Report

of the

Examination of

Stockholm Town Mutual Insurance Company

Stockholm, Wisconsin

As of December 31, 2011

TABLE OF CONTENTS

Page

State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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August 31, 2012

Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, an examination has been performed as of December 31, 2011, of the affairs and financial condition of:

STOCKHOLM TOWN MUTUAL INSURANCE COMPANY
Stockholm, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of Stockholm Town Mutual Insurance Company (the company) was made in 2007 as of December 31, 2006. The current examination covered the intervening time period ending December 31, 2011, and included a review of such subsequent transactions deemed essential to complete this examination.

The "Summary of Examination Results" contains elaboration on all areas of the company's operations. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

In addition to auditing, the public accounting firm performs non-auditing services for the company, including assisting with complex transactions such as accounting for income taxes, and the compilation of the annual statement. On December 13, 2010, an exemption was granted, pursuant to s. Ins 50.08 (5), Wis. Adm. Code, permitting the independent auditor to perform this non-audit work for the company.

The company was organized as a town mutual insurance company on March 23, 1872, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Stockholm Town Insurance Company. Subsequent amendments to the company's articles and bylaws changed the company's name to that presently used.

During the period under examination, there were no amendments to the articles of incorporation and no amendments to the bylaws.

The company is currently licensed to write property, including windstorm and hail, and nonproperty insurance. The company is currently licensed to write business in the following counties:

Dunn	Pepin
Pierce	St. Croix

A review was made of the policy and application forms currently used by the company. The company issues approved policies with or without endorsements for terms of three years with premiums payable on the advance premium basis. The company does not charge any other fees to policyholders.

Business of the company is acquired through two agents, all of whom are directors of the company. Agents are presently compensated for their services as follows:

Type of Policy	**Compensation**		
	New	**Renewal**	**Nonrenewal**
Homeowner’s	15%	15%	10%
Liability	15%	15%	10%
Other policy premiums	15%	10%	

Agents have authority to adjust losses up to $10,000. Losses in excess of this amount are adjusted by the Adjusting Committee. Adjusters receive $15 per hour for each loss adjusted plus $0.555 per mile for travel allowance.

Policyholders may participate in the management and control of the company by attending and voting at all annual or special meetings of the members. No member may vote by proxy. The election of directors is performed during the annual meeting in accordance with their articles of incorporation.

Board of Directors

The board of directors consists of nine members divided into three classes. One class is elected at each annual meeting for a term of three years. Vacancies on the board may be filled by the directors for the interim to the next annual meeting when a director shall be chosen for the unexpired term.

The current board of directors consists of the following policyholders of the company:

Name	Principal Occupation	Residence	Expiry
Ronald Gray	Retired Teacher/Farmer	Red Wing, MN	2013
John Krings	Retired Farmer	Arkansaw, WI	2014
Kurt Henn	Pharmacist	Maiden Rock, WI	2015
Lalia Martin	Bookkeeper	Maiden Rock, WI	2013
Leland Skog*	Retired Farmer/Insurance Agent	Bay City, WI	2013
Brian Rundquist	Farmer	Pepin, WI	2015
Doug Weber	Farmer	Stockholm, WI	2015
James Dettling	Retired/Farmer	Plum City, WI	2014
Soren Svedvik*	Insurance Agent	Stockholm, WI	2014

Directors who are also agents are identified with an asterisk.

Members of the board currently receive $50 for each meeting attended and $0.555 per mile for travel expenses.

Section 612.13 (1m), Wis. Stat., requires:

(1) If a town mutual has fewer than nine directors, no more than one director may be an employee or representative of the town mutual; and

(2) Employees and representatives of a town mutual may not constitute a majority of its board.

The company is in compliance with these requirements.

Officers

Officers are elected by the board of directors from among its members and hold office for one year or until their successors are duly elected and qualified. Officers serving at the present time are as follows:

Name	Office	2011 Compensation
Ronald Gray	President	$ 7,355
John Krings	Vice-President	1,970
Kurt Henn	Secretary	450
Lalia Martin	Treasurer	19,014
Kathy Lewis	Manager	28,747

Reported compensation is the total compensation paid by the insurer for the year and includes salary, mileage, commissions, director fees and rental income as applicable.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Adjusting/Underwriting Committee
Brian Rundquist, Chair
John Krings
Jim Dettling
Doug Weber

Computer Software Committee
Kathy Lewis, Chair
Kurt Henn
Lalia Martin
Soren Svedvik

Investment/Finance Committee
Lalia Martin, Chair
John Krings
Brian Rundquist

Salary Review Committee
Kurt Henn, Chair
Brian Rundquist
Doug Weber

Nominating Committee
Ron Gray, Chair
Lee Skog
Soren Svedvik

Inspections Committee
Lee Skog, Chair
Soren Svedvik
Doug Weber

New Policy Forms Committee
Kathy Lewis, Chair
Lee Skog
Soren Svedvik

Claims Procedures Committee
John Krings, Chair
Lee Skog
Soren Svedvik

Rates/Coverage Offering Committee
Soren Svedvik, Chair
John Krings
Lee Skog

Auto Insurance Committee
Soren Svedvik, Chair
Jim Dettling
Kurt Henn

Bank Reconciliation Committee
Lalia Martin, Chair
John Krings

Growth of Company

The growth of the company since the previous examination as compiled from its filed annual statements was as follows:

Year	Net Premiums Earned	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
2011	$264,014	723	$100,861	$2,979,116	$2,727,431
2010	277,804	739	78,245	2,930,520	2,635,871
2009	292,880	794	237,358	2,800,848	2,524,609
2008	302,851	836	179,868	2,565,812	2,289,686
2007	253,449	876	147,609	2,436,456	2,163,075
2006	254,937	879	205,854	2,259,167	2,007,016

The ratios of gross and net premiums written to surplus as regards policyholders since the previous examination were as follows:

