Rural Mutual Insurance Company Form A – Nonconfidential Exhibits

EXHIBIT H - PART I

Annual Statements of the Domestic Insurer for Five Fiscal Year ended December 31, 2019

BADGER MUTUAL INSURANCE COMPANY

STATUTORY FINANCIAL STATEMENTS

December 31, 2019 and 2018

Strohm Ballweg

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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

To the Board of Directors
Badger Mutual Insurance Company
Milwaukee, Wisconsin

We have audited the accompanying statutory financial statements of Badger Mutual Insurance Company (the Company), which are comprised of the statutory balance sheets as of December 31, 2019 and 2018, and the related statutory statements of income, changes in policyholders' surplus, and cash flows for the years then ended, and the related notes to the statutory financial statements.

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 to the financial statements, the financial statements are prepared by the Company in accordance with accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin, which is a basis of accounting other than accounting principles generally accepted in the United States of America to meet the requirements of the state of Wisconsin.

The effects on the statutory financial statements of the variances between the statutory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America have not been determined but are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2019 and 2018, or the results of its operations or its cash flows for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the statutory financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended, in accordance with the accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin described in Note 1.

Strohm Ballweg, LLP

Madison, Wisconsin
April 1, 2020

	2019	2018
ADMITTED ASSETS		
Cash and invested assets:		
Bonds	**$ 142,591,481**	$ 135,379,115
Common stocks and mutual funds	**11,226,801**	8,397,713
Preferred stocks	**387,521**	321,326
Mortgage loans	**1,504,272**	1,551,360
Real estate, occupied by the Company, net	**947,198**	1,278,401
Real estate, held for the production of income, net	**4,177,364**	4,394,450
Cash, cash equivalents, and short-term investments	**3,763,310**	5,659,051
Receivable for securities	**836**	4,321
Total cash and invested assets	**164,598,783**	156,985,737
Uncollected premiums	**19,113,114**	17,920,925
Amounts recoverable from reinsurers	**944,019**	331,652
Electronic data processing equipment and software, net	**259,820**	72,516
Net deferred tax asset	**3,421,358**	4,179,032
Investment income due and accrued	**724,614**	750,692
Federal income tax recoverable	**245,940**	783,557
Company owned life insurance	**4,847,280**	4,331,703
Other assets	**23,539**	24,074
Total admitted assets	**$ 194,178,467**	$ 185,379,888
LIABILITIES AND POLICYHOLDERS' SURPLUS		
Liabilities:		
Unpaid losses, net of reinsurance	**$ 44,222,566**	$ 42,944,611
Unpaid loss adjustment expenses, net of reinsurance	**13,773,907**	14,018,899
Unearned premiums, net of reinsurance	**46,247,695**	42,684,811
Advance premiums	**1,819,369**	1,276,495
Ceded reinsurance premiums payable	**882,285**	1,366,835
Commissions payable	**4,013,410**	4,159,963
Accounts payable and accrued expenses	**1,376,062**	1,196,785
Taxes, licenses, and fees payable	**634,140**	534,023
Payable for securities	**-**	41,878
Accrued pension liability	**7,002,150**	6,668,426
Other liabilities	**701,972**	453,355
Total liabilities	**120,673,556**	115,346,081
Policyholders' surplus:		
Unassigned surplus	**73,504,911**	70,033,807
Total policyholders' surplus	**73,504,911**	70,033,807
Total liabilities and policyholders' surplus	**$ 194,178,467**	$ 185,379,888

	2019	2018
UNDERWRITING OPERATIONS		
Net premiums earned:		
Gross premiums earned	**$ 121,864,196**	$ 110,673,409
Reinsurance ceded	**(24,806,352)**	(22,764,831)
	97,057,844	87,908,578
Net losses incurred:		
Gross losses incurred	**80,017,682**	60,967,821
Reinsurance recoveries	**(19,287,195)**	(9,208,656)
	60,730,487	51,759,165
Operating expenses incurred:		
Gross loss adjustment expenses	**10,935,604**	12,586,209
Reinsurance recoveries on loss adjustment expenses	**(1,141,438)**	(663,206)
Gross underwriting expenses	**35,108,276**	33,096,833
Reinsurance commission income	**(6,971,337)**	(6,381,051)
	37,931,105	38,638,785
Net underwriting loss	**(1,603,748)**	(2,489,372)
INVESTMENT AND OTHER INCOME		
Investment income earned	**5,042,400**	4,203,213
Investment expenses	**(1,872,169)**	(1,753,983)
Net realized capital gains	**699,064**	158,437
Other income	**738,855**	321,891
Investment and other income	**4,608,150**	2,929,558
Net income before dividends to policyholders and federal income taxes	**3,004,402**	440,186
Dividends to policyholders	**95,311**	79,250
Net income before federal income taxes	**2,909,091**	360,936
Federal and foreign income tax benefit	**(431,768)**	(655,771)
Net income	**$ 3,340,859**	$ 1,016,707

STATUTORY STATEMENTS OF CHANGES IN POLICYHOLDERS' SURPLUS

Years Ended December 31, 2019 and 2018

	2019	2018
Policyholders' surplus, beginning of year	**$ 70,033,807**	$ 69,909,530
Net income	**3,340,859**	1,016,707
Change in net unrealized capital gains/losses, net of tax	**1,212,286**	(963,565)
Change in net deferred income tax	**(747,885)**	(971,556)
Change in nonadmitted assets	**(432)**	120,029
Change in pension obligations	**(333,724)**	922,662
Net change in policyholders' surplus	**3,471,104**	124,277
Policyholders' surplus, end of year	**$ 73,504,911**	$ 70,033,807

See Notes to Statutory Financial Statements.

	2019	2018
Cash from operations:		
Net premiums collected	**$ 99,485,363**	$ 87,041,427
Net investment income received	**4,527,464**	3,789,176
Net losses paid	**(60,064,899)**	(48,378,212)
Net operating expenses paid	**(37,857,275)**	(36,399,509)
Other income received	**223,277**	321,891
Federal income taxes (paid) recovered	**783,557**	(756,137)
Dividends paid to policyholders	**(80,857)**	(79,212)
Net cash from operations	**7,016,630**	5,539,424
Cash from investments:		
Proceeds from investments sold, matured, or repaid:		
Bonds	**42,522,484**	31,085,436
Stocks and mutual funds	**1,491,165**	1,114,468
Mortgage loans	**47,088**	465,960
Miscellaneous proceeds	**3,486**	43,419
	44,064,223	32,709,283
Cost of investments acquired:		
Bonds	**49,816,121**	32,462,449
Stocks and mutual funds	**2,625,011**	134,980
Real estate	**-**	62,806
Other invested assets	**-**	(415,909)
Miscellaneous applications	**41,879**	2,827
	52,483,011	32,247,153
Net cash from investments	**(8,418,788)**	462,130
Cash from financing and miscellaneous sources:		
Other cash applied	**(493,583)**	(558,464)
Net cash from financing and miscellaneous sources	**(493,583)**	(558,464)
Net change in cash, cash equivalents, and short-term investments	**(1,895,741)**	5,443,090
Cash, cash equivalents, and short-term investments:		
Beginning of year	**5,659,051**	215,961
End of year	**$ 3,763,310**	$ 5,659,051

Note 1 ~ Nature of Business and Summary of Significant Accounting Policies

Nature of Business. Badger Mutual Insurance Company (the Company) is domiciled in Wisconsin and is licensed as a property and casualty insurance company. The Company insures property and casualty risks in Wisconsin, Illinois, Michigan, Minnesota, Iowa, Arizona, Idaho, Utah, Nevada, and Wyoming and engages principally in the writing of homeowners insurance, commercial insurance, automobile insurance, and other property and casualty insurance, through independent agents. Approximately 45 percent of the Company's premiums for 2019 were written in Wisconsin.

