiliates, including Shelter Mutual, and other non-affiliated entities.

Daniel Boone Agency, Inc. (DBA) – An insurance broker that places risks from leads generated by agents of the Shelter Insurance Companies. The risks placed are in lines of business that are not written by Shelter Mutual, Shelter General, or Shelter Life.

Shelter Investments, LLC (Shelter Investments) – An entity used to hold limited partnership investments of Shelter Mutual. No admitted value for this subsidiary was reported by SMIC, as of December 31, 2012.

Organizational Chart

Below is the organizational chart of Shelter Mutual and its subsidiaries, as of December 31, 2012.



Intercompany Agreements

The Company's agreements with related parties that were in effect, as of December 31, 2012, and subsequent periods are outlined below.

1. **Type:** Agreement for Management Services and Facilities (nine separate agreements)

   Affiliates: Shelter General, Shelter Re, Shelter Life, SFS, SFC, DBA, Shelter Enterprises, Shelter Bank, Shelter Investments (collectively referred to as the "Subsidiaries")

   Effective: January 1, 1997 for Shelter Life, Shelter Re, and SFS; April 10, 1998 for SFC; April 12, 1999 for Shelter Bank; October 1, 2003 for Shelter Enterprises; December 12, 2005 for Shelter General; April 26, 2013 for Shelter Investments

   Terms: The terms of all nine agreements are nearly identical. Shelter Mutual agrees to provide the employees to operate all aspects of the Subsidiaries. Services to be provided include recordkeeping, processing, planning, budgeting, receipt and disbursement activities, and all work incidental to the operation of the Subsidiaries' business. Shelter Mutual agrees to provide office space, utilities, computer systems, office equipment, and supplies. In exchange for the services and facilities provided by Shelter Mutual, the Subsidiaries will make monthly payments to Shelter Mutual. Payments will be calculated in accordance with the Joint Expense Allocation Agreement between Shelter Mutual and the Subsidiaries.

2. **Type:** Joint Expense Allocation Agreement

   Affiliates: Shelter General, Shelter Re, Shelter Life, SFS, SBMI, SFC, DBA, Shelter Enterprises, Shelter Investments

   Effective: December 1, 2004 (revised and restated version)

   Terms: Each party agrees to pay its direct expenses in instances when each entity's actual usage can be determined. The parties agree to allocate any joint expenses for instances in which the identification and segregation of each entity's actual share is not practically feasible. The allocation methodologies for each category of joint expenses are as follows:

   (1) Personnel – estimated or actual time
   (2) Real Estate – square footage and employee count
   (3) Investment – portfolio value
   (4) Claims Adjustment (applicable to Shelter Mutual and Shelter General only) – incurred losses
   (5) Reinsurance (applicable to Shelter Mutual and Shelter General only) – actual premiums and claims of each entity
   (6) Other Expenses – assets, employee count, or written premium

3. **Type:** Management Services Agreement

   Affiliate: Shelter Benefits

   Effective: May 19, 1999

   Terms: Shelter Benefits will provide all human resource functions, payroll processing, and benefits administration for the employees and agents of Shelter Mutual. The costs of Shelter Benefits providing services will be allocated in accordance with the Joint Expense Allocation Agreement.

4. **Type:** Transfer and Assumption Agreement

   Affiliates: Shelter Benefits, Shelter General, Shelter Life

   Effective: May 19, 1999

   Terms: Shelter Mutual, Shelter General and Shelter Life transferred agent liabilities and employee benefit liabilities to Shelter Benefits in 1999. The liabilities transferred included agents termination benefits, post-retirement benefits, accrued vacation benefits, and director's retirement plan benefits. In exchange, Shelter Mutual assigned its rights to a promissory note issued by Shelter Life to Shelter Benefits. Shelter Benefits also issued shares of preferred stock to Shelter Mutual, as part of the 1999 transactions. Shelter Benefits agrees to assume future agent liabilities and employee benefit liabilities from Shelter Mutual.

Each year, Shelter Mutual makes a payment to Shelter Benefits for the incurred expenses for the agent and employee benefits under its administration.

5. **Type:** Tax Allocation Agreement

   Affiliates: Shelter General, Shelter Re, Shelter Life, SFS, SFC, Shelter Benefits, Shelter Bank, Haulers

   Effective: No stated effective date. Applicable to 1999 and subsequent tax years.

