2012 Policyholder Report

Through outstanding customer service and adhering to our core values, we continue to deliver on promises to policyholders.

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To Our Valued Policyholder:

John S. Benson
Chairman, President and Chief Executive Officer

I am very pleased to report 2012 was a successful year for Frankenmuth Insurance. We achieved profitable results through a combination of managed premium growth, conservative underwriting and solid investment strategies.

A Successful Year - Achieving Our Goals

For the first time in a number of years, we earned a profit on our Personal Lines book of business. Challenges remain, however, particularly with the No-Fault Auto system in our home state of Michigan. We continue to support necessary reform efforts to help our industry reduce costs, making automobile insurance premiums more affordable for all Michigan residents.

Weather-related catastrophic events generated $16 million in claims, half the record-breaking total we experienced in 2011. Even so, the losses were well above our 10-year annual average of $11 million.
We believe the upward trend in the number and severity of such events will persist and, together with the prolonged low interest rate environment and struggling global economies, continue to exert pressure on the pricing of our products.

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In 2012, we celebrated the five-year anniversary of our merger with Patriot Insurance Company, headquartered in Maine. Patriot continues to deliver profitable results to our organization while offering important geographic diversification. With the completion of a three-year systems integration project, Patriot has elevated its service to agents and policyholders alike.

Our life insurance subsidiary Patriot Life continues to gain momentum. We are encouraged to see more and more agencies embracing Patriot Life as they strive to protect your full range of insurance needs, reinforcing our mission of providing financial security to policyholders through insurance services.

Operating Performance

Conservatively managing our business and building on our strong agency relationships is how we've successfully weathered storms and market conditions without compromising service to our policyholders. 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.

In 2012, we increased our admitted assets by 6.0%, to $1.13 billion. We added nearly $34 million to our policyholders' contingency reserve fund, representing an increase of 9.5% and now totaling $390 million. Contingency reserves provide strength and assurance, allowing us to meet our ongoing commitment to you, our policyholder. Direct written premiums totaled $571 million which included $58 million of new written premium. Our strong financial position supported the reaffirmation of our A.M. Best rating of "A" (Excellent). Weiss Ratings also awarded us its highest rating of an "A" or "Excellent."

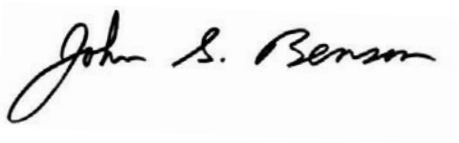
Commitment to Policyholders

Protecting you 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 prudent business practices. We are committed to living these values so we may continue to do what we have since our founding – providing security and peace of mind at affordable rates. Together with your local professional independent agent, we stand ready to assist and protect you in the event of a disaster.

Recognition & Appreciation

"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. We welcome the challenge and embrace the opportunity.

Reflecting on our accomplishments and results – on behalf of our Board of Directors and management team, I wish to express sincere appreciation to our employees and independent agency partners for their dedication, teamwork, and commitment to excellence.



John S. Benson
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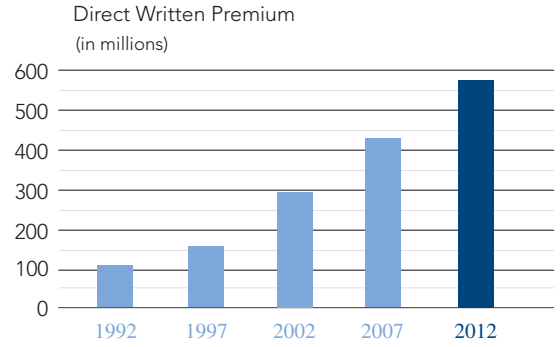
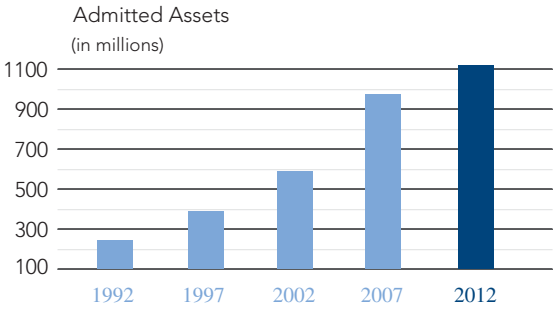
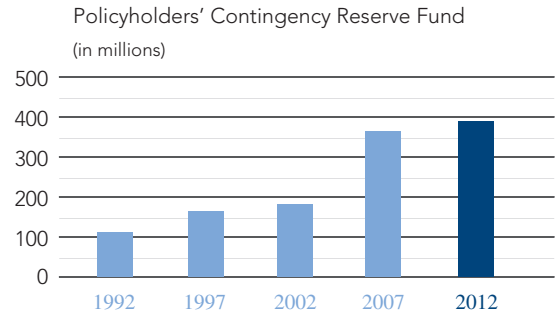
Combined Financial Statement for 2012

Combined Financial Statement	(in thousands)	
ASSETS	**2012**	**2011**
Fixed-Income Securities	$774,642	$738,986
Equity Securities	63,971	52,617
Real Estate	32,687	34,074
Cash and Short Term Investments	41,164	27,551
Total Cash and Investments	912,464	853,228
Premium Receivable	171,914	164,966
Deferred Federal Income Tax	30,749	26,483
Other Assets	17,397	23,870
TOTAL ADMITTED ASSETS	**$1,132,524**	**$1,068,547**
LIABILITIES	**2012**	**2011**
Claim Reserves	$404,331	$387,564
Unearned Premium Reserves	244,846	248,854
Other Liabilities	93,526	76,130
TOTAL LIABILITIES	**$742,703**	**$712,548**
Policyholders' Contingency Reserve Fund*	$389,821	$355,999
TOTAL	**$1,132,524**	**$1,068,547**

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







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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 145 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 5 percent of all insurance companies evaluated by Weiss Ratings receive a rating of "A."

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

We are licensed and currently writing business in the following states:

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

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Officers & Directors

Officers

John S. Benson - Chairman, President & Chief Executive Officer
David F. Honold - Senior Vice President
Brian S. McLeod, AIAF - Vice President, Treasurer & Secretary
Frederick A. Edmond Jr., CPCU, CIC - Senior Vice President
Bryan L. Gilleland, SPHR - Vice President
Andrew H. Knudsen - Vice President
Philip J. McCain, MSTP - Vice President
Randall S. Trinklein - Vice President

Directors

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Frederick A. Edmond Jr., CPCU, CIC
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David R. Johnston
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