Report

of the

Examination of

Church Mutual Insurance Company

Merrill, Wisconsin

As of December 31, 2013

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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

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November 3, 2014

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:

CHURCH MUTUAL INSURANCE COMPANY
Merrill, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Church Mutual Insurance Company (hereinafter CMIC, the company or Church Mutual) was conducted in 2009 as of December 31, 2008. The current examination covered the intervening period ending December 31, 2013, and included a review of such 2014 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 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
Growth of Company
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. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of the company's loss and loss adjustment expense reserves. The actuary's results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

The company was organized on March 4, 1897, as the Wisconsin Church Mutual Fire Insurance Association. The company was founded for the purpose of providing insurance under the mutual plan to any church, church society, or pastor of one of the synods constituting the Evangelical Lutheran Synodical Conference, or the Norwegian Evangelical Church of America. It commenced business on June 3, 1897.

A revision of the articles of incorporation adopted at a special meeting of the policyholders held on October 16, 1947, changed the name of the company to the Wisconsin Church Mutual Fire Insurance Company and set forth the following corporate purposes that have continued to the time of this examination:

> "This company is organized for the purpose of insuring upon the mutual plan the members against any of the hazards as may be authorized or permitted for companies of its class under the laws of the state of Wisconsin as they are or may be hereafter amended. This revision in the statement of corporate purpose was made to reflect the diversity of religious denominations the company has begun to serve."

An amendment to the articles of incorporation adopted at the annual policyholders' meeting held March 19, 1952, changed the name to Church Mutual Insurance Company.

The company has been the acquiring party in a succession of mergers during its history. The company absorbed all of the assets and assumed all of the liabilities of the following companies:

- Lutheran Mutual Fire Insurance Company of Burlington, Iowa, on June 11, 1949;
- Mutual Fire Insurance Society of the Michigan Conference of Evangelical United Brethren Church, Ltd., Mount Pleasant, Michigan, on September 1, 1953;
- American Church and Home Mutual Insurance Company of Madison, Wisconsin, on November 30, 1962;
- Cheese Makers Mutual Insurance Company of Madison, Wisconsin, on February 1, 1963; and
- Furniture Mutual Insurance Company of Milwaukee, Wisconsin, on May 31, 1963.

Church Mutual is licensed in all 50 states and the District of Columbia. The company writes significant direct premium in all areas of the country. The following states accounted for the largest percentage of direct premium written in 2013:

Texas	$ 71,022,243	11.48%
California	66,593,048	10.76
Illinois	30,517,776	4.93
North Carolina	26,951,642	4.36
Georgia	25,668,376	4.15
New York	24,311,157	3.93
Wisconsin	23,080,833	3.73
Pennsylvania	22,191,495	3.59
Louisiana	21,138,612	3.42
All others	307,142,762	49.6
Total	$618,618,944	100.0%

The company specializes in providing property and casualty insurance coverage for churches and religious institutions, which also includes camp buildings, senior living facilities, schools, church offices and apartments. In 1998 the company redirected and reorganized its efforts to better serve senior living facilities, including non-religious facilities, and presently the company plans to compete more in the secular camp market. Due to the company's local profile in the Wisconsin counties of Lincoln, Marathon, Langlade, Taylor, Vilas, Oneida, and Portage, the company accepts a modest amount of homeowner's risks for residents of those counties.

The following table is a summary of the net insurance premiums written by the company in 2013. 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	$ 237,706	$ 594,616	$ 24,210	$ 808,112
Allied lines	7,012,405	3,178,354	1,565,832	8,624,927
Farmowner's multiple peril	0	476,527	0	476,527
Homeowner's multiple peril	1,393,364	4,502,843	166,904	5,729,303
Commercial multiple peril	440,364,952	34,991	71,675,737	368,724,207
Inland marine	51,904	1,483	8,528	44,859
Medical malpractice – occurrence	1,424,616	0	98,027	1,326,589
Medical malpractice – claims-made	4,079,739	0	280,725	3,799,014
Worker's compensation	105,842,536	2,331,000	7,336,382	100,837,154
Other liability – occurrence	18,375,434	679,979	(1,155,125)	20,210,538
Other liability – claims-made	1,331,201	0	(21,310)	1,352,511
Commercial auto liability	30,763,602	0	2,283,439	28,480,163
Auto physical damage	7,727,160	0	511,230	7,215,930
Fidelity	1,100	0	36	1,064
Burglary and theft	13,224	0	508	12,716
Reinsurance – nonproportional assumed property	0	5,903,906	0	5,903,906
Reinsurance – nonproportional assumed liability	0	3,785,530	34,034	3,751,496
Total All Lines	$618,618,944	$21,489,229	$82,809,158	$557,299,015

The company's headquarters is located in Merrill, Wisconsin. Church Mutual's primary method for obtaining business is through its Direct Sales distribution system covering the following regions and states:

Northern	MN, ND, SD, WI, MI
Mid-America	IL, IN
Rocky Mountain West	WA, OR, ID, AK, UT, CO, NM, AZ, WY
Northeastern	NY, ME, MA, RI, VT, CT, NH
Great Lakes	OH, MI
Heartland	MO, IA, NE, KS
Southeastern	SC, GA, FL
Mid-South	TN, KY, AL
East Central	PA, NJ, MD, DC, DE, WV
Southern	OK, LA, AR, MS
Lone Star	TX
Atlantic	VA, WV, NC

