

**Rural Mutual Insurance
Company Form A –
Nonconfidential Exhibits**

EXHIBIT H - PART II

**Annual Statements of the Domestic Insurer for
Five Fiscal Year ended December 31, 2020**

BADGER MUTUAL INSURANCE COMPANY

STATUTORY FINANCIAL STATEMENTS

December 31, 2020 and 2019



Strohm Ballweg

CPAs • ADVISORS • CONSULTANTS

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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, 2020 and 2019, 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.

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, 2020 and 2019, 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, 2020 and 2019, 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 6, 2021

BADGER MUTUAL INSURANCE COMPANY**STATUTORY BALANCE SHEETS**

December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ADMITTED ASSETS		
Cash and invested assets:		
Bonds	\$ 148,792,809	\$ 142,591,481
Common stocks and mutual funds	16,640,260	11,226,801
Preferred stocks	796,714	387,521
Mortgage loans	-	1,504,272
Real estate, occupied by the Company, net	-	947,198
Real estate, held for the production of income, net	3,889,940	4,177,364
Cash, cash equivalents, and short-term investments	6,129,722	3,763,310
Receivable for securities	500,830	836
Total cash and invested assets	<u>176,750,275</u>	<u>164,598,783</u>
Uncollected premiums	19,423,470	19,113,114
Amounts recoverable from reinsurers	1,856,085	944,019
Electronic data processing equipment and software, net	369,918	259,820
Net deferred tax asset	3,308,783	3,421,358
Investment income due and accrued	740,693	724,614
Federal income tax recoverable	794,155	245,940
Company owned life insurance	5,978,037	4,847,280
Other assets	26,212	23,539
Total admitted assets	<u>\$ 209,247,628</u>	<u>\$ 194,178,467</u>
LIABILITIES AND POLICYHOLDERS' SURPLUS		
Liabilities:		
Unpaid losses, net of reinsurance	\$ 47,009,421	\$ 44,222,566
Unpaid loss adjustment expenses, net of reinsurance	14,061,924	13,773,907
Unearned premiums, net of reinsurance	49,469,934	46,247,695
Advance premiums	1,883,477	1,819,369
Ceded reinsurance premiums payable	1,873,566	882,285
Commissions payable	4,437,411	4,013,410
Accounts payable and accrued expenses	2,304,998	1,376,062
Taxes, licenses, and fees payable	480,392	634,140
Payable for securities	11,404	-
Accrued pension liability	7,742,507	7,002,150
Other liabilities	830,737	701,972
Total liabilities	<u>130,105,771</u>	<u>120,673,556</u>
Policyholders' surplus:		
Unassigned surplus	<u>79,141,857</u>	<u>73,504,911</u>
Total policyholders' surplus	<u>79,141,857</u>	<u>73,504,911</u>
Total liabilities and policyholders' surplus	<u>\$ 209,247,628</u>	<u>\$ 194,178,467</u>

See Notes to Statutory Financial Statements.

BADGER MUTUAL INSURANCE COMPANY
STATUTORY STATEMENTS OF INCOME
Years Ended December 31, 2020 and 2019

	2020	2019
UNDERWRITING OPERATIONS		
Net premiums earned:		
Gross premiums earned	\$ 128,578,508	\$ 121,864,196
Reinsurance ceded	<u>(26,301,819)</u>	<u>(24,806,352)</u>
	<u>102,276,689</u>	<u>97,057,844</u>
Net losses incurred:		
Gross losses incurred	84,204,555	80,017,682
Reinsurance recoveries	<u>(24,974,102)</u>	<u>(19,287,195)</u>
	<u>59,230,453</u>	<u>60,730,487</u>
Operating expenses incurred:		
Gross loss adjustment expenses	11,951,804	10,935,604
Reinsurance recoveries on loss adjustment expenses	<u>(1,282,573)</u>	<u>(1,141,438)</u>
Gross underwriting expenses	37,130,671	35,108,276
Reinsurance commission income	<u>(7,216,297)</u>	<u>(6,971,337)</u>
	<u>40,583,605</u>	<u>37,931,105</u>
Net underwriting gain (loss)	<u>2,462,631</u>	<u>(1,603,748)</u>
INVESTMENT AND OTHER INCOME		
Investment income earned	4,277,578	5,042,400
Investment expenses	<u>(1,855,443)</u>	<u>(1,872,169)</u>
Net realized capital gains	3,283,022	699,064
Other income	<u>663,480</u>	<u>738,855</u>
Investment and other income	<u>6,368,637</u>	<u>4,608,150</u>
Net income before dividends to policyholders and federal income taxes	8,831,268	3,004,402
Dividends to policyholders	<u>120,972</u>	<u>95,311</u>
Net income before federal income taxes	8,710,296	2,909,091
Federal and foreign income tax expense (benefit)	<u>729,083</u>	<u>(431,768)</u>
Net income	<u>\$ 7,981,213</u>	<u>\$ 3,340,859</u>

See Notes to Statutory Financial Statements.

