

**CONSOLIDATION AND CONVERSION OF
BARABOO MUTUAL INSURANCE COMPANY
AND
REEDSBURG-WESTFIELD MUTUAL INSURANCE COMPANY
INTO ONE CHAPTER 611 MUTUAL INSURANCE CORPORATION
UNDER THE NAME OF
REEDSBURG-WESTFIELD MUTUAL INSURANCE COMPANY**

**PROPOSED POLICYHOLDER SUMMARY OF CONSOLIDATION, CONVERSION AND
AFFILIATION**

Filed with the Wisconsin Office of the Commissioner of Insurance

October [●], 2023

[Joint Logo/Letterhead]

To: All Policyholders of Reedsburg-Westfield Mutual Insurance Company and Baraboo Mutual Insurance Company

Re: Summary of Proposed Consolidation of Baraboo Mutual Insurance Company with and into Reedsburg-Westfield Mutual Insurance Company and the related Conversion of the Surviving Company and the subsequent Affiliation with Mt. Morris Mutual Insurance Company

Date: [●], 2023

Introduction and Background

The Boards of Directors of Baraboo Mutual Insurance Company (“BMIC”) and Reedsburg-Westfield Mutual Insurance Company (“RWMIC”) have determined that it would be in the best interests of both companies to merge together into one combined company that is converted to a mutual insurance company governed by Chapter 611 of the Wisconsin Statutes (“Chapter 611”) under an Agreement and Plan of Conversion (the “Plan”), and then for the combined, converted company (“Surviving Company”) to affiliate with Mt. Morris Mutual Insurance Company, a mutual insurance company headquartered in Coloma, Wisconsin, (“Mt. Morris”) pursuant to an Affiliation Agreement entered into with Mt. Morris (the “Affiliation”).

Section 612.23 of the Wisconsin Statutes allows two town mutuals to convert into a single mutual insurance corporation under Chapter 611. The Plan governs both (a) the legal consolidation of the two companies (since these two companies are legally combining into one, with RWMIC as the legal survivor) and (b) the conversion of the Surviving Company into a mutual insurance corporation under Chapter 611. By voting on the single question of whether to approve the “Conversion”, the policyholders are essentially approving both the consolidation of BMIC into RWMIC and the conversion of the Surviving Company into a Chapter 611 mutual insurance corporation.

To help policyholders understand the various steps in this process, even though the consolidation of the companies and the conversion of the Surviving Company into a Chapter 611 mutual insurance corporation are treated as one step under the Wisconsin Statutes, in this Summary we are describing the legal consolidation of the companies as the “Consolidation” and the conversion of the Surviving Company as the “Conversion.” The proposed Consolidation, Conversion and Affiliation together are called the “Transactions.”

BMIC’s and RWMIC’s reinsurer, Wisconsin Reinsurance Corporation (“WRC”), was placed into rehabilitation by the Wisconsin Office of the Commissioner of Insurance (the “Commissioner” or “OCI”) on June 21, 2023. Town mutuals organized under Chapter 612 of Wisconsin Statutes (“Chapter 612”) are required by law to maintain certain reinsurance coverage. As a current reinsurance policyholder of WRC, BMIC and RWMIC were each issued an order from the Commissioner on June 28, 2023 (the “OCI Orders”). The OCI Orders directed BMIC and RWMIC, respectively, to each confirm its plans to obtain reinsurance for 2024 or otherwise maintain its certificate of authority to continue business in 2024.

The Board of Directors of each company (with respect to such company, its “Board”) considered a variety of options to comply with the OCI Order. In order to comply with the OCI Orders

and limit the disruption to the BMIC and RWMIC policyholders and members, the Boards of Directors of BMIC and RWMIC each determined that combining the companies into one Chapter 611 mutual insurance corporation, followed by the Affiliation with Mt. Morris, which requires the Surviving Company to be a Chapter 611 mutual insurance corporation, is in the best interests of the policyholders of each company. As discussed below, under the Affiliation Contracts (defined below) described in this Summary, not only will the Surviving Company gain the benefits of qualifying reinsurance, but also the expertise and experience of Mt. Morris' directors, management and operations staff.

Mt. Morris is a mutual insurance company organized under Chapter 611 that is headquartered in Coloma, Wisconsin and currently issues policies throughout Wisconsin. Mt. Morris was formed in 1876. Mt. Morris is the surviving company of several mergers over the last 50 years. Mt. Morris has continually expanded its lines of business written as well as provided expanded coverage. Mt. Morris was one of the first companies to provide replacement cost coverage for irrigation systems and provide equipment breakdown coverage to farms. In 2008, Mt. Morris broadened its lines of business to include personal and commercial auto insurance.

