STATE OF MISSOURI

MDCCCXX

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

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

ORDER

After full consideration and review of the report of the financial examination of Shelter General 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 General Insurance Company as of December 31, 2012 be and is hereby ADOPTED as filed and for Shelter General 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 GENERAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2012

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 General Insurance Company

hereinafter referred to as Shelter General, SGIC, 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 General. 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 Life Insurance Company (Shelter Life or SLIC), and Shelter Reinsurance Company (Shelter Re or SRC).

The examination of Shelter General 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 SGIC 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 General was incorporated and commenced business on November 12, 1957. The Company was originally named Countryside Casualty Company. The Company's name was changed to Shelter General Insurance Company on July 1, 1981. The Company operates as a stock property and casualty insurer under the insurance laws of Chapter 379 RSMo (Insurance Other Than Life).

Dividends and Capital Contributions

The Company paid dividends to its sole stockholder, Shelter Mutual, during the examination period, which are listed in the Intercompany Payments section of this report. No capital contributions were received from Shelter Mutual during the examination period.

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 General owns 11% of SFS.

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.

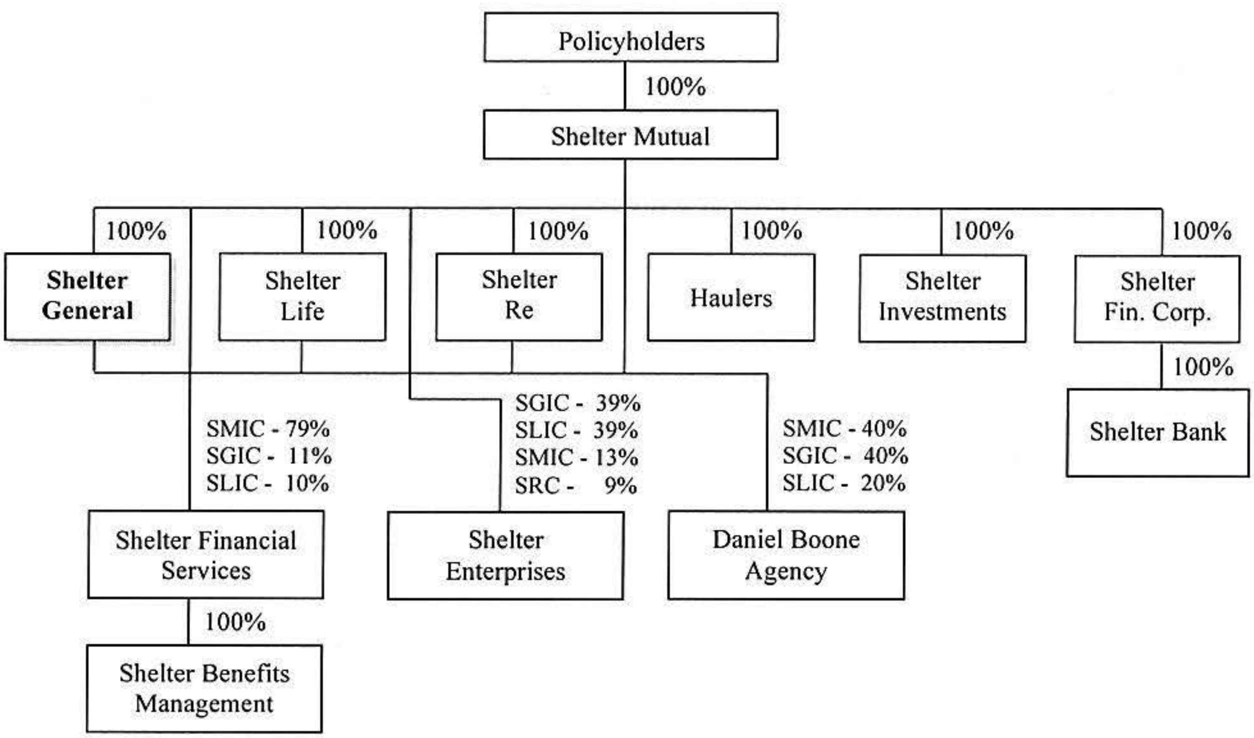
Shelter Enterprises, LLC (Shelter Enterprises) – Owns real estate, property and equipment and derives its income from leasing the assets to affiliates, including Shelter Mutual, and other non-affiliated entities. Shelter General owns 39% of this entity.

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 General owns 40% of DBA.

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 General 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: December 12, 2005

   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 SGIC'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 SGIC.

