CERTIFICATION

March 28, 2014

I, Bruce R. Ramge, Director of Insurance of the State of Nebraska, do hereby certify that the attached is a full and correct copy of the

Financial Examination Report of

GERMAN MUTUAL INSURANCE ASSOCIATION OF NEBRASKA

as of

December 31, 2012

The report is now on file and forming a part of the records of this Department.

I hereto subscribe my name under the seal of my office at Lincoln, Nebraska.

STATE OF NEBRSKA
DEPARTMENT OF INSURANCE

MAR 28 2014

FILED

Bruce R. Ramge

DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

Take notice that the proposed report of the financial examination of

German Mutual Insurance Association of Nebraska

dated as of December 31, 2012, verified under oath by the examiner-in-charge on February 27, 2014, and received by the company on March 3, 2014, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3)(a).

Dated this 17 day of March, 2014.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

Justin Schrader
Chief Financial Examiner

STATE OF NEBRASKA

Department of Insurance

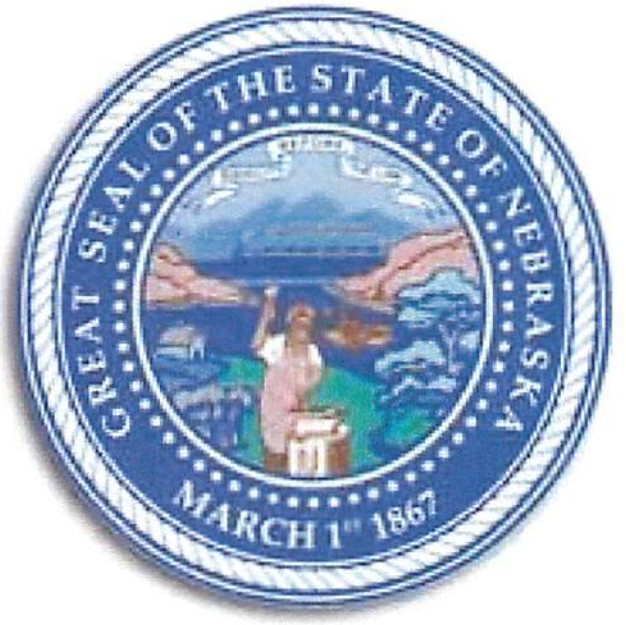
EXAMINATION REPORT

OF

German Mutual Insurance Association of Nebraska

as of

December 31, 2012



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Auburn, Nebraska
January 10, 2014

Honorable Bruce R. Ramge
Director of Insurance
Nebraska Department of Insurance
941 "O" Street, Suite 400
Lincoln, Nebraska 68508

Dear Sir:

Pursuant to your instruction and authorizations, and in accordance with statutory requirements, an examination has been conducted of the financial condition and business affairs of:

German Mutual Insurance Association of Nebraska
914 Alden Drive
Auburn, Nebraska 68305

(hereinafter also referred to as the "Association") and the report of such examination is respectfully presented herein.

INTRODUCTION

The Association was last examined as of December 31, 2007 by the State of Nebraska. The current financial condition examination covers the intervening period to, and including, the close of business on December 31, 2012, and includes such subsequent events and transactions as were considered pertinent to this report. The State of Nebraska participated in this examination and assisted in the preparation of this report.

SCOPE OF EXAMINATION

This examination was conducted pursuant to and in accordance with both the NAIC Financial Condition Examiners Handbook (Handbook) and Section §44-5904(1) of the Nebraska Insurance Statues.

A general review was made of the Association's operations and the manner in which its business has been conducted in order to determine compliance with statutory and charter provisions. The Association's history was traced and has been set out in this report under the caption "Description of Association". All items pertaining to management and control were reviewed, including provisions for disclosure of conflicts of interest to the Board of Directors and the departmental organization of the Association. The Articles of Incorporation and By-Laws were reviewed, including appropriate filings of any changes or amendments thereto. The minutes of the meetings of the members and Board of Directors held during the examination period, were read and noted. Attendance at meetings, election of Directors and Officers, approval of investment transactions and authorizations of salaries were also noted.

The fidelity bond and other insurance coverages protecting the Association's property and interests were reviewed, as were plans for employee welfare. Certificates of Authority to conduct the business of insurance in the various states were inspected and a survey was made of the Association's general plan of operation.

Data reflecting the Association's growth during the period under review is reflected in the financial section of this report under the caption "Body of Report."

