Report

of the

Examination of

American Family Insurance Company

Madison, Wisconsin

As of December 31, 2016

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, *Governor*
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April 30, 2018

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

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

AMERICAN FAMILY INSURANCE COMPANY
Madison, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of American Family Insurance Company (AFIC or the company) was conducted in 2012 as of December 31, 2011, by the Ohio Department of Insurance. The current examination covered the intervening period ending December 31, 2016, and included a review of such 2017 and 2018 transactions as deemed necessary to complete the examination.

The examination of the company was conducted concurrently with the examination of affiliated companies domiciled in California, Georgia, Illinois, New York, and Texas, with Wisconsin acting in the capacity as the lead state for the coordinated examination.

The examination was conducted using a risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. This approach sets forth guidance for planning and performing the examination of an insurance company to evaluate the financial condition, assess corporate governance, identify current and prospective risks (including those that might materially affect financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately at the end of the "Financial Data" section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination.

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.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of the company's gross loss and loss adjustment expense reserves. The company has no net loss reserves because it cedes 100% of its writings to its parent, American Family Mutual Insurance Company (AFMIC), through a Quota Share Reinsurance Agreement. The actuary also reviewed the net loss and loss adjustment expense reserves of AFMIC, which includes the assumed loss and loss adjustment expense reserves from AFIC. The actuary's results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

The company was incorporated on November 21, 1995, under the laws of the state of Ohio and commenced business on January 1, 1996. The company is a wholly owned subsidiary of AFMIC through its downstream holding company, AmFam, Inc. Effective September 30, 2016, the company redomiciled from Ohio to Wisconsin.

AFMIC and its subsidiaries are collectively known as the “American Family Group.” AFIC shares common management with AFMIC, American Standard Insurance Company of Ohio (ASICO), American Standard Insurance Company of Wisconsin (ASICW), and American Family Life Insurance Company (AFLIC). Collectively, these five companies are referred to as the “American Family Subgroup.”

Formation of Mutual Holding Company

On May 23, 2016, the board of directors of the company’s ultimate parent, AFMIC, passed a resolution to reorganize AFMIC into a mutual holding structure, pursuant to s. 644.07 (2), Wis. Stat. As part of the proposed reorganization, AFMIC would form two new holding company entities: a mutual holding company, American Family Insurance Mutual Holding Company (AFIMHC), and a wholly owned subsidiary of AFIMHC, AmFam Holdings, Inc. (AmFam Holdings). AFMIC would then convert to a stock insurance company under the new name American Family Mutual Insurance Company, S.I. (AFMICSI). The proposed reorganization was subject to the approval of the Office of the Commissioner of Insurance (OCI) and policyholders as required by ss. 644.07 (7) and 644 (8), Wis. Stat.

On June 8, 2016, the company submitted documents to OCI proposing the restructuring. The OCI reviewed the proposed transaction and crafted a Stipulation and Order governing the proposed mutual holding company. The Stipulation and Order was accepted by AFMIC as part of the OCI’s approval of the transaction, which was granted on December 6, 2016. Policyholders voted to approve the transaction on December 7, 2016.

Effective January 1, 2017, AFMIC’s corporate structure was reorganized. As part of the reorganization, AFMIC converted to a stock insurer, changed its name to AFMICSI and issued three million shares of $1 par common stock to AmFam Holdings. AmFam Holdings issued 100% of its voting securities to AFIMHC, which became the ultimate controlling party of the American Family Group. Membership interest in AFMIC was replaced with membership interest in AFIMHC. Policyholders of AFIC and ASICO were also granted membership rights in AFIMHC. There are currently no plans for AFMICSI to sell stock publicly. However, if this were to happen at a future date, AmFam Holdings would be required to hold at least 51% of the stock of AFMICSI under s. 644.04 (3) (b), Wis. Stat.

In 2016, the company was licensed and wrote premium in 19 states. The following table is a breakdown of direct premium by state:

Ohio	$143,108,417	18.5%
Georgia	122,460,389	15.9
Colorado	119,817,168	15.5
Illinois	54,489,202	7.1
Arizona	51,930,345	6.7
All others	279,726,801	36.3
Total	$771,532,322	100.0%

The company is licensed and writes in the following states:

Arizona	Colorado	Georgia
Idaho	Illinois	Indiana
Iowa	Kansas	Minnesota
Missouri	Nebraska	Nevada
North Dakota	Ohio	Oregon
South Dakota	Utah	Washington
Wisconsin		

The major products marketed by the company are personal lines, including homeowners multiple peril, private passenger auto liability, and auto physical damage, which collectively account for 96% of the company's direct business.

Beginning in 2013, the American Family Subgroup initiated a state by state rollout of a new policy rating program for personal lines business. Prior to the rollout, the company only wrote business in Georgia and Ohio, as AFMIC was the primary underwriting company for the American Family Subgroup. Under the new rating program, AFIC replaced AFMIC as the primary writer for personal lines business. As a result, the company's direct written premium has increased significantly. It is now actively writing in 19 states.

Marketing of the company's products is accomplished through AFMIC's captive agency network. Agents are compensated by commissions with rates ranging from 5% to 15%, based on the type of business written and other variables.

The following table is a summary of the net insurance premiums written by the company in 2016. The growth of the company is discussed in the "Financial Data" section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Fire	$ 69,431	$ 0	$ 69,431	$0
Allied lines	162,261	0	162,261	0
Farmowners multiple peril	389,534	0	389,534	0
Homeowners multiple peril	163,316,184	0	163,316,184	0
Commercial multiple peril	14,627,130	0	14,627,130	0
Inland marine	78,025	0	78,025	0
Earthquake	655,845	0	655,845	0
Other accident and health	434,005	0	434,005	0
Workers' compensation	5,485,301	217,233	5,702,534	0
Other liability – occurrence	3,004,192	0	3,004,192	0
Products liability – occurrence	6,508	0	6,508	0
Private passenger auto liability	363,020,343	0	363,020,343	0
Commercial auto liability	2,905,073	0	2,905,073	0
Auto physical damage	217,358,496	0	217,358,496	0
Fidelity	9,274	0	9,274	0
Burglary and theft	10,720	0	10,720	0
Total All Lines	$771,532,322	$217,233	$771,749,555	$0

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of five members who are elected annually, each of whom is an officer of AFMIC. Officers are elected at the annual board meetings and are to hold those positions for a term of one year and until their successors are elected and qualified. As inside directors, they receive no additional compensation for serving on the board.