   Terms: Shelter Mutual will file a consolidated federal income tax return on behalf of itself and its subsidiaries. The tax liability for each company will be the amount that would have been determined on a separate filing basis. The subsidiaries will pay their share of tax payments to Shelter Mutual within 10 days following any tax payments made by Shelter Mutual. Shelter Mutual will refund any amount due to the subsidiaries within 10 days after filing the consolidated return.

6. **Type:** Lease Agreement – Agent Signs, Office Furniture and Office Equipment

   Affiliate: Shelter Enterprises

   Effective: January 1, 2004 to December 31, 2013

   Terms: Shelter Mutual leases agent signs, furniture and equipment from Shelter Enterprises for the purposes of subleasing the property to its agents. The lease rates to be paid by Shelter Mutual are to be equal to the sublease rates paid by the agents.

7. **Type:** Lease of Aircraft

   Affiliate: Shelter Enterprises

   Effective: November 7, 2005 to November 6, 2015

   Terms: Shelter Mutual leases a 2005 Beechcraft King Air airplane from Shelter Enterprises. The lease rates to be paid by Shelter Mutual are $44,242 per month, which includes hangar space rental and ground lease rental.

8. **Type:** Services and Board of Directors Costs

   Affiliates: Haulers, SBMI

   Effective: January 1, 2009

   Terms: Shelter Mutual and SBMI agree to provide the various services to conduct the operations of Haulers. Services to be provided by SMIC include investments, taxes, information services, printing, training, legal, planning and research, internal audit, claims and underwriting. SBMI will provide human resources and benefit consulting services. The costs for services provided by SMIC and SMBI will be calculated using the actual time spent at the average hourly rate of the department providing each service. Haulers also agrees to an allocation of SMIC's Board of Directors costs based upon the ratio of Haulers' net assets to total net assets of the Shelter companies. Haulers will be billed for allocated costs on a monthly basis.

9. **Type:** Line of Credit Promissory Note

   Affiliate: Shelter Financial Corporation

   Effective: September 19, 2001

   Terms: SFC extends credit to allow Shelter Mutual to borrow up to $3,000,000, as needed. Shelter Mutual pays interest on loan amounts at a rate of 0.25% over the Targeted Federal Funds Rate on an "interim reset date", which is mutually agreed upon at the time of the advance. The principal amounts are to be paid upon demand. The outstanding loan balance was $450,000, as of December 31, 2012.

10. **Type:** Line of Credit Promissory Note

    Affiliate: Shelter Financial Services, Inc.

    Effective: September 19, 2001

    Terms: SFS extends credit to allow Shelter Mutual to borrow up to $8,000,000, as needed. Shelter Mutual pays interest on loan amounts at a rate of 0.25% over the Targeted Federal Funds Rate on an "interim reset date", which is mutually agreed upon at the time of the advance. The principal amounts are to be paid upon demand. The outstanding loan balance was $2,860,000, as of December 31, 2012.

11. Type: Promissory Note

Affiliates: Shelter Enterprises

Effective: November 7, 2005

Terms: Shelter Mutual loaned $3,876,600 to Shelter Enterprises in exchange for a promissory note. Shelter Enterprises used the proceeds to purchase a new company airplane. Shelter Enterprises will pay 6% interest on the principal balance of the note. Principal and interest totaling $43,038 will be paid each month by Shelter Enterprises for a period of ten years to repay the note.

12. Type: Promissory Note

Affiliate: Shelter General

Effective: July 1, 2011 and July 1, 2012 (two separate agreements)

Terms: SMIC extends credit to allow Shelter General to borrow up to $10,000,000, as needed. Shelter General will pay interest on any principal balance at a rate of 0.25% over the Targeted Federal Funds Rate. The interest rate will be adjusted to correspond to any changes in the Targeted Federal Funds Rate. The principal amounts are to be paid upon demand. The were no borrowings under this agreement during the examination period or subsequent periods. The note was not renewed after expiration on July 1, 2013.

13. Type: Line of Credit Promissory Note

Affiliate: Shelter Re

Effective: July 1, 2011 and July 1, 2012 (two separate agreements)

Terms: SMIC extends credit to allow Shelter Re to borrow up to $15,000,000, as needed. Shelter Re will pay interest on any principal balance at a rate of 0.25% over the Targeted Federal Funds Rate. The interest rate will be adjusted to correspond to any changes in the Targeted Federal Funds Rate. The principal amounts are to be paid upon demand. There were no borrowings under this agreement during the examination period or subsequent periods. The note was not renewed after expiration on July 1, 2013.