A summary of the Company's significant accounting policies follows.

Basis of Presentation. The accompanying financial statements have been prepared in conformity with accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin (the OCI). Prescribed statutory accounting practices include the National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures Manual*, which was adopted by the state of Wisconsin, as well as state insurance laws, regulations, and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed. The Company has no such specifically permitted practices.

Statutory accounting practices vary in some respects from U.S. generally accepted accounting principles (GAAP). Such significant differences include the following:

- Investments in debt securities, which consists of bonds, are generally carried at amortized cost and investments in equity securities, which consists of common and preferred stocks and mutual funds, are carried at fair value. Under GAAP, the Company's debt and equity securities would be classified as held-to-maturity, trading, or available-for-sale. For GAAP, debt securities classified as held-to-maturity would be carried at cost or amortized cost and debt securities classified as trading or available-for-sale would be carried at fair value with the unrealized holding gains and losses reported in income for those securities classified as trading and as a separate component of surplus for those securities classified as available-for-sale. Equity securities would be carried at fair value with the unrealized holding gains and losses reported in income.

- Policy acquisition costs, such as commissions, salaries, and other items, are charged to current operations as incurred; under GAAP, these acquisition costs would be deferred and recognized as an expense over the periods covered by the policies.

- Deferred income taxes are provided for differences between the financial statement and the tax bases of assets and liabilities and are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Additionally, under statutory accounting practices, limitations are placed on the admissibility of deferred tax assets, all changes in deferred tax assets and liabilities are reported as changes in policyholders' surplus, and state income taxes are not included in deferred tax calculations; under GAAP, there is no admissibility concept, changes in deferred tax assets and liabilities would be reported through operations and/or policyholders' surplus depending on their characteristics, and state income taxes would be included in the deferred tax calculations.

Note 1 ~ Nature of Business and Summary of Significant Accounting Policies (Continued)

- Certain assets designated as "nonadmitted assets" (primarily nonoperating system software, office furniture and equipment, prepaid pension expenses, and certain deferred tax assets) are charged against policyholders' surplus; under GAAP, nonoperating system software and office furniture and equipment would be recognized as assets net of accumulated depreciation and amortization, prepaid pension expenses would be recognized as assets, and deferred taxes would be accounted for as noted previously.

- An occupancy rental charge on real estate occupied by the Company is reflected as investment income and as an offsetting rental expense; under GAAP, no such rental charge would be recorded.

- Commissions on reinsurance ceded are credited to income at the time the premium is ceded; under GAAP, commissions on ceded premium would be deferred and recognized as income over the periods covered by the policies.

- Assets related to reinsurance ceded transactions are netted with the respective liability accounts; under GAAP, reinsurance balances would be shown on a separate gross basis.

- Statutory financial statements are prepared in a form using language and groupings substantially the same as the annual statement of the Company filed with the NAIC and state regulatory authorities, which differ from the presentation and disclosure of financial statements presented under GAAP.

The effects of these variances from GAAP on the accompanying statutory financial statements have not been determined.

Accounting Estimates. The preparation of statutory financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Estimates that are particularly susceptible to significant change in the near-term relate to:

- The liabilities for unpaid losses and unpaid loss adjustment expenses. In estimating these liabilities, management uses the methodology discussed in the unpaid losses and unpaid loss adjustment expenses paragraph of this note.

- The assumptions regarding the other-than-temporary impairment (OTTI) analysis of the investment portfolio.

- The amount of deferred tax assets expected to be realized in future years.

- The discount rate, investment returns, and other assumptions used to determine the pension liability.

Note 1 ~ Nature of Business and Summary of Significant Accounting Policies (Continued)

Risk and Uncertainties. The Company's operating results and financial condition are affected by numerous factors and circumstances unique to the property/casualty insurance industry, some of which it can neither predict nor control. Among them are (1) statutorily imposed regulatory capital requirements can limit an insurer's ability to underwrite new business or retain otherwise desirable risks; (2) an insurer's ability to enter into suitable reinsurance agreements is subject to prevailing conditions in reinsurance markets; (3) competitive pressure on pricing, while cyclical, may be intense; (4) fluctuations in interest rates affect the value and income yield of an insurer's investment portfolio in the short-term, and often affect default and prepayment rates over time; (5) inflationary pressures affect the magnitude of losses and loss adjustment expenses; (6) emerging legal precedents and trends may have a significant specific impact on settlement amounts and costs of defending claims; and (7) losses may not fully emerge for several years following the year in which an insured event occurred.

In early 2020, the World Health Organization declared the COVID – 19 (Coronavirus) outbreak to be a pandemic. The U.S. Government's response to the pandemic included significant limitations on many aspects of Americans' daily lives, including personal mobility and closures of many public facilities. These limitations have caused significant disruption to workflow for U.S. companies and also has negatively impacted the financial markets in the U.S. and around the globe. The Company has not made any adjustments to these financial statements as a result of this uncertainty.

Cash, Cash Equivalents, and Short-Term Investments. For purposes of reporting cash flows, the Company follows statutory accounting practices and considers cash in checking accounts, money market funds, and investments with original maturities of 12 months or less to be cash, cash equivalents, and short-term investments. Cash, cash equivalents, and short-term investments are carried at cost, which approximates fair value. The Company typically has on deposit in a financial institution balances in excess of amounts insured by the Federal Deposit Insurance Corporation. The Company does not believe it is exposed to any significant credit risk on the amounts above the insured limit.

Investments. Investments are valued in accordance with the valuation methods prescribed by the NAIC. Investments in bonds, except for mandatory convertible securities, are generally carried at amortized cost using the scientific interest method; however, bonds with an NAIC designation of three or lower would be carried at the lower of amortized cost or fair value. Loan-backed (single class and multi-class mortgage-backed/asset-backed) securities are generally valued at amortized cost using the scientific interest method, including anticipated prepayments at the time of purchase; however, loan-backed securities with an initial NAIC designation of three or lower are carried at the lower of amortized cost or fair value. The retrospective adjustment method is used to value those securities. The Company uses a proprietary model for loss assumptions and widely accepted models for prepayment assumptions. Mandatory convertible bonds are carried at the lower of amortized cost or fair value during the period prior to conversion.

Investments in common stocks and mutual funds are carried at fair value. Perpetual preferred stocks are generally carried at fair value; however, perpetual preferred stocks with an NAIC designation of P3 or lower are carried at the lower of cost or fair value. Redeemable preferred stocks are generally carried at amortized cost; however, redeemable preferred stocks with an NAIC designation of RP3 or lower are carried at the lower of amortized cost or fair value.