As of the date of this report the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
William B. Westrate Sun Prairie, WI	President American Family Mutual Insurance Company, S.I.	2019
Daniel J. Kelly Middleton, WI	Treasurer and Chief Financial Officer American Family Mutual Insurance Company, S.I.	2019
David C. Holman Verona, WI	Secretary and Chief Strategy Officer American Family Mutual Insurance Company, S.I.	2019
Gerry W. Benusa Waunakee, WI	Chief Sales Officer American Family Mutual Insurance Company, S.I.	2019
Jessica J. Stauffacher Deerfield, WI	Chief Operating Officer- American Family Agency American Family Mutual Insurance Company, S.I.	2019

Officers of the Company

The officers serving at the time of this examination are as follows:

Name	Office	2017 Compensation*
William B. Westrate	President	$2,906,030
Daniel J. Kelly	Chief Financial Officer, Treasurer	2,461,771
David C. Holman	Chief Strategy Officer, Secretary	1,778,321
Mark V. Afable	Chief Legal Officer	1,508,405

* Listed compensation is total gross earnings for services rendered to the American Family Group and includes amounts allocated to all affiliates.

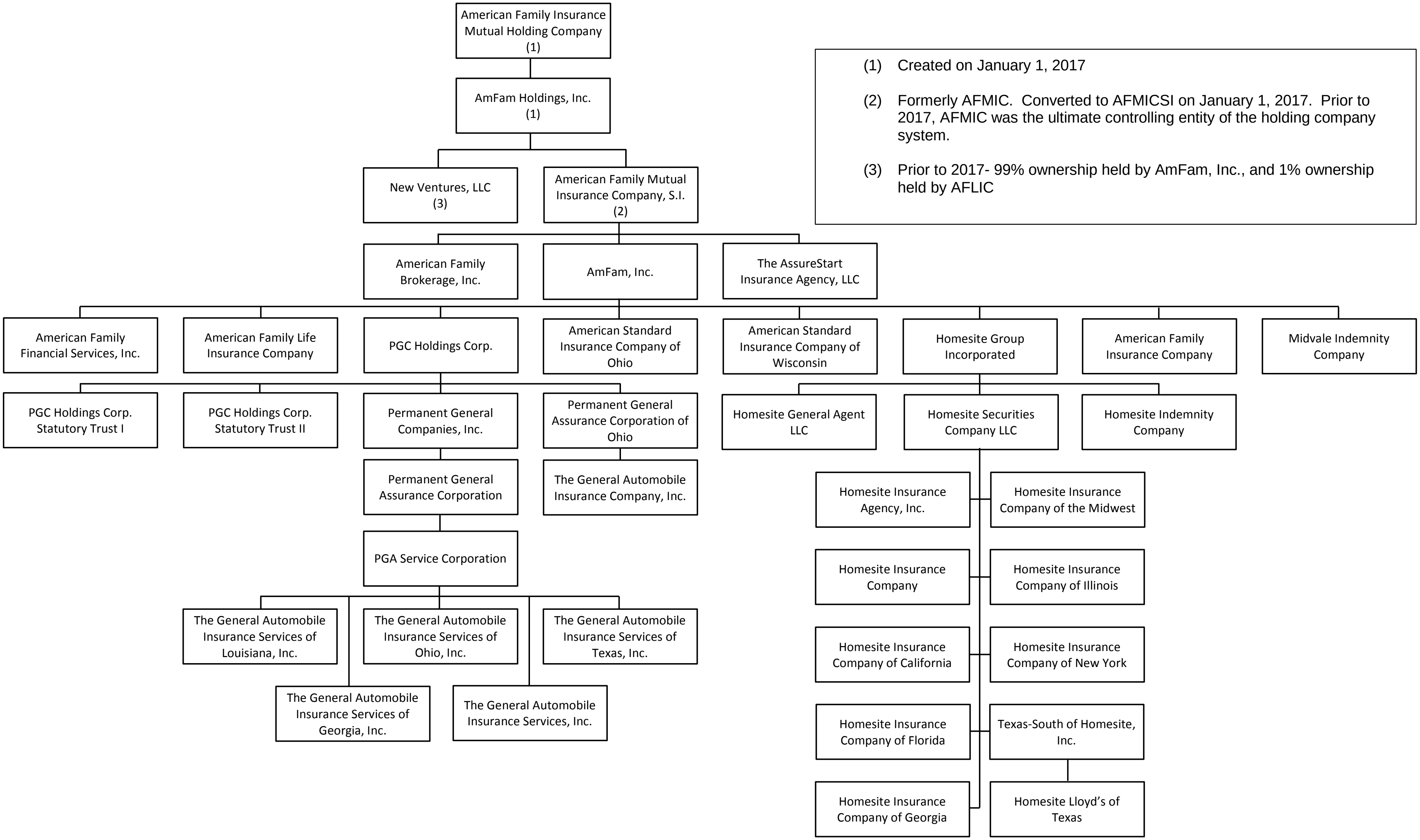
Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. There were no committees appointed by the board at the time of the examination. During the period under examination, AFMIC’s committees were responsible for company oversight. Subsequent to the creation of AFIMHC, all of the committees were disbanded and then reestablished under the bylaws of AFIMHC.

IV. AFFILIATED COMPANIES

American Family Insurance Company is a member of a holding company system. The organizational chart on the next page depicts the relationships among the affiliates in the group subsequent to the corporate reorganization that occurred January 1, 2017. A brief description of the significant affiliates follows the organizational chart.

Organization Chart
As of January 1, 2017



(1) Created on January 1, 2017

(2) Formerly AFMIC. Converted to AFMICSI on January 1, 2017. Prior to 2017, AFMIC was the ultimate controlling entity of the holding company system.

(3) Prior to 2017- 99% ownership held by AmFam, Inc., and 1% ownership held by AFLIC

American Family Mutual Insurance Company

American Family Mutual Insurance Company was organized in 1927. Prior to the creation of AFIMHC, AFMIC was the ultimate parent of the American Family Group. Effective January 1, 2017, in conjunction with the formation of a mutual holding company, AFMIC converted to stock insurer and changed its name to American Family Mutual Insurance Company, S.I.

The majority of AFMIC's direct writings consist of auto and homeowner's, but it also writes commercial lines. Direct business is produced through a captive agency force in 19 states. In 2016, AFMIC had various 100% quota share agreements in effect with certain property and casualty subsidiaries, which resulted in AFMIC assuming nearly all business from ASICO, ASICW, AFIC, Midvale Indemnity Company (Midvale), and the Homesite Group (a description of the Homesite Group is on page 14). Effective January 1, 2017, AFMICSI entered into a separate 100% quota share agreement which resulted in AFMICSI assuming all of the business written by the Permanent General Group (a description of the Permanent General Group is on page 14).

As of December 31, 2016, statutory-basis audited financial statements for AFMIC reported assets of $16.2 billion, liabilities of $9.3 billion, and policyholders' surplus of $6.9 billion. Operations for 2016 produced a net income of $212 million.

American Family Insurance Mutual Holding Company

American Family Insurance Mutual Holding Company was incorporated on January 1, 2017, under the provisions of ch. 644, Wis. Stat. AFIMHC is the ultimate controlling entity of AFMICSI. Membership of AFIMHC consists of policyholders of AFMICSI, AFIC, and ASICO.

AmFam Holdings, Inc.

