Report

of the

Examination of

Milwaukee Insurance Company

Waukesha, Wisconsin

As of December 31, 2009

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, *Governor*
Theodore K. Nickel, *Commissioner*

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May 17, 2011

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

Honorable Joseph Torti III
Chair, Financial Condition (E) Committee, NAIC
Superintendent of Insurance
State of Rhode Island
1511 Pontiac Avenue, Building 69-2
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Honorable Stephen W. Robertson
Secretary, Midwestern Zone, NAIC
Director, Department of Insurance
State of Indiana
311 West Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Commissioners:

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

MILWAUKEE INSURANCE COMPANY
Waukesha, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Milwaukee Insurance Company (MIC or the company) was conducted in 2007 as of December 31, 2006. The current examination covered the intervening period ending December 31, 2009, and included a review of such 2010 transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the NAIC Financial Condition Examiners Handbook, which sets forth guidance for planning and performing an examination to evaluate the financial condition and identify prospective risks of an insurer. This approach includes the obtaining of information about the company including corporate governance, the identification and assessment of inherent risks within the company, and the evaluation of system controls and procedures used by the company to mitigate those risks. The examination also included an assessment of the principles used and significant estimates made by management, as well as an evaluation of the overall financial statement presentation and management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations.

The examination of the company was conducted concurrently with the examination of First Nonprofit Insurance Company. The Illinois Department of Insurance acted in the capacity as the lead state representative for the coordinated exams. Work performed by that department and its representatives was reviewed and relied on as deemed appropriate.

The examination consisted of a review of all major phases of the company's operations and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Employees' Welfare and Pension Plans
Territory and Plan of Operations
Affiliated Companies
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of 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.

II. HISTORY AND PLAN OF OPERATION

Milwaukee Insurance Company is a Wisconsin-domiciled stock property and casualty insurer. The company was initially incorporated in Wisconsin on October 3, 1916, under the name Milwaukee Automobile Insurance Company Limited Mutual Exchange. The company's name was changed to Milwaukee Automobile Mutual Insurance Company on February 18, 1955, and on February 21, 1964, the name was changed to Milwaukee Mutual Insurance Company. Effective April 1, 2003, the company established a mutual holding company, converted to a stock insurance company subsidiary of the new mutual holding company, and changed its name to that presently used.

Milwaukee Mutual Insurance Company organized Milwaukee Casualty Insurance Co. (Milwaukee Casualty, formerly known as Milwaukee Guardian Insurance, Inc.) as a subsidiary insurer on September 28, 1973, and organized Milwaukee Safeguard Insurance Company (Milwaukee Safeguard) as a subsidiary insurer effective January 25, 1982. In 1985, the company established Milwaukee Insurance Holding Company, later renamed Milwaukee Insurance Group, Inc. (MIG), to serve as an intermediate holding company entity for the Milwaukee Insurance Company subsidiaries. Effective December 31, 1985, Milwaukee Mutual Insurance Company contributed 100% of the capital stock of its directly held insurance subsidiaries to MIG in exchange for 100% ownership of the issued and outstanding capital stock of MIG.

In November 1986, MIG issued additional shares of its common capital stock and conducted an initial public stock offering. Upon completion of the offering, approximately 65% of the common stock of MIG remained under the ownership of Milwaukee Mutual Insurance Company, and the remaining 35% was owned by public shareholders. Effective December 31, 1992, MIG acquired 100% of the capital stock of Alpha Property & Casualty Insurance Company, a Wisconsin-domiciled property and casualty insurer. MIG conducted a second public offering of 1,000,000 newly issued shares of common stock in 1993, resulting in the reduction of Milwaukee Mutual Insurance Company's ownership interest of MIG to approximately 49%.

Trinity Universal Insurance Company (Trinity Universal) acquired all of the capital stock of MIG effective October 2, 1995. Trinity Universal is a Texas-domiciled property and casualty insurer wholly owned by Unitrin, Inc. Upon the change of control of MIG to Trinity Universal, the ultimate ownership and control of Milwaukee Casualty, Milwaukee Safeguard, and Alpha P&C transferred to Unitrin, Inc. Simultaneously, Milwaukee Mutual Insurance Company became affiliated with Trinity Universal through affiliated reinsurance agreements and by various intercompany agreements whereby Trinity Universal and other entities within the Unitrin, Inc., organization provided services to the company.

On July 1, 2001, Milwaukee Mutual Insurance Company began to reinsure First Nonprofit Mutual Insurance Company, a Chicago-based insurer for nonprofit organizations. This was an 80% quota share treaty with Milwaukee Mutual Insurance Company which, in turn, had the backing of a 95% quota share treaty with Trinity Universal. First Nonprofit underwent a mutual holding company restructuring under Illinois law effective August 1, 2002, whereupon it changed its name to First Nonprofit Insurance Company.

