Report

of the

Examination of

American Family Mutual Insurance Company

Madison, Wisconsin

As of December 31, 2016

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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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 MUTUAL INSURANCE COMPANY
Madison, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of American Family Mutual Insurance Company (AFMIC or the company) was conducted in 2012 as of December 31, 2011. 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. 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.

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 loss and loss adjustment expense reserves. 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.

Investment Review

The Capital Markets Bureau of the NAIC was engaged by the Office of the Commissioner of Insurance to perform a review of the company's invested assets portfolio as of

December 31, 2016. The results of that review were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the findings of the review.

II. HISTORY AND PLAN OF OPERATION

The company was organized in 1927 as Farmers' Mutual Automobile Insurance Company (Farmers' Mutual). In 1963, Farmers' Mutual changed its name to American Family Mutual Insurance Company. There were three major acquisitions during the examination period. These acquisitions are discussed in the section of this report titled "Affiliated Companies."

The company and its subsidiaries are collectively known as the "American Family Group." AFMIC shares common management with American Family Insurance Company (AFIC), 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 AFMIC board 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. 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 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, the company'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 Enterprise. Membership interest in AFMIC was replaced with membership interest in AFIMHC. Policyholders of American Family Insurance Company (AFIC) and American Standard Insurance Company of Ohio (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.

The company is currently licensed in 27 states. In 2016, the company wrote direct premium in the following states:

Wisconsin	$ 911,035,831	17.4%
Missouri	838,477,664	16.0
Minnesota	702,902,081	13.4
Illinois	458,174,579	8.7
Kansas	386,855,657	7.4
Arizona	299,152,155	5.7
Indiana	224,185,262	4.3
All others	1,417,307,716	27.1
Total	$5,238,090,945	100.0%

The company is licensed in the following states:

Arizona*	Colorado*	Georgia*
Idaho*	Illinois*	Indiana*
Iowa*	Kansas*	Minnesota*
Missouri*	Montana	Nebraska*
Nevada*	New Mexico	North Carolina
North Dakota*	Ohio*	Oregon*
South Carolina*	South Dakota*	Tennessee
Texas	Utah*	Virginia
Washington*	Wisconsin*	Wyoming

*Actively writing in state

The major products marketed by the company are personal lines, including homeowners multiple peril, private passenger auto liability, and auto physical damage, which account for 84% of the company's direct business. The company's products are marketed through a captive agency force of 2,812 agents. 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 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	$ 4,455,975	$ 6,589,333	$ 63,787	$ 10,981,521
Allied lines	17,853,038	983,756	13,720,969	5,115,825
Farmowners multiple peril	118,955,816	2,844,250	2,720,456	119,079,610
Homeowners multiple peril	1,715,916,590	1,265,250,681	52,534,590	2,928,632,681
Commercial multiple peril	431,958,380	23,829,959	9,630,628	446,157,711
Inland marine	3,535,113	2,095,128	8,929	5,621,312
Earthquake	18,230,401	2,105,682	414,548	19,921,535
Group accident and health	(1,962)	0	0	(1,962)
Other accident and health	31,743,327	5,390,890	18,161,932	18,972,285
Workers' compensation	55,586,478	6,954,706	3,092,100	59,449,084
Other liability – occurrence	131,318,032	5,340,408	2,942,897	133,715,543
Other liability – claims made	2,443,134	5,846	0	2,448,980
Products liability – occurrence	207,894	6,508	0	214,402
Private passenger auto liability	1,457,456,800	506,442,581	0	1,963,899,381
Commercial auto liability	40,009,901	2,905,268	0	42,915,169
Auto physical damage	1,206,742,800	292,796,767	7,533,949	1,492,005,618
Fidelity	1,372,305	370,681	0	1,742,986
Surety	0	741,621	0	741,621
Burglary and theft	306,923	10,720	0	317,643
Reinsurance – non-proportional assumed property	0	39,404,553	0	39,404,553
Total All Lines	$5,238,090,945	$2,164,069,338	$110,824,785	$7,291,335,498

III. MANAGEMENT AND CONTROL

Board of Directors

At the end of 2016, the company's board of directors consisted of 14 members, which included AFMIC's Chief Executive Officer and 13 independent directors. Inside directors did not receive any additional compensation for serving on the board. Outside directors received annual compensation of $125,000 for serving on the board. Directors also received an additional $15,000 for sitting on a committee, and Committee Chairs received a fee ranging from $25,000 to $30,000 depending on the committee.