Church Mutual distributes its business through two distinct channels—direct writers sale force and a network of independent agents and brokers. At year-end 2013, Church Mutual generated approximately 79% of its total premium from 174 direct sales territories. A Division Manager is responsible for the production of business in assigned states through home-based employee Regional Representatives. Representatives are compensated with a base salary as well as 10% commission payments on the annual premium of new policies in all lines of business, excluding any amounts charged for payment plans, taxes, or surcharges. In addition, each representative earns a varying commission rate on the assigned book of business (including renewals, endorsements, annualizations, cancellations, audits, and reinstatements) based on experience level. These commission rates begin at 0.95% and range to a maximum of 2.0% on the book of business. Finally, representatives are incented with a bonus plan based upon the attainment of production and profitability goals.

The Direct Sales business unit is supported by 41 Account Manager (AM) territories. The company's AMs provide on-site service to Church Mutual policyholders. These service-focused employees have the opportunity to cross-sell supplemental lines of business to earn new business commission at a rate of 10%. Account Managers also receive 0.35% commission payments on all premiums other than new premium, excluding any amounts charged for payment plans, taxes, or surcharges. AMs are also eligible for bonus payments based upon assigned production and profitability metrics. The company's direct system is supported by a service team which includes Service Representatives.

Broker/Specialty Markets

Since 2008, the company's Special Accounts function was transformed into a Broker/Specialty Markets business unit, which distributes products through active contracted agencies in select states (California, Nevada, Hawaii, and Montana) as well as independent agents and brokers. Through March 31, 2014, Church Mutual has business written with 47 brokers or independent agents. The company's standard commission rates for brokers and independent agents are 5% on worker's compensation and 15% on other lines. In addition to the regular commission, brokers and independent agents participate in the profits of the business written for Church Mutual by and through the independent agent or broker. To be eligible for the profit-sharing plan, the broker or independent agent must achieve a minimum written premium of $1 million with Church Mutual and a profitable book of business. If all contingencies are met, the plan pays the independent agency or brokerage additional compensation subject to a sliding scale.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of ten members. Three directors are elected annually to serve a three-year term. Directors are elected at the board's annual meeting. The board members currently receive the following compensation for serving on the board and board committees:

Current Board Meeting Fees:

Director fee: $60,000 per year
Non-executive chairman fee: $84,000 per year
Special board meeting: $909 per meeting
Executive Committee meeting: $750 per meeting

Committee Meeting Fees:

Audit Committee and Risk Management Committee: $9,000 each member per year
Governance Committee and Executive Compensation and Human Resources Committee: $5,000 each member per year
Additionally, each committee chairman will receive an additional $1,000 per year

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Michael W. Grebe Milwaukee, WI	President and CEO of The Lynde and Harry Bradley Foundation	2015
Allen L. Leverett* Shorewood, WI	President of Wisconsin Energy Corp. and CEO of WE Generation	2017
Marsha A. Lindsay Monona, WI	Founder and CEO of Lindsay, Stone & Briggs	2017
James J. McIntyre Wausau, WI	President and CEO of the Greenheck Group	2016
Michael E. Ravn Merrill, WI	President and CEO of Church Mutual Insurance Company	2015
Michael J. Riley Wells, ME	MBA Professor in Managerial Accounting and Finance at Univ. of Maryland	2015
Gregory A. Smith Fox Point, WI	Former Senior VP and CFO of Marshall & Illsley Corp. and M&I Bank	2018
Lori A. Weyers Wausau, WI	President of North-Central Technical College	2016

Name and Residence	Principal Occupation	Term Expires
Walter H. White Jr. London, England	Partner, McGuireWoods London, LLP	2016
John B. Williams Hartland, WI	Chairman of the Board of the Milwaukee Public Museum	2017

*Allen Leverett serves as Chairman of the board.

Officers of the Company

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

Name	Office	2013 Compensation
Michael E. Ravn	President and Chief Executive Officer	$1,202,304
John F. Cleary	Vice President, Secretary and General Counsel	386,323
Herman W. Vandenberg	Vice President, Treasurer/Corporate Controller	205,491
Richard V. Poirier*	Chief Operating Officer	438,700
James P. Jordan	Sr. Vice President - Commercial Lines Operations	1,126,066
Kevin D. Root	Vice President - Chief Financial Officer	296,844
Randy J. Brandner	Vice President - Chief Risk Officer	341,394
Christopher A. Graham	Vice President - Chief Technology Officer	449,023
Patrick M. Moreland	Vice President - Corporate Communications	218,616
Robert M. Buckley	Vice President - Organizational Planning and Process Management	253,854
Karen A. Karow	Vice President - Corporate Services	181,300
Scott M. Names	Vice President - Chief Information Officer	181,716
Richard A. Huseby	Vice President - Human Resources & Strategic Initiatives	281,485
Steven C. Rominske	Vice President - Chief Actuary	421,877
Craig D. Wessman	Vice President - Direct Sales	259,239
Cheryl A. Kryshak	Vice President - Underwriting	259,190
Brian J. Arndorfer	Vice President - Claims	298,249
Mark A. Steinberg	Vice President - Broker Specialty Markets	247,175

* Note: Richard V. Poirier was elected as President in 2014.