With the success of its venture with First Nonprofit, Milwaukee Mutual Insurance Company underwent the second mutual holding company restructuring in Wisconsin's history to pursue alliances with other mutuals in the hope of building a mutual division for the Unitrin holding company system. Effective April 1, 2003, Milwaukee Mutual Insurance Company transacted a restructuring under which the company converted to a stock insurance company and established Mutual Insurers Holding Company (MIHC) as a Wisconsin-domiciled mutual holding company. MIHC was organized pursuant to ch. 644, Wis. Stat., which provides that a Wisconsin-domiciled mutual insurer may convert to a stock insurance company by transferring all ownership interest of the mutual insurer policyholders to a mutual holding company, which then becomes the owner of the newly-converted stock insurance company. Under the 2003 restructure, all membership interests and rights in surplus of the policyholders of the pre-conversion Milwaukee Mutual Insurance Company were extinguished and became rights of membership in MIHC.

On November 15, 2007, Milwaukee Insurance Company disaffiliated from Unitrin, Inc., partially in response to Unitrin's decision to scale back its affiliations with mutual insurance companies. The Sarbanes-Oxley Act of 2002 made the administrative and legal complexity of affiliations with mutuals untenable in the view of Unitrin, Inc., though these implications were not clearly perceived until 2005.

Unitrin informed Milwaukee Insurance Company of its intent to disaffiliate in 2005, but permitted Milwaukee Insurance Company the time to develop a viable course of action. Since Milwaukee Insurance Company lacked staff and infrastructure to support its business and Unitrin had underwritten, administered, and financially supported the company's direct book of business since 1995, Unitrin and the company agreed to complete a renewal rights transfer of MIC's book of business to insurance policies that are either issued by other Unitrin affiliates or by unaffiliated entities that may purchase from Unitrin the right to offer renewal, subject in each case to applicable law and the separate consent of each insured. Trinity Universal agreed to assume 100% of Milwaukee Insurance Company's business effective January 1, 2007.

Effective March 30, 2007, Trinity Universal and the company entered into a service agreement whereby MIC appointed Trinity Universal to provide the administrative services necessary for the operation of its in-force direct book of personal lines business. Starting in January 2008, the agreement provided that Trinity Universal would nonrenew MIC's in-force commercial lines.

Unitrin, Inc., announced on December 10, 2007, that it had entered into a definitive agreement to sell its Unitrin Business Insurance unit (UBI) to AmTrust Financial Services, Inc. (AmTrust), in a cash transaction as of June 1, 2008. AmTrust acquired the renewal rights to the UBI book of business and certain legal entities and selected other assets and personnel that Unitrin currently employs to write its UBI business, including Milwaukee Casualty Insurance Company. Unitrin retained pre-closing loss and loss adjustment reserves.

The pending disaffiliation of Milwaukee Insurance Company presented a considerable problem for First Nonprofit Insurance Company due to its substantial dependence on reinsurance supplied by Trinity Universal Insurance Company via its affiliation and reinsurance with Milwaukee Insurance Company. In keeping with Milwaukee Insurance Company's commitments of affiliation with First Nonprofit Insurance Company, First Nonprofit Mutual Holding Company was merged with and into Mutual Insurers Holding Company effective November 15, 2007. Immediately thereafter, Mutual Insurers Holding Company contributed the common stock of Milwaukee Insurance Company to First Nonprofit Insurance Company.

The company has been in voluntary run-off since the 2007 mutual holding company merger and transfer of direct ownership to First Nonprofit. By the end of 2008 any remaining direct business had been nonrenewed by the company and renewed with either an affiliate of Unitrin, Inc., or Milwaukee Casualty Insurance Company, or to another carrier chosen by the policyholder. By becoming a subsidiary of First Nonprofit and going into voluntary run-off, Milwaukee Insurance Company provided capital support to First Nonprofit Insurance Company in keeping with its commitments of affiliation with that company when it became necessary for the affiliation with Unitrin, Inc., to end. As its loss reserves run off, it is anticipated that Milwaukee Insurance Company will pay dividends to First Nonprofit Insurance Company, subject to necessary regulatory approvals, and that ultimately Milwaukee Insurance Company will be merged with and into First Nonprofit Insurance Company.

Milwaukee Insurance Company has two employees at its home office in Waukesha, Wisconsin. Apart from certain limited investment and corporate governance functions, Milwaukee Insurance Company relies for nearly all of its functioning upon services received from its parent, First Nonprofit Insurance Company, and from its former affiliate, Trinity Universal Insurance Company.

Pursuant to the 80% quota share assumption agreement between MIC and First Nonprofit, which covered risks from July 1, 2001, to January 1, 2007, and will be more fully described in the section of this report captioned “Reinsurance,” First Nonprofit retains responsibility for all aspects of policy administration including regulatory filings, underwriting, policy issuance, billing and collection of premium, adjudication and settlement of claims, and compilation of necessary statistical data for compliance with financial and regulatory reporting requirements.

Effective June 30, 2007, Trinity Universal and MIC entered into an administrative services agreement which terminated the myriad existing services agreements that had existed between MIC and various Unitrin affiliates and replaced them with a single, global services agreement. Under this agreement, Trinity Universal is to provide MIC with all administrative services necessary for the operation of its in-force direct book of business. MIC will pay no consideration to Trinity Universal for these services; rather, Trinity Universal will perform the administrative services for the consideration it receives from MIC under the new reinsurance agreement. Trinity Universal may delegate any of its services or duties to affiliates that were providing services associated with the relevant MIC policies prior to the effective date, without MIC's prior approval.