On January 1, 2017, as a result of converting to a stock company, and in conjunction with the formation of a mutual holding company, the company reduced the number of directors to five, all of whom are members of management. All five AFMICSI directors are elected annually by its immediate parent, AmFam Holdings, to serve a one year term.

As of the date of this examination report the board of directors of AFMICSI consisted of the following persons:

Name and Residence	Principal Occupation	Term Expires
Jack C. Salzwedel Middleton, WI	Chief Executive Officer American Family Mutual Insurance Company, S.I.	2019
William B. Westrate Sun Prairie, WI	President American Family Mutual Insurance Company, S.I.	2019
Daniel J. Kelly DeForest, 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
Jessica J. Stauffacher Deerfield, WI	Chief Operating Officer- American Family Agency American Family Mutual Insurance Company, S.I.	2019

On January 1, 2017, all the directors who sat on AFMIC's board became directors of AFIMHC. Currently, AFIMHC's board of directors consists of 16 members, three of whom are considered inside directors because they are also members of AFMICSI or Homesite management. (A description of the Homesite Group is on page 15.) There are three classes of directors who are elected annually to serve a three-year term. Directors of AFIMHC receive the same compensation as AFMIC's 2016 board.

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

Name and Residence	Principal Occupation	Term Expires
Londa J. Dewey Madison, WI	President QTI Group	2019
Ted D. Kellner Mequon, WI	Chief Executive Officer T&M Partners; The Kelben Foundation	2019
Jack C. Salzwedel Middleton, WI	Chairman and Chief Executive Officer American Family Mutual Insurance Company, S.I.	2019
Paul S. Shain Verona, WI	President and Chief Executive Officer Singlewire Software, LLC	2019
Dmitri L. Stockton Raleigh, NC	Retired Senior Vice President General Electric	2019
Kathleen S. Barclay Cincinnati, OH	Retired Senior VP Human Resources The Kroger Company	2020
Leslie A. Howard Madison, WI	Senior Advisor to the CEO United Way Worldwide	2020
Rakesh Khurana Newton, MA	Dean Harvard College	2020
Eliot G. Protsch Naples, FL	President Wapsie Investment & Advisory, LLC	2020
William B. Westrate Sun Prairie, WI	President American Family Mutual Insurance Company, S.I.	2020
Christine M. Cumming Brooklyn, NY	Retired First Vice President and Chief Operating Officer Federal Reserve Bank of New York	2021
Fabian Fondriest Concord, MA	President and CEO Homesite Group Incorporated	2021
Michael M. Knetter Mequon, WI	President and Chief Executive Officer University of Wisconsin Foundation	2021
R. Scott Malmgren Palm Harbor, FL	Retired Senior Partner Deloitte & Touche, Chicago	2021
Thomas M. Tefft Dellwood, MN	President of Neuromodulation Medtronic	2021

Name and Residence	Principal Occupation	Term Expires
Thomas J. Zimbrick Madison, WI	Chief Executive Officer Zimbrick, Inc.	2021

Officers of the Company

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

Name	Office	2017 Compensation~
Jack C. Salzwedel	Chief Executive Officer and President	$9,617,184
William B. Westrate*	President	2,906,030
Jessica J. Stauffacher**	Chief Operating Officer- American Family Agency	1,297,710
Daniel J. Kelly	Chief Financial Officer and Treasurer	2,461,771
David C. Holman	Chief Strategy Officer and Secretary	1,778,321
Kristin R. Kirkconnell	Chief Information Officer	1,565,939
Mark V. Afable	Chief Legal Officer	1,508,405
Gerry W. Benusa	Chief Sales Officer	1,544,656
Peter C. Gunder	Chief Business Development Officer	2,200,235
David A. Graham	Chief Investment Officer	1,877,405
William T. Fancher♦	Chief Digital Transformation Officer	1,308,683
Christopher R. Listau	President – Commercial Farm/Ranch	1,097,896
Mary L. Schmoeger♦♦	President – Personal Lines	3,736,512
Mary T. Theilen^	President – Personal Lines	1,110,489
Richard M. Steffen^	President – Life	829,120