Year	Gross Premiums Written	Net Premiums Written	Policyholders' Surplus	Writings Ratios	
				Net	Gross
2011	$483,127	$265,634	$2,727,431	10%	18%
2010	487,880	260,195	2,635,871	10	19
2009	496,643	294,189	2,524,609	12	20
2008	505,582	313,950	2,289,686	14	22
2007	514,708	292,908	2,163,075	14	24
2006	483,840	234,350	2,007,016	12	24

For the same period, the company's operating ratios were as follows:

Year	Net Losses and LAE Incurred	Other Underwriting Expenses Incurred	Net Premiums Earned	Loss Ratio	Expense Ratio	Com-posite Ratio
2011	$80,338	$119,746	$264,014	30%	45%	76%
2010	158,399	93,153	277,804	57	36	93
2009	55,262	66,164	292,880	19	22	41
2008	129,370	60,651	302,851	43	19	62
2007	114,962	64,216	253,449	45	22	67
2006	61,390	57,730	254,937	24	25	49

During the five-year period under examination, admitted assets increased 32% to $2,979,116 and surplus increased by 35% to $2,727,431 due to continued profitability. Net premium written increased by 13% while the number of policies in force decreased by 18% during the five-year period. The company had an underwriting gain and net income in each of the previous five years. The expense ratio increased from 25% in 2006 to 45% in 2011 due to the renovation of the company's building, additional office hours and the implementation of a computer system.

II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there is currently one ceding treaty. The treaty contained a proper insolvency clause and complied with s. Ins 13.09 (3), Wis. Adm. Code, concerning maximum wind loss. Company retentions of risk complied with s. Ins 13.06, Wis. Adm. Code.

Reinsurer:	Wisconsin Reinsurance Corporation
Effective date:	January 1, 2012, continuous
Termination provisions:	January 1, 2013, or any subsequent January 1, by either party giving at least 90 days' advance written notice.

The coverages provided under this treaty are summarized as follows:

1.	Type of contract:	Class A Casualty Excess of Loss
	Lines reinsured:	All casualty or liability business written
	Company's retention:	$5,000
	Coverage:	100% of loss in excess of $5,000 each and every loss occurrence subject to the following limits: a. $1,000,000 per occurrence, single limit, combined for bodily injury and property damage liability b. $1,000,000 split limits, in any combination of bodily injury and property damage liability c. $25,000 for medical payments, per person; $25,000 per accident
	Reinsurance premium:	57.50% of written liability premium
	Ceding commission:	None

2.	Type of contract:	Class B – First Surplus
	Lines reinsured:	All property business written
	Company's retention:	$250,000
	Coverage:	$250,000 or less in respect to a risk; on a pro rata basis up to 50% of such risk Over $250,000 in respect to a risk; on a pro rata basis up to $800,000 Pro rata portion of every loss, including loss adjustment expense corresponding to the amount of risk ceded
	Reinsurance premium:	Pro rata portion of all premiums corresponding to the amount of each risk ceded
	Ceding commission:	Commission allowance = 15% of the premium paid Profit commission = 15% of the net profit
3.	Type of contract:	Class C-1 – Excess of Loss First Layer
	Lines reinsured:	All property business
	Company's retention:	$35,000
	Coverage:	100% of any loss in excess of retention up to $70,000, including loss adjustment expense
	Reinsurance premium:	Sum of the preceding four years' losses incurred (paid plus outstanding) by the reinsurer, divided by the total of the net premium written for the same period, multiplied by 125% Current rate = 10.98% Minimum rate = 7.00% Maximum rate = 21.75% Annual deposit premium = $32,787
	Ceding commission:	None
4.	Type of contract:	Class C-2 – Excess of Loss Second Layer
	Lines reinsured:	All property business
	Company's retention:	$105,000
	Coverage:	100% of any loss, including LAE, in excess of $105,000 per risk, subject to a limit of $145,000 in respect to one loss occurrence
	Reinsurance premium:	4.00% of property net premium written, with an annual deposit premium of $11,944
	Ceding commission:	None

5.	Type of contract:	Class D/E – First Aggregate Excess of Loss
	Lines reinsured:	All business written
	Company's retention:	80% of net premium written
	Coverage:	100% of annual aggregate net loss in excess of retention up to 75% of net premium written
	Reinsurance premium:	Minimum rate = 6.0% Maximum rate = 20.0% Rate for the current annual period is 6.00%
	Ceding commission:	None
6.	Type of contract:	Class D/E – Second Aggregate Excess of Loss
	Lines reinsured:	All business written
	Company's retention:	155% of net premium written
	Coverage:	100% of annual aggregate net loss in excess of retention
	Reinsurance premium:	Rate for the current annual period is 2.00%
	Ceding commission:	None

III. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2011, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Policyholders' Surplus."

Stockholm Town Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 2011

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash in checking	$ 108,319	$	$	$ 108,319
Cash deposited at interest	1,543,789			1,543,789
Bonds	202,152			202,152
Stocks and mutual fund investments	999,509			999,509
Real estate	19,625			19,625
Premiums, agents' balances and installments:				
In course of collection	1,773			1,773
Deferred and not yet due	84,710			84,710
Investment income accrued		12,059		12,059
Fire dues recoverable	123			123
Other expense-related assets:				
Reinsurance commission receivable	4,503			4,503
Other nonexpense-related assets:				
Federal income tax recoverable	2,554			2,554
Totals	$2,967,057	$12,059	$0	$2,979,116

Liabilities and Surplus

Net unpaid losses	$ 14,842
Unpaid loss adjustment expenses	60
Commissions payable	3,846
Unearned premiums	189,066
Reinsurance payable	37,422
Amounts withheld for the account of others	1,119
Payroll taxes payable (employer’s portion)	2,136
Other liabilities:	
Expense-related:	
Accrued property tax	2,106
Accrued wages	1,088
Total liabilities	251,685
Policyholders' surplus	2,727,431
Total Liabilities and Surplus	$2,979,116

Stockholm Town Mutual Insurance Company
Statement of Operations
For the Year 2011

