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 Reinsurance Company for the period ended December 31, 2012.

ORDER

After full consideration and review of the report of the financial examination of Shelter Mutual Reinsurance 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 Reinsurance Company as of December 31, 2012 be and is hereby ADOPTED as filed and for Shelter Reinsurance 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 REINSURANCE 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 Reinsurance Company

hereinafter referred to as Shelter Re, SRC, 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 Re. 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 affiliates, which includes the parent, Shelter Mutual Insurance Company (Shelter Mutual or SMIC), Shelter General Insurance Company (Shelter General or SGIC), and Shelter Life Insurance Company (Shelter Life or SLIC).

The examination of Shelter Re and its Missouri affiliated entities was coordinated with the concurrent examination of another affiliate, 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 SRC 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 Re was incorporated on October 6, 1986. It was issued a Certificate of Authority and commenced business on November 24, 1986. The Company operates as a stock property and casualty reinsurer under the insurance laws of Chapter 379 RSMo (Insurance Other Than Life).

Dividends and Capital Contributions

The Company did not pay any dividends to its sole stockholder, Shelter Mutual, during the examination period. No capital contributions were received from Shelter Mutual during the examination period. However, Shelter Re did receive a $50,000,000 capital contribution from Shelter Mutual in March 2013.

Mergers and Acquisitions

There were no significant mergers or acquisitions noted for the period under examination.

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 shareholder meetings were reviewed for proper approval of corporate transactions. In general, the minutes 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 on behalf of the Company by the parent, 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 (SFC) – 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) – 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.

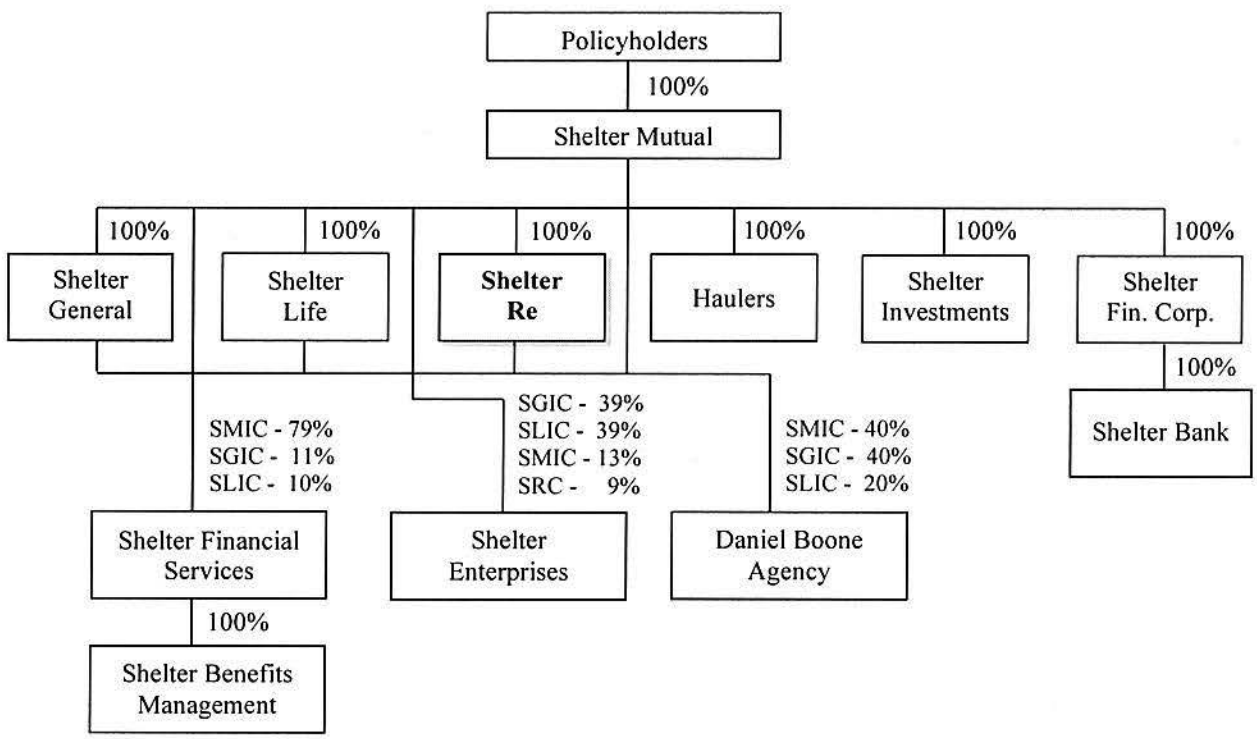
Shelter Enterprises, LLC (Shelter Enterprises) – Owns real estate, property and equipment and derives its income from leasing the assets to affiliates, including Shelter Mutual, and other non-affiliated entities. Shelter Re owns a minority interest of 8.7% in this entity.