The company is licensed in 12 states, including Arizona, Colorado, Illinois, Indiana, Iowa, Kentucky, Minnesota, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of seven members. Each director is elected on an annual basis. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. Board members receive no compensation specific to their service on Milwaukee Insurance Company's board.

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

Name and Residence	Principal Occupation	Term Expires
Philip R. Warth Jr. Chicago, Illinois	President and Chief Executive Officer First Nonprofit Insurance Company	2011
Daniel R. Doucette Hartland, Wisconsin	Former President and Chief Executive Officer Milwaukee Insurance Company	2011
Joseph Geiger Hummelstown, Pennsylvania	Executive Director Pennsylvania Association of Nonprofit Organizations	2011
Hugh Parry Wilmette, Illinois	President and Chief Executive Officer Prevent Blindness America	2011
Michael Tarnoff Highland Park, Illinois	Executive Vice President and Chief Financial Officer Jewish Federation of Metropolitan Chicago	2011
Robert Klaus Chicago, Illinois	President and Chief Executive Officer Oral Health America	2011

Officers of the Company

The officers serving as of December 31, 2009, are as follows:

Name	Office	2009 Compensation
Daniel R. Doucette	President and Chief Executive Officer	$487,500
Richard J. Dacey	Secretary and Treasurer	*

* Employee of First Nonprofit

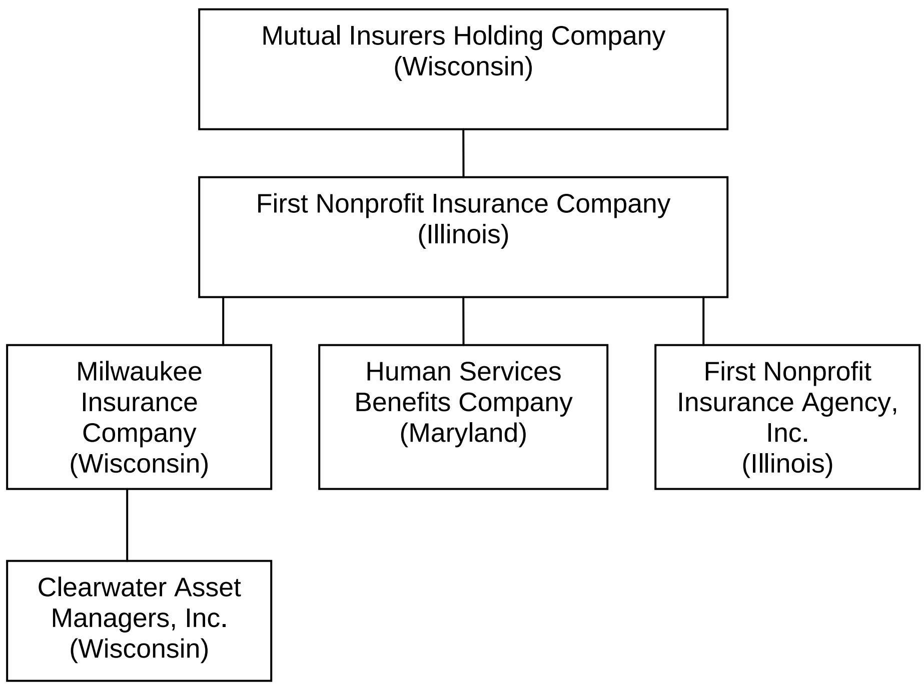
Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The company’s entire board of directors also serves as its audit committee and investment committee.

IV. AFFILIATED COMPANIES

Milwaukee Insurance Company is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates follows the organizational chart.

Organizational Chart
As of December 31, 2009



Mutual Insurers Holding Company

Mutual Insurers Holding Company was incorporated under the laws of Wisconsin on April 1, 2003, as a result of the restructuring of Milwaukee Mutual Insurance Company. The mutual holding company serves as the ultimate controlling person for its holding company system. It holds no assets other than the stock of First Nonprofit Insurance Company.

First Nonprofit Insurance Company

First Nonprofit Insurance Company had its origins in the First Nonprofit Trust, which was established in 1978, under the Illinois Religious and Charitable Trust Pooling Trust Act. On April 1, 1993, this original trust was reorganized into an Illinois reciprocal insurer, First Nonprofit Insurance Company, A Reciprocal. Simultaneous to this conversion, a new trust called “First

Nonprofit Trust” was established to maintain the original trust’s worker's compensation business under a trust format. As a reciprocal, the company obtained access to guaranty fund coverage in Illinois and was able to expand into several other states. On November 30, 1997, the “First Nonprofit Trust” established in 1993 was converted into a mutual called First Nonprofit Mutual Insurance Company. Effective December 31, 1997, the reciprocal was merged into the mutual, with the mutual surviving.

On August 1, 2002, First Nonprofit Mutual Insurance Company completed a mutual holding company conversion under Illinois law. As a result, First Nonprofit Mutual Insurance Company became a stock insurer that was wholly owned by First Nonprofit Mutual Holding Company. First Nonprofit Mutual Holding Company merged with and into Mutual Insurers Holding Company on November 15, 2007.