BADGER MUTUAL INSURANCE COMPANY
STATUTORY STATEMENTS OF CHANGES IN POLICYHOLDERS' SURPLUS
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Policyholders' surplus, beginning of year	<u>\$ 73,504,911</u>	<u>\$ 70,033,807</u>
Net income	7,981,213	3,340,859
Change in net unrealized capital gains (losses), net of tax	764,371	1,212,286
Change in net deferred income tax	33,513	(747,885)
Change in nonadmitted assets	(2,401,794)	(432)
Change in pension obligations	<u>(740,357)</u>	<u>(333,724)</u>
Net change in policyholders' surplus	<u>5,636,946</u>	<u>3,471,104</u>
Policyholders' surplus, end of year	<u>\$ 79,141,857</u>	<u>\$ 73,504,911</u>

See Notes to Statutory Financial Statements.

BADGER MUTUAL INSURANCE COMPANY
STATUTORY STATEMENTS OF CASH FLOWS
Years Ended December 31, 2020 and 2019

	2020	2019
Cash from operations:		
Net premiums collected	\$ 106,248,963	\$ 99,485,363
Net investment income received	2,828,049	4,527,464
Net losses paid	(57,355,663)	(60,064,899)
Net operating expenses paid	(38,197,856)	(37,857,275)
Other income received	54,159	223,277
Federal income taxes (paid) recovered	(2,150,000)	783,557
Dividends paid to policyholders	(113,148)	(80,857)
Net cash from operations	11,314,504	7,016,630
Cash from investments:		
Proceeds from investments sold, matured, or repaid:		
Bonds	54,846,374	42,522,484
Stocks and mutual funds	548,907	1,491,165
Mortgage loans	1,504,272	47,088
Real estate	2,615,000	-
Net gains on cash, cash equivalents, and short-term investments	58,445	-
Miscellaneous proceeds	11,403	3,486
Net cash from investments	59,584,401	44,064,223
Cost of investments acquired:		
Bonds	(59,490,560)	(49,816,121)
Stocks and mutual funds	(5,355,214)	(2,625,011)
Miscellaneous applications	(499,993)	(41,879)
Net cash from investments	(65,345,767)	(52,483,011)
Cash from financing and miscellaneous sources:		
Other cash applied	(3,186,726)	(493,583)
Net cash from financing and miscellaneous sources	(3,186,726)	(493,583)
Net change in cash, cash equivalents, and short-term investments	2,366,412	(1,895,741)
Cash, cash equivalents, and short-term investments:		
Beginning of year	3,763,310	5,659,051
End of year	\$ 6,129,722	\$ 3,763,310

See Notes to Statutory Financial Statements.

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 2020 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 net 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 net 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. The current COVID-19 pandemic and general economic environment increase the degree of uncertainty inherent in such estimates and assumptions.

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 3 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 3 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.

BADGER MUTUAL INSURANCE COMPANY
NOTES TO STATUTORY FINANCIAL STATEMENTS

December 31, 2020 and 2019

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, 2020 and 2019:

	Cost	Accumulated Depreciation	Net
<u>2020</u>			
Real estate, held for the production of income	\$ 7,189,707	\$ (3,299,767)	\$ 3,889,940
<u>2019</u>			
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

In 2020, the Company sold its home office building and recorded a realized gain on the sale totaling \$1,658,836.

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, 2020 and 2019.

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, 2020 and 2019. The change in carrying value is recorded as a component of other income.

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. The Company did not renew the one mortgage outstanding at the beginning of 2020 and now holds no mortgage loans as of December 31, 2020.

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 \$745,458 and \$585,368 as of December 31, 2020 and 2019, 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 \$596,708 and \$646,974 as of December 31, 2020 and 2019, 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 \$596,631 in 2020 and \$777,870 in 2019.

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 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 2020 or 2019; 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 6, 2021, which is the date the financial statements were available to be issued.