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 Re and its affiliates, 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

   Affiliate: Shelter Mutual

   Effective: January 1, 1997

   Terms: Shelter Mutual agrees to provide the employees to operate all aspects of the Company. Services to be provided include recordkeeping, processing, planning, budgeting, receipt and disbursement activities, and all work incidental to the operation of the SRC's 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 Company will make monthly payments to Shelter Mutual. Payments will be calculated in accordance with the Joint Expense Allocation Agreement between Shelter Mutual and its subsidiaries, including SRC.

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

   Affiliates: Shelter Mutual, Shelter General, Shelter Life, SFS, 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:** Tax Allocation Agreement

   Affiliates: Shelter Mutual, Shelter General, 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.

4. **Type:** Promissory Note

   Affiliate: Shelter Mutual

   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. 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.

The Company also has reinsurance agreements with Shelter Mutual and Haulers that are described in the Reinsurance Assumed and Reinsurance Ceded sections of the report.

Intercompany Payments

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

	Agreement /	Net Expense / (Revenue)				
Affiliate	Transaction	**2008**	**2009**	**2010**	**2011**	**2012**
SMIC	Joint Exp. Alloc.	$1,262,988	$ 1,547,136	$1,624,720	$ 1,431,360	$ 1,716,368
SBMI	Mgmt. Services #	28,267	32,166	36,648	33,805	26,015
SMIC	Tax Allocation	4,023,600	12,252,945	5,352,357	(19,680,338)	9,487,000
SMIC	Trsfer. & Assump.	(34,487)	0	0	0	0
TOTAL		$5,280,368	$13,832,247	$7,013,725	($18,215,173)	$11,229,383

The Company is not a party to this agreement, but expenses are reported due to management's assertion that the Company is an indirect party due to the ownership by SMIC.

FIDELITY BOND AND OTHER INSURANCE

The Company's parent, Shelter Mutual, has a financial institution bond to cover losses resulting from fraudulent or dishonest acts of an employee. All subsidiaries of SMIC, including Shelter Re, are also listed as named insureds on the bond. 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 is also a named insured on several other insurance policies of the parent, SMIC. These policies include the following: property, general liability (self-insured), umbrella excess liability, automobile physical damage and liability (self-insured), fiduciary liability, kidnap and ransom / extortion, and earth movement (self-insured).

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

As of December 31, 2012, the parent, Shelter Mutual, 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, including Shelter Re. The agents produce business for Shelter Mutual, Shelter General, and Shelter Life. Benefit costs for employees and agents are allocated from SMIC 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 Shelter Mutual 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, 401(k) savings and profit sharing plan, and a defined benefit pension plan.

TERRITORY AND PLAN OF OPERATION

The Company is licensed for the business of property and casualty insurance in the State of Missouri under Chapter 379 RSMo. Shelter Re is an approved surplus lines insurer in California. The Company is licensed as a reinsurer only in the following states: Iowa, Kansas, Maryland, Michigan, Minnesota, and Pennsylvania. The Company is also a qualified reinsurer in North Dakota, South Dakota, Tennessee, and Wisconsin. In addition, the Company is either registered or licensed as a reinsurer in Argentina, Colombia, Mexico, Paraguay, and Puerto Rico.

Shelter Re writes only a minor amount of direct business, which are earthquake policies sold in California only. The direct business is underwritten and managed exclusively by an agency – North Shore Management Associates, Inc. The Company is primarily a reinsurer with assumed business comprising 97% of 2012 total gross written premiums.