The Association's reinsurance facilities were ascertained and noted, and have been commented upon in this report under the caption "Reinsurance." Accounting records and procedures were tested to the extent deemed necessary through the substantive testing procedures. The Association's method of claims handling and procedures pertaining to the adjustment and payment of incurred losses were also noted.

All accounts and activities of the Association were considered in accordance with the provisions of Section §44-5904(1) of the Nebraska Insurance Statues.

Any failure of items to add to the totals shown in schedules and exhibits appearing throughout this report is due to rounding.

DESCRIPTION OF ASSOCIATION

HISTORY

The Association was organized in 1890 and was incorporated on January 9, 1896 as a mutual fire and lightning assessment association. In 1932, the Articles of Incorporation were amended to include the writing of windstorm, cyclone and tornado insurance. On January 26, 1993, the Association amended its Articles of Incorporation to provide for perpetual existence. The By-Laws were amended in 2009 to allow up to seven Directors.

MANAGEMENT AND CONTROL

Membership

As stated in the amended Articles of Incorporation, "every person, corporation, association or partnership insuring in this Association shall be a member thereof and entitled to one vote at any annual or special meeting of the Association in person or by proxy." The annual meeting shall be held on the last Tuesday in January at the place selected by the Board of Directors. Provision is made for the calling of special meetings.

Board of Directors

According to the amended Articles of Incorporation, the number of Board of Directors shall be fixed in the By-Laws. The Association's amended By-Laws state that, "the Board of Directors shall consist of no less than five members, with a maximum not to exceed seven...A majority of the Board of Directors shall constitute a quorum for the transaction of business." Directors shall hold office for a term of three years which shall be on a staggered basis. The affairs of the Association shall be directed and controlled by the Board of Directors.

The following persons were serving as Directors at December 31, 2012:

Name and Residence	Principal Occupation	Term Expires
Connie Farris Murray, Nebraska	Retired Banker	2013
Dennis Norvell Auburn, Nebraska	Small Business Owner and Farmer	2013
Gary Liesemeyer Syracuse, Nebraska	Agent for Physicians Mutual	2014
Duane Palmer Johnson, Nebraska	Farmer	2014
Randy Speckman Johnson, Nebraska	Auctioneer and Realtor	2015
John Wehling Nebraska City, Nebraska	Semi-Retired Insurance Agent	2015

All Directors receive $175 per meeting attended.

Officers

The Association's amended Articles of Incorporation and amended By-Laws provide that, "the Officers shall consist of a President, Vice-President, Secretary and Treasurer, and such other Officers as may be elected by the Board of directors for a term of one year, or until their successors are elected and qualified."

The following is a listing of Officers elected and serving the Association at December 31, 2012:

Name	Office
Duane Palmer	President
Dennis Norvell	Vice President
Clint Swanson	Secretary / Treasurer

Committees

The amended By-Laws provide that, "the President and Secretary shall constitute an Executive Committee, which shall perform the duties of the Board of Directors between the meetings of such Board. The Secretary shall render a report of their actions at each meeting of the Board of Directors."

The following persons were serving on the Executive Committee at December 31, 2012:

Duane Palmer Clint Swanson

TERRITORY AND PLAN OF OPERATION

As evidenced by current or continuous Certificates of Authority, the Association is licensed to transact business in the State of Nebraska as prescribed by Section §44-201, subsections (5) and (18) of the Nebraska Insurance Statutes.

The Association's amended Articles of Incorporation authorize it to conduct a mutual insurance business and to issue insurance upon home and farm property. A majority of the Association's risks are located in southeast Nebraska; however, its territory is not restricted to this area and the Association can write in any county in Nebraska.

Production of new business and servicing of renewals is handled through 19 different agencies. The Association entered into a contract services agreement on July 1, 2007 with Grinnell Mutual Reinsurance Company to provide the Association with claims adjustment services. Adjustment services for 2012 are $75,000 for the first 400 claims and $400 for each subsequent claim plus any direct expenses of claims handling and inspection.

Policies are direct billed and remitted directly to the Association. Policies are written on an annual renewable basis subject to review every three years for farm property. Premiums are collected annually, semi-annually, or monthly, with a $3 monthly service charge applied to those

paying on a monthly and a $10 semi-annual service charge applied to those paying on a semi-annual basis. Agents receive a commission of 15 percent on policies written prior to 2006, 20 percent on new policies written from 2006 to December, 2011 and 15 percent for all new business written subsequent to December, 2011.

The Association provides liability coverage for its members by acting through an agent of Acceptance Casualty Insurance Company (ACIC) and Grinnell Mutual Reinsurance Company (Grinnell). In this capacity, the Association collects the premiums and remits them to the agent of either ACIC or Grinnell.