Net premiums and assessments earned		$264,014
Deduct:		
Net losses incurred	$ 62,789	
Net loss adjustment expenses incurred	17,549	
Net other underwriting expenses incurred	119,746	
Total losses and expenses incurred		200,084
Net underwriting gain (loss)		63,930
Net investment income:		
Net investment income earned	41,137	
Net realized capital gains (losses)	2,132	
Total investment gain (loss)		43,269
Other income (expense):		3,732
Net income (loss) before federal income taxes		110,931
Federal income taxes incurred		10,070
Net Income (Loss)		$100,861

Stockholm Town Mutual Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Five-Year Period Ending December 31, 2011

The following schedule is a reconciliation of surplus as regards policyholders during the period under examination as reported by the company in its filed annual statements:

	2011	**2010**	**2009**	**2008**	**2007**
Surplus, beginning of year	$2,635,871	$2,524,609	$2,289,686	$2,163,075	$2,007,016
Net income	100,861	78,245	237,358	179,868	147,609
Net unrealized capital gain or (loss)	(9,301)	33,017	(2,435)	(53,257)	8,450
Surplus, End of Year	$2,727,431	$2,635,871	$2,524,609	$2,289,686	$2,163,075

Reconciliation of Policyholders' Surplus

The examination resulted in no adjustments to policyholders' surplus. The amount reported by the company as of December 31, 2011, is accepted.

IV. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

Comments and recommendations contained in the last examination report and the action taken on them by the company are as follows:

1. Board of Directors—It is recommended that the company decrease its number of agent directors to four or fewer or add independent directors to the board in order to comply with s. 612.13 (1m), Wis. Stat.

   Action—Compliance.

2. Corporate Records—It is recommended that the company document the number of policyholders present at each annual meeting so that it may be determined that a quorum was present.

   Action—Compliance.

3. Net Unpaid Losses—It is recommended that the company assign a claim number and record each claim in the loss register when reported, pursuant to s. Ins 13.05 (4) (e), Wis. Adm. Code.

   Action—Compliance.

4. Net Unpaid Losses—It is recommended that all claims be entered into the loss register in the year they are reported, pursuant to s. Ins 13.05 (4) (e), Wis. Adm. Code.

   Action—Compliance.

5. Net Unpaid Losses—It is recommended that the company record a closing date for all claims, pursuant to s. Ins 13.05 (3) (f), Wis. Adm. Code.

   Action—Compliance.

6. Net Unpaid Losses—It is suggested that the company use a unique claim number system that will allow claims to be differentiated by year.

   Action—Compliance.

Current Examination Results

Corporate Records

The minutes of the annual meetings of policyholders and meetings of the board of directors and committees thereof were reviewed for the period under examination and also for the subsequent period. During the review of the company's minutes the examination disclosed that at a quarterly meeting on January 17, 2011, the board voted to change the articles of incorporation in order to change the annual meeting date to the last Tuesday in February, which was when the 2012 Annual Meeting was held; however, the articles of incorporation were never amended to reflect the change. Subsequent to the examination the company passed a motion at a board meeting on November 20, 2012, to rescind the prior decision and not amend the articles of incorporation. Any amendments of the articles must be approved by the company's policyholders by voting on the proposed amendment in accordance with s. 612.12 (1), Wis. Stat. It is recommended that any future amendments to the articles of incorporation be approved by the company's policyholders in accordance with s. 612.12 (1), Wis. Stat.

Biographical data relating to company officers and directors have been reported in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

The company has executed formal written agreements with its agents. The contracts include language indicating the agent will represent the company's interests "in good faith."

Upon review of the company's 2011 annual statement, the examination disclosed that the company failed to provide the annual salary for the officers of the company as directed by the Town Mutual Annual Statement Instructions and pursuant to s. 611.63 (4), Wis. Stat., which states "The amount of all direct and indirect remuneration for services, including retirement and other deferred compensation benefits and stock options, paid or accrued each year for the benefit of each director and each officer and employee whose remuneration exceeds an amount established by the commissioner, and for all directors and officers as a group shall be included in the annual report made to the commissioner." It is recommended that the company provide the annual salary information for the company's officers on the jurat page of the annual statement in accordance with the Town Mutual Annual Statement Instructions and s. 611.63 (4), Wis. Stat.

Conflict of Interest

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employees which conflicts or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The company has adopted such a procedure for disclosing potential conflicts of interest. Conflict of interest questionnaires were reviewed for the period under examination with no apparent conflicts being noted.

Fidelity Bond and Other Insurance

The company is afforded coverage under the terms of the following bonds or contracts and has complied with s. Ins 13.05 (6), Wis. Adm. Code, which sets forth the minimum requirements for fidelity bond coverage:

Type of Coverage	**Coverage Limits**
Fidelity bond	$ 250,000
Worker's compensation:	
Employee injury	Statutory
Employee liability:	
Each accident	100,000
Each employee	100,000
Policy limit	500,000
Commercial building coverage	90,000
Combined professional and D&O liability	2,000,000
General liability	1,000,000
Insurance agents and brokers liability	1,000,000

Underwriting

The company has a written underwriting guide. The guide covers all the lines of business that the company is presently writing.

The company has a formal inspection procedure for both new and renewal business. All new applications and renewal business are inspected by committee members who are independent of the risk under consideration and review.

Claims Adjusting

The company has an adjusting committee consisting of at least three directors as required by s. 612.13 (4), Wis. Stat. The function of this committee is to adjust or supervise the adjustment of losses.

Accounts and Records

The examiners' review of the company's records indicated that the company is in compliance with s. Ins 13.05, Wis. Adm. Code, which sets forth the minimum standards for the handling of cash and recording of cash transactions by town mutual insurance companies. The examiners noted the following:

1. A proper policy register is maintained.
2. A proper cash receipts journal is maintained.
3. A proper cash disbursements journal is maintained.
4. A proper general journal is maintained.
5. A proper general ledger is maintained.

An extensive review was made of income and disbursement items. Cash receipts were traced from source records and the proper recording and eventual deposit thereof ascertained. Cash deposits are made several times per month but not necessarily once per week. The cash receipts were deemed reliable, although cash deposits were not consistent. It is recommended that the company make at least one deposit per week as required by s. Ins 13.05 (4) (a), Wis. Adm. Code. Negotiated checks issued during the period under examination were reviewed, test checked for proper endorsement, and traced to cash records. The verification of assets and determination of liabilities were made as of December 31, 2011.

