Report

of the

Examination of

Mt. Morris Mutual Insurance Company

Coloma, Wisconsin

As of December 31, 2016

TABLE OF CONTENTS

State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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Theodore K. Nickel, *Commissioner*

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January 11, 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:

MT. MORRIS MUTUAL INSURANCE COMPANY
Coloma, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Mt. Morris Mutual Insurance Company ("Mt. Morris", 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 transactions as deemed necessary to complete the examination.

The examination was conducted using a modified 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 document the system controls and procedures used to mitigate those risks. The approach was modified to focus on the significant financial statement balances and transactions.

All significant accounts and activities of the company were considered in accordance with the modified risk-focused examination process. This includes 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.

In addition to auditing, the public accounting firm performs non-auditing services for the company, including bookkeeping assistance in connection with the year-end close, assistance with the preparation of the annual statement, and tax return preparation. On June 9, 2014, an exemption was granted by the Commissioner, pursuant to s. Ins 50.08 (4), Wis. Adm. Code, permitting the independent auditor to perform this non-audit work for the company.

II. HISTORY AND PLAN OF OPERATION

The company was organized in 1876 as Mt. Morris Norwegian Mutual Fire Insurance Company, a town mutual insurer. The name of the company was changed to Mt. Morris Mutual Insurance Company through subsequent amendments to its articles and bylaws. In 1997, the company filed for and was granted permission to convert to an assessable domestic mutual under ch. 611, Wis. Stat. In 2004, the company was granted permission to become a non-assessable domestic mutual under ch. 611, Wis. Stat. In addition, the company is under a Stipulation & Order from the Commissioner, effective December 1, 2014, setting forth the special provisions regarding the lines of business, reinsurance, and capital requirements for a converted town-mutual insurer. The company's home office is located in Richford, Wisconsin; however, the mailing address is Coloma, Wisconsin.

The company has been the acquiring party in a succession of mergers. The company absorbed all of the assets and assumed all of the liabilities of Aurora Mutual Fire Insurance Company on March 31, 1983; Arkdale Mutual Fire Insurance Company on January 1, 1990; Oakfield Mutual Insurance Company on January 1, 1998; and Wonewoc Farmers Mutual Insurance Company on September 1, 1999. These mergers were all with town mutual insurance companies. There have been no mergers or acquisitions during the examination period.

The company is authorized to transact the business of insurance in all 72 counties of the State of Wisconsin. The major products marketed by the company include Farmowners' Multi-Peril, Homeowners' Multi-Peril, Commercial Multi-Peril, Allied Lines, Fire, and Automobile. These lines of business are in compliance with the Stipulation & Order. The company was approved to sell automobile insurance on a direct basis on December 29, 2006. The major products are marketed through 157 independent agencies and 805 independent agents (including two agents who also serve as directors of the company). The company uses standard contract forms and commission schedules for its agents. The company compensates agents for the total annual premium written on the following basis:

Commissions

The company introduced the Premier HO program in 2016 and commission levels for this are higher for new business. Renewals revert back to the standard levels.

Line	New	Renewal
Homeowner	20%	15%
PAP	15%	13%
UMB	15%	10%

Combined lines: The company compensates agents for the total annual premium written on the following basis: 12% for Fire and Extended Coverage; 13% for Automobile; and 10% for Umbrella.

Existing and new business renews on the anniversary of the original effective date. All subscriptions are owned by the independent agents/agencies. Renewal commissions are paid annually.