BADGER MUTUAL INSURANCE COMPANY
NOTES TO STATUTORY FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 2 ~ Investments

The cost and fair value of investments at December 31, 2020 and 2019, were as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>2020</u>				
Bonds (at amortized cost):				
U.S. Government	\$ 7,722,755	\$ 327,655	\$ (22,519)	\$ 8,027,891
Foreign Government	11,534,419	430,188	(3,480)	11,961,127
State and political subdivisions	6,744,593	491,188	-	7,235,781
Special revenue and assessment obligations	376,035	1,465	-	377,500
Industrial and miscellaneous	60,123,449	4,627,238	(70,297)	64,680,390
Loan-backed securities	62,326,447	1,809,498	(137,285)	63,998,660
Total bonds	148,827,698	7,687,232	(233,581)	156,281,349
Preferred stocks	796,714	-	(30,656)	766,058
Common stocks and mutual funds	13,409,355	3,230,905	-	16,640,260
	\$ 163,033,767	\$ 10,918,137	\$ (264,237)	\$ 173,687,667
<u>2019</u>				
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

The statement value of bonds was lower than cost by \$34,889 and \$167,522 at December 31, 2020 and 2019, respectively, due to unrealized losses on bonds rated 3 or lower under the valuation methods prescribed by the NAIC.

BADGER MUTUAL INSURANCE COMPANY
NOTES TO STATUTORY FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 2 ~ Investments (Continued)

The amortized cost and fair value of bonds at December 31, 2020, 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	\$ 6,098,731	\$ 6,137,641
Due after one year through five years	47,771,291	50,798,518
Due after five years through ten years	44,894,714	47,683,639
Due after ten years	50,062,962	51,661,551
	\$ 148,827,698	\$ 156,281,349

At December 31, 2020 and 2019, bonds with an admitted asset value of \$1,848,170 and \$2,840,733, 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, 2020 and 2019:

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2020						
U.S. Government	\$ 1,872,813	\$ (22,519)	\$ -	\$ -	\$ 1,872,813	\$ (22,519)
Special revenue and assessment obligations	375,766	(1,346)	1,997,866	(2,134)	2,373,632	(3,480)
Industrial and miscellaneous	4,599,341	(70,297)	-	-	4,599,341	(70,297)
Loan-backed securities	8,311,091	(83,963)	6,195,675	(53,322)	14,506,766	(137,285)
Preferred stocks	-	-	379,447	(30,656)	379,447	(30,656)
	\$ 15,159,011	\$ (178,125)	\$ 8,572,988	\$ (86,112)	\$ 23,731,999	\$ (264,237)

BADGER MUTUAL INSURANCE COMPANY
NOTES TO STATUTORY FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 2 ~ Investments (Continued)

	<u>Less than 12 months</u>		<u>12 months or longer</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
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)
	<u>\$ 14,577,759</u>	<u>\$ (190,671)</u>	<u>\$ 38,629,190</u>	<u>\$ (395,883)</u>	<u>\$ 53,206,949</u>	<u>\$ (586,554)</u>

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

	<u>2020</u>	<u>2019</u>
Gains on disposals	\$ 2,660,774	\$ 1,129,441
Losses on disposals	(163,886)	(244,550)
Net gains on disposals of securities	2,496,888	884,891
Gain on sale of home office building	1,658,836	-
Total capital gains	4,155,724	884,891
Federal income tax expense	(872,702)	(185,827)
Net realized capital gains	<u>\$ 3,283,022</u>	<u>\$ 699,064</u>

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 funds and exchange-traded funds that have daily quoted net asset values.

BADGER MUTUAL INSURANCE COMPANY
NOTES TO STATUTORY FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 2 ~ Investments (Continued)

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.

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>December 31, 2020</u>				
Bonds	\$ -	\$ 1,378,292	\$ -	\$ 1,378,292
Common stocks and mutual funds	<u>16,640,260</u>	<u>-</u>	<u>-</u>	<u>16,640,260</u>
	<u>\$ 16,640,260</u>	<u>\$ 1,378,292</u>	<u>\$ -</u>	<u>\$ 18,018,552</u>
<u>December 31, 2019</u>				
Bonds	\$ -	\$ 2,368,406	\$ -	\$ 2,368,406
Common stocks and mutual funds	<u>11,226,801</u>	<u>-</u>	<u>-</u>	<u>11,226,801</u>
	<u>\$ 11,226,801</u>	<u>\$ 2,368,406</u>	<u>\$ -</u>	<u>\$ 13,595,207</u>

All Financial Instruments

<u>Type of Financial Instrument</u>	<u>Aggregate Fair Value</u>	<u>Admitted Assets</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value Not Practicable*</u>
<u>December 31, 2020</u>						
Bonds	\$ 156,281,349	\$ 148,792,809	\$ 8,027,891	\$ 148,253,458	\$ -	\$ -
Common stocks and mutual funds	16,640,260	16,640,260	16,640,260	-	-	-
Preferred stocks	766,058	796,714	-	766,058	-	-

BADGER MUTUAL INSURANCE COMPANY
NOTES TO STATUTORY FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 2 ~ Investments (Continued)

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	\$ -	\$ -
Common stocks and mutual funds	11,226,801	11,226,801	11,226,801	-	-	-
Preferred stocks	329,217	387,521	-	329,217	-	-
Mortgage loans	1,504,272	1,504,272	-	-	-	1,504,272

*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, 2020 and 2019.

