

# 2011 Policyholder Report



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## To Our Valued Policyholder

By virtually all measures, 2011 will be remembered as one of the most challenging years our industry has endured. Record natural and weather-related catastrophic events resulted in our industry's largest underwriting loss since 2002. Frankenmuth Insurance experienced its own record-setting year for catastrophic claims, incurring \$32 million in storm losses, double the amount from 2010 and triple our ten year annual average. Our perspective, shared by the industry, is that increasing weather-related catastrophes are becoming expected occurrences and should be reflected in company pricing models.

In addition to the storm losses, we experienced a significant increase in injury claims on Michigan Personal Auto policies. These losses are driven by a no-fault system which provides mandatory unlimited, lifetime medical benefits that have led to inflated charges, fraud and overuse. Michigan's no-fault system in its current form is unsustainable, and we are one of many companies supporting proposed reform efforts. Workers' Compensation losses also increased significantly in 2011. Many injured workers discovered they no longer had jobs to return to which resulted in increased wage loss claims.

The rise in storm losses and injury claims, coupled with a struggling economy and low interest rate environment, requires a heightened focus on operating profitability. To that end, we are committed to maintaining a disciplined approach to sound underwriting, adequate pricing and managed premium growth.

Strategic geographic expansion initiatives, increased agency representation and product price firming contributed to our premium growth of 10.4%. In spite of the struggling economy, some business sectors showed signs of recovery with increasing payrolls and sales, which also added to our overall premium growth.

In 2011, Frankenmuth Insurance's total admitted assets increased 3.7% to \$1.1 billion, and policyholders' contingency reserve funds totaled \$356 million. These funds provide strength and assurance allowing us to meet our ongoing commitment to policyholders. Our strong financial position supported the reaffirmation of our A.M. Best rating of "A" (Excellent). Weiss Ratings also ranked us with their highest rating of an "A" or "Excellent."

Conservatively managing our business and our strong agency relationships are the reason we've successfully weathered the storms and market conditions without compromising service to you, our policyholder. Just as it has been since 1868, our pledge is to remain financially strong, stable, and secure - to be there when you need us should the unexpected occur.

After introducing Life Insurance in 2010 through our subsidiary, Patriot Life Insurance Company, we expanded its availability in 2011 by introducing a Preferred option with competitively priced coverage up to \$1 million. Agency partners have enthusiastically supported this additional opportunity to provide financial security to policyholders with affordable life insurance protection.

We are also pleased to announce Frankenmuth Insurance was ranked #1 for Ease of Doing Business in an annual survey among 8,000 independent insurance agents conducted by Deep Customer Connections. This honor recognizes our commitment to ensure your insurance experience with our independent agent partners is positive and trouble-free.

## Commitment to Policyholders

Protecting you, our policyholder, is our greatest responsibility and highest priority. To assure your trust and confidence, Frankenmuth Insurance adheres to the fundamental principles of honesty, integrity, unsurpassed customer service and conservative business practices. We are committed to living these values so we may continue doing what we have since our founding - obtain a fair premium while providing security and peace of mind. Together with your local professional independent agent, we stand ready to assist and protect you in the event of a disaster.



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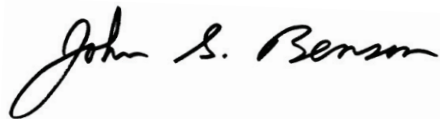
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# Recognition & Appreciation

Challenging times call for unshakeable commitment, focused effort and unwavering determination. Throughout our organization, we welcome the challenge and embrace the opportunity. “With you all the way” is more than just our company slogan; it is our professional philosophy – fulfilled in every encounter, taken on by every Frankenmuth Insurance employee.

Reflecting on our accomplishments and results, I wish to express my sincere appreciation to our independent agency partners and employees for their teamwork, cooperation, and commitment.

Thank you, our policyholder, for your loyalty and trust in Frankenmuth Insurance.



John S. Benson  
Chairman, President and Chief Executive Officer

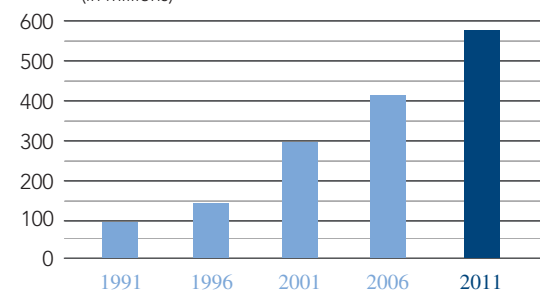
# Financial Results for 2011

Combined Financial Statement (in thousands)

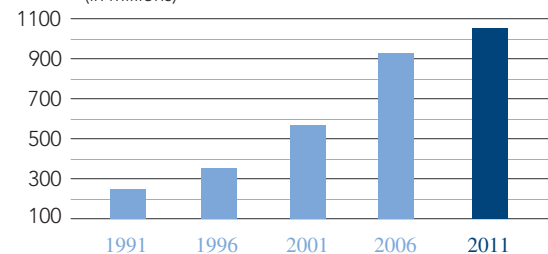
ASSETS	2011	2010
Fixed-Income Securities	\$738,986	\$708,241
Equity Securities	52,617	72,928
Real Estate	34,074	35,309
Cash and Short Term Investments	<u>27,551</u>	<u>26,887</u>
Total Cash and Investments	853,228	843,365
Premium Receivable	164,966	153,764
Deferred Federal Income Tax	26,483	19,926
Other Assets	23,870	13,377
<b>TOTAL ADMITTED ASSETS</b>	<b>\$1,068,547</b>	<b>\$1,030,432</b>
LIABILITIES		
Claim Reserves	\$387,564	\$335,738
Unearned Premium Reserves	248,854	234,529
Other Liabilities	76,130	76,843
<b>TOTAL LIABILITIES</b>	<b>\$712,548</b>	<b>\$647,110</b>
Policyholders' Contingency Reserve Fund*	\$355,999	\$383,322
<b>TOTAL</b>	<b>\$1,068,547</b>	<b>\$1,030,432</b>

\* Excess of assets over obligations. This fund is set aside to allow us to pay catastrophic claims without affecting normal operations.