14. Type: Line of Credit Promissory Note

Affiliate: Shelter Life

Effective: September 1, 2011 to September 1, 2012

Terms: SLIC extends credit to allow Shelter Mutual to borrow up to $16,750,000, as needed. Shelter Mutual will pay interest on any principal balance at a rate of 0.25% over the Targeted Federal Funds Rate. The interest rate will be adjusted to correspond to any changes in the Targeted Federal Funds Rate. The principal amounts are to be paid upon demand. The full amount of the note was borrowed and repaid by Shelter Mutual in 2011. There were no other borrowings under this agreement during the examination period or subsequent periods. The note was not renewed after expiration on September 1, 2012.

15. Type: Line of Credit Promissory Note

Affiliate: Shelter Bank, SFC

Effective: March 15, 2013 to March 15, 2018

Terms: SMIC extends credit to allow Shelter Bank to borrow up to $68,000,000, as needed. Shelter Bank will pay interest on any principal balance at a rate of 0.50% over the Federal Funds Effective Rate. The interest rate will be adjusted to correspond to any changes in the Federal Funds Effective Rate. Shelter Bank will also pay a monthly commitment fee in 2013 equal to 0.1% interest on the $68,000,000 line of credit. The commitment fee in 2014 and subsequent years shall be 0.1% applied to the greater of the prior year outstanding loan balance or current outstanding loan balance. The principal amounts are to be paid upon demand. Shelter Bank borrowed principal of $64,424,000 on March 18, 2013. This agreement automatically transferred to SFC upon the merger of Shelter Bank into SFC, effective March 2013.

The Company has reinsurance agreements with Shelter Re that are described in the Reinsurance Assumed section of the report.

Shelter Mutual has also pledged assets as collateral on behalf of Shelter Re and Shelter Bank. As of December 31, 2012, $1.5 million of assets were pledged as collateral for letters of credit issued by Shelter Re and $13.6 million of assets were pledged as collateral for borrowings of Shelter Bank. The Shelter Bank borrowings became the obligations of SFC upon the merger with Shelter Bank in March 2013. The pledged assets of Shelter Mutual for the SFC borrowings remain in effect, as of the date of this report.

Intercompany Payments

The following table summarizes the payments made during the examination period, between SMIC and its affiliates, pursuant to intercompany agreements and other transactions.

Affiliate	Agreement / Transaction	Net Expense / (Revenue) 2008	2009	2010	2011	2012
SGIC	Joint Exp. Alloc.	$(17,726,912)	$(18,164,714)	$(18,688,369)	$(17,974,379)	$(19,540,616)
SLIC	Joint Exp. Alloc.	(10,997,988)	(12,117,704)	(13,114,354)	(12,564,916)	(13,835,701)
SRC	Joint Exp. Alloc.	(1,262,988)	(1,547,136)	(1,624,720)	(1,431,360)	(1,716,368)
DBA	Joint Exp. Alloc.	(277,668)	(311,845)	(308,446)	(323,185)	(334,329)
Enterprises	Joint Exp. Alloc.	(241,520)	(226,314)	(221,304)	(204,900)	(232,092)
Bank	Joint Exp. Alloc.	(104,956)	(77,975)	(143,641)	(73,827)	(82,059)
SBMI	Joint Exp. Alloc.	(1,002,091)	(922,026)	(993,967)	(894,377)	(950,925)
Haulers	Svcs. / Board Costs	0	(37,224)	(46,475)	(55,988)	(78,341)
SBMI	Management Svcs.	5,612,065	6,663,145	7,771,142	8,767,776	7,663,789
SBMI	Trsfer. & Assump.	4,514,020	4,945,921	6,827,753	2,388,993	6,054,292
SGIC	Tax Allocation	(1,214,700)	(3,502,520)	(2,106,907)	(515,564)	(63,901)
SLIC	Tax Allocation	(6,014,000)	(9,115,457)	(5,681,404)	(327,994)	(2,245,021)
SRC	Tax Allocation	(4,023,600)	(12,252,945)	(5,352,357)	19,680,338	(9,487,000)
Haulers	Tax Allocation	(630,000)	(524,674)	(341,610)	78,609	(332,697)
SFS	Tax Allocation	(31,484)	(14,270)	(11,073)	(10,754)	(9,525)
Bank	Tax Allocation	(482,977)	(479,226)	(543,941)	(632,394)	492,806
SBMI	Tax Allocation	1,626,393	1,275,456	757,513	1,908,947	1,691,858
SFC	Tax Allocation	(26,521)	(4,893)	23	132	540
Enterprises	Agent Signs / Eq.	335,714	339,530	344,688	328,079	323,392
Enterprises	Lease of Aircraft	528,459	528,459	528,459	528,458	528,459
SFS	LOC – Principal	(100,000)	(140,000)	0	0	0
SFS	LOC – Interest	76,715	13,938	14,261	14,300	7,170
SFC	LOC – Principal	600,000	1,825,000	0	0	0
SFC	LOC – Interest	80,050	5,626	2,244	2,250	1,128
Enterprises	Mtg Loan – Princ.	(330,550)	(350,938)	(372,583)	(400,266)	(433,341)
Enterprises	Mtg Loan – Int.	184,256	163,766	142,013	105,018	58,523
Life	LOC – Interest	0	0	0	14,455	0
SGIC	Dividends	(1,000,000)	(9,500,000)	(9,500,000)	(9,000,000)	(8,900,000)
SLIC	Dividends	0	(20,000,000)	(30,000,000)	(16,750,000)	(15,000,000)
Haulers	Dividends	0	0	0	(3,900,000)	(3,600,000)
DBA	Dividends	(1,400,000)	(1,000,000)	(1,240,000)	(1,000,000)	(1,080,000)
TOTAL		$(33,310,283)	$(74,529,020)	$(73,903,055)	$(32,242,549)	$(61,099,959)