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

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Fire	$ 776,007	$	$ 121,482	$ 654,525
Allied lines	1,144,625		179,187	965,438
Farmowners multiple peril	9,246,710		1,487,140	7,759,570
Homeowner's multiple peril	6,041,904		945,842	5,096,062
Commercial multiple peril	1,931,781		302,414	1,629,367
Other liability – occurrence	586,269	57,439	420,068	223,640
Private passenger auto liability	1,929,697		181,471	1,748,226
Commercial auto liability	228,083		21,450	206,633
Auto physical damage	1,929,672		120,616	1,809,056
Boiler and machinery	169,054		169,054	
Total All Lines	$23,983,802	$57,439	$3,948,724	$20,092,517

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of nine members. Three directors are elected annually to serve a three-year term. Officers are elected at the board's annual meeting. The board members currently receive per diems for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Robert Frank Hoefs Hillsboro, Wisconsin	Retired	2018
Robert Zimpel Plainfield, Wisconsin	Business Owner	2018
Raymond Dobbins Hutchinson[1] Weyauwega, Wisconsin	Insurance Agent, Hutchinson Agency, Inc.	2018
Jeffrey Todd Nichols Waukesha, Wisconsin	Attorney	2019
Greg William Walker[1] Berlin, Wisconsin	Insurance Agent, Walker Agency, Inc.	2019
Robert Matthew Ebben[2] Nekoosa, Wisconsin	Financial Advisor, Edward Jones Investments	2019
Glenn Long Thalacker Montello, Wisconsin	Retired	2020
Norm Irvin Weiss Wautoma, Wisconsin	Retired	2020
Robert Benish Sr. Hillsboro, Wisconsin	Retired	2020

[1] Indicates that the director is also an agent for the company.
[2] Indicates that the director is also an investment broker with no discretionary authority to initiate trades.

Officers of the Company

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

Name	Office	2016 Compensation[3]
Daniel Otto Fenske	President / CEO	$197,645
Robert Frank Hoefs	Chairman of the Board	28,150
Cathy Edna Atkinson	VP - Claims	76,222
Connie Lynn Weber	VP - Operations	96,534
Danielle Marie Loeffler	VP - Policy Services	63,905
Norm Irvin Weiss	Secretary / Treasurer	28,150

Committees of the Board[4]

The company's bylaws allow for the formation of certain committees by the board of directors. The 2018 committees are listed below:

Adjusting Committee
Glenn Thalacker, Chair
Robert Benish
Robert Hoefs
Norm Weiss
Greg Walker
Cathy Atkinson – Staff

Building and Marketing Committee
Robert Benish, Chair
Robert Hoefs
Norm Weiss
Robert Ebben
Jeffrey Nichols

Nomination Committee
Robert Zimpel, Chair
Norm Weiss
Ray Hutchinson
Robert Hoefs

Auditing and Legal Committee
Jeffrey Nichols, Chair
Robert Hoefs
Norm Weiss
Connie Weber - Staff

Finance Committee[5]
Robert Hoefs, Chair
Robert Ebben
Robert Zimple
Norm Weiss
Samantha Reichoff - Staff
Connie Weber - Staff

Personnel Committee
Glenn Thalacker, Chair
Norm Weiss
Robert Hoefs
Connie Weber - Staff

[3] Compensation includes officer and director fees, salary, and agent commissions; data is as reported on the Report of Executive Compensation.
[4] Daniel Fenske, President/CEO attends all committee meetings.
[5] The Finance Committee functions as the investment advisor, initiating all trades on behalf of the company.

Rates and Evaluation Committee	Reinsurance Committee
Ray Hutchinson, Chair	Robert Ebben, Chair
Greg Walker	Greg Walker
Robert Zimpel	Norm Weiss
Norm Weiss	Ray Hutchinson
Robert Hoefs	Connie Weber – Staff
Danielle Loeffler - Staff	Samantha Reichhoff - Staff

IV. AFFILIATED COMPANIES

Mt. Morris Mutual Insurance Company is no longer a member of a holding company system. The company sold its wholly-owned subsidiary, Pioneer Insurance Agency, Inc., effective October 1, 2012. The agency operated as a wholly-owned subsidiary of the company since September 1, 2002. The value of this transaction was $10,000.00. With the sale of this subsidiary, Mt. Morris has no affiliated entities.

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. The company assumes small amounts of reinsurance premium from a mandatory pool; this pool does not represent a significant risk to the company. The examination focused on the significant ceding contracts.