Note 1 ~ Nature of Business and Summary of Significant Accounting Policies (Continued)

Real estate is recorded as an admitted asset at cost less accumulated depreciation as of December 31, 2019 and 2018:

	Cost	Accumulated Depreciation	Net
2019			
Real estate, occupied by the Company	$ 6,045,085	$ (5,097,887)	$ 947,198
Real estate, held for the production of income	7,587,981	(3,410,617)	4,177,364
2018			
Real estate, occupied by the Company	$ 6,045,085	$ (4,766,684)	$ 1,278,401
Real estate, held for the production of income	7,587,981	(3,193,530)	4,394,450

Realized gains and losses on the sale of investments are recognized on a specific identification basis and are included in income. Unrealized gains and losses from changes in the fair value of stocks and mutual funds are credited or charged directly to policyholders' surplus net of deferred income taxes.

Declines in fair value that are determined to be OTTI are included in the statutory statements of income as realized capital losses. The Company determines a decline to be other than temporary by reviewing and evaluating relevant objective and subjective factors for each security, including the extent of the depressed value, the length of time the value has been depressed, the Company's intent and ability to hold the security, a security's current performance, the current and projected financial condition of the issuer, the issuer's projected ability to service and repay its debt obligations, the industry in which the issuer operates, the estimated future cash flows of loan-backed securities, the appraised values and cash flows related to real estate investments, and the status of the investment markets as a whole. There were no declines deemed other than temporary for the years ended December 31, 2019 and 2018.

Company Owned Life Insurance. The Company maintains whole life insurance policies for key current and former employees of the Company in which the Company is the primary beneficiary. The Company reported as an admitted asset the amount that could be realized on the life insurance policies as of the date to which premiums have been paid, which is equal to the cash surrender value of the policies at December 31, 2019 and 2018. The change in carrying value is recorded as a component of other income for 2019, and as a component of investment income for 2018.

Mortgage Loans. Mortgage loans are carried at their aggregate unpaid principal balance, net of any valuation allowances. The Company targets an initial loan to collateral value ratio of no more than 80 percent. An allowance is provided when a mortgage loan becomes impaired, which occurs when it becomes probable the Company will be unable to collect the total amounts due, including principal and interest, according to contractual terms, and when the aggregated unpaid principal balance of the mortgage loan exceeds the fair value of the mortgage loan collateral. A valuation allowance was not required at December 31, 2019 and 2018.

Note 1 ~ Nature of Business and Summary of Significant Accounting Policies (Continued)

Fair Value Measurements. Financial instruments are categorized in a fair value hierarchy based on the reliability of inputs to the valuation techniques as follows:

- Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the Company has the ability to access.

- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets in active markets; quoted prices for identical or similar assets in inactive markets; inputs other than quoted prices that are observable; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Company believes its valuation methods are appropriate and consistent with other market participants. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Property and Equipment. Electronic data processing equipment and operating system software are recorded as admitted assets at cost less accumulated depreciation and amortization of $585,368 and $499,722, as of December 31, 2019 and 2018, respectively.

Furniture, equipment, and nonoperating system software are considered nonadmitted assets for statutory financial statement reporting purposes. Depreciation and amortization are calculated on these assets and charged to expense. The total accumulated depreciation on nonadmitted assets was $646,974 and $503,038 as of December 31, 2019 and 2018, respectively. The net change in book value (cost less depreciation) is charged or credited directly to policyholders' surplus.

Depreciation is calculated by applying straight-line or accelerated methods over the estimated useful lives of the respective assets. Total depreciation expense was $777,870 in 2019 and $768,353 in 2018.

Unpaid Losses and Unpaid Loss Adjustment Expenses. The liabilities for unpaid losses and unpaid loss adjustment expenses include amounts determined from individual reported losses (case reserves), an amount, based on past experience, for losses incurred but not reported (IBNR), and amounts considered necessary to maintain reserve adequacy. Such liabilities are necessarily based on estimates and, while management believes that the amounts are adequate, the ultimate liabilities may differ from the amounts provided. The methods for making such estimates and for establishing the resulting liabilities are continually reviewed, and any adjustments are reflected in current operations. The liabilities for unpaid losses and unpaid loss adjustment expenses are reported net of the effects of reinsurance and estimated salvage and subrogation receivable.

Note 1 ~ Nature of Business and Summary of Significant Accounting Policies (Continued)

Recognition of Premium. Premiums from policies written are recognized on a monthly pro rata basis over the respective terms of the policies. Unearned premiums represent the portion of premiums written which relate to future periods. An advance premium liability is established for all premiums received on policies effective in the following fiscal year.

Premium Deficiency Reserve. When anticipated losses and loss adjustment expenses exceed the Company's recorded unearned premium reserve and any future installment premiums on existing policies, a premium deficiency reserve is established. No premium deficiency was identified in 2019 or 2018 and therefore, no deficiency reserve was established.

Reinsurance. Reinsurance premiums, commissions, and loss and loss adjusting expense recoveries are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Commissions on reinsurance ceded are credited to income at the time the premium is ceded. The Company does not enter into finite reinsurance contracts; all reinsurance contracts involve a significant transfer of risk.

Income Taxes. The Company files a federal income tax return, as well as state income tax returns in Wisconsin and Illinois. The Company records deferred income taxes on temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities based upon enacted federal tax rates. In accordance with statutory accounting requirements, no deferred taxes are provided for state income taxes.

Subsequent Events. Subsequent events were evaluated through April 1, 2020, which is the date the financial statements were available to be issued.

Note 2 ~ Investments

The cost and fair value of investments at December 31, 2019 and 2018, were as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2019				
Bonds (at amortized cost):				
U.S. Government	$ 7,605,588	$ 131,950	$ (6,287)	$ 7,731,251
Foreign Government	11,588,970	86,035	(62,718)	11,612,287
State and political subdivisions	5,828,181	121,901	(6,017)	5,944,065
Special revenue and assessment obligations	372,796	3,204	-	376,000
Industrial and miscellaneous	49,362,295	1,707,030	(198,577)	50,870,748
Loan-backed securities	68,001,173	767,615	(242,993)	68,525,795
Total bonds	142,759,003	2,817,735	(516,592)	145,060,146
Preferred stocks	387,521	385	(58,689)	329,217
Common stocks and mutual funds	8,795,178	2,442,896	(11,273)	11,226,801
	$ 151,941,702	$ 5,261,016	$ (586,554)	$ 156,616,164
2018				
Bonds (at amortized cost):				
U.S. Government	$ 10,027,669	$ 23,135	$ (219,018)	$ 9,831,786
Foreign Government	2,000,000	-	(8,920)	1,991,080
State and political subdivisions	4,968,708	34,166	(25,190)	4,977,684
Special revenue and assessment obligations	10,381,285	12,840	(237,257)	10,156,868
Industrial and miscellaneous	45,329,028	150,313	(1,674,661)	43,804,680
Loan-backed securities	62,830,284	91,603	(1,397,380)	61,524,507
Total bonds	135,536,974	312,057	(3,562,426)	132,286,605
Preferred stocks	336,290	-	(55,949)	280,341
Common stocks and mutual funds	7,495,324	1,062,807	(160,418)	8,397,713
	$ 143,368,588	$ 1,374,864	$ (3,778,793)	$ 140,964,659

The statement value of bonds was lower than cost by $167,522 and $157,859 at December 31, 2019 and 2018, respectively, due to unrealized losses on bonds rated three or lower under the valuation methods prescribed by the NAIC.