The Company purchased and sold investments with subsidiaries during the examination period, as follows:

- 2009 – Shelter Mutual purchased common stocks at a total cost of $40,824,489 and $15,997,050 from Shelter Life and Shelter General, respectively. The Company also sold bonds at a total sales price of $20,317,434 and $6,154,745 to Shelter Life and Shelter General respectively.
- 2011 – Shelter Mutual purchased bonds at a total cost of $8,835,082 and $1,343,923 from Shelter General and Haulers, respectively.
- 2012 – Shelter Mutual purchased bonds at a total cost of $36,851,088 from Shelter Life. The Company also purchased common stock at a cost of $5,101,096 from Haulers.

The Company also made a $50,000,000 capital contribution to Shelter Reinsurance in March 2013 in order to support the future growth of operations.

FIDELITY BOND AND OTHER INSURANCE

The Company and its subsidiaries are named insureds on a financial institution bond to cover losses resulting from fraudulent or dishonest acts of an employee. The bond has a liability limit of $5,000,000 with a $150,000 deductible, which meets the minimum coverage that is recommended by the NAIC.

The Company and its subsidiaries are also named insureds on the following insurance policies: property, general liability (self-insured), umbrella excess liability, automobile physical damage and liability (self-insured), workers compensation and employers liability, fiduciary liability, cyber liability, kidnap / ransom and extortion, and earth movement (self-insured).

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

As of December 31, 2012, the Company had 1,806 employees and 1,285 agents. Approximately 1,000 employees are located in the home office in Columbia, Missouri. Remaining employees are located among 19 branch offices throughout the operating territory or work from home. The employees work on the operations of Shelter Mutual and several subsidiaries. The agents produce business for Shelter Mutual, Shelter General, and Shelter Life. Benefit costs for employees and agents are allocated from the Company to the subsidiaries, pursuant to the Joint Expense Allocation Agreement that is described in the Intercompany Agreements section of this report.

A variety of standard benefits are provided to the employees and agents. These benefits include, but are not limited to, the following: health insurance, dental insurance, life insurance, personal accident insurance, disability insurance, sick leave, tuition reimbursement, and a 401(k) savings and profit sharing plan. Under the profit sharing plan, the Company's matching contribution to the employees' contributions to individual 401(k) savings accounts is based upon the profitability of operations. The matching percentage can range from 0% to 500% based upon a formula involving net income and underwriting income.