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, 2020 and 2019, is summarized as follows (000's omitted):

	<u>2020</u>	<u>2019</u>
Balance, beginning of year	\$ 68,327	\$ 64,177
Less reinsurance recoverable	10,331	7,213
Net balance at January 1	<u>57,996</u>	<u>56,964</u>
Incurred related to:		
Current year	71,541	73,110
Prior years	<u>(1,642)</u>	<u>(2,585)</u>
Total incurred	<u>69,899</u>	<u>70,525</u>
Paid related to:		
Current year	43,448	45,468
Prior years	<u>23,376</u>	<u>24,025</u>
Total paid	<u>66,824</u>	<u>69,493</u>
Net balance at December 31	61,071	57,996
Plus reinsurance recoverable	<u>13,423</u>	<u>10,331</u>
Balance, end of year	<u>\$ 74,494</u>	<u>\$ 68,327</u>

Note 3 ~ Liabilities for Unpaid Losses and Unpaid Loss Adjustment Expenses (Continued)

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 \$1,642,000 and \$2,585,000 in 2020 and 2019, respectively, 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 \$4,626,000 and \$4,218,000 at December 31, 2020 and 2019, 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, 2020 and 2019, from certain liabilities for these reinsurance agreements, were as follows:

	2020	2019
Unpaid losses	\$ 13,423,106	\$ 10,330,978
Unearned premiums	5,380,465	6,442,672

In 2020 and 2019, 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 \$45 million per loss event in 2020 and \$40 million per loss event in 2019.

The Company entered into a quota share reinsurance contract whereby a percentage (20 percent of 2019 and most of 2020, with the percentage dropping to 15 percent effective December 31, 2020) 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 \$1,930,566 (\$1,602,227 from the quota share contract) as of December 31, 2020, 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.

BADGER MUTUAL INSURANCE COMPANY
NOTES TO STATUTORY FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 4 ~ Reinsurance (Continued)

Unsecured Reinsurance Recoverable. At December 31, 2020, 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.	\$ 5,039,000
Regional Treaty Service Facility	3,531,000
Hannover Ruck SE	2,705,000

Note 5 ~ Income Taxes

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

	2020	2019
Computed expected federal income tax expense	\$ 2,012,430	\$ 571,885
Increase (decrease) in federal income tax expense resulting from:		
Discounting of unpaid losses and loss adjustment expenses	77,464	58,973
Unearned and advance premium adjustment	137,453	173,029
Dividends received deduction	(30,628)	(27,561)
Employee benefits	(110,029)	(36,041)
Net operating loss carryforward	-	(697,981)
Alternative minimum tax (AMT)	-	(332,587)
Charitable contributions	(162,461)	30,341
Corporate owned life insurance	(114,965)	(108,271)
Other – net	(207,479)	122,272
Federal income tax expense (benefit)	1,601,785	(245,941)
Less tax subtracted from realized capital gains	(872,702)	(185,827)
Federal and foreign income tax expense (benefit) per Statutory Statements of Income	\$ 729,083	\$ (431,768)

BADGER MUTUAL INSURANCE COMPANY
NOTES TO STATUTORY FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 5 ~ Income Taxes (Continued)

The components of the net deferred tax asset (liability) at December 31, 2020 and 2019, were as follows:

	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
<u>2020</u>			
Gross deferred tax assets	\$ 4,690,526	\$ -	\$ 4,690,526
Statutory valuation allowance	-	-	-
	<u>4,690,526</u>	<u>-</u>	<u>4,690,526</u>
Deferred tax asset nonadmitted	<u>(455,971)</u>	<u>-</u>	<u>(455,971)</u>
	4,234,555	-	4,234,555
Deferred tax liabilities	<u>(205,017)</u>	<u>(720,755)</u>	<u>(925,772)</u>
	<u>\$ 4,029,538</u>	<u>\$ (720,755)</u>	<u>\$ 3,308,783</u>
<u>2019</u>			
Gross deferred tax assets	\$ 4,713,984	\$ -	\$ 4,713,984
Statutory valuation allowance	-	-	-
	<u>4,713,984</u>	<u>-</u>	<u>4,713,984</u>
Deferred tax asset nonadmitted	<u>(513,070)</u>	<u>-</u>	<u>(513,070)</u>
	4,200,914	-	4,200,914
Deferred tax liabilities	<u>(304,094)</u>	<u>(475,462)</u>	<u>(779,556)</u>
	<u>\$ 3,896,820</u>	<u>\$ (475,462)</u>	<u>\$ 3,421,358</u>