Ceding Contracts

1. Type: Multi-Line Excess of Loss Reinsurance Agreement

Reinsurer:

25.5%	Hannover Ruck SE
18.0	Swiss Reinsurance America Corp
18.0	XL Reinsurance America, Inc.
12.0	TOA Reinsurance Company of America
7.5	American Agricultural Insurance Company
7.5	AXIS Reinsurance Co
5.0	Arch Reinsurance Company
4.0	Farmers Mutual Hail Insurance Company of Iowa
2.5	Employers Mutual Casualty Company
100.0%	Total

Scope: Homeowner's, Farmowners, Fire, Allied Lines, Inland Marine and Commercial, covering Property and Casualty Classes, including Automobile Physical Damage and Liability

Retention:

Property:	$225,000 for all risks in any one occurrence
Casualty:	225,000 for any one loss occurrence
Automobile:	150,000 for any one loss occurrence

Coverage:

Property

Primary Property Layer
$775,000 for every loss occurrence, in excess $225,000
Secondary Property Layer
$2,000,000 for every loss occurrence, in excess of $1,000,000

Casualty

Primary Casualty Layer
$775,000 for every loss occurrence, in excess of $225,000
Secondary Casualty Layer
$1,000,000 for every loss occurrence, in excess of $1,000,000

Automobile

Primary Automobile Layer
$850,000 for every loss occurrence, in excess of $150,000
Secondary Automobile Layer
$1,000,000 for every loss occurrence, in excess of $1,000,000

Premium:	8.5% of gross net premium earned; subject to an annual minimum premium of $1,509,934.
Commissions:	None Noted
Effective date:	January 1, 2017
Termination:	Annual contract becoming effective at 12:01 a.m., CST, January 1, 2017 and shall remain in force until 12:01 a.m., CST January 1, 2018. Conditions for early termination are specified by the contract.

2. Type: Excess of Loss Reinsurance Agreement

Reinsurer:	100% XL Reinsurance America Inc.
Scope:	Homeowner's, Farmowners, Fire, Allied Lines, Inland Marine and Commercial
Retention:	Property: $3,000,000 for all risks in any one occurrence
Coverage:	**Property** Property Layer $4,000,000 for every loss occurrence, in excess of $3,000,000
Premium:	0.066% of the Total Insured Value for the term of this Agreement
Commissions:	None Noted
Effective date:	January 1, 2017
Termination:	Annual contract becoming effective at 12:01 a.m., CST, January 1, 2017 and shall remain in force until 12:01 a.m., CST January 1, 2018. Conditions for early termination are specified by the contract.

3. Type: Umbrella Liability Quota Share Reinsurance Agreement

Reinsurer:

25.5%	Hannover Ruck SE
18.0	Swiss Reinsurance America Corp
18.0	XL Reinsurance America, Inc.
12.0	TOA Reinsurance Company of America
7.5	American Agricultural Insurance Company
7.5	AXIS Reinsurance Co
5.0	Arch Reinsurance Company
4.0	Farmers Mutual Hail Insurance Company of Iowa
2.5	Employers Mutual Casualty Company
100.0%	Total

Scope:	Business written and classified by the company as umbrella liability
Retention:	5.0% of the first $1,000,000 every loss, and every policy

Coverage:	**Section A** 95.0% of the first $1,000,000 every loss, and every policy **Section B** 100.0% of the next $4,000,000 every loss, and every policy
Premium:	**Section A** 95% of the company's net subject written premium **Section B** 100% of the company's net subject written premium
Commissions:	A ceding commission of 30.0% of the company's net subject written premium ceded to the reinsurers for the business covered
Effective date:	January 1, 2017
Termination:	Annual contract becoming effective at 12:01 a.m., CST, January 1, 2017 and shall remain in force until 12:01 a.m., CST January 1, 2018. Conditions for early termination are specified by the contract.