Committees of the Board

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

Executive Committee
Michael E. Ravn, Chair
Michael W. Grebe
Allen L. Leverett
John F. Cleary*

Audit Committee
Michael J. Riley, Chair
Marsha A. Lindsay
Walter H. White, Jr.

Risk Management Committee
John B. Williams, Chair
Michael W. Grebe
Allen L. Leverett
Michael E. Ravn
Michael J. Riley
Randy J. Brandner*
Kevin D. Root*
Richard V. Poirier*

Executive Compensation and Human Resources Committee
Lori A. Weyers, Chair
Walter H. White, Jr.
John B. Williams

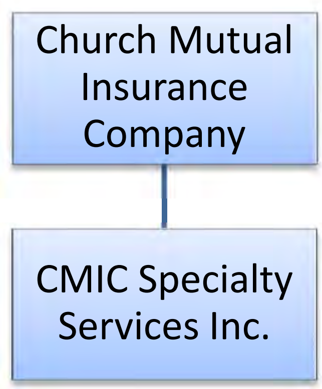
Governance Committee
Michael W. Grebe, Chair
Allen L. Leverett
Marsha A. Lindsay
James J. McIntyre
Lori A. Weyers

*Non-voting member of the committee

IV. AFFILIATED COMPANIES

Church Mutual Insurance Company is the ultimate parent of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliate follows the organizational chart.

Organizational Chart
As of December 31, 2013



CMIC Specialty Services Inc. (hereinafter CSS) was organized as an insurance agency in 2006 for the purpose of obtaining and maintaining agency licenses in the states in which CMIC does business and placing business with other insurers on lines of business which Church Mutual was unwilling or not licensed to write, such as fidelity and surety bond insurance, liquor liability insurance, and group travel accident insurance. As of December 31, 2013, CSS reported assets of $206,023, liabilities of $33,504, and surplus of $172,519. Operations for 2013 produced a net loss before taxes of $(52,191). The company reported the value of CSS on Schedule D, Part 2, Section 2, but it was treated as a nonadmitted asset on its balance sheet due to the decision of the company not to have CSS audited by a CPA firm in 2013.

Agreements with Affiliates

CSS's operations are coordinated from CMIC's home office in Merrill, Wisconsin. CSS has no employees of its own. All day-to-day operations are conducted with staff provided by CMIC in accordance with the business practices and internal controls it maintains with respect to its employees. In addition to common staffing and management control by CMIC, CSS's relationship to its affiliate is affected by the following written agreements. A brief summary of the other agreements follows.

Intercompany Services and Cost Allocation Agreement

This intercompany services and cost allocation agreement between CMIC and CSS, dated August 16, 2006, was to establish the cost allocation methods and procedures for allocation of general and administrative expenses related to those services. The agreement covers postage, telephone, facilities rental, and administrative and clerical fees based on costs incurred by CMIC for the services provided to CSS.

Tax-Sharing Agreement

CMIC and CSS entered into a tax-sharing agreement effective August 16, 2006, whereby the federal tax liability determined at the end of the taxable year of any individual member of the affiliated group shall not be more than it would have paid if it had filed on a separate return basis. Intercompany tax balances are settled with payments made within 45 days of the filing of the affiliated group's return and refunds paid within 45 days after requested receipt of tax refund.

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.

Assuming Contracts

Effective January 1, 2013, Church Mutual became an assuming company member of Mutual Reinsurance Bureau (MRB). MRB is an unincorporated joint reinsurance association located in Cherry Valley, Illinois. The purpose of MRB is to facilitate reinsurance arrangements between the member companies and other insurance companies through the establishment of an office and the other member companies' appointment of an attorney-in-fact to arrange and effectuate reinsurance agreements on their behalf. The member companies are as follows: Church Mutual Insurance Company, Employers Mutual Casualty Company, Farm Bureau Mutual Insurance Company of Michigan, Kentucky Farm Bureau Mutual Insurance Company, and Motorists Mutual Insurance Company.

Each member company shares in the reinsurance premiums received through MRB in proportion to the liability each member company assumes, bears proportionate share of losses and loss adjustment expenses incurred on reinsurance assumed, and will participate in all salvage.

Each member is required to collateralize 100% of its MRB liabilities including, but not limited to, its share of the unearned premium reserve, outstanding loss reserve (including incurred-but-not-reported reserve), and contingent commission reserve for which the member company is liable based on its respective participation in MRB.

Church Mutual's assumed business is from the MRB pool and assigned risk involuntary pools. The company has ceded various types of business to MRB for over 75 years. As part of its current arrangement with MRB, Church Mutual does not assume any of its own business ceded to MRB.

Nonaffiliated Ceding Contracts

1. Type: Property Per Risk Excess of Loss

Reinsurers: General Reinsurance Corporation and Mutual Reinsurance Bureau (MRB) each have a 30% share across all three layers. Reinsurers brokered through JLT Towers Re have a combined 40% participation share.

The brokered reinsurers, and their respective participation by layer, are:

Reinsurer	Layer 1	Layer 2	Layer 3
Aspen Ins. UK LTD	20%	20%	20%
Berkley Ins. Co.	15	5	5
Hannover Ruckversicherung	5	10	10
Partner Reins. Co. LTD	nil	5	5

Scope: Fire, allied lines, property sections of multiple peril policies, earthquake, inland marine, and flood when written with other property causes of loss. Terrorism coverage is included with an aggregate coverage limit indicated below.