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)*:

	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
<u>2020</u>			
11a. Ability to recover taxes paid in prior years	\$ 1,857,633	\$ -	\$ 1,857,633
11b. Expected to be realized, after application of threshold limitations	1,451,150	-	1,451,150
11c. Offset of deferred tax liabilities	<u>925,772</u>	<u>-</u>	<u>925,772</u>
	<u>\$ 4,234,555</u>	<u>\$ -</u>	<u>\$ 4,234,555</u>
<u>2019</u>			
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	<u>779,556</u>	<u>-</u>	<u>779,556</u>
	<u>\$ 4,200,914</u>	<u>\$ -</u>	<u>\$ 4,200,914</u>

BADGER MUTUAL INSURANCE COMPANY
NOTES TO STATUTORY FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 5 ~ Income Taxes (Continued)

	2020	2019
Ratio Used to Determine Recovery Period and Threshold		
Limitation amount under paragraph 11b	797%	756%
Amount of Adjusted Capital and Surplus Used To Determine		
Recovery Period and Threshold Limitation under paragraph 11b	\$ 75,833,075	\$ 69,823,733

The major components of current income taxes incurred and net deferred tax assets as of December 31, 2020 and 2019, were as follows:

	2020	2019	Change
Current income tax (benefit):			
Federal and foreign	\$ 729,083	\$ (431,768)	\$ 1,160,851
Federal income tax on net capital gains	872,702	185,827	686,875
Federal and foreign income tax expense (benefit)	1,601,785	(245,941)	1,847,726
Deferred tax assets:			
Unpaid loss and loss adjustment expense	724,157	727,114	(2,957)
Unearned premiums	2,159,442	1,942,403	217,039
AMT credit carryforward	-	245,939	(245,939)
Pension accrual	1,581,826	1,436,642	145,184
Other	225,101	361,886	(136,785)
Total deferred tax assets	4,690,526	4,713,984	(23,458)
Nonadmitted deferred tax assets	(455,971)	(513,070)	(57,099)
Total admitted deferred tax assets	4,234,555	4,200,914	33,641
Deferred tax liabilities:			
Net unrealized capital gains	(720,755)	(475,462)	(245,293)
Other	(205,017)	(304,094)	99,077
Total deferred tax liabilities	(925,772)	(779,556)	(146,216)
Net deferred tax assets	\$ 3,308,783	\$ 3,421,358	\$ (112,575)

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:

	2020	2019
Change in net unrealized capital gains (losses), net of tax	\$ (203,187)	\$ (322,253)
Change in net deferred income tax	33,513	(747,885)
Change in nonadmitted assets	57,099	312,464
Change in net deferred tax assets	\$ (112,575)	\$ (757,674)

BADGER MUTUAL INSURANCE COMPANY
NOTES TO STATUTORY FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 5 ~ Income Taxes (Continued)

Federal income taxes which would be available for recoupment in the event of future tax losses are approximately \$1,860,000 and \$0 for 2020 and 2019, respectively.

All net operating loss carryforwards and AMT credit carryforwards were fully utilized in 2019.

The Company also pays Wisconsin franchise taxes at a rate of 7.9 percent of Wisconsin taxable income. The Company incurred approximately \$334,000 and \$145,000 of Wisconsin state income taxes for the years ended December 31, 2020 and 2019, respectively. Illinois state income taxes were \$50,000 and \$0 for the years ended December 31, 2020 and 2019, respectively.

As of December 31, 2020, 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.

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:

	2020	2019
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 19,138,053	\$ 17,495,173
Interest cost	599,146	717,777
Actuarial (gain) loss	1,626,858	1,997,862
Benefits paid	(1,007,635)	(1,072,759)
Benefit obligation at end of year	\$ 20,356,422	\$ 19,138,053
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 12,135,903	\$ 10,826,747
Actual return (loss) on assets	694,647	1,447,915
Employer contributions	791,000	934,000
Benefits paid	(1,007,635)	(1,072,759)
Fair value of plan assets at end of year	\$ 12,613,915	\$ 12,135,903

BADGER MUTUAL INSURANCE COMPANY
NOTES TO STATUTORY FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 6 ~ Employee Benefit Plans (Continued)

	2020	2019
Amounts recognized in the statutory balance sheets:		
Accrued benefit costs	\$ -	\$ -
Liability for pension benefits	7,742,507	7,002,150
Total liabilities recognized	\$ 7,742,507	\$ 7,002,150

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

	2020	2019
Interest cost	\$ 599,146	\$ 717,777
Expected return on plan assets	(835,091)	(746,586)
Recognition of net loss	555,537	507,478
Net periodic pension cost	\$ 319,592	\$ 478,669