4. Type: Property Catastrophe Excess of Loss Reinsurance Agreement

Reinsurer:

1st Layer

18.0%	Swiss Reinsurance America Corporation
8.5	Shelter Reinsurance Company
7.5	Toa Reinsurance Company of America
2.0	Lloyd's Syndicate 1729
22.5	Allied World Insurance Company
7.5	AXIS Reinsurance Company
2.5	Employers Mutual Casualty Company
29.0	R+V Versicherung AG
2.5	Taiping Reinsurance Company, Ltd.
100.0%	Total

2nd Layer

18.0%	Swiss Reinsurance America Corporation
8.5	Shelter Reinsurance Company
7.5	Toa Reinsurance Company of America
3.4	Lloyd's Syndicate 2001
3.0	Lloyd's Syndicate 1729
17.5	Allied World Insurance Company
7.5	AXIS Reinsurance Company
2.5	Employers Mutual Casualty Company
29.0	R+V Versicherung AG
3.1	Taiping Reinsurance Company, Ltd.
100.0%	Total

3rd Layer

18.00%	Swiss Reinsurance America Corporation
8.50	Shelter Reinsurance Company
7.50	Toa Reinsurance Company of America
4.15	Lloyd's Syndicate 2001
4.00	Lloyd's Syndicate 1729
12.50	Allied World Insurance Company
2.50	Employers Mutual Casualty Company
7.50	AXIS Reinsurance Company

31.00	R+V Versicherung AG
4.35	Taiping Reinsurance Company, Ltd.
100.00%	Total

4th Layer

18.00%	Swiss Reinsurance America Corporation
8.50	Shelter Reinsurance Company
7.50	Toa Reinsurance Company of America
1.25	Lloyd's Syndicate 2001
1.25	Lloyd's Syndicate 1729
22.50	Allied World Insurance Company
7.50	AXIS Reinsurance Company
2.50	Employers Mutual Casualty Company
29.00	R+V Versicherung AG
2.00	Taiping Reinsurance Company, Ltd.
100.00%	Total

5th Layer

100.0%	Shelter Reinsurance Company

Scope: Property, including Automobile Physical Damage

Retention: $750,000 every loss occurrence

Coverage:

1st Layer
$1,250,000 every loss occurrence, in excess of $750,000

2nd Layer
$3,000,000 every loss occurrence, in excess of $2,000,000

3rd Layer
$4,500,000 every loss occurrence, in excess of $5,000,000

4th Layer
$3,000,000 every loss occurrence, in excess of $9,500,000

5th Layer
$2,000,000 every loss occurrence, in excess of $12,500,000

Premium:

1st Layer
The company shall pay the reinsurer the greater of $443,750 or 2.741% of gross net earned premium

2nd Layer
The company shall pay the reinsurer the greater of $405,000 or 2.502% of gross net earned premium

3rd Layer
The company shall pay the reinsurer the greater of $166,500 or 1.028% of gross net earned premium

4th Layer
The company shall pay the reinsurer the greater of $90,000 or 0.556% of gross net earned premium

		<u>5th Layer</u> The company shall pay the reinsurer the greater of $37,884 or 0.234% of gross net earned premium
	Commissions:	None
	Effective date:	January 1, 2017
	Termination:	Annual contract becoming effective at 12:01 a.m., CST, January 1, 2017 and shall remain in force until 12:01 a.m., CST January 1, 2018. Conditions for early termination are specified by the contract.
5.	Type:	Property Aggregate Excess of Loss Reinsurance Agreement
	Reinsurer:	100.0% Farmers Mutual Hail Insurance Company of Iowa
	Scope:	Property, including Automobile Physical Damage
	Retention:	82.5% of the company's net subject earned premium for the term of this agreement, subject to a minimum of $9,884,419
	Coverage:	$1,000,000
	Premium:	The company pays the reinsurer the greater of $112,000 or 0.935% of net earned premium
	Commissions:	None
	Effective date:	January 1, 2017
	Termination:	Annual contract becoming effective at 12:01 a.m., CST, January 1, 2017 and shall remain in force until 12:01 a.m., CST January 1, 2018. Conditions for early termination are specified by the contract.
6.	Type:	Boiler and Machinery Semi-Automatic Reinsurance Agreement
	Reinsurer:	The Travelers Indemnity Company
	Scope:	Equipment Breakdown
	Retention:	None
	Coverage:	$100,000,000 for any one equipment breakdown
	Premium:	100% of the Boiler and Machinery gross written premium for covered locations or policies
	Commission:	32% ceding commission
	Effective date:	April 1, 2008
	Termination:	By either party by providing a 90-day written notice