As its name suggests, First Nonprofit specializes in meeting the property and casualty insurance needs of nonprofit organizations primarily under Section 501(c3) of the U.S. Internal Revenue Service classification system. It also offers loss control education and consultation services.

As of December 31, 2009, the statutory financial statements of First Nonprofit Insurance Company reported assets of $128,054,667, liabilities of $74,596,453, and capital and surplus of $53,458,214. Operations for 2009 produced net income of $933,836.

Clearwater Lake Asset Managers, Inc.

Clearwater Lake Asset Managers, Inc. (Clearwater), is an inactive Wisconsin-domiciled holding company subsidiary of Milwaukee Insurance Company. Clearwater has no business operations and holds a 99% interest in Clearwater Lake Joint Venture, a real estate property development venture. Milwaukee Insurance Company holds the remaining 1% interest in Clearwater Lake Joint Venture.

As of December 31, 2009, Clearwater's GAAP basis audited financial statements reported shareholders’ equity of $2,772,003 with no reported liabilities. Operations in 2009 provided reported net income of $15,275.

Agreements with Affiliates

Tax Allocation Agreement

Effective June 30, 2009, Mutual Insurers Holding Company and its subsidiaries entered into a tax allocation agreement for the purpose of filing consolidated federal income tax returns. In accordance with the agreement, a consolidated federal income tax return is to be filed by MIHC starting with 2009 and for each subsequent year in which this agreement is in effect. The agreement documents the parties' methods and processes for allocating the consolidated federal income tax liability among participating members; for reimbursing MIHC for payment of such liability; for compensating any member for use of its net operating loss or tax credits in arriving at such liability; and to provide for the allocation of any refund arising from a carryback of net operating losses or tax credits from subsequent taxable years.

V. REINSURANCE

The company's reinsurance portfolio and strategy is described below. The company's reinsurance contracts contained proper insolvency provisions.

The company's reinsurance program consists of the following three reinsurance arrangements: (1) affiliated Old Pool reinsurance for run-off business issued prior to October 1, 1995; (2) affiliated 80% quota share assumption of risks from First Nonprofit Insurance Company; and (3) external ceded reinsurance, including quota share cession of net retained liability to Trinity Universal Insurance Company.

Old Pool Reinsurance

Prior to October 1, 1995, Milwaukee Insurance Company, Milwaukee Casualty, and Milwaukee Safeguard participated in a reinsurance pooling arrangement (the Old Pool) whereby business acquired by Milwaukee Casualty and Milwaukee Safeguard was pooled with the business of MIC and the combined premiums and losses were prorated to the pool participants on a percentage of participation basis. Pursuant to the Old Pool, Milwaukee Insurance Company retained 40% of the pooled business and ceded 30% participation each to Milwaukee Casualty and Milwaukee Safeguard.

Effective October 1, 1995, the Old Pool agreement was put into run-off and a New Pool agreement was transacted whereby Milwaukee Safeguard served as the lead company in the pool agreement and had a 68% pool participation. In addition, from October 1, 1995, through December 31, 1996, Milwaukee Safeguard ceded its net underwriting results to Trinity Universal under a 41% quota share reinsurance agreement.

Effective January 1, 1997, the pool participants terminated and commuted the New Pool agreement and the existing affiliated quota share agreements and resumed the Old Pool reinsurance arrangement to apply to risks written and assumed by the pool participants prior to October 1, 1995. Milwaukee Insurance Company presently retains 40% of the pooled business and cedes 30% participation to Milwaukee Casualty and 30% to Milwaukee Safeguard. Milwaukee Casualty and Milwaukee Safeguard cede 100% of their net retained liability under the Old Pool to Trinity Universal, whereas Milwaukee Insurance Company retains 100% of its 40% Old Pool participation. The Old Pool business is in run-off and the business volume is not material. Effective January 1, 1997, Trinity Universal was appointed pool manager but does not receive a fee for its management services.

Affiliated 80% Quota Share Assumption from First Nonprofit Insurance Company

Effective July 1, 2001, the company entered into an 80% quota share assumption agreement with First Nonprofit Insurance Company. Pursuant to the agreement, the company assumes an 80% participation in the net retained liability of First Nonprofit in respect to all claims incurred after the effective date on all First Nonprofit’s direct written and assumed business. Milwaukee Insurance Company receives 80% of premiums on First Nonprofit’s new business and pays a ceding commission calculated in accordance with the agreement. First Nonprofit retains responsibility for all aspects of policy administration including regulatory filings, underwriting, policy issuance, billing and collection of premium, adjudication and settlement of claims, and compilation of necessary statistical data for compliance with financial and regulatory reporting requirements.

Effective January 1, 2007, the company discontinued the quota share agreement and ceased assuming business from First Nonprofit. The company continues to be liable for losses otherwise covered by that agreement that occurred prior to the effective date. It should be noted, however, that MIC continues to cede liability on all covered policy liabilities incurred by First Nonprofit to Trinity Universal under the terms and conditions of the 95% quota share treaty for development incurred by First Nonprofit prior to January 1, 2007.