AmFam Holdings, Inc., was incorporated on January 1, 2017, under the provisions of ch. 180, Wis. Stat. AmFam Holdings is an intermediate holding company wholly owned by AFIMHC. AmFam Holdings holds 100% of the membership interests of AFMICSI and New Ventures, LLC (New Ventures).

AmFam, Inc.

AmFam, Inc., was incorporated in 1981 to serve as a downstream holding company for the American Family Group. As of December 31, 2016, the audited GAAP consolidated financial statements for AmFam, Inc., reported assets of $10.2 billion, liabilities of $7.4 billion, and equity of $2.8 billion. Operations for 2016 produced a net income of $31.2 million.

American Family Brokerage, Inc.

American Family Brokerage, Inc. (AFBI), was incorporated in 1985 as an insurance agency and operates within all states. Its primary objective is to assist the company's agents in securing coverage for their clients when the coverage or limits are not available through the American Family Group. As of December 31, 2016, unaudited GAAP financial data for AFBI reported assets of $12.6 million, liabilities of $12.2 million, and equity of $375.8 thousand. Operations for 2016 produced a net loss of $3.5 million.

American Family Financial Services, Inc.

American Family Financial Services, Inc. (AFFS), was formed by American Family Group in 1969. Its original business purpose was to provide direct loans and leases, primarily to policyholders, through AFMIC's multi-line exclusive agency force. However, as of November 1, 2007, AFFS has discontinued writing new loans of any kind and is considering various options for the servicing and runoff of its existing loan portfolio. As of December 31, 2016, unaudited GAAP financial data for AFFS reported assets of $3.2 million, liabilities of $6.4 thousand, and equity of $3.2 million. Operations for 2016 produced a net income of $11.8 thousand.

New Ventures, LLC

New Ventures, LLC, was formed in 2010 and currently holds six strategic equity investments in non-insurance entities. New Ventures invests in early stage technology companies that can be used to compliment insurance products. As of December 31, 2016, unaudited GAAP financial data for New Ventures reported assets of $50.1 million, liabilities of $0, and equity of $50.1 million. Operations for 2016 produced a net income of $861.3 thousand.

Effective January 1, 2017, in conjunction with the corporate restructuring, New Ventures was transferred from AmFam, Inc., and AFLIC, which owned 99% and 1%, respectively, to AmFam Holdings, which is now the direct parent. In February 2017, AFMICSI contributed $50 million to New Ventures.

The AssureStart Insurance Agency, LLC

The AssureStart Insurance Agency, LLC (AssureStart), was acquired by AFMIC in 2013. AssureStart is a general agent that, in conjunction with its affiliates, sells the small commercial lines and personal auto products of its affiliates. As of December 31, 2016, unaudited GAAP financial data for AssureStart reported assets of $1.5 million, liabilities of $14.0 thousand, and equity of $1.5 million. Operations for 2016 produced a net income of $11.1 thousand.

American Family Life Insurance Company

American Family Life Insurance Company was incorporated in 1957. AFLIC is currently licensed in 49 states and the District of Columbia and writes primarily whole life, term life, and fixed universal life products. AFLIC markets its business through AFMIC's agency force. As of December 31, 2016, statutory-basis audited financial statements for AFLIC reported assets of $5.5 billion, liabilities of $4.5 billion (both amounts include $296 million from separate accounts), and surplus of $1.0 billion. Operations for 2016 produced a net income of $52.1 million.

American Standard Insurance Company of Wisconsin

American Standard Insurance Company of Wisconsin was incorporated in 1961 and is licensed in 23 states. ASICW’s direct writings consist of private passenger automobile and motorcycle insurance on risks which did not meet AFMIC’s underwriting standards. ASICW is no longer issuing new auto policies, as new auto policies are now predominantly underwritten by AFIC.

ASICW also participates in a non-affiliated assumed reinsurance program. The assumed reinsurance program targets broker-produced CAT business for carriers that write business familiar to the American Family Group and who operate outside of the group’s typical territory, which reduces geographic concentration of the group. The program focuses on property excess of loss reinsurance and participates in quota share agreements. Total assumed premium in 2016 was $126 million.

ASICW cedes 100% of its direct and assumed writings to AFMIC through a Quota Share Reinsurance Agreement. As of December 31, 2016, statutory-basis audited financial statements for ASICW reported assets of $402 million, liabilities of $58.6 million, and surplus of $343 million. Operations for 2016 produced a net income of $5.7 million, consisting solely of investment income.

American Standard Insurance Company of Ohio

American Standard Insurance Company of Ohio was incorporated in 1995. ASICO writes renewal business in Ohio as well as new and renewal business in Georgia. The primary products written by ASICO include homeowners and personal auto. ASICO cedes 100% of its direct writings to AFMIC under a Quota Share Reinsurance Agreement. ASICO markets its business through AFMIC's agency force. ASICO redomiciled from Ohio to Wisconsin effective September 30, 2016. As of December 31, 2016, statutory-basis audited financial statements for ASICO reported assets of $11.4 million, liabilities of $3.1 million, and surplus of $8.3 million. Operations for 2016 produced a net income of $262 thousand, consisting solely of investment income.

Midvale Indemnity Company

Midvale Indemnity Company was incorporated in 1970. It was acquired by AFMIC in 2012 under the name of Lumberman's Casualty Insurance Company (LCIC) for $15.3 million. LCIC changed its name to Midvale Indemnity Company in 2013. Midvale is currently licensed in all 50 states and the District of Columbia and writes commercial products including general liability and property insurance sold directly to small businesses online through AssureStart, an affiliated general agent. Midvale primarily cedes its direct writings to AFMIC under a 100% Quota Share Reinsurance Agreement. Midvale redomiciled from Illinois to Wisconsin effective November 16, 2017. As of December 31, 2016, statutory-basis audited financial statements for Midvale reported assets of $12.1 million, liabilities of ($1.0) million, and surplus of $13.1 million.

Operations for 2016 produced a net income of $370 thousand, consisting solely of investment income.

PGC Holdings Corp.

PGC Holdings Corporation (PGC Holdings) is a Delaware corporation that was acquired by AFMIC through AmFam, Inc., on December 31, 2012, for $241 million in cash. PGC Holdings is the direct parent of Permanent General Assurance Corporation of Ohio (PGACO), which in turn owns the General Automobile Insurance Company (GAIC). PGC Holdings is also the direct parent of Permanent General Companies, Inc., an intermediate holding company which owns Permanent General Assurance Corporation (PGAC). PGAC, PGACO, and GAIC are collectively known as the “Permanent General Group.”

The Permanent General Group specializes in private passenger non-standard automobile insurance, primarily to consumers interested in acquiring an insurance policy to comply with state-level minimum insurance requirements. The Permanent General Group writes in 46 states and the District of Columbia and relies heavily on television advertising to promote the purchase of products through their internet distribution channel and call centers. Effective August 31, 2017, the Permanent General Group redomiciled from Ohio to Wisconsin. As of December 31, 2016, combined statutory-basis audited financial statements for the Permanent General Group reported assets of $710 million, liabilities of $485 million, and equity of $225 million. Operations for 2016 produced a net loss of $30.5 million.