The company is audited annually by an outside public accounting firm.

EDP Environment

Company personnel were interviewed with respect to the company's electronic data processing environment. During the period under examination the company only used the computer to access its e-mail account.

Business Continuity Plan

A business continuity plan identifies steps to be performed by a company in the event of business interruptions including, but not limited to, the inability to access its computer, the loss of a key employee, or the destruction of its office building. The company has developed a business continuity plan. The company's business continuity plan appears to be adequate.

Investment Rule Compliance

The investment rule for town mutual insurers allows a company to invest in common stocks, common stock mutual funds, and other higher risk investments (referred to as "Type 2") provided that the town mutual has a sufficient amount of lower risk investments (referred to as "Type 1"). A town mutual may invest in Type 2 securities only if it already has sufficient Type 1 investments. Type 1 investments must equal or exceed the greater of items 1, 2, or 3.

1.	Liabilities plus $300,000	$ 551,685
2.	Liabilities plus 33% of gross premiums written	411,117
3.	Liabilities plus 50% of net premiums written	384,502
4.	Amount required (greater of 1, 2, or 3)	551,685
5.	Amount of Type 1 investments as of 12/31/2011	2,166,322
6.	Excess or (deficiency)	$1,614,637

The company has sufficient Type 1 investments.

ASSETS

Cash and Invested Cash **$1,652,108**

The above asset is comprised of the following types of cash items:

Cash deposited in banks—checking accounts	$ 108,319
Cash deposited in banks at interest	1,543,789
Total	$1,652,108

Cash deposited in banks subject to the company's check and withdrawal consists of one account maintained in a local bank. Verification of checking account balances was made by obtaining confirmations directly from the depository and reconciling the amounts shown thereon to company records.

Cash deposited in banks represents the aggregate of 44 deposits in 19 depositories. Deposits were verified by direct correspondence with the respective depositories and by an actual count and inspection of certificates and/or passbooks. Interest received during the year 2011 totaled $59,508 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 0.200% to 4.877%. Accrued interest on cash deposits totaled $6,330 at year-end.

Book Value of Bonds **$202,152**

The above asset consists of the aggregate book value of bonds held by the company as of December 31, 2011. Bonds owned by the company are held in an account through Fidelity Investments.

Bonds were traced from the Cubic Financial Advisors, LLC (Cubic) investment statement to a direct confirmation from the Waukesha State Bank to the annual statement. Bond prospectuses for many, though not all, of the company’s bonds were inspected by the examiners. Further discussion of custodian issues is included in the section of this report titled “Invested Assets.” Bond purchases and sales for the period under examination were checked to investment advisor and custodial statements.

In April 2011 the company hired Cubic as its investment advisor and rapidly expanded its bond portfolio. The company’s investment contracts were reviewed as part of the examination. It was determined that the company contracted with Waukesha State Bank as a custodian, who in turn contracted with AMS Advisors, LLC, as an investment advisor on behalf of the company. The AMS Advisors, LLC, contract was taken over by Peregrine Diversified Investment Services, Corp. effective May 1, 2011. According to Cubic, Waukesha State Bank hired Fidelity Investments as a sub-custodian for the company's assets, and Cubic is an investment advisory representative for Peregrine Diversified Investment Services Corp. As discussed later in the report, the examination was not provided with a copy of any agreements between Waukesha State Bank and Fidelity Investments.

Under the new investment advisor, the company began to invest in a number of securities issued by banks and other financial corporations, which were designed and packaged as debt securities, but with floating rates that appeared to aid the issuer in hedging its own risks or those of clients. In these cases the floating rates cause the cash flows of the securities to be unpredictable because the interest payments are based on specified variables such as market or consumer indexes, rates, or other variables. The floating rates can be subject to wide fluctuation based on changing economic conditions or other circumstances.

The volume of floating rate corporate bonds issued in the United States fluctuates from year to year. From 1996 to 2012, the percentage of corporate bonds that have been issued on a floating rate basis has ranged from 4.8% to 48.9% of corporate bond issuance, with the average for the period amounting to 25% of corporate bond issuance. The following table was drawn from data made available to the public from the Web site of the Securities Industry and Financial Markets Association, with the source attributed to Thomson Reuters.

U.S. Corporate Bond Issuance* 1996 – 2012
Callable and Non-Callable by Coupon Type
(Billions in U.S. Dollars)

	Callable		Non-Callable		Total %
	Fixed Rate	**Floating Rate**	**Fixed Rate**	**Floating Rate**	**Floating Rate**
1996	$ 79.1	$ 4.3	$ 200.3	$ 60.0	18.7%
1997	131.4	5.9	232.9	95.9	21.8
1998	240.5	7.8	228.0	134.4	23.3
1999	211.8	5.0	248.8	163.7	26.8
2000	196.6	16.1	166.1	208.6	38.3
2001	400.3	7.5	232.7	135.5	18.4
2002	283.4	2.7	187.8	162.8	26.0
2003	360.4	23.1	177.4	215.0	30.7
2004	238.6	31.7	207.8	302.6	42.8
2005	233.5	59.0	152.3	307.9	48.7
2006	348.3	88.0	192.4	430.2	48.9
2007	420.9	99.0	251.6	356.0	40.4
2008	352.4	57.7	185.7	111.4	23.9
2009	618.3	5.6	236.2	41.1	5.2
2010	575.2	7.8	413.2	66.7	7.0
2011	582.9	8.2	306.4	114.6	12.1
2012	882.9	13.5	412.0	51.5	4.8
Totals	$6,156.5	$442.9	$4,031.6	$2,957.9	25.0%

* Includes all non-convertible corporate debt, medium-term notes, and Yankee bonds, but excludes all issues with maturities of one year or less and CDs.

