



To: All Policyholders of Heartland Mutual Insurance Company and Arlington Mutual Insurance Company

Re: Summary of Proposed Merger

Date: \_\_\_\_\_, 2024

The Boards of Directors of Arlington Mutual Insurance Company (“Arlington”) and Heartland Mutual Insurance Company (“Heartland”) have determined that it would be in the best interests of each of the companies to merge and the companies have entered in an Agreement and Plan of Merger (the “Plan of Merger”) to that effect.

The town mutual insurance industry has faced significant challenges over the past two years. Last year, one of the primary reinsurers of town mutuals such as Arlington and Heartland was placed into liquidation. With less competition in the reinsurance market, the cost of state mandated reinsurance coverage has gone up to an almost unsustainable level.

In order to provide greater security to its members by combining the assets and reserves of the companies, spreading the risk of loss, reducing the costs of operation, and ensuring the continued availability of reinsurance, the Boards of Directors of Arlington and Heartland have decided to pursue a merger of Heartland with and into Arlington (the “Merger”). The Boards of each company believe that the Merger will better position the surviving company to continue serving its policyholder members.

Advantages of the Merger to the policyholders of all of the companies include that Arlington is a financially sound company that maintains the required reinsurance coverage and has confirmed its ability to maintain reinsurance coverage post-Merger and the policyholders of Heartland will continue to be insured by a mutual insurance company. Additionally, all current Heartland policies will continue through their current term and may be renewed by Arlington.

The Board of Directors of each company has voted and determined that the Merger is fair and equitable to each company and their respective policyholders. The Plan of Merger has been filed by the companies with the Office of the Commissioner of Insurance (the “OCI”), which must approve the merger. The Board of Directors of each company recommends that their respective members vote to approve the Merger.

***Parties to the Merger***

Arlington is headquartered in Arlington, Wisconsin and was originally organized in 1871. Arlington offers a full line of property and casualty insurance products including farmowners, homeowners,

mobile home, renters, rental, condominium and auto/umbrella policies to its clients through independent agents. As of 2023, the company has approximately 2106 policies in force, premiums written of \$2,823,637, and surplus of \$1,398,911. Arlington is currently authorized to operate in the following sixteen counties: Adams, Columbia, Dane, Dodge, Fond du Lac, Grant, Green Lake, Iowa, Jackson, Juneau, Lafayette, La Crosse, Marquette, Monroe, Sauk and Vernon.

Heartland is headquartered in Ettrick, Wisconsin and was originally organized in 1877 as the Ettrick Scandinavian Mutual Insurance Company. As of 2023, Heartland has approximately 618 policies in force, premiums written of \$1,185,562, and surplus of \$483,312. Heartland is currently authorized to operate in the following nine counties: Trempealeau, Jackson, Buffalo, Eau Claire, La Crosse, Clark, Monroe, Vernon and Juneau.

### ***Summary of Effect of Merger***

Below is a summary of the Plan of Merger and the effect of the Merger, which is proposed to take effect on July 1, 2024 (the “Effective Date”):

- *Effect of Merger.* On the Effective Date, Heartland will (i) merge with and into Arlington and (ii) cease to exist as a separate corporation. The Heartland members and policyholders will become members and policyholders of Arlington. Arlington, as the surviving company, shall have all the property and assets and be liable for all of the liabilities and obligations (including insurance policyholder obligations) of each of the participating companies.
- *Name, Office Headquarters, and Locations.* Arlington will be the surviving entity of the Merger (the “Surviving Corporation”) and retain the name “Arlington Mutual Insurance Company.” The Surviving Corporation’s principal office will be the current office of Arlington in Arlington, Wisconsin. Operations will continue at the current Heartland office location in Ettrick, Wisconsin, until such time as board of the Surviving Corporation determines it no longer necessary to maintain such office and it is fiscally responsible to close that location.
- *Mutual Membership.* Heartland’s policyholders will become members of the Surviving Corporation and Heartland will cease to exist as a separate corporation. Shortly after the Effective Date, each former member of Heartland will be sent a Certificate of Assumption and Endorsement confirming that their existing policy has been assumed by Arlington and that the policyholder is now a member of Arlington.
- *Effect on Heartland Policies.* **Please note**, pursuant to the Plan of Merger and upon the Effective Date (Anticipated to be July 1, 2024), all current Heartland policies (both commercial and personal lines) will be endorsed to include the following endorsements: (i) the interior water damage limitation endorsement (Form AMI-WLIM 10-23), (ii) the roof limitation endorsement (Form AMI-LIM 01-23), and (iii) the \$2,500 minimum deductible endorsement (Form AMI-DED 03-24) (the “Exclusion Endorsements”). Specimens of the Exclusion Endorsements are included with this summary sent to Heartland policyholders. The Exclusion Endorsements are being added at the direction of Arlington’s reinsurer and to bring the policies into accordance with Arlington’s existing policies. Following the Effective Date, the actual endorsements applied to each policy will be sent to policyholders. *Policyholders of Heartland are free to seek alternative coverage from another insurance company and cancel their policy at any time.*
- *Migration of policies to Arlington coverage forms and rates.* Upon the next policy renewal date following July 1, 2024 (or as soon thereafter as practicable and permitted under state law), the