Companies operating in limited geographic areas (such as Mt. Morris, which writes exclusively in the State of Wisconsin) have increased exposure to catastrophic risks. To address this risk, the Stipulation & Order has key provisions pertaining to the reinsurance program that are designed to safeguard the company against catastrophic risk. For example, the Stipulation & Order requires that individual net losses retained under the company's umbrella excess liability program may not exceed $50,000 per claim. In addition, the Stipulation & Order requires the company to obtain annual catastrophic risk reports from at least two vendors (using different software models) assessing the frequency and severity of the company's exposure to catastrophic risk. Furthermore, the Stipulation & Order requires that the annual catastrophic risk reports be presented to the board prior to execution of the reinsurance program. The examination determined that the company's reinsurance program and processes complied fully with the requirements set-forth in the Stipulation & Order.

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.

Mt. Morris Mutual Insurance Company
Assets
As of December 31, 2016

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$ 16,659,323	$	$16,659,323
Stocks:			
Preferred stocks	485,200		485,200
Common stocks	11,822,259		11,822,259
Real estate:			
Occupied by the company	191,200		191,200
Cash, cash equivalents, and short-term investments	1,411,034		1,411,034
Investment income due and accrued	198,765		198,765
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	104,887	3,459	101,428
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	5,264,960		5,264,960
Reinsurance:			
Amounts recoverable from reinsurers	23,408		23,408
Funds held by or deposited with reinsured companies	10,874		10,874
Other amounts receivable under reinsurance contracts	39,596		39,596
Net deferred tax asset	135,000		135,000
Electronic data processing equipment and software	92,666	81,417	11,249
Furniture and equipment, including health care delivery assets	11,432	11,432	
Total Assets	$36,450,604	$96,308	$36,354,296

Mt. Morris Mutual Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2016

Losses		$ 3,812,465
Loss adjustment expenses		750,404
Commissions payable, contingent commissions, and other similar charges		1,693,255
Other expenses (excluding taxes, licenses, and fees)		182,452
Taxes, licenses, and fees (excluding federal and foreign income taxes)		28,926
Current federal and foreign income taxes		24,405
Unearned premiums		11,724,225
Advance premium		215,831
Ceded reinsurance premiums payable (net of ceding commissions)		137,252
Amounts withheld or retained by company for account of others		25
Total Liabilities		18,569,240
Unassigned funds (surplus)	$17,785,056	
Surplus as Regards Policyholders		17,785,056
Total Liabilities and Surplus		$36,354,296

Mt. Morris Mutual Insurance Company
Summary of Operations
For the Year 2016

Underwriting Income		
Premiums earned		$18,961,832
Deductions:		
Losses incurred	$8,061,636	
Loss adjustment expenses incurred	1,350,000	
Other underwriting expenses incurred	6,454,474	
Total underwriting deductions		15,866,110
Net underwriting gain (loss)		3,095,722
Investment Income		
Net investment income earned	1,003,605	
Net realized capital gains (losses)	(168,534)	
Net investment gain (loss)		835,071
Other Income		
Net gain (loss) from agents' or premium balances charged off	(6,393)	
Finance and service charges not included in premiums	137,102	
Write-ins for miscellaneous income:		
Miscellaneous income	3,263	
Total other income		133,972
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		4,064,765
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		4,064,765
Federal and foreign income taxes incurred		1,259,840
Net Income		$ 2,804,925