Effective January 1, 2017, the Permanent Group entered into a 100% quota share with AFMIC. PGACO and GAIC cede 100% to PGAC, which in turn, retrocedes 100% of its direct and assumed business to AFMIC.

Homesite Group Incorporated

Homesite Group Incorporated (HGI) is a Delaware corporation that was acquired by AFMIC through AmFam, Inc., on December 31, 2013, for $666 million in cash, including direct costs of the acquisition. The acquisition was partially financed by a $500 million advance from the Federal Home Loan Bank of Chicago (FHLBC), of which AFMIC is a member. The advance was executed on November 20, 2013. AFMIC pays monthly interest to the FHLBC at a fixed annual interest rate of 5.12%. The principal is due in a balloon payment at the end of the advance's 30-year term.

The purpose of the HGI acquisition was to broaden AFMIC's distribution channels and to expand its geographic footprint. HGI is an intermediate holding company which directly owns Homesite Indemnity Company and Homesite Securities Company LLC – another intermediate holding company. Homesite Securities Company LLC is the direct owner of Homesite Insurance Company of the Midwest (HICMW), Homesite Insurance Company, Homesite Insurance Company of Illinois, Homesite Insurance Company of New York (HICONY), Homesite Insurance Company of California, Homesite Insurance Company of Florida, Homesite Insurance Company of Georgia, and Texas-South of Homesite, Inc., which acts as the Attorney-in-Fact for Homesite Lloyd's of Texas. These nine insurance companies are collectively known as the "Homesite Group." The Homesite Group specializes in direct-to-consumer homeowners, renters, and condominium insurance. Its products are marketed nationally through its website, call centers, and partnerships with large financial institutions.

The Homesite Group participates in a 100% quota share with AFMIC. Each of the individual Homesite companies cedes 100% to HICMW, excluding HICONY which cedes 80%, and then HICMW retrocedes 100% of the direct and assumed business to AFMIC. In 2016 HICMW ceded premium of $1.05 billion to AFMIC.

Agreements with Affiliates

The company has agreements with affiliates regarding sales of premium receivables, cost sharing, and tax allocation as detailed below. Additionally, the company has affiliated reinsurance agreements which are described in Section V of the report titled "Reinsurance."

Sale of Premium Receivables

Effective January 1, 2000, AFMIC entered into separate agreements with AFIC, ASICW, and ASICO for the sale, assignment, and transfer of each company's premium receivable. Under the terms of the agreements, receivables are purchased at the end of each month and settlement occurs within five days thereafter.

Intercompany Services and Cost Allocation Agreement

Effective January 1, 2013, AFMIC entered into an Amended and Restated Intercompany Services and Cost Allocation Agreement with AFIC, AFLIC, ASICO, ASICW, AFFS, AFBI, Midvale, New Ventures, and AmFam, Inc. The agreement was amended in 2017 and 2018 to reflect AFMIC's name change to AFMICSI as well as to add AFIMHC, AmFam Holdings, AssureStart, American Family Dreams Foundation, Inc., PGC Holdings, HGI, SHGI Corp., Moonrise, Inc., and Networked Insights, Inc. According to the terms of the most recent agreement, each party may provide goods, third party services, and management services to other parties of the agreement. Each service recipient shall be charged with its allocable share of the service provider's actual costs incurred. Charges incurred are to be settled quarterly on a net basis, with the settlement date being no later than the 30th day following the end of each calendar quarter.

Tax Allocation Agreement

Effective April 29, 2002, AFMIC entered into a tax allocation agreement with AFIC, AFLIC, ASICO, ASICW, AFFS, AFBI, and AmFam, Inc. The agreement was later amended multiple times to reflect the additions of PGC Holdings, Midvale, and HGI to the agreement. The agreement was most recently amended, effective January 1, 2017, to include AFIMHC, AmFam Holdings, SHGI Corp., Moonrise, Inc., and Networked Insights, Inc.

The agreement provides the basis for computation and the method of settlement of federal income tax payments and refunds within the American Family Group. Under this agreement, AFMIC prepares and files a consolidated federal income tax return that includes all affiliates of the holding company group. Final settlement is due within 30 days of the filing of the consolidated federal tax return.

Agency Agreement

Effective May 18, 2016, AFIC entered into an Agency Agreement with Homesite Insurance Agency, Inc. Under the Agency Agreement, AFIC appoints HIA as its agent. HIA is granted the authority to solicit potential customers on behalf of AFIC and to facilitate the quote and application process for the purpose of selling AFIC personal lines insurance policies. HIA is authorized to bind coverage on behalf of AFIC, subject to AFIC's underwriting standards. Compensation for HIA's services is limited to the reimbursement received from HGI.

Stipulation and Order

AFIC was granted a Wisconsin Certificate of Authority effective December 9, 2015. Prior to being issued a Wisconsin license, OCI required AFIC and AFMIC to enter into a Stipulation and Order in order to address AFIC's direct premium written to surplus ratio. Insurers licensed in Wisconsin are required to maintain the ratio of direct premium written to surplus of 800% or below. The Stipulation and Order dated December 7, 2015, requires AFMIC to contribute additional capital to AFIC in order to achieve and maintain an 800% direct premium written to surplus ratio in the event of the occurrence of any one of the nine specific triggering events.

V. REINSURANCE

The company's reinsurance portfolio and strategy is described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows. The contracts contained proper insolvency provisions.

Affiliated Ceded Reinsurance

American Family Insurance Company cedes 100% of its direct and assumed writings to AFMIC through an Amended and Restated Quota Share Agreement. Under the terms of the agreement, AFIC cedes 100% of its losses, net of third party reinsurance to AFMIC. In 2016, the company ceded premium of $771 million to AFMIC. This business represented approximately 10% of AFMIC's gross written premium.

Nonaffiliated Ceded Reinsurance

1. Type: Property Facultative

   Reinsurer: General Reinsurance Corporation

   Term: April 1, 2017 to April 1, 2018

   Scope: All property business with certain named exclusions.

Class of Business	Retention	Limits of Reinsurer Liability
Property Business		
Without Earthquake Peril	15,000,000	50,000,000
With Earthquake Peril	15,000,000	20,000,000

   Premium: The product of the original reinsured limits (original total insured value less the company retention) and a net rate of $0.02 and $0.01 per $100 of limit, without or with earthquake peril, respectively.

   Termination: Either party may terminate with 90 days' prior written notice of cancellation to the other party.

2. Type: Commercial Umbrella Liability Excess of Loss

   Reinsurer: Munich Reinsurance America, Inc.

   Term: July 1, 2016 to July 1, 2018

   Scope: All policies with limits greater than $5 million and classified by the company as commercial liability umbrella or commercial blanket excess liability with certain named exclusions.