Employees are provided with a defined benefit pension plan. As of December 31, 2012, the fair value of pension plan assets was $461.2 million in comparison to the benefit obligation of $410.3 million, which results in a net over funded status of $50.9 million. Certain highly compensated employees are provided with a Supplemental Employee Retirement Plan (SERP). The Company holds assets in a separate bank account to fund the SERP liability, which was $4.7 million, as of December 31, 2012.

Employees of a subsidiary, SBMI, provide various human resource functions for Shelter Mutual and its subsidiaries. Benefit costs for the Shelter Benefits employees are allocated to Shelter Mutual and its subsidiaries, pursuant to a Management Services Agreement. SBMI also manages certain other benefits that are provided to Shelter Mutual employees, agents, directors, and retirees, pursuant to a Transfer and Assumption Agreement. Both agreements with SBMI are described in the Intercompany Agreements section of this report. Benefits managed by SBMI include postretirement health benefits, agents' termination benefits, directors' retirement benefits, nonqualified separation benefits, and vacation benefits. SBMI records the corresponding assets and liabilities for these benefits on its financial statements.

TERRITORY AND PLAN OF OPERATION

Shelter Mutual is licensed as a property and casualty insurer by the Missouri DIFP under Chapter 379 RSMo (Insurance Other than Life). The Company is licensed in eighteen (18) states, but only wrote business in fourteen (14) states during 2012. The states with the largest written premiums were as follows:

State	2012 Direct Written Premiums	% of Total
Missouri	$330,424,394	28.5%
Arkansas	214,611,908	18.5%
Oklahoma	146,708,160	12.7%
Kansas	81,840,588	7.1%
Louisiana	75,025,083	6.5%
All Other	310,837,378	26.8%
Total	$1,159,447,511	100.0%

The Company is predominately a personal lines insurer. The significant lines of business are shown below.

Line of Business	2012 Net Written Premiums	% of Total
Private Passenger Auto Liability	$ 344,558,473	30.1%
Homeowners	340,120,843	29.7%
Auto Physical Damage	253,753,158	22.2%
All Other	206,319,573	18.0%
Total	$1,144,752,047	100.0%

Shelter Mutual's products and territories have been historically managed on a combined basis with those of a subsidiary, Shelter General. Automobile policies for insureds with higher credit scores were assigned to Shelter Mutual and insureds with lower credit scores are assigned to Shelter General. One exception was that all auto business in Illinois and Tennessee has been written through Shelter General due to credit scoring limitations in those states. The total combined policy count for SMIC and SGIC was 1.9 million at the end of 2012.

Management implemented a plan in 2012 to change the future operations of Shelter General. The majority of the SGIC's auto policies, which are written in Illinois and Tennessee, will be transferred to SMIC during November 2013 through June 2014. The purpose of the policy migration is to position Shelter General to write business through alternate distribution channels in the future.

The Company's business is produced mostly by a captive agency system that was comprised of 1,285 agents, as of the examination date.

GROWTH OF COMPANY

The table below shows the Company's premium writings and writing ratios for the examination period.

Year	Direct Premiums Written	Net Premiums Written	Change in Net Premiums	Capital and Surplus	Ratio of Net Premiums to Surplus
2007	$ 914,059,589	$ 886,262,550	na	$1,351,908,840	0.66
2008	931,235,404	906,942,244	2.3%	1,239,719,909	0.73
2009	987,044,141	966,656,584	6.6%	1,250,901,469	0.77
2010	1,053,287,514	1,036,143,963	7.2%	1,347,906,986	0.77
2011	1,103,605,341	1,090,623,637	5.3%	1,281,420,123	0.85
2012	1,159,447,511	1,144,752,047	5.0%	1,397,888,266	0.82

Premium growth was steady and a strong premium to surplus ratio was maintained throughout the examination period. Significant decreases to capital and surplus occurred in 2008 and 2011 due to losses from multiple severe weather events in the operating territory. Tornadoes and hail storms are the main perils that drive SMIC's catastrophe losses each year. A $35 million unrealized loss in the equity of the Shelter Re subsidiary also occurred in 2011, which resulted from large hurricane and earthquake events in Shelter Re's international business. Overall, capital and surplus increased slightly in the examination period.

LOSS EXPERIENCE

The table below shows the Company's incurred losses and loss ratios for the examination period.