Mt. Morris Mutual Insurance Company
Cash Flow
For the Year 2016

Premiums collected net of reinsurance			$19,612,820
Net investment income			997,091
Miscellaneous income			133,972
Total			20,743,883
Benefit- and loss-related payments		$8,128,203	
Commissions, expenses paid, and aggregate write-ins for deductions		7,378,966	
Federal and foreign income taxes paid (recovered)		1,319,041	
Total deductions			16,826,210
Net cash from operations			3,917,673
Proceeds from investments sold, matured, or repaid:			
Bonds	$ 644,756		
Stocks	5,678,268		
Total investment proceeds		6,323,024	
Cost of investments acquired (long-term only):			
Bonds	3,993,594		
Stocks	5,812,737		
Real estate	23,514		
Total investments acquired		9,829,845	
Net cash from investments			(3,506,821)
Other cash provided (applied)		(104,872)	
Net cash from financing and miscellaneous sources			(104,872)
Reconciliation:			
Net Change in Cash, Cash Equivalents, and Short-Term Investments			305,980
Cash, cash equivalents, and short-term investments:			
Beginning of year			1,105,054
End of Year			$ 1,411,034

Mt. Morris Mutual Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2016

Assets		$36,354,296
Less liabilities		18,569,240
Adjusted surplus		17,785,056
Annual premium:		
Lines other than accident and health	$20,092,517	
Factor	20%	
Compulsory surplus (subject to a minimum of $2 million)		4,018,503
Compulsory Surplus Excess (Deficit)		$13,766,553
Adjusted surplus (from above)		$17,785,056
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%)		5,625,904
Security Surplus Excess (Deficit)		$12,159,152

Mt. Morris 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	$14,058,205	$11,595,251	$11,035,510	$9,140,101	$8,379,824
Net income	2,804,925	2,730,773	439,108	924,680	487,254
Change in net unrealized capital gains/losses	827,813	(307,717)	242,395	362,835	130,594
Change in net deferred income tax	160,000	44,000	(111,243)	39,185	71,430
Change in nonadmitted assets	(65,887)	(4,102)	(10,519)	568,709	70,998
Surplus, End of Year	$17,785,056	$14,058,205	$11,595,251	$11,035,510	$9,140,101

Mt. Morris 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.

	Ratio	2016	2015	2014	2013	2012
#1	Gross Premium to Surplus	135%	155%	184%	184%	206%
#2	Net Premium to Surplus	113	128	150	148	154
#3	Change in Net Premiums Written	12	3	6	17	-6
#4	Surplus Aid to Surplus	0	0	0	0	0
#5	Two-Year Overall Operating Ratio	77	88	95	91	94
#6	Investment Yield	3.6	3.9	3.9	3.9	4.3
#7	Gross Change in Surplus	27	21	5	21	9
#8	Change in Adjusted Surplus	27*	21	5	21	9
#9	Liabilities to Liquid Assets	44	48	52	52	57
#10	Agents' Balances to Surplus	1	1	1	1	1
#11	One-Year Reserve Development to Surplus	2	-2	3	-7	-7
#12	Two-Year Reserve Development to Surplus	1	2	0	-2	-22
#13	Estimated Current Reserve Deficiency to Surplus	3	-2	-4	-8	-11

Ratio No. 8 measures the company's change in Adjusted Surplus over the previous year. The exceptional result in 2016 was due to unusually low claims activity resulting in low Loss/LAE payments and significant Surplus gains experienced in 2016.