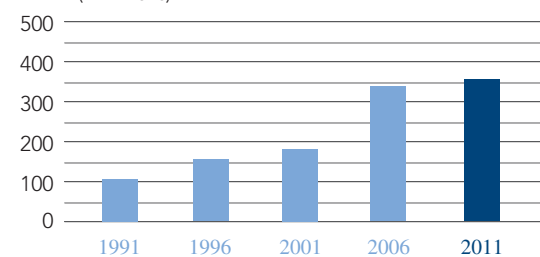
Direct Written Premium (in millions)



Admitted Assets (in millions)



Policyholders' Contingency Reserve Fund (in millions)



With you all the way.™

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1920s



1940s



1960s - 1970s



Present Day

## History & Ratings

Frankenmuth Insurance, a Michigan-domiciled company, was founded in 1868 on the tradition of neighbor helping neighbor to provide property and casualty insurance. Over the past 144 years, we have helped our policyholders recover from losses caused by storms, accidents, and other perils.

Our organization includes our lead company - Frankenmuth Mutual Insurance Company; three Michigan-domiciled property and casualty insurance subsidiaries: Ansur America Insurance Company, ASure Worldwide Insurance Company and Fortuity Insurance Company; a Maine-domiciled property and casualty insurance subsidiary: Patriot Insurance Company; and a Michigan-domiciled life insurance company: Patriot Life Insurance Company.

Throughout our history, reliable coverage, excellent claim service, and financial strength have been traditions we strive to uphold. As a result, we have consistently maintained high industry ratings.

Frankenmuth Insurance and its property and casualty insurance subsidiaries are rated "A" (Excellent) by A.M. Best. This rating reflects our strength in relation to the overall insurance industry. A.M. Best, when assigning ratings, considers such vital areas as: (1) competent underwriting, (2) control of expenses, (3) adequate resources and (4) sound investments.

Additionally, Weiss Ratings recognizes Frankenmuth Insurance as "strong" in capitalization and reserve adequacy. Frankenmuth is included in an elite group of insurers with an "A" rating - less than 1 percent of all insurance companies evaluated by Weiss Ratings receive a rating of "A" or better.

As our policyholder, you have the security of knowing you are insured by a financially sound, well-managed organization whose guiding principle is to be with you all the way.

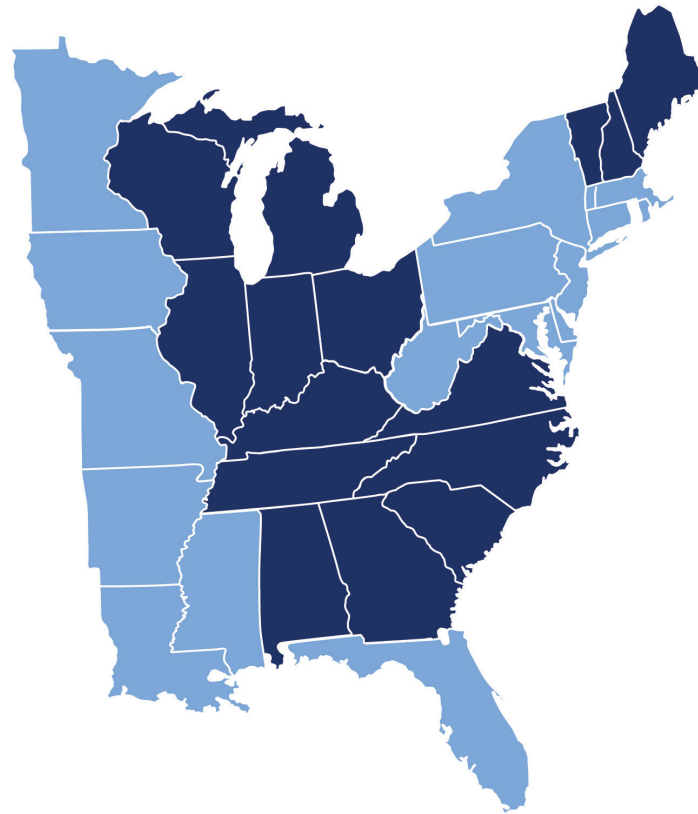
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# Regional Coverage

Frankenmuth Insurance is currently licensed in 47 states and writing business in the following 15 states:

- Alabama
- Connecticut
- Georgia
- Illinois
- Indiana
- Kentucky
- Maine
- Michigan
- New Hampshire
- North Carolina
- Ohio
- South Carolina
- Tennessee
- Virginia
- Wisconsin



# Officers & Directors

## Officers

John S. Benson - Chairman, President & Chief Executive Officer

David F. Honold - Sr. Vice President

James E. Wilds, CPCU, SCLA, ARM, CIC - Sr. Vice President

Brian S. McLeod, AIAF - Vice President, Treasurer & Secretary

Frederick A. Edmond Jr., CPCU, CIC - Vice President

Bryan L. Gilleland, SPHR - Vice President

Philip J. McCain, MSTP - Vice President

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