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

	2020	2019
Weighted-average assumptions used to determine net periodic pension cost for the years ended Dec 31:		
Discount rate	3.22%	4.22%
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	2.52%	3.22%
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:

	2020	2019
Equity securities	64.0%	43.0%
Debt securities	34.0	42.0
Real estate (via mutual funds)	0.0	5.0
Other (cash and cash equivalents and annuity contract)	2.0	10.0
Total plan assets	100.0%	100.0%

BADGER MUTUAL INSURANCE COMPANY
NOTES TO STATUTORY FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 6 ~ Employee Benefit Plans (Continued)

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. The Company targets approximately 70 percent of plan assets to be invested in equity securities. The fair value of plan assets is based on quoted fund values.

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
<u>2020</u>				
Mutual and exchange-traded funds	\$ 12,311,326	\$ -	\$ -	\$ 12,311,326
Money market	302,589	-	-	302,589
Total assets at fair value	\$ 12,613,915	\$ -	\$ -	\$ 12,613,915
<u>2019</u>				
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

The following benefit payments are expected to be paid:

2021	\$	1,041,911
2022		1,028,150
2023		1,014,269
2024		1,046,971
2025		1,032,488
2026-2030		5,011,933

BADGER MUTUAL INSURANCE COMPANY
NOTES TO STATUTORY FINANCIAL STATEMENTS

December 31, 2020 and 2019

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 75 percent and 50 percent of employee contributions limited to a 10 percent contribution for 2020 and 2019, respectively. Matching contributions of \$498,454 were accrued as of December 31, 2020. Matching contributions of \$306,875 were accrued as of December 31, 2019.

As of December 31, 2020 and 2019, the Company had accrued \$114,276 and \$120,326, 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, 2020, 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:

	<u>2020</u>	<u>2019</u>
Net unrealized capital gains, not including related deferred taxes	\$ 3,177,683	\$ 2,264,105
Nonadmitted assets	(5,177,698)	(2,775,904)

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 2020 and 2019 was \$588,679 and \$0, respectively.

At December 31, 2020, the future minimum aggregate rental commitments are as follows:

2021	\$ 531,410
2022	547,755
2023	564,631
2024	582,057
2025	600,050
2026-2029	3,757,254

**INDEPENDENT AUDITOR'S REPORT
ON THE SUPPLEMENTARY INFORMATION**

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

Our audit was conducted 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 6, 2021

BADGER MUTUAL INSURANCE COMPANY
INVESTMENT RISKS INTERROGATORIES
December 31, 2020

1. Reporting entity's total admitted assets as reported on page two of the annual statement.

\$ 209,247,628

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	\$ 12,275,280	5.9%
2.02 Freddie Mac	MBS, CMO	\$ 11,806,295	5.6%
2.03 Federal Agricultural Mortgage Corporation	Bonds	\$ 2,000,000	1.0%
2.04 State of Wisconsin	Municipal	\$ 1,923,043	0.9%
2.05 University of California	Municipal	\$ 1,475,317	0.7%
2.06 AbbVie Inc.	Bonds	\$ 1,168,430	0.6%
2.07 City of Suffolk, Virginia	Municipal	\$ 1,135,000	0.5%
2.08 GS Mortgage Securities Trust 2011-GC5	MBS	\$ 1,071,650	0.5%
2.09 The Walt Disney Company	Bonds	\$ 1,051,577	0.5%
2.10 Toyota Motor Credit Corporation	Bonds	\$ 1,015,070	0.5%

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	\$ 116,268,001	55.6%	3.07 P/RP – 1	\$	%
3.02 NAIC – 2	\$ 26,410,689	12.6%	3.08 P/RP – 2	\$ 788,103	0.4%
3.03 NAIC – 3	\$ 3,169,262	1.5%	3.09 P/RP – 3	\$	%
3.04 NAIC – 4	\$ 2,740,462	1.3%	3.10 P/RP – 4	\$ 8,611	0.0%
3.05 NAIC – 5	\$ 204,396	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

4.02 Total admitted assets held in foreign investments	\$ 7,930,193	3.8%
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.)