~ Listed compensation is total gross earnings for services rendered to the American Family Group and includes amounts allocated to all affiliates.
* Mr. Westrate was Chief Operating Officer- American Family Agency in 2016. In 2017 he was appointed as President.
** Ms. Stauffacher was Chief Administration Officer in 2016. In 2017 she was appointed as Chief Operating Officer- American Family Agency.
♦ Mr. Fancher was Life President in 2016. In 2017 he was appointed as Chief Digital Transformation Officer.
♦♦ Left company in 2017
^ Appointed to current position during 2017.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. On December 31, 2016, the company had the following board-appointed committees: Audit, Executive, Compensation, Nominating & Governance, Finance, and Risk. Subsequent to the creation of AFIMHC, all of the aforementioned committees were disbanded and then reestablished under the bylaws of AFIMHC. As of the date of this examination report, AFIMHC had the following board appointed committees:

Executive Committee
Jack C. Salzwedel, Chair
Kathleen S. Barclay
R. Scott Malmgren
Ted D. Kellner
Michael M. Knetter
Paul S. Shain
Thomas J. Zimbrick

Audit Committee
R. Scott Malmgren, Chair
Leslie A. Howard
Michael M. Knetter
Eliot G. Protsch
Thomas M. Tefft

Compensation Committee
Kathleen S. Barclay, Chair
Londa J. Dewey
Jack C. Salzwedel
Paul S. Shain
Dmitri L. Stockton

Nominating & Governance Committee
Thomas J. Zimbrick, Chair
Londa J. Dewey
Leslie A. Howard
Rakesh Khurana
Eliot G. Protsch
Jack C. Salzwedel

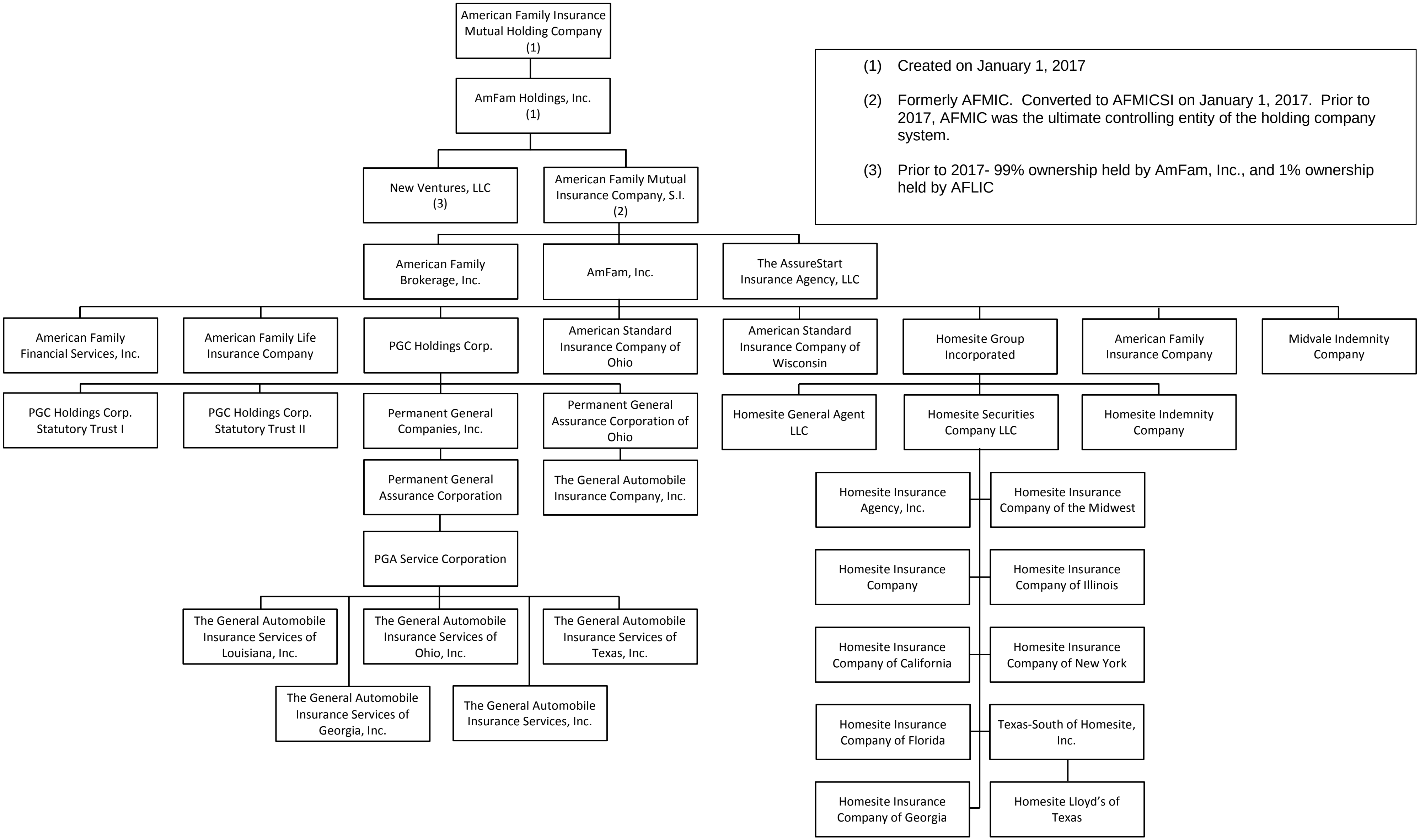
Finance Committee
Ted D. Kellner, Chair
Christine M. Cumming
Michael M. Knetter
R. Scott Malmgren
Jack C. Salzwedel
Paul S. Shain
Dmitri L. Stockton