   Retention: $5 million each occurrence or offense

   Coverage: $10 million excess of $5 million each occurrence

Premium:	100% of the subjected gross net written premiums
Commissions:	29% of the subjected gross net written premiums
Termination:	July 1, 2018. The terms of the agreement are open to review by both parties in the event of a material change. In the event of a material change, both parties agree to renegotiate. If an agreement cannot be reached, either party may terminate the agreement at the end of the 12 month period beginning July 1, 2016.

3. Type: Worker's Compensation Excess of Loss

Term: July 1, 2017 to July 1, 2018

Scope: All business classified as Workers' Compensation and Employer's Liability

	First Layer	Second Layer	Third Layer
Retention: (Each occurrence)	$ 2 million	$5 million	$10 million
Coverage:	$ 3 million	$5 million	$10 million
Premium			
Deposit:	$1,514,905	$670,103	$ 438,706
Minimum:	1,211,924	536,082	386,965
Rate:	2.85%	1.26%	.91%

Intermediary: Willis Re Inc.

Termination: The company may terminate subscribing reinsurer's share at any time by giving 30 days written notice to the subscribing reinsurer in the event that certain named circumstances occur.

Reinsurer: As of July 1, 2017, participation was as follows:

	Participation Percentages		
Reinsurer	First Layer	Second Layer	Third Layer
BGS Services (Bermuda Limited for and on Behalf of Lloyd's Syndicate No. 2987)	10.00	10.00	2.50
Munich Reinsurance America, Inc.	20.00	0.00	0.00
Odyssey Reinsurance Company	10.00	5.00	0.00
Safety National Casualty Corporation	10.00	0.00	10.00
XL Reinsurance America, Inc.	30.00	32.00	20.00
Aspen Insurance UK Limited	8.00	10.00	10.00
Brit Syndicate 2987	7.00	7.00	7.00
Acappella Syndicate 2014	5.00	5.00	5.00
Faraday Syndicate 0435	0.00	6.00	17.50
Markel Syndicate 3000	0.00	6.00	10.00
Advent Syndicate 0780	0.00	4.00	8.00
Chaucer Syndicate 1084	0.00	15.00	10.00
Total	100.00%	100.00%	100.00%

Catastrophe Reinsurance

AFMIC purchases property catastrophe and aggregate stop loss reinsurance coverage for itself and on behalf of all its P&C subsidiaries, including Midvale, Homesite Group, and Permanent General Group. Contracts are placed on a rolling two- or three- year period, which results in only a portion of the contract placement expiring each year. Depending on the contract, the company utilizes Aon Benfield or Guy Carpenter as its reinsurance intermediary. Contracts are placed through a group of high-quality domestic and foreign reinsurers.

As of January 2017, the group's catastrophe excess of loss reinsurance has three layers, with placements between 85.775% and 95% and with coverage of $1.5 billion in excess of $300 million retention (see contract 1). One caveat is the first layer does not provide coverage for Named Storms (i.e., hurricanes). Named Storms are covered by a separate treaty which provides 95% coverage of $350 million in excess of $300 retention (see contract 2).

The group's 2017 aggregate stop loss reinsurance consists of a single year contract (see contract 3) and a multiyear contract covering 2017-2018 (see contract 4). The 2017 program provides 95% coverage of $350 million in excess of aggregate losses of $1.2 billion. Named Storms occurring in coastal states are not covered by the aggregate stop loss contracts.

1.	Type:	Property Catastrophe Excess of Loss
	Term:	January 1, 2017 to January 1, 2020
	Scope:	All business classified by the company as fire, allied lines, farmowners (property perils only), homeowners including mobile home and boat owners (property perils only), business owners (property perils only), commercial package (property perils only), and automobile physical damage with certain named exclusions. Note: First layer excludes coverage for losses arising out of any Named Storm (Named Storms are covered under contract #2)

Retention and Limit:

	First Layer (Retention will be $300,000,000)		Second Layer (Retention will be $650,000,000)		Third Layer (Retention will be $1,000,000,000)	
Contract Year	Reinsurers' Per Occurrence Limit	Reinsurer's Annual Aggregate Limit	Reinsurers' Per Occurrence Limit	Reinsurer's Annual Aggregate Limit	Reinsurers' Per Occurrence Limit	Reinsurer's Annual Aggregate Limit
First (2017)	$350,000,000 part of $350,000,000	$700,000,000 part of $700,000,000	$350,000,000 part of $350,000,000	$700,000,000 part of $700,000,000	$500,000,000 part of $500,000,000	$1,000,000,000 part of $1,000,000,000
Second (2018)	233,333,333 part of 350,000,000	466,666,666 part of 700,000,000	233,333,333 part of 350,000,000	466,666,666 part of 700,000,000	333,333,333 part of 500,000,000	666,666,666 part of 1,000,000,000
Third (2019)	116,666,667 part of 350,000,000	233,333,334 part of 700,000,000	116,666,667 part of 350,000,000	233,333,334 part of 700,000,000	166,666,667 part of 500,000,000	333,333,334 part of 1,000,000,000

Note: Since this is a rolling three-year contract, one third placement expires at the end of each year. New terms would then be negotiated each year for the expired portion of the contract resulting in the company having the desired overall placement.

Premium:

	First Layer			**Second Layer**			**Third Layer**		
Contract year	Annual Deposit Premium	Premium Rate	Annual Minimum Premium	Annual Deposit Premium	Premium Rate	Annual Minimum Premium	Annual Deposit Premium	Premium Rate	Annual Minimum Premium
First (2017)	$23,450,000	0.6095%	$18,760,000	$13,650,000	0.3548%	$10,920,000	$12,000,000	0.3119%	$9,600,000
Second (2018)	15,633,333	0.4063	12,506,667	9,100,000	0.2365	7,280,000	8,000,000	0.2079	6,400,000
Third (2019)	7,816,667	0.2032	6,253,333	4,550,000	0.1183	3,640,000	4,000,000	0.1040	3,200,000

Intermediary: Aon Benfield, Inc.

Termination: The company may terminate any reinsurer's participation hereon at any time by giving prior written notice to said reinsurer upon the happening of certain named circumstances.