After the Board of Directors of each company voted and determined that the Transactions are fair and equitable to each company and their respective policyholders, the companies filed the Plan and Mt. Morris filed the Affiliation Contracts with the Commissioner, which must approve the Transactions prior to the Consolidation and Conversion being submitted to a vote of the companies' policyholders. The Commissioner has approved the Transactions, and the companies are now ready to seek policyholder approval of the Consolidation and Conversion. The Board of Directors of each company recommends that their respective members vote to approve the Consolidation and Conversion.

As further described below, the Consolidation will legally result in BMIC members becoming mutual members of RWMIC, and the Conversion will result in RWMIC becoming a Chapter 611 mutual insurance corporation. We expect that the Surviving Company (as defined below) will have reinsurance in 2024 through the Affiliation, and to be stronger, larger, and more competitive than each company alone, without any impact to the policyholders' insurance. No changes to the policies or premiums of BMIC policyholders will occur immediately upon the consummation of the Consolidation, however, effective on the first renewal or anniversary date of each BMIC policy following the Effective Date, policies will be rewritten using RWMIC forms, rates, and underwriting guidelines.

Effective upon the consummation of the Transactions, the Surviving Company's organizational documents will be amended to be in the forms attached to the Plan (the "Amended Organizational Documents"). RWMIC and Mt. Morris will also be entering an Affiliation Agreement formalizing the relationship between the parties and providing, along with the Bylaws of RWMIC, that the Board of Directors of RWMIC will be comprised of a majority of Mt. Morris designees. Along with the Affiliation Agreement with Mt. Morris, the parties will enter into a Management Agreement, a Reinsurance Pooling Agreement, and a Reinsurance Allocation Agreement (the "Affiliation Contracts").

Current policyholders of RWMIC and BMIC each have a right to vote on the Consolidation and Conversion. This Summary is furnished by and on behalf of the RWMIC Board to the RWMIC members and on behalf of the BMIC Board to the BMIC Members, in connection with the special meeting of members of both RWMIC and BMIC (each, the "Special Meeting" of that specific company, and together the "Special Meetings") to be held on December 14th, 2023 at 6:30 p.m. at the

Knights of Columbus Hall, 440 South Albert Avenue (Hwy 23 South) Reedsburg, WI. The Special Meetings will be held on the same day and at the same place, and the members of each company will see the same presentation about the Consolidation, Conversion and Affiliation. However, members of each company will sign in separately, and a separate vote will be taken by the two separate groups of members.

On (a) October 12, 2023, the RWMIC Board of Directors and (a) October 16, 2023, the BMIC Board of Directors, respectively, approved and adopted the Plan and the Affiliation Contracts, and the transactions contemplated thereby. **The Board of Directors each company recommends to its policyholders that they vote (i) “FOR” the proposal to approve the Plan, including the Amended Organizational Documents; (ii) FOR the election of the new directors to Board of Directors of the Surviving Company effective as of the closing of the Transactions and (iii) “FOR” the proposal to adjourn the Special Meeting, if necessary or appropriate. The Board knows of no other matters at this time that may be properly brought before the Special Meeting.**

Please note if the policyholders of either company do not approve the Consolidation and Conversion, including the Amended Organizational Documents, and if BMIC and/or RWMIC is unable to comply with the OCI Order, BMIC or RWMIC may be subject to additional regulatory orders or enforcement actions by the OCI, including potential liquidation, dissolution, and/or cancellation of policies. Therefore, approval of the Consolidation and Conversion by policyholders is crucial for policyholders of BMIC and RWMIC to maintain their current insurance policies in effect beyond December 31, 2023.

Consolidation

Below is a summary of the provisions of the Plan related to the Consolidation, and the effect of the Consolidation which is proposed to be effective on January 1, 2024 (the “Effective Date”):

- BMIC policyholders will become members of RWMIC, and BMIC will cease to exist as a separate corporation.
- Each former member of BMIC will be sent a Certificate of Assumption formally confirming their status as a member and policyholder of the Surviving Company, which will continue to operate under the name “Reedsburg-Westfield Mutual Insurance Company”.
- Because the Consolidation is coupled with the Conversion, each policyholder’s rights as a member of Surviving Company after the Consolidation will be governed by Chapter 611 (which governs domestic stock and mutual insurance companies). Under Chapter 611, after the Consolidation and Conversion, each member will continue to have the right to vote for the Surviving Company’s Board of Directors, as well as to vote on certain other major corporate decisions, such as future conversions, voluntary dissolution, amendment of the articles, and election of directors.. The differences between a Chapter 611 mutual insurance corporation and Chapter 612 town mutual insurance company are discussed in more detail below.
- All of the assets, rights, privileges, and business of BMIC, of every character and description, including all real property, all policies of insurance, all debts due on whatever account, premiums and assessments payable from members, all rights to bring any suit or

action and all and every other interest of, or belonging to or due to BMIC, shall accrue to, be merged into and become the absolute property of the Surviving Company.