Risk Committee
Michael M. Knetter, Chair
Kathleen S. Barclay
Christine M. Cumming
Rakesh Khurana
Jack C. Salzwedel
Thomas M. Tefft
Thomas J. Zimbrick

IV. AFFILIATED COMPANIES

American Family Mutual 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.

Organizational 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 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 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.

PGC Holdings Corp.

PGC Holdings Corp. (PGC Holdings) is a Delaware corporation that was acquired by the company 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, Inc. (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 General Group entered into a 100% quota share with AFMICSI. PGACO, and GAIC cede 100% to PGAC, which in turn, retrocedes 100% of its direct and assumed business to AFMICSI. See the section titled “Reinsurance” for additional details.

Homesite Group Incorporated

Homesite Group Incorporated (HGI) is a Delaware corporation that was acquired by the company 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 HICMW retrocedes 100% of the direct and assumed business to AFMIC. In 2016 HICMW ceded premium of $1.05 billion to AFMIC. See the section titled "Reinsurance" for additional details.

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 Family Insurance Company

American Family Insurance Company was incorporated in Ohio in 1995. AFIC is currently licensed in 19 states and writes primarily homeowners and personal auto coverage. AFIC cedes 100% of its direct writings to AFMIC under a Quota Share Reinsurance Agreement. AFIC markets its business through AFMIC's agency force. AFIC redomiciled from Ohio to Wisconsin effective September 30, 2016. As of December 31, 2016, statutory-basis audited financial statements for AFIC reported assets of $38.7 million, liabilities of $15.1 million, and surplus of $23.6 million. Operations for 2016 produced a net income of $585 thousand, consisting solely of investment income.

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 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 is licensed and writes renewal business in Ohio as well as new and renewal business in Georgia. 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.

Agreements with Affiliates

The company has agreements with affiliates regarding sales of premium receivables, cost sharing, tax allocation, and agent appointments 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 ASICW, AFIC, 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 AFLIC, ASICW, ASICO, AFIC, AFFS, AFBI, Midvale, New Ventures, and AmFam, Inc. The agreement was amended in 2017 and 2018 to reflect AFMIC’s name change to AFMICSI and to add AFIMHC, AmFam Holdings, AssureStart, American Family Dreams Foundation, Inc., PGC Holdings, HGI, SHGI Corp., Moonrise, Inc., and Network 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 AFLIC, ASICW, ASICO, AFIC, 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 Network 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, AFMIC entered into an Agency Agreement with Homesite Insurance Agency, Inc. Under the Agency Agreement, AFMIC appoints HIA as its agent. HIA is granted the authority to solicit potential customers on behalf of AFMIC and to facilitate the quote and application process for the purpose of selling AFMIC personal lines insurance policies. HIA is authorized to bind coverage on behalf of AFMIC, subject to AFMIC’s underwriting standards. Compensation for HIA’s services is limited to the reimbursement received from HGI.