Growth of Mt. Morris Mutual Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2016	$36,354,296	$18,569,240	$17,785,056	$2,804,925
2015	31,108,593	17,050,388	14,058,208	2,730,773
2014	27,880,334	16,285,083	11,595,251	439,108
2013	26,326,360	15,290,850	11,035,510	924,680
2012	23,248,902	14,108,801	9,140,101	487,254
2011	21,248,902	13,042,536	8,379,824	843,621

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2016	$24,041,241	$20,092,517	$18,961,832	49.6%	32.1%	81.7%
2015	21,835,512	18,006,906	17,728,953	50.6	32.5	83.1
2014	21,285,799	17,418,047	17,057,854	75.9	30.1	106.0
2013	20,337,004	16,369,096	15,642,280	62.3	34.0	96.3
2012	18,822,966	14,032,134	13,478,705	64.8	34.6	99.4
2011	17,996,051	14,953,000	14,445,641	71.4	29.7	101.1

The company experienced steady growth in Gross Premiums Written, Net Premiums Written, and Premiums Earned over the examination period, increasing 33.3%, 34.4%, and 31.3%, respectively. In contrast, the growth in Policyholders Surplus was considerably greater (112.2% over the past 5 years). The disproportionate growth in surplus was primarily due to low weather-related claims activity in 2016 and 2015, which resulted in favorable Loss/LAE ratios, and above-average net incomes. The combination of the steady growth in premiums over the examination period, and milder weather conditions in 2015 and 2016, explains the improvement in the financial condition of the company. Additionally, the company is in compliance with the capital requirements of the Stipulation & Order.

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.

Examination Reclassifications

No reclassifications were made as a result of the examination.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were four 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. Information Technology—It is recommended that the company test its IT disaster recovery and operations business continuity plans at least annually according to the guidance provided in the management letter dated October 14, 2013, and document performance of the tests.

   Action—Compliance.

2. Information Technology—It is again recommended that the company execute an agreement with ROC which identifies the rights and responsibilities of the parties.

   Action—Compliance.

3. Information Technology—It is recommended that the company strengthen its IT control environment as described in the management letter dated October 14, 2013.

   Action—Compliance.

4. Unclaimed Property—It is recommended that the company report its unclaimed property balance as a write in for liabilities in accordance with 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.

Annual Conflict of Interest Statements

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employees that conflict, or are likely to conflict, with the official duties of such person. Part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The company has adopted such a procedure for disclosing potential conflicts of interest; however, it was noted that the company's procedure is not performed annually. It is recommended that the company's officers, directors, and key employees annually disclose all potential conflicts with their respective duties with the company in accordance with a directive of the Commissioner of Insurance.

Investments - Policy

The company's investment policy is set-forth in a document entitled the "Investment Plan" (the "Plan"). The Plan indicates the percentage of investments that should be held in each investment category. Overall, the Plan is basic, and lacks many of the details commonly found in more comprehensive investment plans. Specifically, the Plan lacks the company's investment objectives, permitted and prohibited investments, and investment limitations (as set-forth in ch. 620, Wis. Stat.). Furthermore, the Plan does not address the investment roles and responsibilities (for example, the roles and responsibilities of the Board of Directors, Management, Investment Advisor(s)/Manager(s), and Custodian(s)). Finally, the Plan does not define how the performance of the investment portfolio and the Investment Advisor shall be evaluated. It is recommended that the board develop and approve an updated Investment Plan, and submit it to this office within 60 days of adoption of this report. The updated Investment Plan should address: (1) The company's investment objectives, together with permitted and prohibited investments (as set-forth in ch. 620, Wis. Stat.); (2) Investment roles and responsibilities; and (3)

How the performance of the investment portfolio and the investment advisor, if any, are to be evaluated.

Investments – Qualifications of the Custodian(s)

Section 610.23, Wis. Stat. requires each investment custodian to be a bank or banking and trust company. The examination found that one of the investment custodians reported in General Interrogatory No. 28.01 of the 2016 Annual Statement, Edward Jones, is actually a trust company (which does not qualify as "bank" or "banking and trust company"), and that this vendor held investments for the company outside of a proper custodial arrangement. It is recommended that the company comply with s. 610.23, Wis. Stat., and immediately transfer the securities held with the trust company into a proper custodial arrangement with a qualified custodian (i.e. – a "bank" or "banking and trust" company); the custodial arrangement should be supported by a Custodial Agreement, executed by the custodian and the company, which contains the recommended provisions contained in the NAIC Financial Condition Examiners Handbook.