Coverage/retention/limits: For any one risk, each loss occurrence for all lines of business covered under this contract:

Layer	Coverage	Limit	Retention (attachment)
1st	100%	$1.0M	$2.0M
2nd	100	4.5M	3.0M
3rd	100	5.0M	7.5M

Occurrence limits:

Layer	Occurrence Limit
1st	$ 3,000,000
2nd	9,000,000
3rd	10,000,000

Rate/premium: First Layer – 1.90% of direct written premiums
Second Layer – 2.37% of direct written premiums
Third Layer – 0.53% of direct written premiums
Terrorism – included and subject to the occurrence limits above on an aggregate basis

Reinstatement: First Layer – free and unlimited
Second Layer – five free
Third Layer – one free, one at 50%

Commissions: No commission or contingent commission provisions

Effective date: April 1, 2014, through June 30, 2015
Note that the coverage term is extended to 15 months with subsequent renewals occurring July 1 of each year

Termination: Subject to the Special Termination article of the contract

2. Type: Property Semi-Automatic Facultative Per Risk Excess of Loss

Reinsurer: Arch Re and General Re, shared equally with each having 50% participation

Scope: Commercial property business

Retention: $12.5M of ultimate net loss per risk

Coverage/ limits: For any one risk subject to the terms of the agreement up to $25M excess of $12.5M

Flood and earthquake are specifically excluded and both are subject to special acceptance

Risks located in Florida and Hawaii are excluded, along with tier one counties (parishes) identified in the agreement and are subject to special acceptance

Terrorism coverage is limited to $50M during the term of the agreement

Premium: Pricing is based upon construction type, protection class, and local sprinkler protection as specified in the agreement

Commissions: None

Term: April 1, 2014, through March 31, 2015

Termination: Either party may terminate this agreement by giving the other party 90 days' prior written and certified notice. The company may elect to terminate on either a run-off or cut-off basis subject to notice to the reinsurer of intent prior to the termination date.

3. Type: Property Catastrophe Excess of loss

Reinsurers: Various (listed below):

	Participation					
Reinsurer	**First Layer**	**Second Layer**	**Third Layer**	**Fourth Layer**	**Fifth Layer**	**Sixth Layer**
Allied World Assurance Company Ltd Bermuda	0.00%	2.85%	2.85%	2.25%	2.50%	0.00%
American Agricultural Insurance Company	2.50	2.50	2.50	1.50	1.00	0.00
General Ins. Corp. of India	0.00	0.00	0.00	4.00	3.00	0.00
Employers Mutual Casualty Company Iowa	0.50	0.50	0.50	0.50	0.50	0.00
Everest Reinsurance Company	11.00	5.00	5.00	2.00	5.00	0.00

Reinsurer	First Layer	Second Layer	Third Layer	Fourth Layer	Fifth Layer	Sixth Layer
	Participation					
Hannover Re (Bermuda) Ltd.	0.00%	2.00%	1.00%	2.00%	5.50%	0.00%
Lloyd's Underwriters	56.50	58.15	54.15	45.50	28.50	7.50
MAPFRE Re Compania de Reaseguros, S.A. Spain	0.00	0.00	4.00	4.00	3.00	0.00
MS Frontier Reinsurance Limited	0.00	0.00	2.00	5.00	9.00	21.25
Mutual Reinsurance Bureau	2.00	2.00	2.00	2.00	2.00	0.00
Partner Reinsurance Company Ltd. Bermuda	6.00	5.00	5.00	4.00	3.00	0.00
QBE Reinsurance Corp. Pennsylvania	1.50	1.50	2.00	1.25	0.00	0.00
Sirius International	0.00	2.50	2.00	1.00	0.00	0.00
Tokio Millennium Re Ltd. Bermuda	5.00	5.00	6.00	10.00	20.00	21.25
Transatlantic Reinsurance Co. New York	0.00	2.50	3.00	3.00	3.00	0.00
XL Re Ltd. Bermuda	1.00	1.50	1.50	0.00	0.00	0.00
Liberty Syndicate-Paris	6.00	0.00	0.00	0.00	3.00	0.00
Korean Re	0.00	0.00	0.00	5.00	3.00	0.00
Odyssey Re	2.50	2.50	2.50	2.50	2.50	0.00
Scor Switzerland	2.00	3.00	1.50	1.00	2.00	0.00
Q-Re	0.00	2.50	2.00	3.00	2.50	0.00
Taiping Re	0.00	0.00	0.50	0.50	1.00	0.00
Catco/Aquilla Re	2.50	0.00	0.00	0.00	0.00	0.00
R&V Versicherung AG	1.00	1.00	0.00	0.00	0.00	0.00
Swiss Re America	0.00	0.00	0.00	0.00	0.00	50.00
	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Scope: All property business including automobile physical damage (excluding collision)

Coverage/ retention/ limits:

Layer	Coverage	Limit	Retention (attachment)
1st	100%	$ 20M	$ 40M
2nd	100	40M	60M
3rd	100	50M	100M
4th	100	100M	150M
5th	100	85M	250M
6th	100	20M	335M

Premium: First Layer

Deposit premium of $5,250,000 payable in four equal quarterly installments. Rate of 1.295% of the company’s subject net direct written premium income [21.00% Rate On Line (ROL)], subject to a minimum premium of $4,200,000.