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.

Assumed Business

AFMIC has entered into various quota share agreements with its affiliates. The assumed business consists primarily of homeowners and auto, with a small amount of direct commercial. Effective January 1, 2012, AFMIC entered into separate Amended and Restated Quota Share Reinsurance Agreements with ASICW, ASICO, and AFIC, in which AFMIC assumes 100% of each company's losses, net of third party reinsurance.

Effective January 1, 2013, AFMIC entered into a 100% quota share agreement with Midvale. Under the agreement AFMIC assumes 100% of Midvale's losses, net of third party reinsurance; the agreement is applicable to policies in runoff or in force on or after the effective date, as well as new and renewal policies.

Effective January 1, 2014, AFMIC entered into a loss portfolio transfer and 100% quota share agreement with HICMW. Under the agreement AFMIC assumes 100% of HICMW's in-force, new and renewal direct and assumed losses, net of third party reinsurance. HICMW also has separate loss portfolio transfer and 100% quota share agreements in effect with each of the other eight Homesite affiliates. Under these agreements each Homesite company cedes 100% its losses to HICMW, net of third party reinsurance (which is then retroceded to AFMIC). The only exception is HICONY which cedes 80% of its loses to HICMW. The effect of these agreements is that AFMIC ultimately assumes all of the Homesite Group's premiums and losses (excluding HICONY which only cedes 80%).

Effective January 1, 2017, AFMICSI entered into a loss portfolio transfer and 100% quota share agreement with PGAC. Under the agreement AFMICSI assumes 100% of PGAC's in-force, new and renewal direct and assumed losses, net of third party reinsurance. PGAC also has separate loss portfolio transfer and 100% quota share agreements in effect with PGACO and GAIC. Under these agreements PGACO and GAIC cede 100% of their losses to PGAC, net of third party reinsurance (which is then retroceded to AFMIC). The effect of these agreements is that AFMICSI ultimately assumes all of the Permanent General Group's premiums and losses. Prior to 2017, the Permanent General Group participated in a reinsurance pooling agreement and underwriting results were not ceded to AFMIC.

Affiliated Ceded Reinsurance

1.	Type:	Quota Share Reinsurance Agreement
	Reinsurer:	American Family Life Insurance Company
	Effective date:	July 1, 2010
	Scope:	Long-term care business
	Coverage:	100% of gross liabilities and obligations arising under or relating to long-term care policies.
	Initial Reinsurance Premium:	100% of the assets supporting the active life reserves, disabled life reserves, IBNR and unearned premium reserves maintained by AFMIC for issued long-term care policies as of the effective date.
	Commissions:	1.75% of premiums received

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:

	Participation Percentages		
Reinsurer	First Layer	Second Layer	Third Layer
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 Forsäkringsaktiebolag (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 Mutual Insurance Company
Assets
As of December 31, 2016