Reinsurer: As of January 1, 2017, participation was as follows:

Reinsurer	First Layer	Second Layer	Third Layer
	Participation Percentages		
Allied World Assurance Company, Ltd.	1.000%	1.000%	1.000%
Arch Reinsurance Ltd.	0.000	0.500	1.000
Argo Re Ltd.	0.000	1.500	1.500
Ariel Re Bda Limited For and on behalf of Ariel Syndicate No. 1910	1.250	2.000	2.000
Aspen Bermuda Limited	2.000	2.000	2.000
BGS Services (Bermuda) Limited For and on behalf of Lloyd's Syndicate No. 2987	0.500	1.000	1.000
Chubb Tempest Reinsurance Ltd.	1.000	1.500	0.500
DaVinci Reinsurance Ltd.	0.000	0.300	0.400

Endurance Specialty Insurance Ltd.	6.000	8.000	8.000
Everest Reinsurance Company	1.000	3.000	2.500
Fidelis Insurance Bermuda Limited	2.500	6.500	5.500
General Reinsurance Corporation	1.000	1.000	1.000
Hamilton Re, Ltd.	2.500	2.500	2.500
Hannover Rück SE	2.000	2.500	2.000
Hiscock Insurance Company (Bermuda) Limited	1.000	1.500	1.500
Humboldt Re Limited	1.000	1.000	1.000
Kelvin Re Limited	1.000	1.000	1.000
Länsförsäkringar Sak Försäkringsaktiebolag (publ)	0.000	0.000	0.200
Mapfre Re, Compañia De Reaseguros, S.A.	2.000	2.000	2.000
Markel Bermuda Limited	0.000	0.500	2.850
Munich Reinsurance America, Inc.*	0.500	3.000	0.000
Odyssey Reinsurance Company	0.000	5.000	10.000
Partner Reinsurance Company Ltd.	0.000	0.000	1.000
Qatar Reinsurance Company Limited	0.000	1.000	1.200
QBE Re (Europe) Limited, Bermuda Branch	1.000	1.000	1.000
QBE Reinsurance Corporation	1.000	1.000	1.000
R+V Versicherung AG	2.000	2.000	1.500
Renaissance Reinsurance Ltd.	0.000	0.450	0.600
Swiss Reinsurance America Corporation	25.000	6.500	0.000
Tokio Millennium Re AG (Bermuda Branch)	0.000	0.000	1.500
Transatlantic Reinsurance Company	1.000	1.000	1.000
Ascot Underwriting (Bermuda) Limited For and on behalf of American International Reinsurance Company, Ltd.	5.250	0.000	0.000
XL Bermuda Ltd	0.000	1.000	0.750
MS Amlin AG Bermuda Branch	1.500	0.750	0.750
Taiping Reinsurance Co. Ltd.	0.000	0.000	0.500
Lloyd's Underwriters and Companies	31.170	23.775	32.750
SCOR Global P&C SE, Paris, Zurich Branch	0.000	0.000	2.000
Total	94.170%	85.775%	95.000%

2. Type: Property Catastrophe Excess of Loss

Effective Date: Section A: January 1, 2017 to January 1, 2018
Section B: January 1, 2017 to January 1, 2019
Section C: January 1, 2017 to January 1, 2020

Scope: All business classified by the Company as Property business, including Automobile Physical Damage, in force at the inception of the Contract, or written or renewed during the term of the Contract by or on behalf of the Company, subject to the terms and conditions set forth in the Contract.

Retention: Company’s retention is $300 million per occurrence

Coverage: $350 million in excess of $300 million, with an annual aggregate loss of $700 million per contract year.

Premium:

Contract year	Annual Deposit Premium	Premium Rate	Minimum Premium
Section A (2017-2018)	$13,125,000	0.8049%	$10,500,000
Section B (2017-2019)	TBD*	0.8049	TBD*
Section C (2017-2020)	TBD*	0.8049	TBD*

*The Annual Minimum Premium for the second and third contract year shall equal 80% of the Annual Deposit Premium for the same contract year. The Annual Deposit Premium shall equal the Premium Rate times the estimated Gross Net Earned Premium Income for the same contract year.

Intermediary: Guy Carpenter & Company, LLC

Termination: The company may terminate any reinsurer's participation hereon at any time by giving prior written notice to said reinsurer upon the happening of certain named circumstances.

Reinsurer: As of January 1, 2017, participation was as follows:

	Participation Percentages		
Reinsurer	First Year	Second Year	Third Year
Arch Reinsurance Ltd.	1.251%	0.834%	0.417%
Argo Re Ltd.	0.999	0.666	0.333
Ariel Re Bda Limited For and on behalf of Lloyd's Syndicate No. 1910	1.248	0.832	0.416
Aspen Bermuda Limited	1.998	1.332	0.666
BGS Services (Bermuda) Limited For and on behalf of Lloyd's Syndicate No. 2987	0.999	0.666	0.333
China P&C Reinsurance Co. Ltd.	0.999	0.666	0.333
Chubb Tempest Reinsurance Ltd.	0.999	0.666	0.333
DaVinci Reinsurance Ltd.	0.501	0.334	0.167
Endurance Specialty Insurance Ltd.	4.200	2.800	1.400
Everest Reinsurance Company	9.750	6.500	3.250
Fidelis Insurance Bermuda Limited	6.000	4.000	2.000
Hamilton Re, Ltd.	2.490	1.660	0.830
Hannover Rück SE	1.998	1.332	0.666
Hiscox Insurance Company (Bermuda) Limited	0.750	0.500	0.250
Mapfre Re, Compañia De Reaseguros, S.A.	1.998	1.332	0.666
Markel Bermuda Limited	0.999	0.666	0.333
Munich Reinsurance America, Inc.	2.475	1.650	0.825
Odyssey Reinsurance Company	2.499	1.666	0.833
Partner Reinsurance Company Ltd.	1.980	1.320	0.660
Qatar Reinsurance Company Limited	2.142	1.428	0.714
QBE Reinsurance Corporation	0.999	0.666	0.333
R+V Versicherung AG	1.500	1.000	0.500
Renaissance Reinsurance Ltd.	1.500	1.000	0.500
Swiss Reinsurance America Corporation	4.500	3.000	1.500
Tokio Millennium Re AG (Bermuda Branch)	0.999	0.666	0.333
Transatlantic Reinsurance Company	0.501	0.334	0.167
Ascot Underwriting (Bermuda) Limited For and on behalf of American International Reinsurance Company, Ltd.	3.498	2.332	1.166
XL Bermuda Ltd	1.749	1.166	0.583
MS Amlin AG Bermuda Branch	0.999	0.666	0.333

Lloyd's Underwriters and Companies	23.979	15.986	7.993
Certain Insurance Companies On Whose Behalf This Agreement Has Been Signed*	6.501	4.334	2.167
SCOR Global P&C SE, Paris, Zurich Branch	2.001	1.334	0.667
Total	95.001%**	63.334%**	31.667%**

*Companies on the signing pages: Houston Casualty Company, Markel International Insurance Company Limited, Lancashire Insurance Company Limited.

**Since this is a rolling three-year contract, one third placement expires at the end of each year. New terms would then be negotiated for the following year resulting in the company having 95% placement during each contract year.

3. Type: Underlying Catastrophe Aggregate Stop Loss

Effective Date: January 1, 2017 to January 1, 2018

Scope: All business and perils classified by the company as fire, allied lines, farmowners (property perils only), homeowners including mobile home and boat owners (property perils only), business owners (property perils only), commercial package (property perils only), and automobile physical damage with certain named exclusions. Excludes coverage for losses arising out of any Named Storm in any coastal state.