Town mutual insurers are considered restricted insurers under s. 620.03 (1), Wis. Stat., and s. Ins 6.20 (6) (a), Wis. Adm. Code, and, as such, are subject to limitations over their investments. This office has imposed and may impose additional special investment restrictions for town mutual insurers if the investment creates additional risk which may compromise their financial position and ability to pay policyholders' claims in full and in a timely manner. Furthermore, pursuant to s. 620.04 (1), Wis. Stat., this office may impose reasonable and temporary restrictions upon the investments of an individual insurer, including prohibition or divestment of a particular asset. This office concludes that the company's investment strategy presents an unreasonable amount of risk to the company and is not appropriate for a town mutual insurance company at this time. The basis for this conclusion and the company's action required by this office is described below.

The examination reviewed the prospectuses of the bonds owned by the company and found multiple instances of corporate bonds with variable rates of interest tied to various complex indices. Examples of these bonds include instances where the interest rate was dependent on:

- the difference between the 30-year and the 2-year constant maturity swap rate (CMS Spread)
- certain combinations of the 6-month USD LIBOR and the S&P 500 Index

For instance, for each interest payment on the JP Morgan Chase & Co. security, interest accrues only on days where the 6-month USD LIBOR is less than or equal to 6.5% and the closing S&P 500 Index is greater than 790. This means that the company will only receive interest payments on the security for the days when both conditions are met making it difficult to project future investment performance. The Callable Leveraged SMS Spread Principal Protected Notes issued through Citigroup Funding Inc., paid an interest rate of 10% for the period from May 28, 2010 to May 28, 2011. After that initial period expired, the interest rate was reset and calculated at 5 times the difference between the 30-year Constant Maturity Swap Rate and the 2-year Constant Maturity Swap Rate (the CMS Spread), subject to a maximum rate of 10% and a minimum interest rate of 0% per annum for any interest period. Constant maturity swap rates measure the market fixed coupon rate that is to be paid in exchange for a floating three-month-LIBOR-based rate for a specific period of time. For this note, the periods of time are 30 years and 2 years. The interest rate is determined on a specified date and applies to the entire interest period. Constant Maturity Swap Rates are published by Reuters. During the seven-year period, from 2005 to 2011, the CMS Spread ranged from -0.036% in the first quarter of 2006 to 3.51% in the first quarter of 2011. During prolonged economic conditions that unfavorably affect the interest payments on such complex securities, these securities may trade, if at all, at a significant discount to their purchase price. Some of the prospectuses disclosed a potential risk that the market for trading these securities may not necessarily exist or be maintained in the future.

The risk that the market for trading these securities may not necessarily exist or be maintained in the future is substantially exacerbated by the very small size of the variable rate corporate debt issues that the company has purchased. Large issues tend to trade more frequently than small issues and investors may have greater awareness about a larger issue because it is widely held and analyzed. An issue size of $250 million represents an approximate lower boundary for a bond issue to attract significant institutional interest when liquidity is a concern. For example, the minimum par amount outstanding for a bond issue's inclusion in the Barclays U.S. Corporate Index is $250 million. The minimum par amount outstanding for a bond issue's inclusion in the Barclays U.S. Floating Rate Note Index is $300 million. During 2011 the company purchased ten bonds, six of which were variable rate corporate debt securities. The par amounts outstanding for five of these securities, ranged from $4,771,000 to $33,481,000.

The objectives of investment regulations as defined in ch. 620.01, Wis. Stat., include, in part, to provide for the safety of principal and, to the extent consistent therewith, maximum yield and growth, and to provide sufficient liquidity to avoid the necessity in reasonably expected circumstances for selling assets at undue sacrifice. The interest rate on some of these bonds could drop to 0% for a prolonged period of time, which could significantly impair the value of the bond and prevent the company from earning a reasonable return on their investment. There also may not be a trading market for the security rendering the investment illiquid. In the event that the company may need to dispose of the bond in order to pay claims, there may be no readily available market. It is recommended that, if the company invests in any variable rate corporate debt security, such security must have the following characteristics:

a. the reference for setting the interest rate must be to the U.S. Dollar London Interbank Offered Rate, the Consumer Price Index, or the Constant Maturity Treasury Index of a single specified duration; and
b. the interest rate must have a floor in excess of zero percent; and
c. the total outstanding principal amount of the security at the time of issuance must equal or exceed $250 million.

For the avoidance of any doubt, in investing in any variable rate corporate debt security, the company:

a. may assume that any rate indexed to the U.S. Dollar London Interbank Offered Rate, the Consumer Price Index, or the Constant Maturity Treasury Index will exceed zero percent; and
b. may invest in a security that specifies some increment of interest in excess of a U.S. Dollar London Interbank Offered Rate, the Consumer Price Index, or the Constant Maturity Treasury Index of a single specified duration; and
c. may invest in a security that is leveraged relative to a U.S. Dollar London Interbank Offered Rate, the Consumer Price Index, or the Constant Maturity Treasury Index of a single specified duration, provided that there is no basis point reduction in the index provided by the interest rate formula (for example, 125% of the 3-month U.S. Dollar London Interbank Offered

Rate is acceptable, while 125% of the 3-month U.S. Dollar London Interbank Offered Rate minus 0.10% is not acceptable); and

d. may not invest in a security that specifies some increment of interest less than a U.S. Dollar London Interbank Offered Rate , the Consumer Price Index, or the Constant Maturity Treasury Index of a single specified duration, unless such increment is expressed as a percentage of the index (for example, 80% of the 3-month U.S. Dollar London Interbank Offered Rate is acceptable, while the 3-month U.S. Dollar London Interbank Offered Rate minus 0.10% is not acceptable).

It is the responsibility of the board of directors to supervise and direct all investments acquired and held by the company pursuant to s. 6.20 (6) (h), Wis. Adm. Code. This section requires the company's investment strategies and practices are commensurate with its technical and administrative capabilities and expertise with regard to investments. Investments whose interest rate payment is based on complex conditions tied to the results of multiple indices fall outside the area of expertise of town mutual insurers. Further, the board may not delegate its responsibility for overseeing the company's investments to a third-party contractor, pursuant to ss. 612.16 and 611.67, Wis. Stat. The company's board is responsible to oversee the company's investments and the actions of the investment advisor and must understand the details of its investments.