Approximately 46% of 2012 assumed premiums were fronted through the Company's parent, Shelter Mutual Insurance Company, which retrocedes all of its assumed reinsurance (excluding involuntary pools and associations) to Shelter Re. Shelter Mutual has historically fronted a segment of business for the Company in order to leverage the parent's stronger capitalization and agency ratings. Nearly all of the U.S. business is fronted through Shelter Mutual.

Shelter Re's assumed business consists of property reinsurance risks acquired through both direct placement and 15 reinsurance brokers. The Company's book of business, as of April 2013, was comprised of 645 contracts with a combined 216 domestic and international insurers. Premiums assumed from U.S. ceding companies represented 25% of 2012 gross premiums. The 2012 premium volume from other significant geographical areas are as follows: Europe – 29%, Caribbean – 14%, Middle East – 10%.

Below is a summary of the major treaty types and the related premium volume in-force at the beginning of 2013:

Treaty Type	Percent of U.S. Premium Volume	Percent of Non-U.S. Premium Volume
Property Catastrophe	66%	28%
Property Quota Share	21%	62%
All Other	13%	10%
Total	100.0%	100.0%

Ceding companies in the United States are mainly small to mid-size insurers. There was no U.S. ceding company with more than $1 million in assumed premiums for the Company in 2012. The volume of premium from international ceding companies are much larger. There were 16 international reinsurers with ceded premium greater than $1 million to Shelter Re in 2012. Mapfre Re Compania de Reaseguros, SA (domiciled in Spain) is the largest ceding company for Shelter Re, accounting for $21 million in assumed premiums in 2012 or 19% of total assumed premiums.

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	$2,100,709	$ 66,411,302	na	$125,486,396	0.53
2008	2,165,319	72,723,952	9.5%	138,623,201	0.52
2009	3,687,923	80,734,984	11.0%	166,384,356	0.49
2010	2,969,308	90,043,084	11.5%	178,750,148	0.50
2011	3,017,392	101,725,715	13.0%	143,164,835	0.71
2012	3,448,231	102,142,244	0.4%	165,164,259	0.62

Shelter Re had a high growth rate averaging 11% for the four years from 2008 to 2011. Growth declined to less than 1% in 2012 due to the withdrawal from the high risk exposure in the New Zealand market. Underwriting gains and net income of at least $10 million was achieved in four of the five years in the examination period. A significant net loss and large decrease in capital and surplus in 2011 were attributable to major catastrophes that included the earthquake / tsunami in Japan and earthquakes in New Zealand. A strong premium to surplus ratio was maintained throughout the examination period as capital and surplus increased at a nearly proportional rate to the large premium growth.

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	$ 68,344,578	$ 40,544,918	59.3%
2009	78,854,260	28,101,898	35.6%
2010	89,981,222	60,538,428	67.3%
2011	99,685,212	140,370,596	140.8%
2012	101,150,088	54,732,224	54.1%

The loss ratio for Shelter Re fluctuates greatly from year to year due the level of catastrophes that may occur from the main perils of tornado, hail, hurricane and earthquake. The Japanese earthquake / tsunami and New Zealand earthquakes in 2011 combined for net losses of $63 million and resulted in a spike in the loss ratio. The 2011 result was an anomaly in comparison to the low loss ratios that have been achieved historically.

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	$ 2,165,319	$ 3,687,923	$ 2,969,308	$ 3,017,392	$ 3,448,231
Assumed:					
Affiliates	37,595,579	37,892,069	42,532,897	49,544,693	49,141,099
Non-affiliates	33,718,757	40,194,164	45,936,822	56,460,912	58,785,490
Ceded:					
Affiliates	(755,703)	(1,039,172)	(1,395,943)	(7,297,282)	(9,232,576)
Non-affiliates	0	0	0	0	0
Net Prem. Written	$72,723,952	$80,734,984	$90,043,084	$101,725,715	$102,142,244

Assumed

Shelter Re's portfolio of assumed business is summarized in the Territory and Plan of Operations section of this report. The Company's normal maximum limit of liability under each assumed treaty is $500,000 for both pro-rata agreements and per risk excess of loss agreements. Most assumed agreements for property catastrophe have a $5,000,000 maximum limit of liability for SRC.