Retention: Company’s retention is $1.2 billion

Coverage: $350 million in excess of $1.2 billion

Premium:
- Deposit: $ 40,250,000
- Minimum: 32,200,000
- Rate: 1.0511%

Intermediary: Aon Benfield, Inc.

Termination: The company may terminate any reinsurer’s participation hereon at any time by giving prior written notice to said reinsurer upon the happening of certain named circumstances.

Reinsurer: As of January 1, 2017, participation was as follows:

Reinsurer	Participation
Allianz Risk Transfer AG (Bermuda Branch)	3.3300%
Arch Reinsurance Ltd.	2.0000
BGS Services (Bermuda) Limited for and on behalf of Lloyd's Syndicate No. 2987	1.0000
China Property & Casualty Reinsurance Company Limited	1.0000
DaVinci Reinsurance Ltd.	0.2000
Hamilton Re, Ltd.	1.0000
Hiscox Insurance Company (Bermuda) Limited	6.0000
Hiscox Insurance Company (Bermuda) Limited	5.0000*
Hiscox Re ILS Ltd.	5.0000*
R+V Versicherung AG	3.0000
Renaissance Reinsurance Ltd.	0.3000

Ascot Underwriting (Bermuda) Limited for and on behalf of American International Reinsurance Company, Ltd.	1.2500
MS Amlin AG Bermuda Branch	2.6250
General Insurance Corporation of India	1.4345
Houston Casualty Company	1.3000
Markel International Insurance Company Limited	1.5000
Lancashire Insurance Company Limited	1.0000
Various Lloyd's Syndicates	23.6500
Total	55.5895%

*Hiscox Insurance Company (Bermuda) Limited participates in two separate placements. One placement is at 6% and the other placement is split with Hiscox Re ILS Ltd. For the split placement, Hiscox Re ILS Ltd. provides coverage of $150 million in excess of $1.2 billion and Hiscox Insurance Company (Bermuda) Limited provides coverage of $200 million in excess of $1.35 billion. Both agreements are placed at 5%.

4. Type: Underlying Catastrophe Aggregate Stop Loss

Effective Date: January 1, 2017 to January 1, 2019
January 1, 2017 to January 1, 2018

Scope: All business and perils classified by the company as fire, allied lines, farmowners (property perils only), homeowners including mobile home and boat owners (property perils only), business owners (property perils only), commercial package (property perils only), and automobile physical damage with certain named exclusions. Excludes coverage for losses arising out of any Named Storm in any coastal state.

Retention: Company is liable for the first $1.2 billion of aggregate losses during each contract year

Coverage: Contract Year:
2017- $350 million part of $350 million in excess of $1.2 billion
2018- $175 million part of $350 million in excess of $1.2 billion

Rate and Premium:

Contract year	Annual Deposit Premium	Premium Rate	Minimum Premium
First (2017)	$40,250,000	1.0511%	$32,200,000
Second (2018)	20,125,000	0.5256	16,100,000

Intermediary: Aon Benfield, Inc.

Termination: The company may terminate any reinsurer’s participation hereon at any time by giving prior written notice to said reinsurer upon the happening of certain named circumstances.

Reinsurer: As of January 1, 2017, participation was as follows:

Reinsurer	Participation
Chubb Tempest Reinsurance Ltd.	5.7142%
Collateralized Re Ltd.*	5.7142
Everest Reinsurance Company	2.5000
Fidelis Insurance Bermuda Limited	1.0000
Hannover Rück SE*	1.0000
Länsförsäkringar Sak Forsäkringsaktiebolag (publ)	0.1500
Mapfre Re, Compañia De Reaseguros, S.A.	2.0000
Munich Reinsurance America, Inc.*	3.0000
Qatar Reinsurance Company Limited	2.8571
Tokio Millennium Re AG (Bermuda Branch)	6.0000
Tokio Millennium Re AG, Bermuda Branch (Credit Suisse Business)	4.0000
MS Amlin AG Bermuda Branch	0.8750
Pioneer Underwriting Limited on behalf of Peak Reinsurance Company Limited	0.6000
Lloyd's Underwriters Per Signing Page	4.0000
Total	39.4105%

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2016, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination." Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation.

American Family Insurance Company
Assets
As of December 31, 2016

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$28,062,140	$0	$28,062,140
Cash, cash equivalents, and short-term investments	8,647,304	0	8,647,304
Receivables for securities	2,096	0	2,096
Investment income due and accrued	371,390	0	371,390
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	(8,268)	0	(8,268)
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	57,064	0	57,064
Reinsurance:			
Amounts recoverable from reinsurers	1,486,850	0	1,486,850
Current federal and foreign income tax recoverable and interest thereon	95,694	0	95,694
Total Assets	$38,714,270	$0	$38,714,270

American Family Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2016

Reinsurance payable on paid loss and loss adjustment expenses		$ 22,586
Taxes, licenses, and fees (excluding federal and foreign income taxes)		110
Net deferred tax liability		6,664
Advance premium		2,024,391
Ceded reinsurance premiums payable (net of ceding commissions)		3,285,027
Amounts withheld or retained by company for account of others		(7,905)
Remittances and items not allocated		103,662
Drafts outstanding		6,389,665
Payable to parent, subsidiaries, and affiliates		3,052,724
All Other Liabilities		220,575
Total Liabilities		15,097,499
Common capital stock	$ 3,000,000	
Gross paid in and contributed surplus	7,241,333	
Unassigned funds (surplus)	13,375,438	
Surplus as Regards Policyholders		23,616,771
Total Liabilities and Surplus		$38,714,270

American Family Insurance Company
Summary of Operations
For the Year 2016

Investment Income		
Net investment income earned	$609,854	
Net realized capital gains (losses)	(78,782)	
Net investment gain (loss)	$531,072	
Net income (loss) before federal and foreign income taxes		$531,072
Federal and foreign income taxes incurred		(53,661)
Net Income		$584,733

American Family Insurance Company
Cash Flow
For the Year 2016

Premiums collected net of reinsurance			$12,444,968
Net investment income			576,099
Total			13,021,067
Benefit- and loss-related payments		$(3,751,441)	
Commissions, expenses paid, and aggregate write-ins for deductions		(220)	
Federal and foreign income taxes paid (recovered)		(47,015)	
Total deductions			(3,798,676)
Net cash from operations			16,819,743
Proceeds from investments sold, matured, or repaid:			
Bonds		5,243,806	
Cost of investments acquired (long-term only):			
Bonds	$9,481,023		
Miscellaneous applications	285		
Total investments acquired		9,481,308	
Net cash from investments			(4,237,502)
Cash from financing and miscellaneous sources:			
Capital and paid in surplus less treasury stock		(2)	
Other cash provided (applied)		(9,218,678)	
Net cash from financing and miscellaneous sources			(9,218,680)
Reconciliation:			
Net Change in Cash, Cash Equivalents, and Short-Term Investments			3,363,561
Cash, cash equivalents, and short-term investments:			
Beginning of year			5,283,743
End of Year			$ 8,647,304