The review of the company's bonds also disclosed the following issues:

1. The company was unable to provide an investment management agreement between the company and their investment advisor. The agreement signed by Waukesha State Bank on behalf of the company with AMS Advisors, LLC (Peregrine Diversified Investment Services Corp. as of May 1, 2011) failed to clearly identify the rate of compensation to be paid to the investment advisor. It is recommended that the company obtain an agreement with their investment advisor directly which clearly identifies how the advisor is compensated.

2. It was determined that when money is added to the company's investment account which is held by the custodian the check is made out to Fidelity Investments and then mailed to Cubic, the investment advisor, who then forwards the check to Fidelity Investments to be added to the company's investment account. It is recommended that the company send deposits for their investment account directly to the investment account which is covered by the company's custodian.

3. The company did not have a prospectus for many of its investments in debt securities. It is recommended that the company maintain prospectuses for its current investments.

4. Board minutes did not document whether or how the board of directors approved the investment transactions that were made by the investment advisor. According to the company's manager, the board is provided with a copy of the investment report received from their investment advisor and the report is reviewed by the Finance Committee and discussed at the board meeting. The board of directors asserts that investments are discussed at board meeting. It is recommended that the minutes clearly indicate board approval of all investment transactions, pursuant to s. Ins 6.20 (6) (h), Wis. Adm. Code. Such approval may be subsequent to the investment transaction if made within a reasonable time period; generally, this would be the board meeting immediately following receipt of investment transaction information.

5. It is recommended that the board of directors modify its written investment policy to specify, in accordance with the instructions included in this report, acceptable characteristics of the investments in variable rate corporate debt securities, and provide this office with a copy of the revised investment policy within 60 days of the adoption of this report.

Interest received during 2011 on bonds amounted to $4,209 and a review of investment income verified the accuracy of the balance. Accrued interest of $4,735 at December 31, 2011, was checked and allowed as a nonledger asset. Further information regarding the company's bond investments may be found in the "subsequent events" section at the end of the report.

Invested Assets

Section 610.23, Wis. Stat., requires insurers to hold all investments and deposits of its funds in its own name except that:

(1) Securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of the bank or banking and trust company; and

(2) Any insurer may acquire and hold securities in bearer form.

For securities not held under a custodial agreement or trust arrangement with a bank or banking and trust company, s. Ins 13.05 (4), Wis. Adm. Code, requires that:

> Non-negotiable evidences of company investments such as registered bonds, certificates of deposits, notes, etc., shall be maintained in a safe or vault with adequate safety controls or in a safety deposit box in a bank. Negotiable evidences of company investments shall be maintained in a safety deposit box in a bank. Access to a company safety deposit box containing negotiable securities shall require the

presence and signature of at least 2 officers, directors or employees of the company.

The examination determined that the company is not in compliance with these requirements. It was noted that the company has a custodial agreement with Waukesha State Bank; however, the assets are held in an account through Fidelity Investments. Under the custodial agreement between the company and Waukesha State Bank, “The Custodian is obligated to indemnify the Corporation for any loss of securities of the Corporation held hereunder occasioned by the negligence or dishonesty of Custodian’s officers and employees, or burglary, robbery, holdup, theft, or mysterious disappearance, including loss or damage or destruction.” The examination noted that the custodial agreement did not address liability for actions by a sub-custodian. Attached to the custodial agreement is a letter from the company instructing Waukesha State Bank that “The assets are to be held in an account in nominee name by you at AMS Advisors, as designated by the directors.” Since the assets are held by Fidelity Investments and not by Waukesha State Bank, it appears that the custodial agreement with Waukesha State Bank may not provide proper protection for the assets of the company in the event of loss. The examination was unable to obtain any contracts between Fidelity Investments and either Waukesha State Bank or the company. Fidelity Investments is not authorized to serve as a custodian for the company’s assets under s. 610.23, Wis. Stat.

The December 31, 2011, custodial statement provided by Waukesha State Bank presented an inaccurate account balance and failed to identify the individual securities allegedly held under the custodial agreement. The account balance presented on the December 31, 2011, custodial statement from Waukesha State Bank agreed to the November 30, 2011, balance reported on the statement provided by the company’s investment advisor (Cubic). It is recommended that the company obtain a custodial agreement with an authorized custodian under s. 610.23, Wis. Stat., which clearly protects the company’s assets from loss. It is further recommended that the company reconcile the custodial statement to the company’s records on a regular basis.

Stocks and Mutual Fund Investments **$999,509**

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2011. Stocks owned by the company are located in the company’s safety deposit box.

Stock certificates were physically examined by the examiners. Stock and mutual fund purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in stocks and mutual funds was not in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers. At December 31, 2011, the company was holding a Prime Fund Daily Money Class Money Market Mutual Fund with a statement value of $485,553, which accounts for 16.3% of admitted assets. Section Ins 6.20 (6) (d) 5., Wis. Adm. Code, limits the investment in any single family of mutual funds to 10% of assets. According to the company’s May 2012 investment report from their investment advisor, as of May 31, 2012, the company was in compliance with the 10% limitation. It is recommended that the company continue to comply with the requirements of s. Ins 6.20 (6) (d) 5., Wis. Adm. Code, regarding the investment limitations in any single family of mutual funds.

Dividends received during 2011 on stocks and mutual funds amounted to $4,764 and a review of investment income verified the accuracy of the balance. Accrued dividends of $994 at December 31, 2011, were checked and allowed as a nonledger asset.

Book Value of Real Estate **$19,625**

The above amount represents the company's investment in real estate, net of depreciation, as of December 31, 2011. The company's real estate holdings consisted of the home office building. The building and land was purchased in 1943; the company made several building improvements to the building during 2011, which are not yet fully depreciated.

The required documents supporting the validity of this asset were reviewed and were in order. Adequate hazard insurance was carried on the real estate and contents as noted under the caption, "Fidelity Bond and Other Insurance." The company's investment in real estate and related items was in conformance with the Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Premiums, Agents' Balances in Course of Collection **$1,773**

This asset represents the amounts due from agents or policyholders which are not in excess of 90 days past due at year-end. A review of individual accounts verified the accuracy of this asset.