Year	Net Premiums Earned	Net Losses and Loss Adjustment Expenses Incurred	Loss Ratio
2008	$ 899,984,382	$801,749,656	89.1%
2009	943,516,737	781,345,060	82.8%
2010	1,014,548,821	751,801,686	74.1%
2011	1,072,333,135	982,442,101	91.6%
2012	1,117,657,770	839,527,851	75.1%

The loss ratios in 2008 and 2011 were higher than normal due to a high frequency of severe storm activity that was described previously.

REINSURANCE

General

The Company's premium activity on a direct written, assumed and ceded basis, for the period under examination, is detailed below:

	2008	2009	2010	2011	2012
Direct Business	$931,235,405	$987,044,142	$1,053,287,513	$1,103,605,340	$1,159,447,513
Assumed:					
Affiliates	755,703	1,039,172	1,395,943	7,297,282	9,232,576
Non-affiliates	38,322,272	38,197,491	42,258,596	50,903,942	48,280,767
Ceded:					
Affiliates	(37,595,579)	(37,413,647)	(41,528,000)	(48,370,286)	(47,953,087)
Non-affiliates	(25,775,556)	(22,210,573)	(19,270,089)	(22,812,641)	(24,255,722)
Net Prem.Written	$906,942,245	$966,656,585	$1,036,143,963	$1,090,623,637	$1,144,752,047

Assumed

Shelter Mutual assumes business under a fronting arrangement with its subsidiary, Shelter Re. The Company assumes property business on an excess of loss and quota share basis from approximately 125 insurers in the United States and approximately 40 insurers in mainly Europe and Japan. The assumed portfolio is retroceded 100% to Shelter Re, pursuant to an intercompany agreement, effective January 1, 1987. This arrangement has historically existed to leverage the stronger ratings and capitalization of Shelter Mutual to obtain more favorable contract terms with ceding companies than Shelter Re could obtain directly. The fronting arrangement with Shelter Re accounted for 99% of non-affiliated assumed premiums in the examination period.

The Company has a property catastrophe reinsurance agreement, effective March 1, 2012 to February 28, 2013, with Shelter Re. SMIC covers a maximum loss of $70,000,000 per occurrence, in excess of a $30,000,000 retention for SRC. The Company's maximum liability is $140,000,000 for all losses incurred in the treaty year. SMIC and SRC executed a new property catastrophe reinsurance agreement, effective March 1, 2013 to February 28, 2014. The terms and coverage of the 2013-14 agreement are the same as the 2012-13 agreement with the exception that SRC's retention was increased to $40,000,000.

Shelter Mutual's only other assumed premiums are immaterial amounts from involuntary pools and associations.

Ceded

Shelter Mutual retains nearly all of the risks from auto and homeowners policies that are written on a direct basis. The Company's reinsurance program is designed to protect the Company against losses from very large risks and catastrophes. The Company's subsidiaries, Shelter General and Haulers, are also named insureds in many ceded reinsurance agreements. Shelter General and Haulers are allocated reinsurance premiums and loss recoveries, pursuant to terms of the Joint Expense Allocation Agreement that is described in the Intercompany Agreements section of this report.

Shelter Mutual has agreements with General Reinsurance Corporation (Gen Re) to reinsure property risks on an excess of loss basis. The Company's retention is $1,250,000 per risk and losses up to $2,250,000 in excess of the retention are ceded to Gen Re under the terms of both the 2012 and 2013 agreements. The Company also has property facultative reinsurance agreements with Gen Re in 2012 and 2013 that cover losses from accepted risks up to a maximum of $20,000,000, in excess of a $3,500,000 retention per risk.

Reinsurance coverage for casualty and personal umbrella risks was provided through agreements with Swiss Reinsurance America Corporation (Swiss Re) in 2012 and Gen Re in 2013. The terms of both agreements cover casualty and personal umbrella losses up to $8,750,000 in excess of a Shelter Mutual retention of $1,250,000 per risk.