Note 2 ~ Investments (Continued)

The amortized cost and fair value of bonds at December 31, 2019, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due in one year or less	$ 4,935,161	$ 4,936,016
Due after one year through five years	42,867,062	43,614,806
Due after five years through ten years	42,398,048	43,475,613
Due after ten years	52,558,732	53,033,711
	$ 142,759,003	$ 145,060,146

At December 31, 2019 and 2018, bonds with an admitted asset value of $2,840,733 and $3,028,276, respectively, were on deposit with various states. These deposits were made to meet legal requirements and are not necessarily available for the protection of all policyholders.

Securities in an Unrealized Loss Position. The following tables show unrealized losses in the Company's portfolio sorted by security type and by length of time that the securities were in an unrealized loss position as of December 31, 2019 and 2018:

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2019						
U.S. Government	$ 1,520,391	$ (1,100)	$ 1,026,094	$ (5,187)	$ 2,546,485	$ (6,287)
State and political subdivisions	1,622,785	(5,740)	329,723	(277)	1,952,508	(6,017)
Special revenue and assessment obligations	2,562,617	(12,383)	3,940,069	(50,335)	6,502,686	(62,718)
Industrial and miscellaneous	4,829,869	(145,053)	4,581,591	(53,524)	9,411,460	(198,577)
Loan-backed securities	4,042,097	(26,395)	25,390,651	(216,598)	29,432,748	(242,993)
Preferred stocks	-	-	320,096	(58,689)	320,096	(58,689)
Common stocks and mutual funds	-	-	3,040,966	(11,273)	3,040,966	(11,273)
	$ 14,577,759	$ (190,671)	$ 38,629,190	$ (395,883)	$ 53,206,949	$ (586,554)

Note 2 ~ Investments (Continued)

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2018						
U.S. Government	$ 1,477,905	$ (434)	$ 7,229,230	$ (218,584)	$ 8,707,135	$ (219,018)
Foreign Government	-	-	1,991,080	(8,920)	1,991,080	(8,920)
State and political subdivisions	1,651,440	(4,473)	2,012,078	(20,717)	3,663,518	(25,190)
Special revenue and assessment obligations	-	-	8,144,028	(237,257)	8,144,028	(237,257)
Industrial and miscellaneous	17,818,640	(750,372)	20,532,978	(924,289)	38,351,618	(1,674,661)
Loan-backed securities	7,921,499	(74,025)	44,617,210	(1,323,355)	52,538,709	(1,397,380)
Preferred stocks	152,640	(40,985)	127,701	(14,964)	280,341	(55,949)
Common stocks and mutual funds	-	-	1,391,820	(160,418)	1,391,820	(160,418)
	$ 29,022,124	$ (870,289)	$ 86,046,125	$ (2,908,504)	$ 115,068,249	$ (3,778,793)

Gains and Losses on Investments. The components of net realized investment gains (losses) are as follows:

	2019	2018
Gains on disposals	$ 1,129,441	$ 642,003
Losses on disposals	(244,550)	(441,450)
	884,891	200,553
Federal income tax expense	(185,827)	(42,116)
Net realized capital gains	$ 699,064	$ 158,437

Summary of Significant Valuation Techniques for Financial Instruments. The following valuation techniques and inputs were used to estimate the fair value of each class of significant financial instruments:

Level 1 Measurements

Bonds: Comprised of actively traded U.S. Treasury notes. Valuation is based on unadjusted quoted prices for identical assets in active markets that are accessible to the Company at the measurement date.

Common stocks and mutual funds: Comprised of actively traded common stocks, as well as exchange-listed mutual and exchange-traded funds that have daily quoted net asset values.

Level 2 Measurements

Bonds: Comprised of U.S. government, foreign, state and municipal, corporate securities, and residential and commercial mortgage-backed securities. Valuation is based on inputs including quoted prices for identical or similar assets in inactive markets and is obtained from the Company's investment manager.

Note 2 ~ Investments (Continued)

Preferred stocks: Comprised of perpetual preferred stock and redeemable preferred stocks. Valuation is provided by a leading, nationally recognized provider of financial market data and analytics to price the Company's preferred stock holdings.

Level 3 Measurements

The Company has no financial instruments defined as Level 3.

Financial Instruments Reported at Fair Value in the Statutory Balance Sheets

	Level 1	Level 2	Level 3	Total
December 31, 2019				
Bonds	$ -	$ 2,368,406	$ -	$ 2,368,406
Common stocks and mutual funds	11,226,801	-	-	11,226,801
	$ 11,226,801	$ 2,368,406	$ -	$ 13,595,207
December 31, 2018				
Bonds	$ -	$ 854,130	$ -	$ 854,130
Preferred stock	-	217,701	-	217,701
Common stocks and mutual funds	8,397,713	-	-	8,397,713
	$ 8,397,713	$ 1,071,831	$ -	$ 9,469,544

All Financial Instruments

Type of Financial Instrument	Aggregate Fair Value	Admitted Assets	Level 1	Level 2	Level 3	Fair Value Not Practicable*
December 31, 2019						
Bonds	$ 145,060,146	$ 142,591,481	$ 7,731,250	$ 137,328,896	$ -	$ -
Preferred stocks	329,217	387,521	-	329,217	-	-
Common stocks and mutual funds	11,226,801	11,226,801	11,226,801	-	-	-
Mortgage loans	1,504,272	1,504,272	-	-	-	1,504,272
December 31, 2018						
Bonds	$ 132,286,605	$ 135,379,115	$ 9,831,786	$ 122,454,819	$ -	$ -
Preferred stocks	280,341	321,326	-	280,341	-	-
Common stocks and mutual funds	8,397,713	8,397,713	8,397,713	-	-	-
Mortgage loans	1,551,360	1,551,360	-	-	-	1,551,360

*It was not practicable to determine fair value of these mortgage loans because a quoted market price was not available and is not used in determining statement value.

The Company did not have any liabilities measured at fair value at December 31, 2019 and 2018.

Note 3 ~ Liabilities for Unpaid Losses and Unpaid Loss Adjustment Expenses

Activity in the liabilities for unpaid losses and unpaid loss adjustment expenses for the years ended December 31, 2019 and 2018, is summarized as follows (000's omitted):

	2019	2018
Balance, beginning of year	$ 64,177	$ 59,655
Less reinsurance recoverable	7,213	7,451
Net balance at January 1	56,964	52,204
Incurred related to:		
Current year	73,110	59,881
Prior years	(2,585)	3,801
Total incurred	70,525	63,682
Paid related to:		
Current year	45,468	33,917
Prior years	24,025	25,005
Total paid	69,493	58,922
Net balance at December 31	57,996	56,964
Plus reinsurance recoverable	10,331	7,213
Balance, end of year	$ 68,327	$ 64,177

In accordance with accounting practices related to estimates, changes in prior years' liabilities for unpaid losses and loss adjustment expenses are recorded in current year operations. As a result of changes in estimates of insured events in prior years, net loss and loss adjustment expenses incurred were decreased by $2,585,000 in 2019 and increased by $3,801,000 in 2018 due to changes in anticipated losses and related expenses.