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$ 8,167,304,591	$ 0	$ 8,167,304,591
Stocks:			
Common stocks	4,541,365,762	375,826	4,540,989,936
Real estate:			
Occupied by the company	240,765,977	0	240,765,977
Properties held for the production of income	8,126,058	0	8,126,058
Properties held for sale	142,739	0	142,739
Cash, cash equivalents, and short-term investments	329,649,887	0	329,649,887
Derivatives	(993,794)	0	(993,794)
Other invested assets	944,548,922	4,245,945	940,302,977
Receivables for securities	86,699,645	0	86,699,645
Write-ins for invested assets:			
Swap Collateral Receivable – Initial Margin	1,163,000	0	1,163,000
Investment income due and accrued	82,756,603	0	82,756,603
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	12,007,245	2,893,602	9,113,643
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	1,372,014,897	172,461	1,371,842,436
Reinsurance:			
Amounts recoverable from reinsurers	6,241,540	0	6,241,540
Net deferred tax asset	320,669,061	0	320,669,061
Guaranty funds receivable or on deposit	13,623,094	1,895,637	11,727,457
Electronic data processing equipment and software	268,476,357	253,077,139	15,399,218
Furniture and equipment, including health care delivery assets	65,745,590	65,745,590	0
Receivable from parent, subsidiaries, and affiliates	60,527,940	4,555,907	55,972,033
Write-ins for other than invested assets:			
Cash Items	118,498	118,498	0
Advances	153,920	153,920	0
Prepaid Expenses	23,371,399	23,371,399	0
Miscellaneous Receivables	5,867,210	0	5,867,210
Total Assets	$16,550,346,141	$356,605,924	$16,193,740,217

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

Losses		$ 3,127,873,044
Reinsurance payable on paid loss and loss adjustment expenses		142,943,032
Loss adjustment expenses		709,712,600
Commissions payable, contingent commissions, and other similar charges		34,488,958
Other expenses (excluding taxes, licenses, and fees)		1,052,630,415
Taxes, licenses, and fees (excluding federal and foreign income taxes)		3,268,990
Current federal and foreign income taxes		42,454,841
Borrowed money and interest thereon		502,204,444
Unearned premiums		3,070,548,756
Advance premium		44,658,179
Dividends declared and unpaid:		
Policyholders		887,563
Ceded reinsurance premiums payable (net of ceding commissions)		17,013,144
Funds held by company under reinsurance treaties		15,450
Amounts withheld or retained by company for account of others		15,500,818
Remittances and items not allocated		13,868,733
Provision for reinsurance		681,000
Drafts outstanding		58,629,036
Payable to parent, subsidiaries, and affiliates		10,686,200
Payable for securities		194,918,013
Capital notes and interest thereon		283,782,552
Write-ins for liabilities:		
Liability for retirement & post employment benefits		260,594,914
Capital contributions payable		404,732
All other liabilities		22,782,906
Total Liabilities		9,326,765,768
Write-ins for special surplus funds:		
Non-assessable guaranty fund	$ 1,250,000	
Unassigned funds (surplus)	6,865,724,449	
Surplus as Regards Policyholders		6,866,974,449
Total Liabilities and Surplus		$16,193,740,217

American Family Mutual Insurance Company
Summary of Operations
For the Year 2016

Underwriting Income		
Premiums earned		$7,063,439,118
Deductions:		
Losses incurred	$4,081,231,088	
Loss adjustment expenses incurred	733,918,083	
Other underwriting expenses incurred	2,276,427,708	
Total underwriting deductions		7,091,576,879
Net underwriting gain (loss)		(28,137,761)
Investment Income		
Net investment income earned	277,116,188	
Net realized capital gains (losses)	19,160,782	
Net investment gain (loss)		296,276,970
Other Income		
Net gain (loss) from agents' or premium balances charged off	(22,356,800)	
Finance and service charges not included in premiums	42,108,025	
Write-ins for miscellaneous income:		
Miscellaneous income	(32,253,449)	
Total other income		(12,502,224)
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		255,636,985
Dividends to policyholders		1,763,397
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		253,873,588
Federal and foreign income taxes incurred		42,166,232
Net Income		$ 211,707,356