- Surviving Company, shall assume all liabilities and obligations of BMIC, including insurance policy liabilities. Each current BMIC policyholder's contract rights will be unaffected by the Consolidation. In other words, current BMIC policyholders will continue as policyholders of Surviving Company, continuing to enjoy all contractual rights as they currently exist under their respective BMIC insurance policies.
- The Surviving Company will continue servicing, renewing, and writing new policies in the Wisconsin counties of Sauk, Juneau, Columbia, Vernon, Richland, Monroe and Adams, but will also be authorized to issue policies throughout the entire state.

Upon the effective date, the Surviving Company will have a Board of Directors comprised of a majority of Mt. Morris designees. The composition of the Board of Directors and officers of the Surviving Company is discussed in detail below under "*Affiliation.*" The Surviving Company will offer RWMIC's current agency agreement to each agent who has an appointment with BMIC prior to the effective date of the Consolidation and who does not already have an agency agreement in force with RWMIC.

- Business will be transacted from RWMIC's current headquarters in Reedsburg, Wisconsin. It is anticipated that the Surviving Corporation will maintain operations at the current Baraboo office until its closing which is anticipated to occur by the end of the first quarter of 2024
- As discussed below under "*Conversion,*" various changes to the RWMIC's articles of incorporation and bylaws are also proposed as part of the Transactions. Copies of the proposed documents governing the Transactions, including the proposed articles of incorporation and bylaws, are available for your review upon request.
- The Surviving Company will adopt the policy forms, rates, deductibles, and underwriting guidelines of RWMIC. No changes to the policies or premiums of BMIC policyholders will occur immediately upon the consummation of the Consolidation, however, effective on the first renewal or anniversary date of each BMIC policy following the Effective Date, policies will be rewritten using RWMIC forms, rates, and underwriting guidelines.

Conversion

Conversion to Chapter 611 Mutual Insurance Corporation

Conversion to a Chapter 611 mutual insurance corporation is necessary for the Surviving Company to affiliate with Mt. Morris and maintain its compliance with applicable law. However, there are significant differences between being a Chapter 612 town mutual insurance company and a Chapter 611 mutual insurance corporation.

- A Chapter 612 town mutual is required to have unlimited aggregate excess of loss reinsurance, which is intended to help mitigate the risk of certain other features of being a Chapter 612 town mutual (as compared to a Chapter 611 insurance company): lower capital and financial requirements, limited filing requirements, no actuarial opinion requirements,

geographic concentration and certain flexibility with respect to the services provided by its CPA/auditor.

- Chapter 611 mutual insurance corporations need to comply with compulsory and security surplus requirements mandated by law. The Surviving Company currently expects that it will be able to comply with the surplus requirements upon conversion.
- Chapter 611 mutual insurance corporations also have to comply with mandated reinsurance requirements. The Surviving Company currently expects that, through the reinsurance pooling and allocation agreements with Mt. Morris and the other affiliates, it will be able to comply with the mandated reinsurance requirements.
- Chapter 611 mutual insurance corporations must have a qualified actuary opine on reserves annually, and must comply with all other requirements of Chapter 611, which includes but is not limited to annual and quarterly reporting. These requirements will impose additional compliance costs on the Surviving Company.
- Chapter 612 town mutuals are limited to writing policies in no more than 16 counties. Chapter 611 mutual insurance corporations typically are permitted to write policies statewide.
- Chapter 612 town mutuals must issue assessable policies (meaning a policyholder can be assessed in excess of the premium paid to the company). A Chapter 611 mutual insurance corporation may issue assessable or nonassessable policies. In connection with the Conversion, the Surviving Company will become a nonassessable mutual insurance company. This will allow the Surviving Company to sell nonassessable insurance policies, which the Board believes will make the Surviving Company more competitive.