External Ceded Reinsurance

The company participates under various Trinity Universal and Unitrin reinsurance treaties for the majority of customary reinsurance coverage so as to limit risk exposure due to large losses and catastrophic loss occurrence. The company's retention on its property and casualty business is $1,000,000 per occurrence. The company's excess of loss on worker's compensation and employer's liability risks provides coverage of up to $4,000,000 in excess of company retention of $1,000,000 each accident, each employee. The group maintains property catastrophe reinsurance that is structured in three layers. The company's catastrophe treaties provide that the company retains $4,000,000 for each loss occurrence and is afforded 100% coverage of all losses in excess of the company's retention up to $40,000,000 of loss per loss occurrence. The reinsurers' liability limit for all loss occurrences in the contract period is $20,000,000. The principal participating reinsurers in the Trinity Universal group reinsurance policies are General Reinsurance Corporation, Swiss Reinsurance America Corporation, and Lloyds of London.

Effective January 1, 1997, Milwaukee Insurance Company established a 95% quota share ceded reinsurance agreement with Trinity Universal. The agreement covers 95% of the net policy obligations incurred on business written from October 1, 1995, through December 31, 1996, and 95% of all business written on or after January 1, 1997. The treaty excludes policies that are included in the pre-October 1, 1995, Old Pool. Risks ceded by the company to Trinity Universal are net of all external third-party reinsurance cessions.

The 1997 agreement provides that Trinity Universal, on behalf of Milwaukee Insurance Company and in MIC's name, shall be responsible for the administration of all aspects of Milwaukee Insurance Company written policies, subject to the general supervision of the MIC board of directors. Trinity Universal services include, but are not limited to, handling of all regulatory filings, underwriting, accepting risks and issuing the policies, billing and collecting all premiums, paying all agent's and broker's commissions, adjusting and paying all claims under the applicable policies, reporting to Milwaukee Insurance, compiling statistical data necessary for Milwaukee Insurance to comply with all financial reporting and regulatory reporting requirements, and other services as are required by the reinsurance agreement service schedule.

Amendments to the treaty provide that Trinity Universal may delegate some or all of the administrative services for the MIC business to other affiliates in the Unitrin, Inc., holding company group and provide that the Milwaukee Insurance Company cession to Trinity Universal includes a 95% quota share portion of the business assumed by MIC from First Nonprofit Insurance Company.

Effective January 1, 2007, the 95% quota share treaty between Trinity Universal and Milwaukee Insurance Company was terminated and replaced with a 100% quota share, both going forward and with respect to any development on the 5% of MIC's direct book of business that MIC historically retained net under the 95% quota share treaty. Accordingly, on a net basis, Milwaukee

Insurance Company retains only the Old Pool Reinsurance risk and a small portion of the First Nonprofit assumed business.

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, 2009, annual statement. 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. 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."

Milwaukee Insurance Company
Assets
As of December 31, 2009

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$26,654,825	$ 0	$26,654,825
Common stocks	2,638,351		2,638,351
Cash, cash equivalents, and short-term investments	8,622,710		8,622,710
Other invested assets	26,650		26,650
Investment income due and accrued	285,721		285,721
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	23,564		23,564
Amounts recoverable from reinsurers	1,378,303		1,378,303
Current federal and foreign income tax recoverable and interest thereon	862,001		862,001
Net deferred tax asset	7,034,000	6,578,000	456,000
Receivable from parent, subsidiaries, and affiliates	52,457		52,457
Write-ins for other than invested assets:			
Other asset	4,597	4,597	
Total Assets	$47,583,179	$6,582,597	$41,000,582

Milwaukee Insurance Company
Liabilities, Surplus and Other Funds
As of December 31, 2009

Losses		$ 945,558
Reinsurance payable on paid loss and loss adjustment expenses		1,115,734
Loss adjustment expenses		374,064
Other expenses (excluding taxes, licenses, and fees)		4,736,473
Taxes, licenses, and fees (excluding federal and foreign income taxes)		(41,465)
Ceded reinsurance premiums payable (net of ceding commissions)		23,564
Amounts withheld or retained by company for account of others		4,370
Provision for reinsurance		221,970
Payable to parent, subsidiaries, and affiliates		413,265
Write-ins for liabilities:		
Equities and deposits in pools and associations		1,185
Total liabilities		7,794,718
Common capital stock	$ 2,000,000	
Unassigned funds (surplus)	31,205,864	
Surplus as regards policyholders		33,205,864
Total Liabilities and Surplus		$41,000,582

Milwaukee Insurance Company
Summary of Operations
For the Year 2009

Underwriting Income		
Premiums earned		$ 4
Deductions:		
Losses incurred	$ 55,717	
Loss adjustment expenses incurred	(234,353)	
Other underwriting expenses incurred	1,741,778	
Total underwriting deductions		(1,563,142)
Net underwriting gain (loss)		(1,563,138)
Investment Income		
Net investment income earned	1,175,486	
Net realized capital gains (losses)	751,039	
Net investment gain (loss)		1,926,525
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		363,387
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		363,387
Federal and foreign income taxes incurred		(862,000)
Net Income (Loss)		$ 1,225,387

