

## **FIVE YEAR BUSINESS PLAN**

*The following sets forth a business plan for AFI MHC's first five (5) years of operation, submitted pursuant to Wis. Stat. § 644.07(4)(b)(6).*

See attached.

## FIVE-YEAR BUSINESS PLAN

As a mutual holding company, AFI MHC will conduct no business operations other than those associated with its role as the sole shareholder of AmFam Holdings, Inc., which will conduct no business operations other than those associated with its role as the sole shareholder of Converted AFMIC and the sole member of New Ventures, LLC. Accordingly, as the business plan for AFI MHC, American Family Mutual Insurance Company submits a five year business plan for Converted AFMIC for 2016-2020, as if the MHC Conversion was effective on January 1, 2016.

AFMIC participates in a 100% quota share reinsurance agreement with the following affiliated companies:

- American Family Insurance Company
- American Standard Insurance Company of Wisconsin
- American Standard Insurance Company of Ohio
- Midvale Indemnity Company
- Homesite Insurance Company of the Midwest (HMW)

These companies, less HMW, are collectively referred to as the “American Family Brand.”

HMW participates in a 100% quota share reinsurance agreement with the following seven affiliated companies:

- Homesite Indemnity Company
- Homesite Insurance Company
- Homesite Insurance Company of California
- Homesite Insurance Company of Florida
- Homesite Insurance Company of Georgia
- Homesite Insurance Company of Illinois
- Homesite Lloyd’s of Texas

In addition HMW participates in an 80% quota share reinsurance agreement with Homesite Insurance Company of New York (HNY). The nine Homesite entities, including HMW, are collectively known as “Homesite.”

No changes to existing intercompany reinsurance agreements are planned as a result of the MHC Conversion.<sup>1</sup>

Ultimately, 100% of the underwriting results of the 14 insurance companies listed above (80% of HNY) are ceded to AFMIC, and these same 14 companies’ results are included in the Combined Annual Statement of American Family Mutual Insurance Company (Combined AFMIC).<sup>2</sup> As such, this business plan includes the pro forma results for Combined AFMIC.<sup>3</sup> Investment income is a function of the total invested assets of Combined AFMIC.

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<sup>1</sup> Third party reinsurance strategies are also expected to remain consistent with current strategies.

<sup>2</sup> The results of these companies are also captured in the audited statutory financial statements of American Family Mutual Insurance Company and Consolidated Property and Casualty Subsidiaries.

<sup>3</sup> The operating results of New Ventures, LLC are not projected to be material to AFI MHC over the next five years, and are accordingly omitted from this business plan.

The business plan reflects projected steady American Family Brand premium growth driven by new property and casualty products and continued investment in and evolution of the existing agency distribution model. American Family Brand underwriting is projected to improve in private passenger auto and commercial lines through continued product, pricing, and underwriting enhancements, and through operational efficiencies. The homeowners line is expected to continue to produce strong combined ratios, through operating efficiencies as well as due to a normal level of weather-related losses projected from 2016-2020. Homesite is projected to continue to drive profitable premium growth through the creation of new and development of existing partnership relationships. Investment yields are expected to remain low relative to historical averages, while projected unrealized gains are driven by modest market value appreciation of unaffiliated common stocks as well as changes in affiliated stock valuations.<sup>4</sup> Specific realized gains are not included in the financial projections.

**American Family Mutual Insurance Company, S.I.**  
**Pro Forma Consolidated Property and Casualty Statutory Statement of Income**

(\$ Millions)	Year Ended December 31,				
	2016	2017	2018	2019	2020
Net earned premium	7,021	7,552	8,089	8,630	9,184
Losses & loss adjustment expenses incurred	4,168	4,520	4,838	5,148	5,461
Other underwriting expenses	2,831	2,982	3,150	3,328	3,509
Net underwriting income	22	50	101	154	214
Net investment income	289	308	326	343	360
Net realized capital gains	35	-	-	-	-
Other income	28	25	23	20	18
Dividends to policyholders	2	2	2	2	2
Income before taxes	372	381	448	515	590
Income tax expense	98	99	121	143	167
Net income	274	282	327	372	423
Total policyholder surplus, beginning of year	6,503	6,754	7,163	7,630	8,155
Net income	274	282	327	372	423
Net unrealized capital gains	117	127	140	153	168
Other changes in surplus	(50)	-	-	-	-
Distributions to parent	(90)				
Total policyholder surplus, end of year	6,754	7,163	7,630	8,155	8,746

<sup>4</sup> Affiliated stock valuation changes are largely driven by positive operating and investment results of American Family Life Insurance Company and Permanent General Assurance Corporation and its wholly-owned property & casualty insurance company subsidiaries.