Investments - Parties to the Custodial Agreement(s)

In General Interrogatory No. 28.1 of the 2016 Annual Statement, the company indicated that it has a custodial relationship with U.S. Bank. To support the custodial relationship with U.S. Bank, the company provided the examination with a Custodial Agreement with Firstar Trust Company. The company's explanation for this discrepancy was that, due to multiple corporate mergers, "Firstar Trust Company" is now "U.S. Bank National Association.". The agreement should be in the name of the current custodian. It is recommended that the company execute a Custodial Agreement naming its current custodian, U.S. Bank, as a party to the agreement.

Reinsurance - Contingent Commissions

The NAIC Annual Statement Instructions - Property/Casualty states that contingent commissions received from a reinsurer are to be netted with ceded balances. Contingent commissions should then be reported on Schedule F - Part 3, Column 14. Immaterial contingent commissions were noted in the general ledger but were not reported in Column 14. It is recommended that the company report its contingent commissions received from reinsurance on Schedule F - Part 3, Column 14 in accordance with the NAIC Annual Statement Instructions - Property/Casualty.

VIII. CONCLUSION

The company experienced steady growth in Gross Premiums Written, Net Premiums Written, and Premiums Earned over the examination period, increasing 33.3%, 34.4%, and 31.3% respectively. The growth in Policyholders Surplus was 112.2% over the same period. Growth in surplus was due mainly to relatively mild weather conditions across the state of Wisconsin in 2016 and 2015. The combination of the steady growth in premiums, and the mild weather conditions in 2015 and 2016, explains the improvement in the financial condition of the company over the examination period.

The company is in compliance with the lines of business, reinsurance requirements, and capital requirements as set forth in the Stipulation & Order, effective December 1, 2014.

The prior examination noted four examination recommendations and the company has complied with those recommendations. The current examination noted five examination recommendations. There were no adjustments to surplus or reclassifications made as a result of this examination.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 24 - Annual Conflict of Interest Statements—It is recommended that the company's officers, directors, and key employees annually disclose all potential conflicts with their respective duties with the company in accordance with a directive of the Commissioner of Insurance.

2. Page 24 - Investments - Policy—It is recommended that the board develop and approve an updated Investment Plan, and submit it to this office within 60 days of adoption of this report. The updated Investment Plan should address: (1) The company's investment objectives, together with permitted and prohibited investments (as set-forth in ch. 620, Wis. Stat.); (2) Investment roles and responsibilities; and (3) How the performance of the investment portfolio and the investment advisor, if any, are to be evaluated.

3. Page 25 - Investments – Qualifications of the Custodian(s)—It is recommended that the company comply with s. 610.23, Wis. Stat., and immediately transfer the securities held with the trust company into a proper custodial arrangement with a qualified custodian (i.e. – a “bank” or “banking and trust” company); the custodial arrangement should be supported by a Custodial Agreement, executed by the custodian and the company, which contains the recommended provisions contained in the NAIC Financial Condition Examiners Handbook.

4. Page 25 - Investments - Parties to the Custodial Agreement(s)—It is recommended that the company execute a Custodial Agreement naming its current custodian, U.S. Bank, as a party to the agreement.

5. Page 25 - Reinsurance - Contingent Commissions—It is recommended that the company report its contingent commissions received from reinsurance on Schedule F - Part 3, Column 14 in accordance with the NAIC Annual Statement Instructions - Property/Casualty.

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**
Michael E. Miller	Insurance Financial Examiner
Judy Michael	ACL Specialist
David Jensen, CFE	IT Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,

Gene M. Renard, CFE
Examiner-in-Charge