Second Layer
Deposit premium of $6,750,000 payable in four equal quarterly installments. Rate of 1.665% of the company's subject net direct written premium income [13.50% ROL], subject to a minimum premium of $5,400,000.

Third Layer
Deposit premium of $5,250,000 payable in four equal quarterly installments. Rate of 1.295% of the company's subject net direct written premium income [8.40% ROL], subject to a minimum premium of $4,200,000.

Fourth Layer
Deposit premium of $6,562,500 payable in four equal quarterly installments. Rate of 1.619% of the company's subject net direct written premium income [5.25% ROL], subject to a minimum premium of $5,250,000.

Fifth Layer
Deposit premium of $3,453,125 payable in four equal quarterly installments. Rate of 0.852% of the company's subject net direct written premium income [3.25% ROL], subject to a minimum premium of $2,762,500.

Sixth Layer
Deposit premium of $725,000 payable in four equal quarterly installments. Rate of 0.179% of the company's subject net direct written premium income [2.90% ROL], subject to a minimum premium of $580,000.

Reinstatement: One full reinstatement is required with pro rata additional premium as to amount and 100% as to time

Term: April 1, 2014, through June 30, 2015
Note that the coverage term is extended to 15 months with subsequent renewals occurring July 1 of each year
Additionally, a portion of each layer of coverage, as identified below, has the coverage term extended to June 30, 2016

First Layer	36%
Second Layer	38%
Third Layer	37%
Fourth Layer	36%
Fifth Layer	44%
Sixth Layer	36%

Termination: This agreement will continue in force through June 30, 2015, or June 30, 2016, as indicated above, and may be terminated prior to this date upon 30 days' prior written notice under the Special Termination provisions specified in Article III of the contract

4. Type: Casualty Excess of Loss

Reinsurers: Various (as listed in the following schedule):

	Participation			
Reinsurer	**First Layer**	**Second Layer**	**Third Layer**	**Fourth Layer**
Swiss Reinsurance America	5.00%	12.50%	0.00%	0.00%
Mutual Reinsurance Bureau	25.00	0.00	0.00	0.00
Transatlantic Reinsurance Corp.	30.00	30.00	0.00	0.00
General Reinsurance Corp.	0.00	0.00	20.00	20.00
Through JLT Towers Re:				
Tokio Millennium Re LTD	12.50	17.50	0.00	0.00
Axis Reinsurance Co.	12.50	12.50	0.00	0.00
Hannover Ruckversicherung	7.50	20.00	20.00	20.00
Aspen Reinsurance Co.	7.50	7.50	8.46	6.47
Lloyd's Underwriters	0.00	0.00	51.54	53.53
	100.00%	100.00%	100.00%	100.00%

Scope: Casualty sections of the following policies: homeowner's multiple peril, mobile homeowner's multiple peril, commercial multiple peril, automobile bodily injury (including underinsured and uninsured motorists liability, automobile property damage liability, automobile personal injury protection plans, "no-fault" insurance), general bodily injury (including personal and advertising injury), general property damage liability, worker's compensation and employers liability, medical payments, professional liability, and employee benefits liability all subject to a maximum limit of $2,000,000 each occurrence and $10,000,000 aggregate per policy

Sexual misconduct and sexual molestation subject to a maximum limit of $6,000,000 each claim and $6,000,000 aggregate per policy

Commercial umbrella subject to a maximum limit of $10,000,000 each occurrence and $10,000,000 aggregate per policy

Directors, officers, and trustees subject to a maximum limit of $5,000,000 each claim and $5,000,000 aggregate per policy

Employment practices subject to a maximum limit of $2,000,000 each claim and $2,000,000 aggregate per policy

Coverage/ retention/ limits:

Layer	**Coverage**	**Limit**	**Retention (attachment)**
1st	100%	$ 4.5M	$ 1.5M
2nd	100	5.0M	6.0M
3rd	100	10M	11.0M
4th	100	10M	21.0M

Premium:	First Layer – 3.60% of subject written premium Second Layer – 0.410% of subject written premium Third Layer – 0.280% of subject written premium Fourth Layer – 0.170% of subject written premium
Commissions:	None
Effective date:	April 1, 2014, through June 30, 2015 Note that the coverage term is extended to 15 months with subsequent renewals occurring July 1 of each year
Termination:	By either party giving not less than 90 days' written notice as of any June 30. The reinsurers shall not be liable for losses discovered after the effective date of termination.

5. Type:	Property Aggregate Catastrophe Excess of Loss
Reinsurer:	The agreement is shared among the following reinsurers.