Estimates of anticipated salvage and subrogation recoveries on losses and loss adjustment expenses have been recorded as a reduction to unpaid loss and loss adjustment expense amounting to $4,218,000 and $3,821,000 at December 31, 2019 and 2018, respectively.

Note 4 ~ Reinsurance

Reinsurance Ceded. The Company limits the maximum net loss that can arise from large risks or risks in concentrated areas of exposure by reinsuring (ceding) certain levels of risk with other insurers or reinsurers, generally on an automatic basis under general reinsurance contracts known as "treaties." Ceded reinsurance is treated as if the risk and liability was that of the assuming companies. Such reinsurance includes quota share, excess of loss, and catastrophe forms of reinsurance. Amounts deducted as of December 31, 2019 and 2018, from certain liabilities for these reinsurance agreements, were as follows:

	2019	2018
Unpaid losses	$ 10,330,978	$ 7,213,349
Unearned premiums	6,442,672	6,041,902

In 2019 and 2018, the Company's retention on its property and casualty risks was $350,000 per risk or occurrence. The Company maintains various excess of loss reinsurance agreements to protect against losses above its retention on each risk insured. In addition, the catastrophic reinsurance provided property coverages up to a limit of $40 million per loss event in 2019 and 2018.

In 2019 and 2018, the Company entered into a quota share reinsurance contract whereby 20 percent of all property risks are ceded to the reinsurer, with the exception of auto collision coverage risks.

The Company received surplus aid from reinsurance of $2,300,617 ($1,970,603 from the quota share contract) as of December 31, 2019, computed as the maximum amount of return commission that would be due to reinsurers if all ceded reinsurance contracts were cancelled at year end.

The Company monitors the financial condition of its reinsurers in order to minimize its exposure to loss from reinsurance insolvencies. All of the Company's reinsurers are rated A- or better by A.M. Best Company. Reinsurance contracts do not release the Company from its obligations to its insureds, and nonperformance by counterparties to these reinsurance agreements could expose the Company to loss.

Unsecured Reinsurance Recoverable. At December 31, 2019, the Company had unsecured aggregate amounts recoverable for losses, both paid and unpaid and including IBNR and loss adjustment expenses, and unearned premiums with individual reinsurers, authorized and unauthorized, that exceeded 3 percent of policyholders' surplus as follows:

Reinsurer	Amount
Renaissance Reinsurance U.S. Inc.	$ 5,764,000
Regional Treaty Service Facility	2,767,000

Note 5 ~ Income Taxes

The Company is taxed as an insurance company under Section 831 of the Internal Revenue Code. Federal income tax expense differs from the amount obtained by applying the federal income tax rate of 21 percent to pretax income, due to the following:

	2019	2018
Computed expected federal income tax expense	$ 649,933	$ 84,641
Increase (decrease) in federal income tax expense resulting from:		
Discounting of unpaid losses and loss adjustment expenses	58,973	105,875
Unearned and advance premium adjustment	173,029	150,872
Tax-exempt interest	-	(9,412)
Dividends received deduction	(27,561)	(20,899)
Employee benefits	(36,041)	(51,199)
Net operating loss carryforward	(697,981)	(443,066)
Alternative minimum tax (AMT)	(332,587)	(578,526)
Other – net	(33,706)	148,059
Federal income tax benefit	(245,941)	(613,655)
Less tax subtracted from realized capital gains	(185,827)	(42,116)
Federal and foreign income tax benefit per Statutory Statements of Income	$ (431,768)	$ (655,771)

The components of the net deferred tax asset/(liability) at December 31, 2019 and 2018, were as follows:

	Ordinary	Capital	Total
2019			
Gross deferred tax assets	$ 4,713,984	$ -	$ 4,713,984
Statutory valuation allowance	-	-	-
	4,713,984	-	4,713,984
Deferred tax asset nonadmitted	(513,070)	-	(513,070)
	4,200,914	-	4,200,914
Deferred tax liabilities	(304,094)	(475,462)	(779,556)
	$ 3,896,820	$ (475,462)	$ 3,421,358

Note 5 ~ Income Taxes (Continued)

	Ordinary	Capital	Total
2018			
Gross deferred tax assets	$ 5,501,222	$ -	$ 5,501,222
Statutory valuation allowance	-	-	-
	5,501,222	-	5,501,222
Deferred tax asset nonadmitted	(825,534)	-	(825,534)
	4,675,688	-	4,675,688
Deferred tax liabilities	(343,447)	(153,209)	(496,656)
	$ 4,332,241	$ (153,209)	$ 4,179,032

The net admitted deferred tax asset was determined using the guidance related to admissibility provided in the following paragraphs of NAIC *Statement of Statutory Accounting Principles No. 101 (SSAP 101)*:

	Ordinary	Capital	Total
2019			
11a. Ability to recover taxes paid in prior years	$ -	$ -	$ -
11b. Expected to be realized, after application of threshold limitations	3,421,358	-	3,421,358
11c. Offset of deferred tax liabilities	779,556	-	779,556
	$ 4,200,914	$ -	$ 4,200,914
2018			
11a. Ability to recover taxes paid in prior years	$ -	$ -	$ -
11b. Expected to be realized, after application of threshold limitations	4,179,032	-	4,179,032
11c. Offset of deferred tax liabilities	496,656	-	496,656
	$ 4,675,688	$ -	$ 4,675,688

	2019	2018
Ratio Used to Determine Recovery Period and Threshold Limitation amount under paragraph 11b	756%	731%
Amount of Adjusted Capital and Surplus Used To Determine Recovery Period and Threshold Limitation under paragraph 11b	$ 69,823,733	$ 65,854,755

Note 5 ~ Income Taxes (Continued)

The major components of current income taxes incurred and net deferred tax assets as of December 31, 2019 and 2018, were as follows:

	2019	2018	Change
Current income tax (benefit):			
Federal and foreign	$ (245,941)	$ (613,655)	$ 367,714
Federal income tax on net capital gains	(185,827)	(42,116)	(143,711)
Federal and foreign income tax expense (benefit)	(431,768)	(655,771)	224,003
Deferred tax assets:			
Unpaid loss and loss adjustment expense	727,114	716,357	10,757
Unearned premiums	1,942,403	1,792,762	149,641
Net operating loss carryforward	-	705,620	(705,620)
AMT credit carryforward	245,939	578,526	(332,587)
Pension accrual	1,436,642	1,400,369	36,273
Other	361,886	307,588	54,298
Total deferred tax assets	4,713,984	5,501,222	(787,238)
Nonadmitted deferred tax assets	(513,070)	(825,534)	312,464
Total admitted deferred tax assets	4,200,914	4,675,688	(474,774)
Deferred tax liabilities:			
Net unrealized capital gains	(475,462)	(153,209)	(322,253)
Other	(304,094)	(343,447)	39,353
Total deferred tax liabilities	(779,556)	(496,656)	(282,900)
Net deferred tax assets	$ 3,421,358	$ 4,179,032	$ (757,674)

The change in net deferred tax assets was recorded directly to policyholders' surplus and impacted the following components listed on the statutory statements of changes in policyholders' surplus:

	2019	2018
Change in net unrealized capital gains/losses, net of tax	$ (322,253)	$ 256,137
Change in net deferred income tax	(747,885)	(971,556)
Change in nonadmitted assets	312,464	199,830
Change in net deferred tax assets	$ (757,674)	$ (515,589)

Note 5 ~ Income Taxes (Continued)

In 2019, the Tax Cuts and Jobs Act provided the Company with an opportunity to accelerate the recovery of its AMT credit carryforward. At December 31, 2019, the Company had AMT credit carryforwards, which do not expire, in the amount of:

	2019	2018
Beginning of year AMT credit carryforward balance	$ 578,526	$ 1,157,052
AMT credits utilized during the year	(332,587)	(578,526)
End of year AMT credit carryforward balance	$ 245,939	$ 578,526

The Company recorded the AMT credits utilized during the year as a current receivable, and the AMT credit carryforward as of December 31, 2019, as a deferred tax asset.