Shelter Mutual has a five-layer property catastrophe program for 2012 with several participating reinsurers. The first four layers are included in a property catastrophe excess of loss agreement with 25 reinsurers. The four reinsurers with the largest participation for 2012 were XL Re, Ltd., Swiss Re, Hiscox Insurance Company Limited, and Endurance Specialty Limited. The fifth layer for 2012 is included in a catastrophe excess of loss agreement with the Mutual Reinsurance Bureau (MRB), which is an association of four U.S. insurers with equal participation percentages (25% each). The reinsurance coverages for the combined subject net losses of Shelter Mutual and subsidiaries for each layer are as follows:

Layer	2012 Subject Net Losses	Reinsurer Participation %
First	$15,000,000 excess of $75,000,000	87%
Second	$25,000,000 excess of $90,000,000	100%
Third	$35,000,000 excess of $115,000,000	100%
Fourth	$65,000,000 excess of $150,000,000	100%
Fifth	$40,000,000 excess of $215,000,000	100%

New agreements for catastrophe coverage are executed each year. The catastrophe coverage was expanded from five layers to six layers in 2013. There was little change in the mix of reinsurers used in 2013 in comparison to 2012. The four largest participating reinsurers in the first through fifth layers for 2013 were the same as those listed above for the 2012 first through fourth layers. The MRB layer is the sixth layer for 2013 and was comprised of five reinsurers (one new entity added in 2013) with equal 20% participating shares. The Company's base retention and top layer coverage were both increased for 2013, as shown below:

Layer	2013 Subject Net Losses	Reinsurer Participation %
First	$10,000,000 excess of $90,000,000	100%
Second	$20,000,000 excess of $100,000,000	100%
Third	$30,000,000 excess of $120,000,000	100%
Fourth	$55,000,000 excess of $150,000,000	100%
Fifth	$110,000,000 excess of $205,000,000	80%
Sixth	$40,000,000 excess of $315,000,000	100%

Shelter Mutual has an agreement, effective January 1, 1987, with its subsidiary, Shelter Re, in which Shelter Mutual acts as a fronting company for Shelter Re. Shelter Mutual retrocedes 100% of the risks from its entire book of assumed business to Shelter Re, except for business from involuntary pools and associations. A further description of the fronting arrangement is included in the Assumed section of this report.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

ACCOUNTS AND RECORDS

Information Systems

Policy management utilizes eCommerce and Customer Access applications, both of which are internally developed. Claims management utilizes Claims Work Station (CWS), which is also internally developed. Financial reporting utilizes Provision, a HUON product; however, the Company plans to change to Workday, Inc.'s Financial Management Solution for financial reporting during 2014. Investment and fund management is handled through Camra, a SS&C Technologies product. Reinsurance is managed through URS, a StoneRiver, Inc. product. Producer management is handled through the Agent Management System, which is developed internally.

External Audits and Actuarial Opinions

The CPA firm, Ernst & Young, LLP, of Kansas City, Missouri issued audited statutory financial statements of the Company for all years in the examination period. The actuarial opinion regarding the Company's reserves for losses and loss adjustment expenses was issued by Thomas P. Conway, ACAS, MAAA, for the years ending 2011 and 2012, and by Robert H. Wainscott, FCAS, MAAA, for the years ending 2008, 2009, and 2010. Mr. Conway and Mr. Wainscott (retired) are employed by Ernst & Young, LLP in Chicago, Illinois.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri DIFP as of December 31, 2012, as reflected below, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with Section 379.098 RSMo (Securities to be Deposited). The funds on deposit were as follows:

Type of Security	Par Value	Fair Value	Book Value
Municipal Bonds	$2,005,000	$2,015,714	$2,006,480

Deposits with Other States

The Company also has funds on deposit with one other state. Those funds on deposit, as of December 31, 2012, were as follows:

State	Type of Security	Par Value	Fair Value	Book Value
Nevada	Fed. Home Loan Bank Note	$250,000	$274,525	$258,049

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of Shelter Mutual Insurance Company for the period ending December 31, 2012. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Comments on Financial Statement Items." The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Comments on Financial Statement Items." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore, were only communicated to the Company and noted in the workpapers for each individual Annual Statement item.