Hannover Ruck SE (Pillar Capital)	50.0%
Managing Agency Partners Ltd (MAP)	7.5%
Hiscox Syndicate	10.0%
Amlin Syndicate	13.5%
Faraday Underwriting Ltd.	10.0%
Novae Syndicate Ltd.	5.0%
Meacock Syndicate	4.0%

Scope:	Ultimate net property loss, including automobile physical damage but excluding collision coverage, resulting from qualifying loss occurrences and reinstatement premium, if any, associated with the company's property catastrophe reinsurance contract. Qualifying loss occurrences are those with a minimum of $5,000,000 net loss from the ground up. Qualifying loss occurrences are capped at $40,000,000 per occurrence.
Retention:	$100,000,000 aggregate net losses from qualifying loss occurrences
Aggregate limit:	The reinsurers' aggregate limit of liability under this contract for the term shall be $25,000,000
Coverage:	100% of ultimate net property loss from qualifying loss occurrences exceeding the retention
Premium:	$3,500,000
Additional premium:	None
Term:	April 1, 2014, through December 31, 2014
Termination:	This agreement will continue in force through December 31, 2014, and may be terminated prior to this date upon 30 days' prior written notice under the Special Termination provisions specified in Article III of the contract

6.	Type:	Equipment Breakdown
	Reinsurer:	Hartford Steam Boiler Inspection and Insurance Company (HSB)
	Scope:	All commercial package policies issued by the company with system equipment breakdown coverage as provided by company coverage forms, unless specifically excluded
	Coverage/ retention/ limits:	100% subject to a maximum of $40,000,000 for any one covered loss
	Rate/premium:	5.94% of property premium for senior living and college risks, 3.96% of property premium for all other occupancies
	Commissions:	15% commission of ceded premium Profit share provision that pays up to 40% of reinsurer's profit after allocation of expenses and paid losses
	Effective date:	October 1, 2000, and is continuous (with terms reviewed annually)
	Termination:	Either party may terminate the agreement by giving the other party 90 days' prior written notice
7.	Type:	Identity Recovery
	Reinsurer:	Hartford Steam Boiler Inspection and Insurance Company (HSB)
	Scope:	All policies issued by the company with identity recovery coverage as provided by company coverage forms, unless specifically accepted
	Coverage/ retention/ limits:	100% subject to a maximum of $15,000 annual aggregate as respects each identity recovery insured
	Rate/premium:	0.24% of property premium, excluding system equipment breakdown premium
	Commissions:	15% commission of ceded premium Profit share that pays up to 40% of reinsurer's profit after allocation of expenses and paid losses
	Effective date:	March 1, 2008, and is continuous (with terms reviewed annually)
	Termination:	Either party may terminate the agreement by giving the other party 90 days' prior written notice

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, 2013, 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."

Church Mutual Insurance Company
Assets
As of December 31, 2013

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$ 910,483,536	$	$ 910,483,536
Stocks:			
Preferred stocks			
Common stocks	93,004,489	172,519	92,831,970
Real estate:			
Occupied by the company	13,413,020		13,413,020
Cash, cash equivalents, and short-term investments	48,552,181		48,552,181
Other invested assets	49,392,849		49,392,849
Investment income due and accrued	7,850,880		7,850,880
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	41,334,353	1,822,316	39,512,038
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	104,293,023		104,293,023
Reinsurance:			
Amounts recoverable from reinsurers	272,877		272,877
Funds held by or deposited with reinsured companies	266,000		266,000
Other amounts receivable under reinsurance contracts	35,005,798		35,005,798
Current federal and foreign income tax recoverable and interest thereon	946,838		946,838
Net deferred tax asset	51,770,000	15,670,000	36,100,000
Guaranty funds receivable or on deposit	151,438		151,438
Electronic data processing equipment and software	2,260,370	1,064,679	1,195,691
Furniture and equipment, including health care delivery assets	1,314,088	1,314,088	
Write-ins for other than invested assets:	24,220,450	6,752,854	17,467,596
Total Assets	$1,384,532,189	$26,796,455	$1,357,735,735

Church Mutual Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2013

Losses		$ 315,288,767
Reinsurance payable on paid loss and loss adjustment expenses		215,652
Loss adjustment expenses		81,295,000
Commissions payable, contingent commissions, and other similar charges		4,053,575
Other expenses (excluding taxes, licenses, and fees)		13,787,654
Taxes, licenses, and fees (excluding federal and foreign income taxes)		5,738,051
Borrowed money and interest thereon		2,169,100
Unearned premiums		290,298,109
Advance premium		6,571,881
Dividends declared and unpaid:		
Policyholders		11,450,000
Ceded reinsurance premiums payable (net of ceding commissions)		1,373,769
Funds held by company under reinsurance treaties		93,056,687
Amounts withheld or retained by company for account of others		1,708,511
Provision for reinsurance		41,910
Payable for securities		9,828,186
Write-ins for liabilities:		
Reserve for post-retirement benefits		27,689,867
Reserve for pensions and deferred compensation		15,469,177
Other payables		4,510,455
Total liabilities		884,546,351
Write-ins for special surplus funds:		
Guarantee fund	$ 1,600,000	
Unassigned funds (surplus)	471,589,385	
Surplus as regards policyholders		473,189,385
Total Liabilities and Surplus		$1,357,735,735