The Company assumes property and casualty risks from an affiliate, Haulers, on a per risk excess of loss basis. The per risk agreement had a Hauler's retention of $100,000 per risk, as of December 31, 2012. Shelter Re assumes 100% of losses up to $650,000 per property risk and up to $1,900,000 per casualty risk in excess of the retention. The per risk agreement was amended, effective January 1, 2013, to increase Hauler's retention to $200,000 per risk and also decrease Shelter Re's limit of reinsurance to $550,000 per property risk and $1,800,000 per casualty risk.

Shelter Re also assumes property catastrophe risks from Haulers. Under the 2012 property catastrophe agreement, the Company assumes up to $2,700,000 per occurrence, in excess of a $300,000 retention for Haulers. The 2013 catastrophe agreement increased Hauler's retention to $500,000 per occurrence with Shelter Re coverage up to $2,500,000 in excess of the retention.

Ceded

Shelter Re's only reinsurer is the parent, Shelter Mutual. The Company has a property catastrophe reinsurance agreement, effective March 1, 2012 to February 28, 2013, with Shelter Mutual. 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 coverage is $140,000,000 for all losses incurred in the treaty year. SRC and SMIC 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. The Company's ceded coverage from SMIC nearly doubled in 2011 to the current levels in response to the multiple catastrophic events that occurred.

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 Bond	$1,260,000	$1,371,119	$1,295,003

Deposits with Other States

The Company did not have funds on deposit with any other states, as of December 31, 2012.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of Shelter Reinsurance 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	$267,292,484	$ 0	$267,292,484
Cash, Cash Equivalents and Short-Term Investments	30,237,103	0	30,237,103
Other Invested Assets	547,954	0	547,954
Investment Income Due and Accrued	3,097,455	0	3,097,455
Uncollected Premiums and Agents' Balances	6,372,249	717	6,371,532
Amounts Recoverable from Reinsurers	22,086	0	22,086
Funds Held by Reinsured Companies	10,702,257	0	10,702,257
Other Reinsurance Amount Receivable	42,833	0	42,833
Net Deferred Tax Asset	4,438,438	904,868	3,533,570
Receivable from Parent, Sub., Affiliates	1,683	0	1,683
TOTAL ASSETS	**$322,754,542**	**$ 905,585**	**$321,848,957**

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

Losses	$124,955,375
Reinsurance Payable on Paid Losses and LAE	4,840,886
Loss Adjustment Expenses	232,149
Other Expenses	75,530
Federal Income Taxes Payable	3,741,667
Unearned Premium	21,972,519
Advance Premium	332,650
Ceded Reinsurance Premiums Payable	345,264
Remittances and Items Not Allocated	5,726
Payable to Parent, Subsidiaries and Affiliates	182,934
TOTAL LIABILITIES	**$156,684,700**
Common Capital Stock	15,000,000
Gross Paid-In and Contributed Surplus	20,000,000
Unassigned Funds (Surplus)	130,164,259
Capital and Surplus	**$165,164,259**
TOTAL LIABILITIES AND SURPLUS	**$321,848,959**

Statement of Income
For the Year Ended December 31, 2012

Premium Earned	$101,150,088
DEDUCTIONS:	
Losses Incurred	54,118,234
Loss Adjustment Expenses Incurred	613,990
Other Underwriting Expenses Incurred	26,555,765
Total Underwriting Deductions	$ 81,287,989
Net Underwriting Gain	$ 19,862,099
Net Investment Income Earned	11,182,145
Net Realized Capital Gains	186,164
Net Investment Gain	$ 11,368,309
Other Income	(342,991)
Federal Income Taxes Incurred	9,586,109
Net Income	$ 21,301,308
CAPITAL AND SURPLUS ACCOUNT:	
Surplus as Regards Policyholders, December 31, 2011	$143,164,834
Net Income	21,301,308
Change in Net Unrealized Capital Gains or (Losses)	70,030
Change in Net Unrealized Foreign Exchange Gain	338,514
Change in Net Deferred Income Tax	259,901
Change in Non-Admitted Assets	29,671
Surplus as Regards Policyholders, December 31, 2012	**$165,164,258**

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 Reinsurance 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 Reinsurance 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