Terms of the Conversion

BMIC and RWMIC are each town mutuals under Chapter 612. If the Transactions are consummated, the Surviving Company will be converted to a mutual insurance corporation organized under Chapter 611 pursuant to the Plan adopted by the Boards of Directors of the companies as provided in Wis. Stat. § 612.23. Under the Plan, if approved, the Surviving Company will be a mutual insurance corporation under Chapter 611, with all the rights and restrictions that are placed on such a corporation (some of which are described earlier in this Summary). The Surviving Company will continue to operate under the name Reedsburg-Westfield Mutual Insurance Company, and will be governed by Chapter 611 and the Amended Organizational Documents. A Chapter 612 town mutual cannot affiliate with another mutual insurance company, so conversion to a Chapter 611 mutual insurance corporation is required to consummate the Affiliation.

The Plan identifies the reasons for and purposes of the Conversion:

- To affiliate with Mt. Morris, which will allow the Surviving Company to have appropriate reinsurance coverage and also access to the experience and expertise of Mt. Morris's Management, Board of Directors and Operations staff.

- Improve the Surviving Company's competitive market position to provide better opportunities for growth. The Conversion will permit the Surviving Company to grow and to improve its services and products to fulfill the expectations of its insurance customers.
- Expansion of the Surviving Company's territory. While the Surviving Company does not currently intend to write outside of its current territory, the Conversion will allow it to do so in the future.
- To achieve greater spread of risk. Expanding outside of the current authorized territory will allow for a greater spread of risk.
- To eliminate assessability of policyholders. After the Conversion, the Surviving Company will issue nonassessable policies.

The Plan also identifies the Surviving Company's business plan following the consummation of the Transactions and as an affiliate of Mt. Morris.

As a result of the Transactions, all of the policyholders of RWMIC and BMIC will become members of the Surviving Company, and the Surviving Company will remain a separate mutual insurance company. Policyholders of the Surviving Company will generally have the same voting rights and contract rights as policyholders of RWMIC or BMIC have now. Following the Transactions, policyholders will continue to be insured by the Surviving Company pursuant to the terms of their insurance policy or policies with the Surviving Company and the terms of their insurance policy or policies, including their contractual obligation to pay premiums and their contractual rights to indemnity and defense, as applicable, will not be expanded, diminished or altered in any way. No changes to the policies or premiums of BMIC policyholders will occur immediately upon the consummation of the Consolidation, however, effective on the first renewal or anniversary date of each BMIC policy following the Effective Date, policies will be rewritten using RWMIC forms, rates, and underwriting guidelines.

Amended Organizational Documents

Through the Conversion, and to effectuate the Affiliation with Mt. Morris, the Surviving Company will adopt Amended Articles of Incorporation ("Amended Articles") and Amended and Restated Bylaws ("Amended Bylaws").

The Amended Articles will reflect the Surviving Company's status as a Chapter 611 mutual insurance corporation and include several provisions that differ from the Surviving Company's current Articles of Incorporation.

Below is a summary of certain key terms of the Amended Bylaws, including provisions related to the Board of Directors of the Surviving Company.

- Quorum and Voting. At any meeting of the Members, ten (10) Members entitled to vote on the issue and present in person shall constitute a quorum for all purposes, unless the representation of a larger number shall be required by law or by the Amended Articles. Unless otherwise provided in the Amended Bylaws or in the Amended Articles, if a quorum

is present, the affirmative vote of the majority of the Members represented at the meeting in person and entitled to vote on the subject matter shall be the act of the Members.

- Proxies. Members are entitled to vote at any meeting in person or through another person appointed in writing as a proxy by the Member or the Member's duly authorized attorney-in-fact.
- Board of Directors. The Board of Directors of the Surviving Company consists of nine (9) Directors. To effectuate the Affiliation, the Board of Directors will be controlled by directors designated by Mt. Morris. An individual may only be elected to the Board of Directors after being nominated as follows: (i) five (5) of the Directors shall be "Mt. Morris Directors" who are nominated by the then-incumbent Mt. Morris Directors by majority vote and four (4) of the Directors shall be "Reedsburg Directors" who are nominated by the then-incumbent Surviving Company Directors by majority vote.
- Majority Votes. Except as otherwise provided by law, the Amended Articles or the Amended Bylaws (i) a majority of the number of Directors then in office shall constitute a quorum for the transaction of affairs and business of the Surviving Company; and (ii) the act of a majority of Directors present at a meeting at which a quorum is present shall be the act of the Board of Directors.
- Mergers. For five years from the effective date of the Affiliation, the unanimous approval of the Board of Directors is required for the approval of any merger or other transaction that would result in the Surviving Company ceasing to transact an insurance business in Wisconsin, including a merger of the Surviving Company into Mt. Morris, however, if the Surviving Company's surplus to direct written premium ratio falls below certain thresholds and the Surviving Company cannot take correction action then the Surviving Company will be merged into Mt. Morris as soon as possible.
- Officers. The principal officers shall consist of the President/CEO, one or more Vice Presidents who may be designated Executive Vice President, and a Secretary/Treasurer. One person may hold two or more offices, except that the offices of President/CEO and Secretary/Treasurer and the offices of President/CEO and Vice President shall not be held by the same person.