Milwaukee Insurance Company
Cash Flow
For the Year 2009

Premiums collected net of reinsurance			$ 92,558
Net investment income			1,535,071
Total			1,627,629
Benefit- and loss-related payments		$ 435,276	
Commissions, expenses paid, and aggregate write-ins for deductions		1,671,590	
Federal and foreign income taxes paid (recovered)		(813,999)	
Total deductions			1,292,867
Net cash from operations			334,762
Proceeds from investments sold, matured, or repaid:			
Bonds	$ 8,725,399		
Stocks	18,040,879		
Total investment proceeds		26,766,278	
Cost of investments acquired (long-term only):			
Bonds	7,883,073		
Stocks	16,586,506		
Total investments acquired		24,469,579	
Net cash from investments			2,296,699
Cash from financing and miscellaneous sources:			
Other cash provided (applied)		(168,286)	
Net cash from financing and miscellaneous sources			(168,286)
Reconciliation:			
Net change in cash, cash equivalents, and short-term investments			2,463,178
Cash, cash equivalents, and short-term investments:			
Beginning of year			6,159,532
End of Year			$8,622,710

Milwaukee Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2009

Assets		$41,000,582
Less security surplus of insurance subsidiaries		0
Less liabilities		7,794,718
Adjusted surplus		33,205,864
Annual premium:		
Lines other than accident and health	$ 0	
Factor	20%	0
Compulsory surplus (subject to a minimum of $2 million)		2,000,000
Compulsory Surplus Excess (or Deficit)		$31,205,864
Adjusted surplus (from above)		$31,205,864
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 (or Deficit)		$30,405,864

Milwaukee Insurance Company
Reconciliation and Analysis of Surplus
For the Three-Year Period Ending December 31, 2009

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

	2009	2008	2007
Surplus, beginning of year	$31,798,342	$32,730,382	$32,286,746
Net income	1,225,387	(500,858)	2,196,275
Change in net unrealized capital gains/losses	(52,351)	(880,197)	103,429
Change in net deferred income tax	(1,149,000)	243,259	(694,759)
Change in nonadmitted assets	1,089,069	114,317	865,353
Change in provision for reinsurance	294,417	(267,890)	(216,662)
Change in surplus notes			(2,000,000)
Write-ins for gains and (losses) in surplus:			
Real estate valuation reserve			190,000
2007 audit adjustment		359,329	
Surplus, End of Year	$33,205,864	$31,798,342	$32,730,382

Milwaukee Insurance Company
Insurance Regulatory Information System
For the Three-Year Period Ending December 31, 2009

The following is a summary of NAIC Insurance Regulatory Information System (IRIS) results for the period under examination. Exceptional ratios are denoted with asterisks. A discussion of the exceptional ratios may be found after the IRIS ratios.

	Ratio	2009	2008	2007
#1	Gross Premium to Surplus	0%	0%	0%
#2	Net Premium to Surplus	0	0	0
#3	Change in Net Premiums Written	999*	0	(99)*
#4	Surplus Aid to Surplus	0	0	0
#5	Two-Year Overall Operating Ratio	21,393,950*	0	159*
#6	Investment Yield	3.1	3.7	3.8
#7	Gross Change in Surplus	4	(3)	1
#8	Change in Adjusted Surplus	4	3	8
#9	Liabilities to Liquid Assets	22	26	30
#10	Agents' Balances to Surplus	0	0	1
#11	One-Year Reserve Development to Surplus	0	(1)	(1)
#12	Two-Year Reserve Development to Surplus	(2)	(2)	(2)
#13	Estimated Current Reserve Deficiency to Surplus	0	0	0

The exceptional result for Ratio No. 3, "Change in Net Premiums Written," for 2007 was due to the termination of the reinsurance agreement with First Nonprofit Insurance Company and changes in the terms of reinsurance with Trinity Universal Insurance Company, which resulted in the company reporting a significant amount of negative written premium. In 2009 the execeptional ratio for Ratio No. 3 was the result of the company reporting $4 of net premium written, whereas none was reported for 2008.

The exceptional result for Ratio No. 5, "Two-Year Overall Operating Ratio," for 2007 was due to the combined effect of negative written premium in 2007 and the impact of expenses associated with real estate investment in 2006. For 2009 the exceptional result for Ratio No. 5 was the result of the company reporting $4 of net premium written.

Financial Experience of Milwaukee Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2009	$41,000,582	$ 7,794,718	$33,205,854	$ 1,225,387
2008	41,152,746	8,939,896	31,798,342	(420,045)
2007	45,044,935	12,314,553	32,730,382	2,196,275
2006	49,559,853	17,273,107	32,286,746	(1,501,482)

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2009	$ (83,678)	$ 4	$ 4	(4,465,900)%	43,544,450%	39,078,550 %
2008	(443,582)	0	0	0	0	0
2007	(6,476,626)	(1,014,471)	0	0	(18.9)	0
2006	40,036,065	2,211,242	2,403,764	39.8	53.9	93.7

The table above is reflective of the changes in written premium as a result of the 2007 disaffiliation from the Unitrin Group and the reorganization occasioned by the merger of First Nonprofit Mutual Holding Company with and into Mutual Insurers Holding Company effective November 15, 2007, whereby Milwaukee Insurance Company became a wholly owned subsidiary of First Nonprofit Insurance Company. Gross premium written from 2007 to 2009 reflects the company's run-off status initiated in 2007. The 2009 ratios in the table above are due to the mere $4 that the company reported for both written and earned premium in that year.