BADGER MUTUAL INSURANCE COMPANY

INVESTMENT RISKS INTERROGATORIES

December 31, 2020

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

5.01	Countries rated NAIC – 1	\$ 7,930,193	3.8%
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	\$ 1,479,747	0.7%
6.02	United Kingdom	\$ 1,285,003	0.6%

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		\$	%

BADGER MUTUAL INSURANCE COMPANY

INVESTMENT RISKS INTERROGATORIES

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

Issuer	NAIC Rating	Amount	Percent
10.01 Shell International Finance B.V.	1FE	\$ 999,122	0.5%
10.02 Rio Tinto Finance (USA) Limited	1FE	\$ 815,968	0.4%
10.03 BAE Systems plc	2FE	\$ 533,990	0.3%
10.04 Shire Acquisitions Investments Ireland Limited	2FE	\$ 524,972	0.3%
10.05 Credit Suisse Group AG	2FE	\$ 499,787	0.2%
10.06 Groupe BPCE	1FE	\$ 499,336	0.2%
10.07 Teva Pharmaceutical Finance Netherlands III B.V.	3FE	\$ 480,625	0.2%
10.08 Deutsche Bank Aktiengesellschaft	2FE	\$ 407,580	0.2%
10.09 Barclays Bank PLC	1FE	\$ 403,363	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 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 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 _____	\$ _____	_____ %

BADGER MUTUAL INSURANCE COMPANY

INVESTMENT RISKS INTERROGATORIES

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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 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 Vanguard Index Funds – Vanguard Total Stock Market ETF	\$ 5,408,462	2.6%
Professionally Managed Portfolios – Muzinich U.S. High Yield Corporate		
13.03 Bond Fund	\$ 4,115,381	2.0%
Professionally Managed Portfolios – Muzinich Income Floating Rate		
13.04 Fund	\$ 4,024,365	1.9%
13.05 Vanguard Whitehall Funds – Vanguard High Dividend Yield ETF	\$ 1,541,303	0.7%
13.06 Vanguard Tax-Managed Funds – Vanguard FTSE Developed Markets ETF	\$ 786,471	0.4%
Vanguard International Equity Index Funds – Vanguard FTSE Emerging		
13.07 Markets ETF	\$ 764,278	0.4%
13.08 Amg Capital Trust II	\$ 410,103	0.2%
13.09 Stanley Black & Decker, Inc.	\$ 378,000	0.2%
13.10 Braemar Hotels & Resorts, Inc.	\$ 8,611	0.0%
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 No

(If response to 14.01 above is yes, responses are not required for 14.02 through 14.05.)

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 _____	\$ _____	%

BADGER MUTUAL INSURANCE COMPANY
INVESTMENT RISKS INTERROGATORIES
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Ten Largest Fund Managers:

	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
	Fund Manager	Total Invested	Diversified	Non-Diversified
14.06	Vanguard Index Funds – Vanguard Total Stock Market ETF	\$ 5,408,462	\$ 5,408,462	\$
14.07	Professionally Managed Portfolios – Muzinich U.S. High Yield Corporate Bond Fund	\$ 4,115,381	\$ 4,115,381	\$
14.08	Professionally Managed Portfolios – Muzinich Income Floating Rate Fund	\$ 4,024,365	\$ 4,024,365	\$
14.09	First American Funds, Inc. – Treasury Obligations Fund	\$ 1,700,464	\$ 1,700,464	\$
14.10	Vanguard Whitehall Funds – Vanguard High Dividend Yield ETF	\$ 1,541,303	\$ 1,541,303	\$
14.11	Vanguard Tax-Managed Funds – Vanguard FTSE Developed Markets ETF	\$ 786,471	\$ 786,471	\$
14.12	Vanguard International Equity Index Funds – Vanguard FTSE Emerging Markets ETF	\$ 764,278	\$ 764,278	\$
14.13		\$	\$	\$
14.14		\$	\$	\$
14.15		\$	\$	\$

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 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 No
(If response to 16.01 above is yes, responses are not required for the remainder of Interrogatories 16 and 17.)

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INVESTMENT RISKS INTERROGATORIES

December 31, 2020

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:

	<u>Loan-to-Value</u>	<u>Residential</u>	<u>Commercial</u>	<u>Agricultural</u>
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 No

(If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.)

BADGER MUTUAL INSURANCE COMPANY

INVESTMENT RISKS INTERROGATORIES

December 31, 2020

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 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		
			1 st Qtr	2 nd Qtr	3 rd 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	\$ _____	_____ %	\$ _____	_____ %

BADGER MUTUAL INSURANCE COMPANY
INVESTMENT RISKS INTERROGATORIES
December 31, 2020

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		
			1 st Qtr	2 nd Qtr	3 rd 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		
			1 st Qtr	2 nd Qtr	3 rd Qtr
23.01 Hedging	\$ _____	% _____	\$ _____	\$ _____	\$ _____
23.02 Income generation	\$ _____	% _____	\$ _____	\$ _____	\$ _____
23.03 Replications	\$ _____	% _____	\$ _____	\$ _____	\$ _____
23.04 Other	\$ _____	% _____	\$ _____	\$ _____	\$ _____