American Family Mutual Insurance Company
Cash Flow
For the Year 2016

Premiums collected net of reinsurance			$7,166,755,255
Net investment income			370,705,703
Miscellaneous income			(13,076,101)
Total			7,524,384,857
Benefit- and loss-related payments		$3,834,471,751	
Commissions, expenses paid, and aggregate write-ins for deductions		2,924,382,855	
Dividends paid to policyholders		1,396,930	
Federal and foreign income taxes paid (recovered)		78,416,489	
Total deductions			6,838,668,025
Net cash from operations			685,716,832
Proceeds from investments sold, matured, or repaid:			
Bonds	$8,977,423,272		
Stocks	457,972,375		
Real estate	2,060,842		
Other invested assets	58,375,059		
Net gains (losses) on cash, cash equivalents, and short-term investments	(12,625)		
Miscellaneous proceeds	51,969,091		
Total investment proceeds		9,547,788,014	
Cost of investments acquired (long-term only):			
Bonds	9,653,279,489		
Stocks	590,796,457		
Real estate	18,073,511		
Other invested assets	145,259,911		
Miscellaneous applications	6,940,577		
Total investments acquired		10,414,349,945	
Net cash from investments			(866,561,931)
Cash from financing and miscellaneous sources:			
Other cash provided (applied)		15,890,286	
Net cash from financing and miscellaneous sources			15,890,286
Reconciliation:			
Net Change in Cash, Cash Equivalents, and Short-Term Investments			(164,954,813)
Cash, cash equivalents, and short-term investments:			
Beginning of year			494,604,700
End of Year			$ 329,649,887

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

Assets			$16,193,740,217
Less investments in insurance subsidiaries			1,940,038,416
Add security surplus excess of insurance subsidiaries			1,717,160,272
Less liabilities			9,326,765,768
Adjusted surplus			6,644,096,305
Annual premium:			
Individual accident and health	$ 18,972,285		
Factor	15%		
Total		$ 2,845,842	
Group accident and health	(1,962)		
Factor	10%		
Total		0	
Lines other than accident and health	7,302,183,778		
Factor	20%		
Total		1,460,436,755	
Compulsory surplus (subject to a minimum of $2 million)			1,463,282,597
Compulsory Surplus Excess (Deficit)			$ 5,180,813,708
Adjusted surplus (from above)			$ 6,644,096,305
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%)			1,609,610,856
Security Surplus Excess (Deficit)			$ 5,034,485,449

American Family Mutual Insurance Company
Analysis of Surplus
For the Five-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	$6,503,090,084	$6,030,082,764	$5,791,697,133	$5,164,959,549	$4,658,919,998
Net income	211,707,356	570,526,457	659,226,342	281,245,926	323,668,039
Change in net unrealized capital gains/losses	133,600,462	(84,894,679)	(143,060,448)	372,593,868	146,515,527
Change in net deferred income tax	22,924,663	(14,649,175)	(77,395,564)	(21,883,206)	(30,649,036)
Change in nonadmitted assets	1,629,468	(22,415,620)	(28,929,045)	(47,159,701)	170,228,910
Change in provision for reinsurance	3,173,000	7,316,000	(11,170,000)	4,000	48,000
Write-ins for gains and (losses) in surplus:					
SSAP 92 & 102 pension adjustment	(2,028,027)	(13,685,795)	(106,326,105)	(11,482,953)	(23,239,167)
SSAP 92 & 102 contract termination payments adjustment	(7,122,557)	30,810,132	(49,267,432)	53,419,650	0
Purchase of non-controlling interest	0	0	(4,692,117)	0	0
SSAP 10R – income taxes	0	0	0	0	(80,532,722)
Surplus, end of year	$6,866,974,449	$6,503,090,084	$6,030,082,764	$5,791,697,133	$5,164,959,549

American Family Mutual Insurance Company
Insurance Regulatory Information System
For the Five-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	108%	107%	113%	100%	108%
#2	Net Premium to Surplus	106	105	110	97	105
#3	Change in Net Premiums Written	6	3	19	3	5
#4	Surplus Aid to Surplus	0	0	0	0	0
#5	Two-Year Overall Operating Ratio	93	91	95	97	98
#6	Investment Yield	2.1*	2.3*	2.7*	2.5*	2.9*
#7	Gross Change in Surplus	6	8	4	12	11
#8	Change in Adjusted Surplus	6	8	4	12	11
#9	Liabilities to Liquid Assets	73	75	75	73	70
#10	Agents' Balances to Surplus	0	0	0	0	0
#11	One-Year Reserve Development to Surplus	-2	-4	-2	-2	-5
#12	Two-Year Reserve Development to Surplus	-7	-3	-3	-7	-6
#13	Estimated Current Reserve Deficiency to Surplus	-4	1	4	0	-1

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 each year under examination. The exceptional ratios are primarily due to the low interest rate environment as well as the company's reliance on tax-exempt bonds, which usually have a lower yield. Also, the company's affiliated holdings have contributed to the depressed ratio as no dividends have been paid. The company's investment yield was close to the industry average which stayed at approximately 2.4% during the period under examination.