The following AMT credits are expected to be utilized in future years:

2020	$ 122,969
2021	122,970
	$ 245,939

At December 31, 2019, the Company had no income taxes incurred in the current or prior year that would be available for recoupment in the event of future net operating losses.

All net operating loss carryforwards were used in 2019.

The Company also pays Wisconsin franchise taxes at a rate of 7.9 percent of Wisconsin taxable income. The Company incurred approximately $130,000 and $80,000 of Wisconsin state income taxes for the years ended December 31, 2019 and 2018, respectively. Illinois state income taxes were $0 for the years ended December 31, 2019 and 2018.

As of December 31, 2019, the Company had not identified any material liabilities or loss contingencies arising from uncertain tax positions.

Note 6 ~ Employee Benefit Plans

The Company has a funded noncontributory defined benefit pension plan that covers substantially all of its full-time employees who were hired before January 1, 2014. Effective December 31, 2013, the Company froze this plan. The plan provides defined benefits based on years of service and age requirements. The Company uses a December 31 measurement date for its plan.

Note 6 ~ Employee Benefit Plans (Continued)

The following tables provide reconciliations of the changes in the benefit obligation, fair value of plan assets, and funded status of the defined benefit pension plan at December 31:

	2019	2018
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 17,495,173	$ 19,795,315
Interest cost	717,777	694,763
Actuarial (gain) loss	1,997,862	(1,823,867)
Benefits paid	(1,072,759)	(1,171,038)
Benefit obligation at end of year	$ 19,138,053	$ 17,495,173
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 10,826,747	$ 12,204,227
Actual return (loss) on assets	1,447,915	(793,842)
Employer contributions	934,000	587,400
Benefits paid	(1,072,759)	(1,171,038)
Fair value of plan assets at end of year	$ 12,135,903	$ 10,826,747
Amounts recognized in the statutory balance sheets:		
Accrued benefit costs	$ -	$ -
Liability for pension benefits	7,002,150	6,668,426
Total liabilities recognized	$ 7,002,150	$ 6,668,426

The components of net periodic pension costs (income) are as follows:

	2019	2018
Interest cost	$ 717,777	$ 694,763
Expected return on plan assets	(746,586)	(848,426)
Recognition of net loss	507,478	503,753
Net periodic pension cost	$ 478,669	$ 350,090

Note 6 ~ Employee Benefit Plans (Continued)

The assumptions used in the measurement of the Company's benefit obligation and net periodic pension cost are as follows:

	2019	2018
Weighted-average assumptions used to determine net periodic pension cost for the years ended Dec 31:		
Discount rate	4.22%	3.60%
Expected long-term return on plan assets	7.00	7.00
Rate of compensation increase	0.00	0.00
Weighted-average assumptions used to determine benefit obligation for the years ended Dec 31:		
Discount rate	3.22%	4.22%
Rate of compensation increase	0.00	0.00

The expected long-term rate of return on plan assets is determined on the basis of future expected returns on the assets over a long period of time. This determination is influenced by the asset allocation as described below, as well as the investment policy.

The Company's pension plan asset allocations at December 31, by asset category, are as follows:

	2019	2018
Equity securities	43.0%	34.0%
Debt securities	42.0	50.0
Real estate (via mutual funds)	5.0	5.0
Other (cash and cash equivalents and annuity contract)	10.0	11.0
Total plan assets	100.0%	100.0%

Pension plan assets are invested primarily in professionally managed publicly traded equity and bond mutual funds and unit investment trusts offered by Charles Schwab. The investment objective of the plan is to maximize the long-term rate of return, consistent with prudent investment management and in accordance with ERISA requirements. Investments are made for the sole interests of the beneficiaries of the plan. Up to approximately 50 percent of plan assets could be invested in equity securities. The fair value of plan assets is based on quoted fund values.

Note 6 ~ Employee Benefit Plans (Continued)

Summary of Significant Valuation Techniques for Defined Benefit Pension Plan Assets. The following valuation techniques and inputs were used to estimate the fair value of each class of significant financial instruments:

Level 1 Measurements

Mutual and exchange-traded funds: Comprised of actively traded debt and equity mutual funds that have daily quoted net asset values and exchange-traded funds, which are valued based on quoted prices for identical assets in active markets that are available to the Company.

Money market: Comprised of an investment in Schwab Advisor Cash Reserve Premier. Valuation is based on unadjusted quoted prices for identical assets in active markets that are accessible to the Company at the measurement date.

	Level 1	Level 2	Level 3	Total
2019				
Mutual and exchange-traded funds	$ 11,851,833	$ -	$ -	$ 11,851,833
Money market	284,070	-	-	284,070
Total assets at fair value	$ 12,135,903	$ -	$ -	$ 12,135,903
2018				
Mutual and exchange-traded funds	$ 10,510,502	$ -	$ -	$ 10,510,502
Money market	316,245	-	-	316,245
Total assets at fair value	$ 10,826,747	$ -	$ -	$ 10,826,747

The following benefit payments are expected to be paid:

2020	$ 1,062,077
2021	1,046,469
2022	1,032,580
2023	1,018,235
2024	1,049,523
2025 – 2029	4,989,386

Note 6 ~ Employee Benefit Plans (Continued)

The Company also has a defined contribution plan under the provisions of Section 401(k) of the Internal Revenue Code. The Company has elected to match 50 percent of employee contributions limited to a 10 percent contribution for both 2019 and 2018. Matching contributions of $306,875 were accrued as of December 31, 2019. Matching contributions of $290,978 were accrued as of December 31, 2018.

As of December 31, 2019 and 2018, the Company had accrued $120,326 and $126,619, respectively, for deferred compensation benefits to be paid to the beneficiary of a former President who passed away in 1993.

Note 7 ~ Policyholders' Surplus

The Company is required to maintain minimum surplus established by the OCI. The Company is also subject to Risk-Based Capital (RBC) requirements promulgated by the NAIC and adopted by the OCI. The RBC standards establish uniform minimum capital requirements for insurance companies. The RBC formula applies various weighting factors to financial balances or various levels of activities based on the perceived degree of risk. At December 31, 2019, the Company's policyholders' surplus exceeded the minimum levels required by the OCI and RBC standards.

The Company's unassigned policyholders' surplus was increased (reduced) by the following cumulative amounts at December 31:

	2019	2018
Net unrealized capital gains, not including related deferred taxes	$ 2,264,105	$ 729,566
Nonadmitted assets	(2,775,904)	(2,775,472)

Note 8 ~ Leases

The Company entered into a lease for office space under a noncancelable operating lease agreement that begins in 2020 and expires in 2036. Rental expense for 2019 and 2018 was $0.