Premiums Deferred and Not Yet Due **$84,710**

This asset represents modal premium installments (such as monthly, quarterly, etc.) that are not yet due. Review of the policyholder's balances verified the reasonableness of the asset.

Investment Income Accrued **$12,059**

Interest due and accrued on the various assets of the company at December 31, 2011, consists of the following:

Cash deposited at interest	$ 6,330
Bonds	4,735
Stocks and mutual funds	994
Total	$12,059

Fire Dues Recoverable **$123**

This asset represents the amount overpaid to the state of Wisconsin for 2011 fire dues. The examiners reviewed the company's fire department dues calculation and found this asset to be correctly calculated.

Reinsurance Commission Receivable **$4,503**

The above asset represents the amount of reinsurance commissions that the company expected to receive as of December 31, 2011, under its contract with the Wisconsin Reinsurance Corporation. A review of the terms of the reinsurance agreement and year-end accountings with the reinsurer verified the above asset.

Federal Income Taxes Recoverable **$2,554**

This receivable represents the balance receivable at year-end for federal income taxes incurred prior to December 31, 2011. The examiners reviewed the company's 2011 tax return calculation and found the calculation to be reasonable.

LIABILITIES AND SURPLUS

Net Unpaid Losses **$14,842**

This liability represents losses incurred on or prior to December 31, 2011, that remained unpaid as of that date. The examiners reviewed the reasonableness of this liability by totaling actual loss payments made subsequent to December 31, 2011, with incurred dates in 2011 and prior years. To the actual paid loss figure was added an estimated amount for 2011 and prior losses remaining unpaid at the time of the examination. The examiners' development of unpaid losses is compared with the amount estimated by the company in the following schedule.

	Company Estimate	Examiners' Development	Difference
Incurred but unpaid losses	$180,842	$178,192	$ 2,650
Less: Reinsurance recoverable on unpaid losses	166,000	168,878	(2,878)
Net Unpaid Losses	$ 14,842	$ 9,314	$ (5,528)

The above difference of $5,528 was not considered material for purposes of this examination. Therefore, no adjustment to policyholders' surplus is necessary.

The examiners' review of claim files included open claims, paid claims, claims closed without payment, and claims that were denied during the examination period. The review indicated that claims are investigated and evaluated properly and that payments are made promptly and in accordance with policy provisions upon the submission of a proper proof of loss. In addition, the review of claims handling procedures and files revealed the following:

1. A proper loss register is maintained.
2. Claim files contained sufficient investigatory data and documentation to verify settlement payments or reserve estimates.
3. Proofs of loss were properly signed.

Unpaid Loss Adjustment Expenses **$60**

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2011, but which remained unpaid as of year-end. This liability is developed by the company's CPA based on the company's expense data.

The examiners' analysis of expenses incurred in the current year related to the settlement of prior year losses, as well as estimates of amounts necessary to settle any prior losses remaining unpaid at the examination date, determined this liability to be adequately stated.

Commissions Payable **$3,846**

This liability represents the commissions payable to agents as of December 31, 2011. The examiners reviewed the company's commission calculation and found the liability to be reasonably stated.

Unearned Premiums **$189,066**

This liability represents the reserve established for unearned premiums in compliance with s. Ins 13.08 (3), Wis. Adm. Code. This reserve was established using the statutory methodology of 50% of net premium in force. The examiners reviewed the company's calculation of this liability and determined it to be adequately stated.

Reinsurance Payable **$37,422**

This liability consists of amounts due to the company's reinsurer at December 31, 2011, relating to transactions which occurred on or prior to that date.

The following is the reinsurance payable balance at year-end.

Class A Casualty Excess of Loss	$ 4,792
Class B First Surplus	9,003
Class C First Excess of Loss	3,012
Class C Second Excess of Loss	1,038
Class D/E Second Aggregate Excess of Loss	1,769
Class D/E Second Aggregate Excess of Loss	590
Current Year Adjustment	(3,799)
Payable on Deferred Premium	21,017
	$37,422

Subsequent cash disbursements and reinsurance accountings verified the amount of this liability.

Amounts Withheld for the Account of Others **$1,119**

This liability represents employee payroll deductions in the possession of the company at December 31, 2011. Supporting records and subsequent cash disbursements verified this item.

Payroll Taxes Payable **$2,136**

This liability represents the company's portion of payroll taxes incurred prior to December 31, 2011, which had not yet been paid. Supporting records and subsequent cash disbursements verified this item.

Accounts Payable **$496**

This liability consists of unpaid financial management fees, an unpaid utility bill, an unpaid bill for building improvements and employee mileage. The examiners noted that in the 2011 annual statement the company included $496 of accrued liabilities with the accrued property taxes on the annual statement line for accrued property taxes instead of reporting the accrued liabilities on the line designated for accounts payable. A reclassification was not considered necessary due to the immateriality of the balance. It is recommended that the company report the accounts payable separately from the accrued property taxes in accordance with the 2011 Town Mutual Annual Statement Instructions. Supporting records and subsequent cash disbursements verified this item.

Accrued Property Taxes **$1,610**

This liability consists of amounts due for property taxes to the village where the company's office is located. Supporting records and subsequent cash disbursements verified this item.

Accrued Wages **$1,008**

This liability consists of amounts due to employees in the possession of the company at December 31, 2011. Supporting records and subsequent cash disbursements verified this item.

V. CONCLUSION

Stockholm Town Mutual Insurance Company is a town mutual insurer with an authorized territory of four counties. The company has been in business over 140 years providing property and liability insurance to its policyholders.

The company reported assets of $2,979,116, liabilities of $251,685 and policyholders' surplus of $2,727,431 at year-end 2011. Surplus increased 35.9% and net premiums written increased by 13.3% while the number of policies in force decreased by 18% during the five-year period. The company reported underwriting gains and net income in all five of the previous five years under examination. The expense ratio increased from 25% in 2006 to 45% in 2011 due to the renovation of the company's building, additional office hours and the implementation of a computer system.