current policyholders of Heartland will be renewed onto the policies, rates, and underwriting criteria of Arlington, subject to meeting Arlington’s underwriting standards, criteria, business plan, and requirements of its reinsurance contract for 2024. Coverage provided under Arlington’s current policies will be unaffected by the Merger. **Please note**, Heartland policyholders may also be contacted prior to the effective date of the Merger to begin transferring the policies to Arlington coverage forms and rates.

- *Agents.* Following the Merger, Arlington will continue to market through Heartland’s and its established base of independent and captive agents. The company will adopt the current Arlington agency agreement as its standard agency agreement. Arlington will offer an appointment to the current agents of Heartland.
- *Operations and Business Plan.* Arlington will be the surviving entity after the Merger and will generally continue the use the current of Arlington’s practices, procedures, systems, operations, rates, forms, products, marketing materials, and other related items.
- *Reinsurance.* The companies believe that the Surviving Corporation will be better positioned to obtain state mandated reinsurance for 2025 and beyond. The Surviving Corporation will continue to pursue reinsurance coverage through its current reinsurer, Grinnell Mutual Insurance Company, as well as the opportunity to convert to chapter 611 mutual insurance company. If the Surviving Corporation is able to convert to a chapter 611 mutual insurance company, it may have additional reinsurance options.
- *Authorized Territory.* As a Chapter 612 town mutual insurance company, the Surviving Corporation may only write insurance policies in up to 16 counties. The Surviving Corporation Adams, Columbia, Dane, Dodge, Grant, Green Lake, Iowa, Jackson, Juneau, La Crosse, Lafayette, Marquette, Monroe, Sauk, Trempealeau, and Vernon (the “Authorized Territory”).
- *Legacy Territory - Buffalo, Clark, Eau Claire, and Fond du Lac Counties.* Unfortunately, to maintain compliance with Wisconsin law, the Surviving Corporation must nonrenew policyholders in the Legacy Territory at the next renewal date following the effective date of the Conversion. Existing policies in these counties will continue in effect through their normal expiration. In the event the Surviving Corporation ultimately converts to a chapter 611 mutual insurance company sometime in the next year, it is possible that policyholders in the Legacy Territory may be issued new policies.
- *Board of Directors.* Upon the Effective Date, Arlington will have an initial nine (9) member board divided into three (3) classes of directors. The proposed Board and the expiration of their term on the Board will be as follows:

Name	Term
Kurt Breunig	2025
Jake Gaitan	2025
Mark Raymond	2025
Ed Kasanders	2026
Kim Bauer	2026
Stephen Elmer	2026
Trent Schuster	2027
Jerry Traut	2027

\*Current Heartland Director

At each annual meeting of the policyholders of Arlington after the Effective Date, the policyholders (including the former Heartland policyholders) will elect the directors to fill the positions of the directors whose terms expire, as provided in the Arlington’s articles of incorporation and bylaws.

- *Officers.* The officers of the Surviving Corporation will be the officers of Arlington on the Effective Date. The individuals are listed below and will serve until the next annual meeting of the Board of Directors or until their successors shall have been elected and shall qualify for office. Vacancies will be filled in the manner provided by the Surviving Corporation’s articles of incorporation and bylaws.

<b>Position</b>	<b>Name</b>
President	Kim Bauer
Vice President	Ed Kasanders
Secretary/Treasurer	Stephen Elmer

- *Articles and Bylaws.* Pursuant to the Merger, the Surviving Corporation will adopt articles of incorporation and bylaws that will adopt Arlington’s current articles and bylaws. The only substantive revision to the articles is to specify the Authorized Territory now includes in Trempealeau County and excludes Fond du Lac County. A copy of the articles of incorporation and bylaws are available for your review upon request.

A complete copy of the Plan of Merger (and related exhibits) is available for your inspection at the Arlington and Heartland offices. Please contact the individuals identified below at any of the companies if you have any questions or if you would like to review a complete copy of the Plan of Merger.

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