Growth of American Family Mutual Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Underwriting Results	Net Income
2016	$16,193,740,217	$9,326,765,768	$6,866,974,449	$ (28,137,761)	$211,707,356
2015	15,343,877,759	8,840,787,675	6,503,090,084	270,453,548	570,526,457
2014	14,500,523,875	8,470,441,111	6,030,082,764	(50,812,121)	659,226,342
2013	13,229,637,355	7,437,940,222	5,791,697,133	(129,278,273)	281,245,926
2012	12,038,890,470	6,873,930,921	5,164,959,549	(172,340,351)	323,668,039
2011	11,634,749,796	6,975,829,798	4,658,919,998	(316,742,281)	218,091,250

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2016	$7,402,160,283	$7,291,335,498	$7,063,439,118	68.2%	31.4%	99.6%
2015	6,979,409,947	6,854,786,206	6,633,744,038	63.5	31.0	94.5
2014	6,838,953,905	6,656,312,681	6,252,336,876	70.8	27.7	98.5
2013	5,770,490,694	5,595,625,038	5,494,011,268	72.6	28.6	101.2
2012	5,562,299,964	5,435,136,913	5,304,415,988	72.9	28.9	101.8
2011	5,418,991,664	5,166,194,247	5,271,420,878	76.0	30.2	106.2

Gross premium written increased 37% during the examination period. There was a significant increase in gross premium in 2014 as a result the Homesite Group acquisition. The company assumes nearly 100% of the Homesite Group’s premium written. In 2016, AFMIC assumed $1.1 billion from HICMW.

The company’s loss and LAE ratio has trended downward during the past five years, although there was a modest increase in 2016. In 2015, the combined ratio was 94.5%; this favorable combined ratio was in part due to low storm losses, as well as favorable reserve development on auto business. The combined ratio increased 5.1 points in 2016, in part because of increased losses in auto and commercial multiple peril. The pure net loss ratio for auto losses increased three points in 2016 to 63.8%; the increase was in part due to higher than anticipated claim frequency and severity. Commercial multiple peril’s pure net loss ratio increased 16.8 points in 2016 to 80.2%, in part due to adverse reserve development on losses in accident years 2014 and 2015.

The company reported a net underwriting loss in four of the past five years. However, underwriting losses were offset by investment income, allowing the company to report a net income each year during the period under examination. Surplus increased 47% during the period under examination.

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 two specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Affiliated Balances—It is recommended that the company properly report income taxes receivable from subsidiaries and payable to subsidiaries as Current Federal and Foreign Income Taxes in accordance with the NAIC Annual Statement Instructions - Property & Casualty.

   Action— Compliance.

2. Investments—It is recommended that the company complete Note 10L in the Notes to the Financial Statements with regard to disclosure of the application of the look-through approach provision of SSAP 97 in accordance with the NAIC Annual Statement Instructions-Property & Casualty.

   Action— Compliance.

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 Mutual Insurance Company is a mutual property and casualty insurer organized in 1927 under the provisions of ch. 611, Wis. Stat., as the Farmers' Mutual Automobile Insurance Company. In 1963 Farmers' Mutual changed its name to American Family Mutual Insurance Company. Effective January 1, 2017, the company underwent a corporate reorganization and formed a mutual holding company. The new name of the company is American Family Mutual Insurance Company S.I.

The major products marketed by the company are personal lines, including homeowner's multiple peril, private passenger auto liability, and auto physical damage, which account for 84% of the company's direct business.

There have been three acquisitions during the examination period. PGC Holdings and Midvale were acquired in 2012 and HGI was acquired in 2013. The acquisitions are part of the company's strategy to broaden its geographic footprint as well as its distribution channels.

Gross premium increased 37% during to the examination period. There was a significant increase in gross premium in 2014 as a result of the Homesite Group acquisition. Surplus increased 47% since the prior examination to $6.9 billion.

The current examination determined that the company is in compliance with both of the recommendations from the prior examination. The current examination resulted in one recommendation.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 42 - 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