BADGER MUTUAL INSURANCE COMPANY
SUMMARY INVESTMENT SCHEDULE

December 31, 2020

	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	\$ 13,287,195	7.517%	\$ 13,287,195	7.517%
1.02 All Other Governments	\$	%	\$	%
1.03 U.S. States, Territories and Possessions, etc. Guaranteed	\$ 902,826	0.511%	\$ 902,826	0.511%
1.04 U.S. Political Subdivisions of States, Territories and Possessions, Guaranteed	\$ 5,841,767	3.305%	\$ 5,841,767	3.305%
1.05 U.S. Special Revenue and Special Assessment Obligations, etc. Non-Guaranteed	\$ 35,615,993	20.150%	\$ 35,615,993	20.150%
1.06 Industrial and Miscellaneous	\$ 92,768,993	52.486%	\$ 92,768,993	52.486%
1.07 Hybrid Securities	\$ 376,035	0.213%	\$ 376,035	0.213%
1.08 Parent, Subsidiaries and Affiliates	\$	%	\$	%
1.09 SVO Identified Funds	\$	%	\$	%
1.10 Bank Loans	\$	%	\$	%
1.11 Total Long-Term Bonds	<u>\$ 148,792,809</u>	<u>84.182%</u>	<u>\$ 148,792,809</u>	<u>84.182%</u>
2. Preferred Stocks (Schedule D, Part 2, Section 1):				
2.01 Industrial and Miscellaneous (Unaffiliated)	\$ 796,714	0.451%	\$ 796,714	0.451%
2.02 Parent, Subsidiaries and Affiliates	\$	%	\$	%
2.03 Total Preferred Stocks	<u>\$ 796,714</u>	<u>0.451%</u>	<u>\$ 796,714</u>	<u>0.451%</u>
3. Common Stocks (Schedule D, Part 2, Section 2):				
3.01 Industrial and Miscellaneous Publicly Traded (Unaffiliated)	\$	%	\$	%
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	\$ 16,640,260	9.415%	\$ 16,640,260	9.415%
3.06 Unit Investment Trusts	\$	%	\$	%
3.07 Closed-end Funds	\$	%	\$	%
3.08 Total Common Stocks	<u>\$ 16,640,260</u>	<u>9.415%</u>	<u>\$ 16,640,260</u>	<u>9.415%</u>
4. Mortgage Loans (Schedule B):				
4.01 Farm Mortgages	\$	%	\$	%
4.02 Residential Mortgages	\$	%	\$	%
4.03 Commercial Mortgages	\$	%	\$	%
4.04 Mezzanine Real Estate Loans	\$	%	\$	%
4.05 Total Valuation Allowance	\$	%	\$	%
4.06 Total Mortgage Loans	<u>\$</u>	<u>%</u>	<u>\$</u>	<u>%</u>

BADGER MUTUAL INSURANCE COMPANY
SUMMARY INVESTMENT SCHEDULE

December 31, 2020

	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	\$	%	\$	%
5.02 Properties Held for Production of Income	\$ 3,889,940	2.201%	\$ 3,889,940	2.201%
5.03 Properties Held for Sale	\$	%	\$	%
5.04 Total Real Estate	<u>\$ 3,889,940</u>	<u>2.201%</u>	<u>\$ 3,889,940</u>	<u>2.201%</u>
6. Cash, Cash Equivalents and Short-Term Investments:				
6.01 Cash (Schedule E, Part 1)	\$ 4,429,258	2.506%	\$ 4,429,258	2.506%
6.02 Cash Equivalents (Schedule E, Part 2)	\$ 1,700,464	0.962%	\$ 1,700,464	0.962%
6.03 Short-Term Investments (Schedule DA)	\$	%	\$	%
6.04 Total Cash, Cash Equivalents and Short-Term Investments	<u>\$ 6,129,722</u>	<u>3.468%</u>	<u>\$ 6,129,722</u>	<u>3.468%</u>
7. Contract Loans	\$	%	\$	%
8. Derivatives (Schedule DB)	\$	%	\$	%
9. Other Invested Assets (Schedule BA)	\$	%	\$	%
10. Receivables for Securities	\$ 500,830	0.283%	\$ 500,830	0.283%
11. Securities Lending (Schedule DL, Part 1)	\$	%	\$	%
12. Other Invested Assets	\$	%	\$	%
13. Total Invested Assets	<u>\$ 176,750,275</u>	<u>100.000%</u>	<u>\$ 176,750,275</u>	<u>100.000%</u>

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

BADGER MUTUAL INSURANCE COMPANY
REQUIRED REINSURANCE INTERROGATORIES

December 31, 2020

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 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

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

BADGER MUTUAL INSURANCE COMPANY
REQUIRED REINSURANCE INTERROGATORIES

December 31, 2020

- 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