The examination disclosed significant issues regarding the company's complex investment structure and investment strategy. Since the assets are held by Fidelity Investments and not by Waukesha State Bank, there is a significant concern that the wording of the custodial agreement with Waukesha State Bank may not provide proper protection for the assets of the company in the event of loss. It was also noted that the custodial statement dated December 31, 2011, which was provided by Waukesha State Bank (custodian), presented an inaccurate account balance and failed to identify the individual securities allegedly held under the custodial agreement.

There were 13 recommendations made as a result of this examination which are summarized in the subsequent section.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 15 - Corporate Records—It is recommended that any future amendments to the articles of incorporation be approved by the company's policyholders in accordance with s. 612.12 (1), Wis. Stat.

2. Page 15 - Corporate Records—It is recommended that the company provide the annual salary information for the company's officers on the jurat page of the annual statement in accordance with the Town Mutual Annual Statement Instructions and s. 611.63 (4), Wis. Stat.

3. Page 17 - Accounts and Records—It is recommended that the company make at least one deposit per week as required by s. Ins 13.05 (4) (a), Wis. Adm. Code.

4. Page 23 - Book Value of Bonds—It is recommended that, if the company invests in any variable rate corporate debt security, such security must have the following characteristics:
   a. the reference for setting the interest rate must be to the U.S. Dollar London Interbank Offered Rate, the Consumer Price Index, or the Constant Maturity Treasury Index of a single specified duration; and
   b. the interest rate must have a floor in excess of zero percent; and
   c. the total outstanding principal amount of the security at the time of issuance must equal or exceed $250 million.

   For the avoidance of any doubt, in investing in any variable rate corporate debt security, the company:
   a. may assume that any rate indexed to the U.S. Dollar London Interbank Offered Rate, the Consumer Price Index, or the Constant Maturity Treasury Index will exceed zero percent; and
   b. may invest in a security that specifies some increment of interest in excess of the U.S. Dollar London Interbank Offered Rate, the Consumer Price Index, or the Constant Maturity Treasury Index of a single specified duration; and
   c. may invest in a security that is leveraged relative to a U.S. Dollar London Interbank Offered Rate, the Consumer Price Index, or the Constant Maturity Treasury Index of a single specified duration, provided that there is no basis point reduction in the index provided by the interest rate formula (for example, 125% of the 3-month U.S. Dollar London Interbank Offered Rate is acceptable, while 125% of the 3-month U.S. Dollar London Interbank Offered Rate minus 0.10% is not acceptable); and
   d. may not invest in a security that specifies some increment of interest less than a U.S. Dollar London Interbank Offered Rate, the Consumer Price Index, or the Constant Maturity Treasury Index of a single specified duration, unless such increment is expressed as a percentage of the index (for example, 80% of the 3-month U.S. Dollar London Interbank Offered Rate is acceptable, while the 3-month U.S. Dollar London Interbank Offered Rate minus 0.10% is not acceptable).

5. Page 24 - Book Value of Bonds—It is recommended that the company obtain an agreement with their investment advisor directly which clearly identifies how the advisor is compensated.

6. Page 24 - Book Value of Bonds—It is recommended that the company send deposits for their investment account directly to the investment account which is covered by the company's custodian.

7. Page 24 - Book Value of Bonds—It is recommended that the company maintain prospectuses for its current investments.

8. Page 25 - Book Value of Bonds—It is recommended that the minutes clearly indicate board approval of all investment transactions, pursuant to s. Ins 6.20 (6) (h), Wis. Adm. Code. Such approval may be subsequent to the investment transaction if made within a reasonable time period; generally, this would be the board meeting immediately following receipt of investment transaction information.

9. Page 25 - Book Value of Bonds—It is recommended that the board of directors modify its written investment policy to specify, in accordance with the instructions included in this report, acceptable characteristics of the investments in variable rate corporate debt securities, and provide this office with a copy of the revised investment policy within 60 days of the adoption of this report.

10. Page 26 - Invested Assets—It is recommended that the company obtain a custodial agreement with an authorized custodian under s. 610.23, Wis. Stat., which clearly protects the company's assets from loss.

11. Page 26 - Invested Assets—It is recommended that the company reconcile the custodial statement to the company's records on a regular basis.

12. Page 27 - Stocks and Mutual Fund Investments—It is recommended that the company continue to comply with the requirements of s. Ins 6.20 (6) (d) 5., Wis. Adm. Code, regarding the investment limitations in any single family of mutual funds.

13. Page 32 - Accounts Payable—It is recommended that the company report the accounts payable separately from the accrued property taxes in accordance with the 2011 Town Mutual Annual Statement Instructions.

VII. ACKNOWLEDGMENT

The courteous cooperation extended to the examiners by the company's personnel is hereby acknowledged.

In addition to the undersigned, Karl Albert of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination.

Respectfully submitted,

Stephanie A. Falck
Examiner-in-Charge

VIII. SUBSEQUENT EVENTS

On Tuesday, July 10, 2012, Peregrine Financial Group, Inc., filed in Chicago, Illinois, to liquidate under Chapter 7 of the bankruptcy code. Regulators determined that there was $215 million of customer money allegedly missing from the group. Falsified bank statements were used to mislead regulators for nearly two decades. The CEO of Peregrine Financial Group, Inc., was sentenced to 50 years in prison for looting money from the brokerage firm on January 31, 2013.

The company has advised OCI that the board of directors has improved its documentation of approval of investments in the board minutes to comply with s. Ins 6.20(6)(h), Wis. Adm. Code. OCI will verify compliance during the next examination of the company.

Stockholm disagrees with many of the conclusions in this report. After OCI formally served the report on Stockholm, the company filed objections to several of the report's conclusions regarding the risks posed by some floating rate corporate securities and whether they were appropriate investments for town mutual insurers and requested a hearing. A hearing was held on the examination report and the company's objections. At the hearing, both Stockholm and OCI produced evidence to support their positions. Prior to a decision being issued in that hearing, OCI and the company agreed to a compromise and resolution of the company's objections. While the company continues to disagree with many of the examination's findings, it has agreed to comply with the investment restrictions contained in this report which were amended as a result of the compromise and resolution.