Church Mutual Insurance Company
Summary of Operations
For the Year 2013

Underwriting Income		
Premiums earned		$535,784,157
Deductions:		
Losses incurred	$297,960,992	
Loss adjustment expenses incurred	42,556,824	
Other underwriting expenses incurred	148,447,063	
Total underwriting deductions		488,964,879
Net underwriting gain (loss)		46,819,278
Investment Income		
Net investment income earned	26,867,755	
Net realized capital gains (losses)	5,427,612	
Net investment gain (loss)		32,295,368
Other Income		
Net gain (loss) from agents' or premium balances charged off	(618,081)	
Finance and service charges not included in premiums	1,430,128	
Write-ins for miscellaneous income:		
Impairment of capitalized assets	(63,207,600)	
Other miscellaneous	(2,131,164)	
Total other income		(64,526,717)
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		14,587,929
Dividends to policyholders		7,937,674
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		6,650,255
Federal and foreign income taxes incurred		11,549,000
Net Loss		$ (4,898,745)

Church Mutual Insurance Company
Cash Flow
For the Year 2013

Premiums collected net of reinsurance			$562,399,509
Net investment income			34,197,770
Miscellaneous income			(909,318)
Total			595,687,961
Benefit- and loss-related payments		$327,252,965	
Commissions, expenses paid, and aggregate write-ins for deductions		158,395,608	
Dividends paid to policyholders		6,097,674	
Federal and foreign income taxes paid (recovered)		7,104,839	
Total deductions			498,851,086
Net cash from operations			96,836,875
Proceeds from investments sold, matured, or repaid:			
Bonds	$616,664,792		
Stocks	43,248,956		
Other invested assets	916,078		
Net gains (losses) on cash, cash equivalents, and short-term investments	(746)		
Total investment proceeds		660,829,080	
Cost of investments acquired (long-term only):			
Bonds	661,422,234		
Stocks	51,513,394		
Real estate	784,551		
Other invested assets	4,941,205		
Total investments acquired		718,661,384	
Net cash from investments			(57,832,304)
Cash from financing and miscellaneous sources:			
Borrowed funds		(181,092)	
Other cash provided (applied)		7,945,928	
Net cash from financing and miscellaneous sources			7,764,836
Reconciliation:			
Net change in cash, cash equivalents, and short-term investments			46,769,407
Cash, cash equivalents, and short-term investments:			
Beginning of year			1,782,774
End of Year			$ 48,552,181

Church Mutual Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2013

Assets		$1,357,735,735
Less liabilities		884,546,351
Adjusted surplus		473,189,384
Annual premium:		
Lines other than accident and health	$557,395,187	
Factor	20%	
Compulsory surplus (subject to a minimum of $2 million)		111,479,037
Compulsory Surplus Excess (or Deficit)		$ 361,710,347
Adjusted surplus (from above)		$ 473,189,384
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%)		138,234,005
Security Surplus Excess (or Deficit)		$ 334,955,379

Church Mutual Insurance Company
Analysis of Surplus
For the Five-Year Period Ending December 31, 2013

The following schedule details items affecting surplus during the period under examination as reported by the company in its filed annual statements:

	2013	2012	2011	2010	2009
Surplus, beginning of year	$415,279,462	$376,242,448	$413,702,158	$392,640,018	$349,448,122
Net income	(4,898,745)	78,079,733	(28,531,131)	26,190,956	26,846,883
Change in net unrealized capital gains/losses	10,645,129	70,774	(3,588,521)	997,330	8,004,125
Change in net deferred income tax	(1,240,000)	(10,255,000)	8,540,000	205,000	(3,630,000)
Change in nonadmitted assets	62,914,247	(20,409,071)	(19,627,751)	(7,543,926)	3,765,807
Change in provision for reinsurance	40,125	197,282	(176,308)	(3,221)	245,082
Cumulative effect of changes in accounting principles	(29,456,344)	15,100,000	0	0	0
Write-ins for gains and (losses) in surplus:	19,985,761	(23,746,703)	5,924,000	1,216,000	7,960,000
Surplus, End of Year	$473,189,385	$415,279,462	$376,242,448	$413,702,158	$392,640,018

Church Mutual Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2013

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

	Ratio	2013	2012	2011	2010	2009
#1	Gross Premium to Surplus	135%	143%	156%	142%	145%
#2	Net Premium to Surplus	118	119	124	116	121
#3	Change in Net Premiums Written	13	6	(3)	2	1
#4	Surplus Aid to Surplus	0	1	0	1	1
#5	Two-Year Overall Operating Ratio	92	97	103*	96	98
#6	Investment Yield	2.6*	3.1	3.4	3.5	4.0
#7	Gross Change in Surplus	14	10	(9)	5	12
#8	Change in Adjusted Surplus	14	10	(9)	5	12
#9	Liabilities to Liquid Assets	74	75	74	72	74
#10	Agents' Balances to Surplus	8	9	10	9	9
#11	One-Year Reserve Development to Surplus	(4)	(8)	(6)	(6)	(12)
#12	Two-Year Reserve Development to Surplus	(8)	(11)	(10)	(12)	(17)
#13	Estimated Current Reserve	4	2	1	(9)	(14)

Ratio # 5 had an unusual result for 2011. This ratio measures the loss, loss adjustment expenses and other underwriting expenses as a percentage of premium income for the current and prior year combined. This ratio increased to 103% for the year 2011 due to a significant increase in catastrophe storm losses that occurred in the company's territory during the year, including Hurricane Irene. Other underwriting expenses also increased as a result of the impact of this adverse loss experience on the company's reinsurance contingent commission accrual as of the prior year-end.