Initial Board of Directors

Pursuant to Wis. Stat. § 612.23(4), promptly following the approval of the Plan, the directors of the Surviving Company shall be promptly elected. As provided in the Plan, and to effectuate the Affiliation, the members will be asked to approve the following individuals to serve on the Board of Directors of the Company, effective January 1, 2024:

- Daniel Fenske
- Greg Gonnering
- Connie Weber
- Danielle Loeffler

- Blake Frederick
- Shea Geffert
- Steve Muchow
- Rebecca Klitzke
- Kurt Lehman

Affiliation Agreement and Affiliation Contracts

The primary goal of the Conversion is for the Surviving Company to be able to enter into the Affiliation Agreement with Mt. Morris. While not subject to Surviving Company member approval (other than as it relates to the Amended Organizational Documents and Initial Board of Directors), a summary of the Affiliation Agreement, Reinsurance Pooling Agreement, Reinsurance Allocation Agreement, and Management Agreement is provided below.

- **The Affiliation Agreement.** Subject to the terms and conditions of the Affiliation Agreement and other Affiliation Contracts, on January 1, 2024, the Surviving Company and Mt. Morris will affiliate their respective insurance businesses and make effective the Affiliation Contracts and the Amended Organizational Documents. A majority of the directors on the Board of Directors of the Surviving Company will be appointed by Mt. Morris.
- **Reinsurance Agreements.** The Reinsurance Pooling Agreement and Reinsurance Allocation Agreement between Mt. Morris and each of the proposed affiliates – RWMIC, Bloomington Farmers Mutual Insurance Company, Wisconsin River Mutual Insurance Company, and Mt. Pleasant-Perry Middleton Mutual Insurance Company (together, the “Affiliates”) ensures the Surviving Company will have access to the reinsurance it needs under Wisconsin law and is the principal reason why the Boards of Directors of BMIC and RWMIC believes the proposed affiliation with Mt. Morris is in the best interests of the Surviving Company and its members.
 - **The Reinsurance Pooling Agreement** provides that Mt. Morris and the Affiliates will pool their respective insurance operations to provide a more efficient and economical method of operating their insurance businesses; to achieve more uniform underwriting results; and to spread, stabilize and share their underwritings by creating a risk-sharing pool for their contracted policies of insurance and all losses incurred thereunder.
 - **The Reinsurance Allocation Agreement** will apply to all reinsurance purchased from January 1, 2024, forward, provided another agreement does not supersede its terms as provided therein, by any or all of Mt. Morris and the Affiliates for their benefit, and it determines the method by which the parties will allocate reinsurance premiums, profits, and losses pursuant to the applicable policies. Reinsurance premiums, profits, and losses will be allocated to each party under the Reinsurance Allocation Agreement as follows: (i) premiums and profits will be allocated in such proportion as the party’s subject premiums to the reinsurance agreement bear to the total subject premiums applicable to the reinsurance agreement, and (ii) losses will be allocated based on the percentage such party’s loss bears to the total of all losses contributing to the occurrence. The parties intend that the Reinsurance Allocation Agreement will be

effective January 1, 2024 and will continue until terminated as provided in Article 4 therein.

- The Management Agreement provides that the parties may provide certain services to each other (e.g., reinsurance pricing and procurement, investment services, etc.). The party providing the services must act in good faith, in a commercially reasonable manner and in accordance with customary industry standards and applicable laws for the provision of the services. Provision of the services at all times will be subject to oversight by the Board of Directors of the party receiving the services. The party receiving the services will reimburse the party providing the services for all costs and expenses incurred by the service provider for employees, equipment, facilities and other items in connection with performance of the services. Reimbursement will be paid within 30 days after the end of each calendar quarter in which the services are provided.

Additional Information

A complete copy of the Plan (including the proposed articles of incorporation and bylaws) and Affiliation Contracts are available at the RWMIC and BMIC offices for inspection by their respective policyholders. Please contact the individual identified below if you have any questions or if you would like to review a complete copy of the Plan (including the proposed articles and bylaws) and/or any of the Affiliation Contracts.

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