At December 31, 2019, the future minimum aggregate rental commitments are as follows:

2020	$ 311,475
2021	532,410
2022	540,595
2023	548,985
2024	557,584
2025-2029	4,357,304

Strohm Ballweg

CPAs • ADVISORS • CONSULTANTS

INDEPENDENT AUDITOR'S REPORT
ON THE SUPPLEMENTARY INFORMATION

To the Board of Directors
Badger Mutual Insurance Company
Milwaukee, Wisconsin

Our audit was made for the purpose of forming an opinion on the statutory financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the statutory financial statements. The supplementary information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. This information is presented in a format consistent with the Annual Statement filed by the Company with the OCI. Such information has been subjected to the auditing procedures applied in the audit of the statutory financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the statutory financial statements as a whole.

Strohm Ballweg, LLP

Madison, Wisconsin
April 1, 2020

1. Reporting entity's total admitted assets as reported on page two of the annual statement. $ 194,178,467

2. Ten largest exposures to a single issuer/borrower/investment.

	Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
2.01	Federal National Mortgage Association	MBS, CMO	$ 10,024,308	5.2%
2.02	Freddie Mac	MBS, CMO	$ 8,988,442	4.6%
2.03	1630-32 W National Ave	Property Held for Income	$ 3,852,957	2.0%
2.04	State of Wisconsin	Bonds	$ 2,054,278	1.1%
2.05	Federal Agricultural Mortgage Corporation	Municipal	$ 2,000,000	1.0%
2.06	State of California	Municipal	$ 1,614,689	0.8%
2.07	Oregon State Department of Administrative Services	Municipal	$ 1,577,023	0.8%
2.08	University of California	Municipal	$ 1,475,543	0.8%
2.09	Oregon Department of Transportation	Municipal	$ 1,253,817	0.6%
2.10	City of Suffolk, Virginia	MBS	$ 1,135,000	0.6%

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating.

Bonds			Preferred Stocks		
3.01 NAIC – 1	$ 118,617,536	61.1%	3.07 P/RP – 1	$	%
3.02 NAIC – 2	$ 19,252,107	9.9%	3.08 P/RP – 2	$ 378,785	0.2%
3.03 NAIC – 3	$ 1,980,119	1.0%	3.09 P/RP – 3	$	%
3.04 NAIC – 4	$ 2,537,759	1.3%	3.10 P/RP – 4	$ 8,736	0.0%
3.05 NAIC – 5	$ 203,930	0.1%	3.11 P/RP – 5	$	%
3.06 NAIC – 6	$	%	3.12 P/RP – 6	$	%

4. Assets held in foreign investments:

4.01 Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets? Yes [ ] No [X]

4.02	Total admitted assets held in foreign investments	$ 7,807,695	4.0%
4.03	Foreign-currency-denominated investments	$	%
4.04	Insurance liabilities denominated in that same foreign currency	$	%

(If response to 4.01 above is yes, responses are not required for Interrogatories 5-10.)

5. Aggregate foreign investment exposure categorized by NAIC sovereign rating:

5.01	Countries rated NAIC – 1	$ 7,807,695	4.0%
5.02	Countries rated NAIC – 2	$	%
5.03	Countries rated NAIC – 3 or below	$	%

6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign rating:

Countries rated NAIC – 1		
6.01 Netherlands	$ 1,821,213	0.9%
6.02 France	$ 1,409,479	0.7%
Countries rated NAIC – 2		
6.03	$	%
6.04	$	%
Countries rated NAIC – 3 or below		
6.05	$	%
6.06	$	%

7. Aggregate unhedged foreign currency exposure $ %

8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign rating:

8.01	Countries rated NAIC – 1	$	%
8.02	Countries rated NAIC – 2	$	%
8.03	Countries rated NAIC – 3 or below	$	%

9. Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign rating:

Countries rated NAIC – 1		
9.01	$	%
9.02	$	%
Countries rated NAIC – 2		
9.03	$	%
9.04	$	%
Countries rated NAIC – 3 or below		
9.05	$	%
9.06	$	%

10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:

Issuer	NAIC Rating	Amount	Percent
10.01 Shell International Finance B.V.	1FE	$ 996,688	0.5%
10.02 Rio Tinto Finance (USA) Limited	1FE	$ 819,454	0.4%
10.03 Shire Acquisitions Investments Ireland Limited	2FE	$ 524,962	0.3%
10.04 Credit Suisse Group AG	2FE	$ 499,760	0.3%
10.05 Allergan Funding SCS	2FE	$ 499,392	0.3%
10.06 Teva Pharmaceutical Finance Netherlands III B.V.	3FE	$ 416,250	0.2%
10.08 TOTAL S.A.	1FE	$ 413,955	0.2%
10.08 QIAGEN N.V.	2	$ 408,275	0.2%
10.09 Air Liquide Finance SA	1FE	$ 402,745	0.2%
10.10 BNP Paribas SA	1FE	$ 365,000	0.2%

11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:

11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]
(If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11.)

11.02 Total admitted assets held in Canadian investments	$	%
11.03 Canadian-currency-denominated investments	$	%
11.04 Canadian-denominated insurance liabilities	$	%
11.05 Unhedged Canadian currency exposure	$	%

12. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restriction:

12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]
(If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.)

12.02 Aggregate statement value of investments with contractual sales restrictions	$	%
Largest 3 investments with contractual sales restrictions:		
12.03	$	%
12.04	$	%
12.05	$	%

13. Amounts and percentages of admitted assets held in the largest 10 equity interests:

13.01 Are assets held in equity interests less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]
(If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.)

Assets held in equity interests:

13.02		$	%
13.03		$	%
13.04		$	%
13.05		$	%
13.06		$	%
13.07		$	%
13.08		$	%
13.09		$	%
13.10		$	%
13.11		$	%

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:

14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]
(If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.)

14.02 Aggregate statement value of investments held in nonaffiliated, privately placed equities $ %

Largest 3 investments held in nonaffiliated, privately placed equities:

14.03		$	%
14.04		$	%
14.05		$	%

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:

15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]
(If response to 15.01 above is yes, responses are not required for the remainder of Interrogatory 15.)

15.02 Aggregate statement value of investments held in general partnership interests $ %

Largest 3 investments held in general partnership interests:

15.03		$	%
15.04		$	%
15.05		$	%

16. Amounts and percentages of the reporting entity's total admitted assets held in the largest 10 mortgage loans:

16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]
(If response to 16.01 above is yes, responses are not required for the remainder of Interrogatories 16 and 17.)

Total admitted assets held in Mortgage Loans:

16.02	$	%
16.03	$	%
16.04	$	%
16.05	$	%
16.06	$	%
16.07	$	%
16.08	$	%
16.09	$	%
16.10	$	%
16.11	$	%

Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:

16.12 Construction loans	$	%
16.13 Mortgage loans over 90 days past due	$	%
16.14 Mortgage loans in the process of foreclosure	$	%
16.15 Mortgage loans foreclosed	$	%
16.16 Restructured mortgage loans	$	%

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

	Loan-to-Value	Residential		Commercial		Agricultural	
17.01	Above 95%	$	%	$	%	$	%
17.02	91% to 95%	$	%	$	%	$	%
17.03	81% to 90%	$	%	$	%	$	%
17.04	71% to 80%	$	%	$	%	$	%
17.05	below 70%	$	%	$	%	$	%

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:

18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]
(If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.)