Assets
as of December 31, 2012

	Assets	Non-Admitted Assets	Net Admitted Assets
Bonds	$1,122,140,557	$ 0	$1,122,140,557
Common Stocks	875,635,781	0	875,635,781
Mortgage Loans	1,360,662	0	1,360,662
Real Estate	36,501,947	0	36,501,947
Cash, Cash Equivalents and Short-Term Investments	68,365,652	0	68,365,652
Other Invested Assets	224,110,977	13,992,242	210,118,735
Investment Income Due and Accrued	14,846,208	0	14,846,208
Uncollected Premiums and Agents' Balances	3,794,207	70,224	3,723,983
Deferred Premiums	80,004,505	0	80,004,505
Amounts Recoverable from Reinsurers	1,951,022	5,990	1,945,032
Funds Held by Reinsured Companies	266,000	0	266,000
Federal Income Tax Recoverable	1,110,675	0	1,110,675
Net Deferred Tax Asset	58,153,415	2,060,580	56,092,835
Guaranty Funds Receivable	450	0	450
EDP Equipment and Software	4,265,744	0	4,265,744
Furniture and Equipment	2,526,567	2,526,567	0
Receivable from Parent, Sub., Affiliates	7,178,525	0	7,178,525
Aggregate Write-In Assets	177,187,194	170,430,220	6,756,974
TOTAL ASSETS	**$2,679,400,088**	**$189,085,823**	**$2,490,314,265**

Liabilities, Surplus and Other Funds
as of December 31, 2012

Losses	$ 336,239,700
Reinsurance Payable on Paid Losses and LAE	1,095,004
Loss Adjustment Expenses	67,791,280
Commissions Payable	31,700,644
Other Expenses	19,556,610
Taxes, Licenses and Fees	7,984,093
Borrowed Money	3,312,154
Unearned Premium	418,012,179
Advance Premium	38,764,773
Ceded Reinsurance Premiums Payable	2,295,584
Funds Held Under Reinsurance Treaties	55,861
Amounts Withheld	7,936,044
Remittances and Items Not Allocated	2,245,736
Provision for Reinsurance	3,580
Drafts Outstanding	37,359,025
Payable to Parent, Subsidiaries and Affiliates	2,091,466
Payable for Securities	8,200,000
AggregateWrite-In Liabilities	107,782,266
TOTAL LIABILITIES	**$1,092,425,999**
Aggregate Write-Ins for Other Surplus Funds	1,250,000
Unassigned Funds (Surplus)	1,396,638,266
Capital and Surplus	**$1,397,888,266**
TOTAL LIABILITIES AND SURPLUS	**$2,490,314,265**

Statement of Income
For the Year Ended December 31, 2012

Premium Earned	$1,117,657,770
DEDUCTIONS:	
Losses Incurred	750,874,312
Loss Adjustment Expenses Incurred	88,653,539
Other Underwriting Expenses Incurred	309,043,503
Aggregate Write-Ins for Underwriting Deductions	22,893,578
Total Underwriting Deductions	$1,171,464,932
Net Underwriting Loss	($53,807,162)
Net Investment Income Earned	84,130,841
Net Realized Capital Gains	23,886,130
Net Investment Gain	$108,016,971
Other Income	13,191,844
Dividends to Policyholders	0
Federal Income Taxes Incurred	(2,740,298)
Net Income	$70,141,951
CAPITAL AND SURPLUS ACCOUNT:	
Surplus as Regards Policyholders, December 31, 2011	$1,281,420,123
Net Income	70,141,951
Change in Net Unrealized Capital Gains or (Losses)	35,751,628
Change in Net Unrealized Foreign Exchange Gain (Loss)	24,038
Change in Net Deferred Income Tax	(4,992,298)
Change in Non-Admitted Assets	15,546,404
Change in Provision for Reinsurance	(3,580)
Surplus as Regards Policyholders, December 31, 2012	**$1,397,888,266**

Comments on Financial Statement Items

None.

Examination Changes

None.

General Comments and/or Recommendations

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Shelter Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Levi Nwasoria, CFE, Examiner-In-Charge, Shannon Schmoeger, CFE, Steve Koonse, CFE, Emily Turek, Sara McNeely, and Kim Dobbs, CFE, examiners for the Missouri DIFP, participated in this examination. Patrick Glenn, ACAS, MAAA, of Lewis & Ellis, Inc., also participated as a consulting actuary.

VERIFICATION

State of Missouri)
)
County of)

I, Tim L. Tunks, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of Shelter Mutual Insurance Company its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Tim L. Tunks

Tim L. Tunks, CPA, CFE
Examiner-In-Charge
Missouri DIFP

Sworn to and subscribed before me this 12th day of March, 2014.

My commission expires: May 1, 2016 Debbie J. Nolke
Notary Public

DEBBIE J. NOLKE
Notary Public - Notary Seal
STATE OF MISSOURI
County of Boone
My Commission Expires 5/1/2016
Commission #12413452

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

Mark A. Nance, CPA, CFE
Audit Manager
Missouri DIFP