REINSURANCE

Ceded

The Association has a reinsurance contract with Grinnell Mutual Reinsurance Company (Grinnell), which became effective January 1, 2006 and continues until terminated at the end of any calendar year with 90 days written notice. This contract establishes the Association as a member of Grinnell. Coverage applies to all policy forms and endorsements issued by the Association once they are filed and accepted by Grinnell.

The Association is issued a coverage schedule each calendar year setting the premium rates, individual occurrence retention limit, individual occurrence coverage limits, and aggregate loss attachment point. Under the 2012 coverage schedule, the Association's individual occurrence retention is $125,000. Grinnell is liable for losses in excess of the retention, up to a limit of $1,000,000 for livestock/poultry/horse operations, commercial and public property, farm products storage structures, and dwelling, and up to a limit of $2,000,000 for farm machinery and equipment storage buildings. The 2012 monthly premium rate is $0.0182 of the adjusted gross fire risk in force per $1,000 at the end of each month during the contract year.

Under the 2012 coverage schedule, the Association's aggregate net loss retention is $1,879,570. Grinnell is liable for all aggregate losses in excess of this retention. The 2012 monthly premium rate is $0.0618 of the adjusted gross fire risk in force per $1,000 at the end of each month during the contract year.

Facultative coverage is available for exposures that exceed the individual occurrence limit. The Association does not have any exposures that are applicable.

General

All contracts reviewed contained standard insolvency, arbitration, errors and omissions, and termination clauses where applicable. All contracts contained the clauses necessary to assure reinsurance credits could be taken.

BODY OF REPORT

GROWTH

The following comparative data reflects the growth of the Company during the period covered by this examination:

	2008	2009	2010	2011	2012*
Admitted assets	$3,544,421	$2,843,249	$2,523,197	$2,940,344	$3,441,374
Loss reserves	98,899	30,500	45,000	75,052	64,404
Unearned premiums	928,666	929,789	973,027	1,015,858	1,204,234
Total liabilities	1,122,286	1,059,042	1,123,179	1,196,035	1,413,287
Capital and surplus	2,422,135	1,784,207	1,400,018	1,744,310	2,028,087
Premiums earned	2,028,194	2,041,587	2,060,302	2,096,408	2,153,845
Losses incurred	1,120,092	1,641,992	1,753,255	850,903	961,361
Underwriting gain or (loss)	147,593	(397,208)	(496,609)	371,197	181,405
Investment gain (loss)	90,143	68,317	28,969	(3,962)	17,935
Net income or (loss)	190,236	(307,261)	(467,419)	367,434	199,372

* Examination adjustments to the 2012 reported financials. All adjustments are referenced in the "Examination Changes in the Financial Statements" and the "Commentary on Current Examination Findings"

FINANCIAL STATEMENTS

The following statement of admitted assets and liabilities, together with the accompanying summary of operations, reflects the financial condition of the Association at December 31, 2012 and its transactions during the year 2012 as determined through this examination. A reconciliation of the capital and surplus account for the period under review is also included.

FINANCIAL STATEMENT
December 31, 2012

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$1,459,126		$ 1,459,126
Common stocks	1,154,699		1,154,699
Real estate	23,486		23,486
Cash and short-term investments	488,770		488,770
Subtotal, cash and invested assets	$3,126,081		$ 3,126,081
Investment income due and accrued	9,588		9,588
Uncollected premiums	21,029		21,029
Deferred premiums	244,676		244,676
Current federal income tax recoverable	40,000		40,000
Furniture and equipment	1,004	$1,004	
Totals	$3,442,378	$1,004	$3,344,374

Liabilities, Surplus, and Other Funds

Losses	$ 64,404
Loss adjustment expenses	2,000
Other expenses	5,890
Taxes, licenses and fees	30,735
Unearned premium	1,204,234
Advanced premium	26,911
Ceded reinsurance payable	58,820
Liability premium payable	20,292
Rounding	1
Total liabilities	$1,413,287
Unassigned funds	$2,028,087
Totals	$3,441,374

STATEMENT OF INCOME – 2012

Underwriting Income

Premiums earned	$2,153,845
Losses incurred	$ 961,361
Loss adjustment expenses incurred	178,579
Other underwriting expenses incurred	817,210
Depreciation	15,290
Total underwriting deductions	$1,972,440
Net underwriting gain	$ 181,405