Assets held in the 5 Largest Real Estate Holdings:

18.02		$	%
18.03		$	%
18.04		$	%
18.05		$	%
18.06		$	%

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans:

19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]
(If response to 19.01 above is yes, responses are not required for the remainder of Interrogatory 19.)

19.02 Aggregate statement value of investments held in mezzanine loans $ %

Largest three investments held in mezzanine real estate loans:

19.03		$	%
19.04		$	%
19.05		$	%

20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

	At Year-End		At End of Each Quarter 1st Qtr	2nd Qtr	3rd Qtr
20.01 Securities lending agreements (do not include assets held as collateral for such transactions)	$	%	$	$	$
20.02 Repurchase agreements	$	%	$	$	$
20.03 Reverse repurchase agreements	$	%	$	$	$
20.04 Dollar repurchase agreements	$	%	$	$	$
20.05 Dollar reverse repurchase agreements	$	%	$	$	$

21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps, and floors:

	Owned		Written	
21.01 Hedging	$	%	$	%
21.02 Income generation	$	%	$	%
21.03 Other	$	%	$	%

22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:

	At Year-End		At End of Each Quarter 1st Qtr	2nd Qtr	3rd Qtr
22.01 Hedging	$	%	$	$	$
22.02 Income generation	$	%	$	$	$
22.03 Replications	$	%	$	$	$
22.04 Other	$	%	$	$	$

23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:

	At Year-End		At End of Each Quarter 1st Qtr	2nd Qtr	3rd Qtr
23.01 Hedging	$	%	$	$	$
23.02 Income generation	$	%	$	$	$
23.03 Replications	$	%	$	$	$
23.04 Other	$	%	$	$	$

	Gross Investment Holdings		Admitted Assets as Reported In the Annual Statement*	
	Amount	Percentage	Amount	Percentage
1. Long-Term Bonds (Schedule D, Part 1):				
1.01 U.S. Governments	$ 16,378,736	9.951%	$ 16,378,736	9.951%
1.02 All Other Governments	$	%	$	%
1.03 U.S. States, Territories and Possessions, etc. Guaranteed	$ 2,289,656	1.391%	$ 2,289,656	1.391%
1.04 U.S. Political Subdivisions of States, Territories and Possessions, Guaranteed	$ 3,538,525	2.150%	$ 3,538,525	2.150%
1.05 U.S. Special Revenue and Special Assessment Obligations, etc. Non-Guaranteed	$ 32,178,742	19.550%	$ 32,178,742	19.550%
1.06 Industrial and Miscellaneous	$ 87,833,026	53.361%	$ 87,833,026	53.361%
1.07 Hybrid Securities	$ 372,796	0.226%	$ 372,796	0.226%
1.08 Parent, Subsidiaries and Affiliates	$	%	$	%
1.09 SVO Identified Funds	$	%	$	%
1.10 Bank Loans	$	%	$	%
1.11 Total Long-Term Bonds	$ 142,591,481	86.629%	$ 142,591,481	86.629%
2. Preferred Stocks (Schedule D, Part 2, Section 1):				
2.01 Industrial and Miscellaneous (Unaffiliated)	$ 387,521	0.235%	$ 387,521	0.235%
2.02 Parent, Subsidiaries and Affiliates	$	%	$	%
2.03 Total Preferred Stocks	$ 387,521	0.235%	$ 387,521	0.235%
3. Common Stocks (Schedule D, Part 2, Section 2):				
3.01 Industrial and Miscellaneous Publicly Traded (Unaffiliated)	$ 84,085	0.051%	$ 84,085	0.051%
3.02 Industrial and Miscellaneous Other (Unaffiliated)	$	%	$	%
3.03 Parent, Subsidiaries and Affiliates Publicly Traded	$	%	$	%
3.04 Parent, Subsidiaries and Affiliates Other	$	%	$	%
3.05 Mutual Funds	$ 11,142,716	6.770%	$ 11,142,716	6.770%
3.06 Unit Investment Trusts	$	%	$	%
3.07 Closed-end Funds	$	%	$	%
3.08 Total Common Stocks	$ 11,226,801	6.821%	$ 11,226,801	6.821%
4. Mortgage Loans (Schedule B):				
4.01 Farm Mortgages	$	%	$	%
4.02 Residential Mortgages	$	%	$	%
4.03 Commercial Mortgages	$ 1,504,272	0.914%	$ 1,504,272	0.914%
4.04 Mezzanine Real Estate Loans	$	%	$	%
4.05 Total Mortgage Loans	$ 1,504,272	0.914%	$ 1,504,272	0.914%

	Gross Investment Holdings		Admitted Assets as Reported In the Annual Statement*	
	Amount	Percentage	Amount	Percentage
5. Real Estate (Schedule A):				
5.01 Properties Occupied by Company	$ 947,198	0.575%	$ 947,198	0.575%
5.02 Properties Held for Production of Income	$ 4,177,364	2.538%	$ 4,177,364	2.538%
5.03 Properties Held for Sale	$	%	$	%
5.04 Total Real Estate	$ 5,124,562	3.113%	$ 5,124,562	3.113%
6. Cash, Cash Equivalents and Short-Term Investments:				
6.01 Cash (Schedule E, Part 1)	$ 2,674,283	1.625%	$ 2,674,283	1.625%
6.02 Cash Equivalents (Schedule E, Part 2)	$ 1,089,027	0.662%	$ 1,089,027	0.662%
6.03 Short-Term Investments (Schedule DA)	$	%	$	%
6.04 Total Cash, Cash Equivalents and Short-Term Investments	$ 3,763,310	2.287%	$ 3,763,310	2.287%
7. Contract Loans	$	%	$	%
8. Derivatives (Schedule DB)	$	%	$	%
9. Other Invested Assets (Schedule BA)	$	%	$	%
10. Receivables for Securities	$ 836	0.001%	$ 836	0.001%
11. Securities Lending (Schedule DL, Part 1)	$	%	$	%
12. Other Invested Assets	$	%	$	%
13. Total Invested Assets	$ 164,598,783	100.000%	$ 164,598,783	100.000%

*The Company has no admitted assets in securities lending reinvested collateral.

7.1 Has this reporting entity reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g. a deductible, a loss ratio corridor, a loss ratio cap, an aggregate limit, or any similar provision)?

Yes [X] No [ ]

9.1 Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:

a. A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;

b. A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;

c. Aggregate stop loss reinsurance coverage;

d. A unilateral right by either party (or both parties) to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party;

e. A provision permitting reporting losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or

f. Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity.

Yes [ ] No [X]

9.2 Has the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), for which, during the period covered by the statement, it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; excluding cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member, where:

a. The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or

b. Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates in a separate reinsurance contract.

Yes [ ] No [X]

9.4 Except for transactions meeting the requirements of paragraph 31 of SSAP No. 62R – Property and Casualty Reinsurance, has the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:

a. Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles ("SAP") and as a deposit under generally accepted accounting principles ("GAAP"); or

b. Accounted for that contract as reinsurance under GAAP and as a deposit under SAP.

Yes [ ] No [X]