Reconciliation of Policyholders' 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, 2009, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were no specific comments and 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.

Bylaws

MIC’s bylaws were last amended and restated on April 1, 2003, at the time of MIC’s mutual holding company restructuring. The company is not in compliance with the following technical provisions of its bylaws:

1. According to Article 2.1, the company’s directors are to be elected during the annual meeting of the shareholders or, pursuant to Article 2.12, by a written consent of the shareholders without a meeting. During the period under examination, neither the minutes of shareholder meetings nor any written consent of the shareholder without a meeting evidences the election of MIC’s directors.

2. Article 3.1 sets the number of directors at nine and Article 3.2 requires that the board of directors be divided into three approximately equal classes and that, following a transition period to effectuate the staggering of terms, directors are to be elected to three-year terms. During the period under examination, there were seven directors, each apparently elected for one-year terms.

3. According to Article 4.14, the salaries of principal officers are to be fixed by the board of directors or a duly authorized committee thereof, which is not the current practice of the company.

The company generally appears to comply with its own bylaws, but in the foregoing instances, the company needs to amend the bylaws to reflect current corporate governance practices, or to follow the bylaws. It is recommended that the company amend its bylaws as necessary to reflect practices of corporate governance accurately and to remain in accord with statutory requirements.

Biographical Data

Section Ins 6.52, Wis. Adm. Code, requires that companies file a biographical report on any new director or officer within 15 days of their election or appointment. Biographical reports were not filed for four members of the current board of directors. It is recommended that the company report biographical data in accordance with the provisions on s. Ins 6.52, Wis. Adm. Code.

Report of Executive Compensation

The State of Wisconsin requires each Wisconsin-domiciled insurer to file a supplement to the annual statement entitled, “Report of Executive Compensation,” pursuant to ss. 601.42 and 611.63 (4), Wis. Stat. This report includes the total annual compensation paid to each director, the chief executive officer, and the four most highly compensated officers or employees other than the chief executive officer. In addition, the report requires disclosure of the compensation of all officers and employees whose compensation exceeds specified amounts. For an insurer of MIC’s size, the compensation of each officer or employee whose annual compensation exceeds $100,000 must be disclosed.

The company failed to include certain accrued incentive compensation and the imputed value of car allowance in the total compensation amount reported for an executive. It is recommended that the company properly complete the “Report of Executive Compensation” as required by ss. 601.42 and 611.63 (4), Wis. Stat.

Custodial Agreement

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

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

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

The examination verified that the company had an executed custodial agreement with a bank that meets the requirements of s. 610.23 (1), Wis. Stat. However, the examination’s review of the custodial agreement indicated that it did not contain the following provisions, as recommended in the NAIC Financial Condition Examiners Handbook:

> That the custodian is obligated to indemnify the company for any loss of securities of the company in the trust company's custody occasioned by the negligence or dishonesty of the trust company's officers or employees, or burglary, robbery, holdup, theft, or mysterious disappearance, including loss by damage or destruction; and
>
> That in the event that there is a loss of the securities for which the custodian is obligated to indemnify the company, the securities shall be promptly replaced or the value of the securities and the value of any loss of rights or privileges resulting from said loss of securities shall be promptly replaced.

It is recommended that the company amend its custodial agreement to comply with the guidelines contained in the NAIC Financial Condition Examiners Handbook with regard to the scope of custodian indemnification and prompt replacement of securities or the value thereof.

Consolidated Tax Settlements

Effective June 30, 2009, Mutual Insurers Holding Company and its subsidiaries entered into a tax allocation agreement for the purpose of filing consolidated federal income tax returns. According to the tax allocation agreement, the parties to the agreement are to settle the amounts owed to one another within 30 days after the return is filed or after the refund is received. The consolidated federal income tax return was filed by Mutual Insurers Holding Company on September 15, 2010. Accordingly, the consolidated tax settlements should have been settled on or before October 15, 2010. Final settlement was not concluded until December 15, 2010. While the parties to the tax allocation agreement settled within the 90-day standard for admissibility of tax recoverables pursuant to Statement of Statutory Accounting Principles No. 10, paragraph 13, the settlement standard of the tax allocation agreement to which the company is party was not observed. It is recommended that the company adhere to the terms of its affiliated tax allocation agreement.

Affiliated Service Relationship

As noted in the section of this report captioned "History and Plan of Operations," apart from certain limited investment and corporate governance functions, Milwaukee Insurance Company relies for nearly all of its functioning upon services received from its parent, First Nonprofit Insurance Company, and from its former affiliate, Trinity Universal Insurance Company. Although many of the administrative functions handled by First Nonprofit on the company's behalf are addressed by the 80% quota share agreement between First Nonprofit and the company, the reorganization occasioned by the merger of First Nonprofit Mutual Holding Company with and into Mutual Insurers Holding Company, whereby MIC became a wholly owned subsidiary of First Nonprofit, put First Nonprofit in the position of having to provide a broader range of administrative support to MIC particularly as time has progressed. It is recommended that the company enter into a written service agreement with First Nonprofit Insurance Company as required by Statement of Statutory Accounting Principles No. 25, paragraph 6, of the NAIC Accounting Practices and Procedures Manual, which agreement should provide for timely settlement of amounts owed by specification of a due date.