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

   Affiliates: Shelter Mutual, Shelter Re, 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:** Transfer and Assumption Agreement

   Affiliates: Shelter Benefits, Shelter Mutual, 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.

4. **Type:** Tax Allocation Agreement

   Affiliates: Shelter Mutual, 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.

5. **Type:** Promissory Note

   Affiliate: Shelter Mutual

   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.

The Company also has joint reinsurance agreements with Shelter Mutual that are described in the Reinsurance Ceded section of the report.

Intercompany Payments

The following table summarizes the payments made during the examination period, between SGIC 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.	$17,726,912	$18,164,714	$18,688,369	$17,974,379	$19,540,616
SBMI	Trsfer. & Assump.*	251,042	0	0	0	0
SMIC	Tax Allocation	1,214,700	3,502,520	2,106,907	515,564	63,901
SMIC	Dividends	1,000,000	9,500,000	9,500,000	9,000,000	8,900,000
DBA	Dividends	(1,400,000)	(1,000,000)	(1,240,000)	(1,000,000)	(1,080,000)
TOTAL		$18,792,654	$30,167,234	$29,055,276	$26,489,943	$27,424,517

* After 2008, the Company's allocation of agent and employee benefit liabilities was paid to Shelter Mutual, pursuant to the Joint Expense Allocation Agreement.

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

- 2009 – The Company sold common stocks at a total sales price of $15,997,050 to Shelter Mutual. The Company also purchased bonds at a total cost of $6,154,745 from Shelter Mutual.
- 2011 – The Company sold bonds at a total sales price of $8,980,683 to Shelter Mutual.

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 General, 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 General. 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

Shelter General is licensed as a property and casualty insurer by the Missouri DIFP under Chapter 379 RSMo (Insurance Other than Life). The Company is licensed and writes business in thirteen (13) states. The states with the largest written premiums during 2012 were as follows:

State	2012 Direct Written Premiums	% of Total
Tennessee	$39,948,986	40.2%
Illinois	20,390,363	20.5%
Oklahoma	8,029,354	8.1%
Missouri	8,028,781	8.1%
Arkansas	6,539,736	6.6%
All Other	16,461,369	16.6%
Total	$99,398,589	100.0%

The Company is predominately a personal auto insurer. Shelter General's products and territories have been historically managed on a combined basis with those of the parent, Shelter Mutual. 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 is that all auto business in Illinois and Tennessee has been written through Shelter General due to credit scoring limitations in those states. The significant lines of business are shown below.

Line of Business	2012 Net Written Premiums	% of Total
Private Passenger Auto Liability	$46,144,811	46.8%
Auto Physical Damage	35,078,503	35.6%
Commercial Auto Liability	9,937,509	10.1%
All Other	7,510,710	7.6%
Total	$98,671,533	100.0%

The Company's business has been produced mostly by a captive agency system of 1,285 agents, as of December 31, 2012, that also sell policies for SMIC and an affiliate, SLIC.

Management implemented a plan in 2012 to change the future operations of Shelter General. All personal auto policies will be phased out during 2012 to 2014 by transferring the policies to Shelter Mutual upon renewal. A small amount of policies were transferred in 2012 and early 2013. The majority of the SGIC's auto policies, which are written in Illinois and Tennessee, will be transferred during November 2013 through June 2014. The remaining commercial auto, dwelling fire, and commercial fire policies that remain at the end of 2014 are projected to represent annual premiums of $25 million. This would represent a 75% decrease in premium volume from the nearly $100 million written in 2012.

The purpose of the reduction in the Company's book of business is to position Shelter General to write business through alternate distribution channels in the future. Currently, nearly all P&C business is written through SMIC and SGIC's captive agency force. The plan is to establish "alternate channels" for distribution that are outside of the captive agency system. This may include brokers, direct sales, acquisitions, and geographic expansion to new states to be written by SGIC. New rating plans for policies sold through alternate distribution channels are being developed that should be available by late 2014 or early 2015.

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	$96,124,191	$95,070,208	na	$97,326,934	0.98
2008	97,146,967	96,195,659	1.2%	95,510,275	1.01
2009	95,816,392	94,919,041	-1.3%	97,407,323	0.97
2010	95,786,743	95,072,358	0.2%	93,784,720	1.01
2011	98,349,888	97,606,867	2.7%	89,037,565	1.10
2012	99,398,589	98,671,533	1.1%	82,151,504	1.20

Yearly premium growth was minimal, but a strong premium to surplus ratio was maintained throughout the examination period. Capital and surplus decreased 16% during the examination period due to high levels of dividends paid to the parent, Shelter Mutual. Net income totaled $31.1 million during 2008 to 2012, but dividend payments totaled $37.9 million for the same period, resulting in the overall decrease to capital and surplus.