Investment Income

Net investment income earned	$ 17,935

Other Income

Miscellaneous	30
Rounding	$ 2
Total other income	$ 32
Net income	$ 199,372

CAPITAL AND SURPLUS ACCOUNT

	2008	2009	2010	2011	2012
Capital and surplus, beginning	$2,297,140	$2,422,135	$1,784,207	$1,400,018	$1,744,310
Net income (loss)	$ 190,236	$ (307,261)	$ (467,419)	$ 367,434	$ 199,372
Change in net unrealized capital gains or losses	(78,427)	(78,175)	62,207	(44,330)	65,475
Change in non-admitted assets	2,576	(45,677)	21,022	21,188	14,810
Prior year adjustment	10,607				
Current year adjustment					4,120
Adj PY reinsurance recoverable and income tax		(206,814)			
Rounding	3	(1)	1		
Net change for the year	$ 124,995	$ (637,928)	$ (384,189)	$ 344,292	$ 283,777
Capital and surplus, ending	$2,422,135	$1,784,207	$1,400,018	$1,744,310	$2,028,087

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of $2,012,471, as reported in the Association's 2012 Annual Statement, has been increased to $2,028,087 as result of examination adjustments noted below:

	Per Association	Per Examination	Surplus Change
Assets			
Common stocks	1,292,716	1,154,699	(138,017)
Cash and short-term investments	350,753	488,770	138,017
Uncollected premiums in course of collection	223,178	21,029	(202,149)
Deferred premiums		244,676	244,676
Liabilities			
Advance premiums		26,911	(26,911)
Net Increase (Decrease) to Surplus			$ 15,616
Policyholder surplus December 31, 2012, per Association			$2,012,471
Policyholder surplus December 31, 2012, per examination			$2,028,087

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

The recommendations appearing in the previous report of examination are reflected below together with the remedial actions taken by the Company to comply therewith:

Investments - Schedule D Presentation - It is again recommended that the Association properly complete Schedule D, including the NAIC designations, in future annual statements and value its securities accordingly.

Action: The Association has not complied with this recommendation. This recommendation will be repeated under the caption "Commentary on Current Examination Findings" in this report.

Investments - Certificates of Deposit – It is recommended that the Association report all certificates of deposit with maturity dates greater than one year from the acquisition date in Schedule D – Part 1 (Bonds) in future annual statements.

Action: The Association has complied with this recommendation.

Investments - Money Market Fund – It is recommended that the Association disclose its money market fund in Schedule DA – Part 1 (Short-Term Investments) in future annual statements.

Action: The Association has not complied with this recommendation. This recommendation will be repeated under the caption "Commentary on Current Examination Findings" in this report.

Premiums Receivable – It is recommended that the Association report all uncollected premiums in course of collection and deferred premiums net of commission under the appropriate asset caption in future annual statements.

Action: The Association has not complied with this recommendation. This recommendation will be repeated under the caption "Commentary on Current Examination Findings" in this report.

Advance Premiums – It is recommended that the Association report all advance premiums as a liability in future annual statements.

Action: The Association has not complied with this recommendation. This recommendation will be repeated under the caption "Commentary on Current Examination Findings" in this report.

Tax Implications of Examination Changes - It is recommended that the Association review the changes made as a result of this examination, consider the changes before filing its federal income tax and state income tax returns, and amend its premium tax return accordingly.

Action: The Association has not complied with this recommendation. However, recommendation is no longer applicable.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

Conflict of Interest Statements

It was noted that Conflict of Interest statements have not been signed since 2009.

Schedule D Presentation

It was noted that the Association did not utilize the Schedule D format as contained in the annual statement blank, but rather used a schedule of its own design. Amongst other things, this schedule did not show the NAIC designations for the securities. It is again recommended that the Association properly complete Schedule D, including NAIC designations, in future annual statements and value their securities accordingly.

Money Market Fund

The Association included a money market fund in Schedule D – Part 2 – Section 2 (Common Stocks). Statement of Statutory Accounting Principles No. 30, paragraph 3(d) states that, "common stocks are securities which represent a residual ownership in a corporation and shall include shares of mutual funds, except for certain money market funds." Statement of Statutory Accounting Principles No. 2, paragraph 10 states that, "short-term investments include money market instruments." This money market fund possesses the characteristics of a short-term investment and therefore is reclassified from common stocks to short-term investments in this examination report. The balance of this fund at December 31, 2012 was $138,017. It is again

recommended that the Association disclose this money market fund in Schedule DA – Part 1 (Short-Term Investments) in future annual statements.