Ratio #6 had an unusual result for 2013. This ratio measures the amount of the company's net investment income as a percentage of the average amount of cash and invested assets. This ratio has trended downward steadily from 4.0% in 2009 to the 2.6% recorded during 2013. This downward trend is not unexpected given the parallel downward trend of interest rates over the period, since proceeds from the disposition of higher coupon paying bonds are reinvested in securities with lower coupon rates.

Growth of Church Mutual Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2013	$1,357,735,735	$884,546,351	$473,189,385	$ (4,898,745)
2012	1,229,671,441	814,391,978	415,279,462	78,079,733
2011	1,176,689,374	800,446,925	376,242,448	(28,531,131)
2010	1,224,061,198	810,359,039	413,702,158	26,190,956
2009	1,192,540,142	799,900,124	392,640,018	26,846,882
2008	1,142,234,217	792,786,095	349,448,122	(2,966,333)

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2013	$640,108,173	$557,299,015	$535,784,157	63.6%	38.2%	101.8%
2012	594,150,560	492,495,716	487,359,351	66.4	25.1	91.5
2011	585,122,449	466,624,670	469,003,794	87.3	27.5	114.8
2010	586,379,304	481,451,217	472,747,544	79.2	21.8	101.0
2009	570,364,639	474,032,654	470,447,345	81.3	22.1	103.4
2008	571,889,277	467,534,156	470,417,618	83.2	21.1	104.3

Admitted assets grew 19% during the last five years, reaching $1.36 billion at December 31, 2013, as compared to $1.14 billion at December 31, 2008. Liabilities grew 12%

during the last five years, reaching $885 million at year-end 2013 as compared to $793 million at the beginning of the examination period. The company's surplus has increased steadily over the five-year period, although there was a sharp drop in surplus in 2011 due to significant adverse loss experience arising from severe storms in its territory. Church Mutual continues to maintain a conservative premium written to surplus ratio, which has averaged 1.2:1.0. In 2011, the aforementioned catastrophic events caused the combined ratio to increase 13.8 percentage points, which resulted in the company experiencing a net loss of $28.5 million. The company's 2013 net income was negatively affected by a $63.2 million other-than-temporary-impairment write down of a capitalized asset. During 2013 the company made a decision to write off the cost of internally developed software. Church Mutual determined that it would be more cost efficient to transfer the internally developed software asset to a non-related third party to complete the development. Because the internally developed software was recorded as a nonadmitted asset prior to the asset transfer, there was no material impact to its policyholders' surplus.

Premium growth was fairly steady over the five-year examination period, with net premiums earned 14% higher in 2013 over 2009. Premium income for the company took a moderate dip in 2011 due to additional reinsurance costs. The combined ratio has ranged from a low of 91.5% in 2012 to a high of 114.8% for 2011, with an average of 102.5% over the examination period. Investment returns have trended downward due to the low interest rate environment that has prevailed in recent years, which the company has attempted to mitigate by investing in alternative investments that offer a higher potential return in addition to implementing more sophisticated liquidity forecasting methods to minimize idle cash balances.

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, 2013, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were five 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. Operating System Program Change Management—It is recommended that the company formalize its IT program change management policies and testing procedures to include the retention of the documentation of these changes and testing thereon.

   Action—Compliance

2. Formalized Periodic EDP Access Review—It is again recommended that the company implement its formalized process to review access rights for critical applications, systems, and restricted computer rooms on a scheduled periodic basis, including maintaining and archiving evidence of access reviews.

   Action—Compliance

3. State Notification of Changes in Officers and Directors—It is recommended that the company report changes and send biographical data relating to elected or appointed officers and directors in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

   Action—Compliance

4. Investments – Custodial Agreement—It is recommended that the company execute a new or amended custodial agreement that contains an acceptable indemnification provision, in accordance with the NAIC Financial Condition Examiners Handbook.

   Action—Compliance

5. Reinsurance – Intermediary Agreements—It is recommended that the company execute a revised or amended reinsurance intermediary agreement that complies with the requirements prescribed by s. Ins 47.03, Wis. Adm. Code.

   Action—Compliance

Summary of Current Examination Results

There were no adverse or material examination findings as a result of the current examination of the company.

VIII. CONCLUSION

Admitted assets grew 19% during the last five years, reaching $1.36 billion at December 31, 2013, as compared to $1.14 billion at December 31, 2008. Liabilities grew 12% during the last five years, reaching $885 million at year-end 2013 as compared to $793 million at the beginning of the examination period. The company's surplus has increased steadily over the five-year period, except for a nearly $37.5 million drop in surplus in 2011.

Premium growth was fairly steady over the five-year examination period, with net premiums earned 14% higher in 2013 over 2009. The company has posted overall positive financial results over the examination period, with a net income reported in three of the five years under examination.

The examination of Church Mutual Insurance Company did not result in any recommendations. No adjustments to surplus or reclassifications were made as a result of the examination.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

There were no recommendations made as a result of this examination.

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
Brian Jeremiason	Insurance Financial Examiner
Bob McLaughlin	Insurance Financial Examiner
Angie Romaker	Insurance Financial Examiner
David Jensen	IT Specialist
Jerry DeArmond	Reserve Specialist

Respectfully submitted,

Terry Lorenz
Examiner-in-Charge