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	$95,754,116	$69,879,919	73.0%
2009	94,548,382	66,347,861	70.2%
2010	95,645,233	73,112,018	76.4%
2011	97,590,041	77,792,651	79.7%
2012	98,492,130	79,676,338	80.9%

The loss ratio in 2011 was higher than prior years due to a high frequency of severe storm activity. The elevated loss ratio continued in 2012 due to increased claims and unfavorable development from commercial trucking business.

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	$97,146,967	$95,816,392	$95,786,743	$98,349,888	$99,398,589
Assumed:					
Affiliates	0	0	0	0	0
Non-affiliates	24,302	23,108	18,480	5,946	5,392
Ceded:					
Affiliates	0	0	0	0	0
Non-affiliates	(975,610)	(920,459)	(732,865)	(748,967)	(732,448)
Net Prem. Written	$96,195,659	$94,919,041	$95,072,358	$97,606,867	$98,671,533

Assumed

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

Ceded

Shelter General retains nearly all of the risks from auto and commercial liability policies that are written on a direct basis. The Company's reinsurance program is designed to protect the Company against very large risks and catastrophes. The Company's parent, Shelter Mutual, and an affiliate, Haulers, are also named insureds in ceded reinsurance agreements. Shelter General is 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 General 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 General retention of $1,250,000 per risk.

Shelter General 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%

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	$2,000,000	$2,218,650	$2,048,042

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 General 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	$140,300,498	$ 0	$140,300,498
Common Stocks	9,997,033	0	9,997,033
Cash, Cash Equivalents and Short-Term Investments	4,103,062	0	4,103,062
Other Invested Assets	3,095,125	0	3,095,125
Investment Income Due and Accrued	1,799,877	0	1,799,877
Uncollected Premiums and Agents' Balances	347,060	10,020	337,040
Deferred Premiums	9,578,997	0	9,578,997
Amounts Recoverable from Reinsurers	4,513	102	4,411
Net Deferred Tax Asset	1,451,708	0	1,451,708
Guaranty Funds Receivable	450	0	450
Receivable from Parent, Sub., Affiliates	352,413	0	352,413
Aggregate Write-In Assets	7,472	0	7,472
TOTAL ASSETS	**$171,038,208**	**$ 10,122**	**$171,028,086**

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

Losses	$ 42,523,505
Loss Adjustment Expenses	10,157,762
Commissions Payable	1,772,354
Other Expenses	3,381
Taxes, Licenses and Fees	546,440
Federal Income Taxes Payable	552,907
Unearned Premium	25,909,395
Advance Premium	3,689,739
Ceded Reinsurance Premiums Payable	26,782
Amounts Withheld	54,728
Remittances and Items Not Allocated	66,224
Drafts Outstanding	0
Payable to Parent, Subsidiaries and Affiliates	2,643,682
Aggregate Write-In Liabilities	929,785
TOTAL LIABILITIES	**$ 88,876,684**
Common Capital Stock	1,250,000
Unassigned Funds (Surplus)	80,901,504
Capital and Surplus	**$ 82,151,504**
TOTAL LIABILITIES AND SURPLUS	**$171,028,188**

Statement of Income
For the Year Ended December 31, 2012

Premium Earned	$ 98,492,130
DEDUCTIONS:	
Losses Incurred	70,354,691
Loss Adjustment Expenses Incurred	9,321,647
Other Underwriting Expenses Incurred	26,240,383
Aggregate Write-Ins for Underwriting Deductions	500,860
Total Underwriting Deductions	$106,417,581
Net Underwriting Loss	($ 7,925,451)
Net Investment Income Earned	7,738,956
Net Realized Capital Gains	222,922
Net Investment Gain	$ 7,961,878
Other Income	317,197
Federal Income Taxes Incurred	(261,889)
Net Income	$ 615,513
CAPITAL AND SURPLUS ACCOUNT:	
Surplus as Regards Policyholders, December 31, 2011	$ 89,037,564
Net Income	615,513
Change in Net Unrealized Capital Gains or (Losses)	1,145,636
Change in Net Deferred Income Tax	246,750
Change in Non-Admitted Assets	6,040
Dividends to Stockholders	(8,900,000)
Surplus as Regards Policyholders, December 31, 2012	**$ 82,151,503**

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 General 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 General 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