Uncollected Premiums in Course of Collection

The Association reported an asset balance of $223,178 as of December 31, 2012. This amount included the gross uncollected premiums in course of collection, gross deferred premiums, and advance premiums as an asset. The deferred premiums and advance premiums should not be included under this caption and have been reclassified elsewhere in this examination report. The remaining uncollected premiums in course of collection amounted to $24,596.

Statement of Statutory Accounting Principles No. 6, paragraph 6 states uncollected premiums in course of collection should be reported net of commissions. The commission rate for all policies is 15 percent on policies written prior to 2006, 20 percent on new policies written from 2006 to December, 2011 and 15 percent for all new business written subsequent to December, 2011.

The large majority of the Association's policies have been in place for several years, so, for examination purposes, the 15 percent commission rate was used. The calculated commissions on the deferred premiums, excluding the billing fees and service charges, reduced the uncollected premiums in course of collection balance to $21,029. It is again recommended that the Association report all uncollected premiums in course of collection net of commission and properly report them in future annual statements.

Deferred Premiums

The Association offers its members the option of paying premiums on an annual, semi-annual, or monthly basis. Written premiums are booked only as received, however the unearned premium calculation includes the annualized policy premium less any amount received. The

Association sets up an asset to offset these premiums not yet due. The Association included this amount gross, $285,483, as uncollected premiums in course of collection.

Since this amount is not yet due, it should be reclassified from uncollected premiums in course of collection to deferred premiums in the financial statement of the examination report. Additionally, Statement of Statutory Accounting Principles No. 6, paragraph 6 states this amount should be net of commissions. The commission for all policies is 15 percent on policies written prior to 2006, 20 percent on new policies written from 2006 to December 2011 and 15 percent for all new business written subsequent to December, 2011.

A large majority of the Association's policies have been in place for several years, so, for examination purposes, the 15 percent commission rate was used. The calculated commissions on the deferred premiums, excluding the billing fees and service charges, reduced the deferred premiums balance to $244,676. It is again recommended that the Association report all deferred premiums net of commission under the appropriate asset caption in future annual statements.

Advance Premiums

The Association included premiums remitted by policyholders prior to December 31, 2012 which were due on policies with anniversary dates in 2013 as an uncollected premiums asset. The total of these premiums was $26,911 at December 31, 2012. Statement of Statutory Accounting Principles No. 51, paragraph 25 states that, "advance premiums are those premiums that have been received by the reporting entity prior to the valuation date but which are due on or after the next policy anniversary date. The total amount of such advance premiums is reported as a liability in the statutory financial statements." This amount has been reclassified to the advance premium liability in the financial statement of this examination report. It is recommended that the Association report all advance premiums as a liability in future annual statements.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

The following comments and recommendations have been made as a result of this examination:

Conflict of Interest Statements – It is recommended that the company has conflict of interest statements signed annually.

Schedule D Presentation - It is again recommended that the Association properly complete Schedule D, including the NAIC designations, in future annual statements and value its securities accordingly.

Money Market Fund – It is again recommended that the Association disclose its money market fund in Schedule DA – Part 1 (Short-Term Investments) in future annual statements.

Uncollected Premiums in Course of Collection – It is again recommended that the Association report all uncollected premiums in course of collection net of commission under the appropriate asset caption in future annual statements.

Deferred Premium – It is recommended that the Association report all deferred premiums net of commission under the appropriate asset caption in future annual statements

Advance Premiums – It is again recommended that the Association report all advanced premiums as a liability in future annual statements.

ACKNOWLEDGEMENT

The courteous cooperation extended by the Officers and employees of the Association during this examination is hereby acknowledged.

Respectfully submitted,

Skyler Lawyer, CFE
Examiner-in-Charge
Department of Insurance
State of Nebraska

State of Nebraska,

County of Lancaster,

Skyler Lawyer, being duly sworn, states as follows:

1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of German Mutual Insurance Association.

2. The Department of Insurance of the State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.

3. I have reviewed the examination work papers and examination report, and the examination of ___ German Mutual Insurance Association ___ was performed in a manner consistent with the standards and procedures required by the Department of Insurance of the State of Nebraska.

The affiant says nothing further.

Examiner-in-Charge's Signature

Subscribed and sworn before me by Skyler Lawyer on this 27 day of Feb, 2014.

GENERAL NOTARY - State of Nebraska
TERRI A. KELLER
My Comm. Exp. Dec. 24, 2017

(SEAL)

Notary Public

My commission expires Dec 24, 2017 [date].

GENERAL NOTARY - State of Nebraska
TERRI A. KELLER
My Comm. Exp. Dec. 24, 2017