American Family Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2016

Assets		$38,714,270
Less liabilities		15,097,499
Adjusted surplus		23,616,771
Annual premium:		
Lines other than accident and health	$ 0	
Factor	20%	
Compulsory surplus (subject to a minimum of $2 million)		2,000,000
Compulsory Surplus Excess (Deficit)		$21,616,771
Adjusted surplus (from above)		$23,616,771
Security surplus (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum factor of 110%)		2,800,000
Security Surplus Excess (Deficit)		$20,816,771

American Family Insurance Company
Analysis of Surplus
For the 5-Year Period Ending December 31, 2016

The following schedule details items affecting surplus during the period under examination as reported by the company in its filed annual statements:

	2016	**2015**	**2014**	**2013**	**2012**
Surplus, beginning of year	$23,021,048	$17,205,409	$16,383,356	$15,646,539	$14,610,244
Net income	584,733	825,312	830,036	736,817	1,036,295
Change in net deferred income tax	(9,426)	(55,283)	1,142	5,276	15,543
Change in nonadmitted assets	20,418	45,610	(9,125)	(5,276)	(15,543)
Capital changes:					
Paid in	0	2,000,000	0	0	0
Surplus adjustments:					
Paid in	(2)	3,000,000	0	0	0
Surplus, End of Year	$23,616,771	$23,021,048	$17,205,409	$16,383,356	$15,646,539

In 2015 the company issued an additional 200 shares of $10,000 par common stock to AmFam Inc., for $5 million.

American Family Insurance Company
Insurance Regulatory Information System
For the *5*-Year Period Ending December 31, 2016

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

	Ratio	**2016**	**2015**	**2014**	**2013**	**2012**
#1	Gross Premium to Surplus	3,268%*	1,581%*	1,497%*	1,353%*	1,233%*
#2	Net Premium to Surplus	0	0	0	0	0
#3	Change in Net Premiums Written	0	0	0	0	0
#4	Surplus Aid to Surplus	0	0	0	0	0
#5	Two-Year Overall Operating Ratio	0	0	0	0	0
#6	Investment Yield	1.8*	2.9*	3.9	3.9	4.2
#7	Gross Change in Surplus	3	34	5	5	7
#8	Change in Adjusted Surplus	3	5	5	5	7
#9	Liabilities to Liquid Assets	41	40	36	30	27
#10	Agents' Balances to Surplus	0	0	0	0	0
#11	One-Year Reserve Development to Surplus	0	0	0	0	0
#12	Two-Year Reserve Development to Surplus	0	0	0	0	0
#13	Estimated Current Reserve Deficiency to Surplus	0	0	0	0	0

Ratio No. 1 measures the amount of gross premium written as a percentage of surplus. The company reported an exceptional ratio each year during the period under examination, with a significant increase in 2016, due to the company writing significantly more business. A discussion of the company's growth is included in the next section.

Ratio No. 6 measures the amount of the company's net investment income as a percentage of the average amount of cash and invested assets. The company reported an exceptional ratio in 2015 and 2016. The exceptional ratio is primarily due to the low interest rate environment. The company's investment yield was comparable to the industry average, which stayed at approximately 2.4% during the period under examination.

Growth of American Family Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2016	$38,714,270	$15,097,499	$23,616,771	$ 584,733
2015	35,067,877	12,046,829	23,021,048	825,312
2014	25,922,964	8,717,555	17,205,409	830,036
2013	23,043,000	6,659,644	16,383,356	736,817
2012	22,148,507	6,501,968	15,646,539	1,036,295
2011	28,301,120	13,690,876	14,610,244	888,773

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2016	$771,749,555	$0	$0	0.0%	0.0%	0.0%
2015	363,921,006	0	0	0.0	0.0	0.0
2014	257,535,081	0	0	0.0	0.0	0.0
2013	221,661,020	0	0	0.0	0.0	0.0
2012	192,884,370	0	0	0.0	0.0	0.0
2011	176,588,003	0	0	0.0	0.0	0.0

As noted previously, the company cedes 100% of its writings to AFMIC and therefore has no net premium. Beginning in 2013, the American Family Subgroup began a rollout of a new policy rating program for P&C business written by the subgroup. Under the new program, AFIC became the primary underwriter of personal lines business produced by the American Family

Subgroup. Previously AFIC only wrote business in Ohio and Georgia. As a result, the company's direct premium increased substantially.

Due to the quota share with AFMIC, the company's sole source of income is from investment returns. There was a significant increase in surplus in 2015 as the company received a $5 million capital contribution million from AmFam, Inc. During the period under examination the company's assets and policyholder surplus increased 37% and 62%, respectively.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2016, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were no recommendations in the previous examination report.

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

Investments

Custodial agreements of Wisconsin-domiciled companies must comply with guidelines contained in the NAIC's Financial Condition Examiners Handbook. The review of the custodial agreement with The Northern Trust Company (Northern Trust) revealed that the agreement omitted one of the suggested clauses as contained in the NAIC's Financial Condition Examiners Handbook to ensure proper controls and safeguards. The following clause was missing from the Northern Trust agreement:

1. If the custodian agreement has been terminated or if 100% of the account assets in any one custody account have been withdrawn, the custodian shall provide written notification, within three business days of termination or withdrawal, to the insurer's domiciliary commissioner.

It is recommended that the company revise its custodial agreement to include the guideline provisions contained in the NAIC's Financial Condition Examiners Handbook.

VIII. CONCLUSION

American Family Insurance Company is a stock insurance company incorporated on November 21, 1995. It is part of the American Family Group, which underwent a corporate reorganization and formed a mutual holding company, effective January 1, 2017. The company redomiciled from Ohio to Wisconsin effective September 30, 2016.

The major products marketed by the company are personal lines, including homeowners multiple peril, private passenger auto liability, and auto physical damage, which collectively account for 96% of the company's direct business.

Due to the quota share agreement with AFMIC, the company's sole source of income is from investment returns. A net income was reported each year during the examination period. As a result, assets increased 37% to $38.7 million, and policyholder surplus increased 62% to $23.6 million.

The current examination resulted in one recommendation.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 36 - Investments—It is recommended that the company revise its custodial agreement to include the guideline provisions contained in the NAIC's Financial Condition Examiners Handbook.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Jacob Burkett	Insurance Financial Examiner
John Coyle	Insurance Financial Examiner
Nick Hartwig	Insurance Financial Examiner
Diana Havitz	Insurance Financial Examiner
Greg Mielke	Insurance Financial Examiner
James Vanden Branden	Insurance Financial Examiner
Xiaozhou (Zoey) Ye	Insurance Financial Examiner
David Jensen, CFE	IT Specialist
Eleanor Lu	IT Specialist
Jerry DeArmond, CFE	Reserve Specialist
Karl Albert, CFE	Workpaper Specialist

Respectfully submitted,

Levi Olson
Examiner-in-Charge