Reconciliation of Accounts

The examination noted that the balance sheet line item for “receivables from parent, subsidiaries, and affiliates” had remained unchanged with a balance of $52,457 both as of December 31, 2008, and December 31, 2009. In addition, the company had several general ledger accounts related to intercompany receivables and payables from current and former affiliates allocated to various other balance sheet line items that were not being reconciled on a timely basis. In certain cases, the company appeared to be working on gathering supporting documentation necessary to resolving issues surrounding the balances, but although some of the older accruals were cleared during 2010, it does appear that some improvement in this respect is needed. It is recommended that the company follow Statement of Statutory Accounting Principles No. 25, paragraph 6, of the NAIC Accounting Practices and Procedures Manual and nonadmit receivables from parent, subsidiaries and affiliates that are uncollected and not addressed by a written agreement or are over 90 days past due if addressed by a written agreement. It is further recommended that the company develop procedures for its accounting process that will enable the company to initiate adjustments and write-offs prior to preparation of its statutory financial statements, which include requirements for documentation supporting the validity of such receivables and payables.

VIII. CONCLUSION

Since the reorganization occasioned by the merger of First Nonprofit Mutual Holding Company with and into Mutual Insurers Holding Company effective November 15, 2007, whereby Milwaukee Insurance Company became a wholly owned subsidiary of First Nonprofit Insurance Company, the company has been in voluntary run-off. Over time, as its loss reserves run off, it is anticipated that Milwaukee Insurance Company will pay dividends to First Nonprofit Insurance Company, subject to regulatory approval for these dividends as necessary, and that ultimately Milwaukee Insurance Company will be merged with and into First Nonprofit Insurance Company.

Policyholders' surplus has increased from $32,286,746 as of year-end 2006, to $33,205,854 as of year-end 2009. This represents an increase of 2.8% during the period under examination.

The following schedule summarizes the cumulative increases and decreases to surplus from December 31, 2006, when policyholders' surplus was last verified by examination, to December 31, 2009:

Policyholders' surplus, December 31, 2006	$32,286,746
Net income	2,920,804
Change in nonadmitted assets	2,068,739
Change in surplus notes	(2,000,000)
Change in net deferred income tax	(1,600,500)
Net unrealized capital gains or (losses)	(829,119)
2007 audit adjustment	359,329
Change in provision for reinsurance	(190,135)
Real estate valuation reserve	190,000
Total change in policyholders' surplus	919,118
Policyholders' Surplus, December 31, 2009	$33,205,854

The examination resulted in no adjustments to reported policyholders' surplus and no reclassifications among balance sheet line items. The examination resulted in seven recommendations. Areas of improvement recommended by this examination included, but were not limited to, statutory reporting requirements, compliance with technical aspects of corporate governance, and accounting documentation.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 26 - Bylaws—It is recommended that the company amend its bylaws as necessary to reflect practices of corporate governance accurately and to remain in accord with statutory requirements.

2. Page 27 - Biographical Data—It is recommended that the company report biographical data in accordance with the provisions on s. Ins 6.52, Wis. Adm. Code.

3. Page 27 - Report of Executive Compensation—It is recommended that the company properly complete the "Report of Executive Compensation" as required by ss. 601.42 and 611.63 (4), Wis. Stat.

4. Page 28 - Custodial Agreement—It is recommended that the company amend its custodial agreement to comply with the guidelines contained in the NAIC Financial Condition Examiners Handbook with regard to the scope of custodian indemnification and prompt replacement of securities or the value thereof.

5. Page 28 - Consolidated Tax Settlements—It is recommended that the company adhere to the terms of its affiliated tax allocation agreement.

6. Page 29 - Affiliated Service Relationship—It is recommended that the company enter into a written service agreement with First Nonprofit Insurance Company as required by Statement of Statutory Accounting Principles No. 25, paragraph 6, of the NAIC Accounting Practices and Procedures Manual, which agreement should provide for timely settlement of amounts owed by specification of a due date.

7. Page 29 - Reconciliation of Accounts— It is recommended that the company follow Statement of Statutory Accounting Principles No. 25, paragraph 6, of the NAIC Accounting Practices and Procedures Manual and nonadmit receivables from parent, subsidiaries and affiliates that are uncollected and not addressed by a written agreement or are over 90 days past due if addressed by a written agreement. It is further recommended that the company develop procedures for its accounting process that will enable the company to initiate adjustments and write-offs prior to preparation of its statutory financial statements, which include requirements for documentation supporting the validity of such receivables and payables.

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
Judith Michael	Insurance Financial Examiner – Journey
Victoria Y. Chi	Insurance Financial Examiner Advanced, Data Processing Audit Specialist
Frederick H. Thornton	Insurance Financial Examiner Advanced, Exam Planning & Quality Control Specialist

Respectfully submitted,

Eleanor Oppriecht
Examiner-in-Charge