CM INDEMNITY
INSURANCE COMPANY

Statutory Financial Statements
and Supplemental Schedules
(With Independent Auditors' Report Thereon)
December 31, 2019 and 2018

CM INDEMNITY INSURANCE COMPANY

December 31, 2019 and 2018

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KPMG LLP
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Independent Auditors' Report

The Board of Directors
CM Indemnity Insurance Company:

We have audited the accompanying financial statements of CM Indemnity Insurance Company, which comprise the statutory statements of admitted assets, liabilities, capital stock and surplus as of December 31, 2019 and 2018, and the related statutory statements of operations, changes in capital stock and surplus, and cash flow for the year ended December 31, 2019 and for the period from September 14, 2018 to December 31, 2018, and the related notes to the statutory financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with statutory 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.

Auditors' 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 audit 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 auditors' 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 entity'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 entity'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 CM Indemnity Insurance Company using statutory 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 U.S. generally accepted accounting principles. Accordingly, the financial statements are not intended to be presented in accordance with U.S. generally accepted accounting principles.

The effects on the financial statements of the variances between the statutory accounting practices described in note 1 and U.S. generally accepted accounting principles, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the variances between statutory accounting practices and U.S. generally accepted accounting principles 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 U.S. generally accepted accounting principles, the financial position of CM Indemnity Insurance Company as of December 31, 2019 and 2018, or the results of its operations or its cash flows for the year ended December 31, 2019 and for the period from September 14, 2018 to December 31, 2018.

Opinion on Statutory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and surplus of CM Indemnity Insurance Company as of December 31, 2019 and 2018, and the results of its operations and its cash flow for the year ended December 31, 2019 and for the period from September 14, 2018 to December 31, 2018, in accordance with statutory accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin described in note 1.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included in the Supplemental Investment Risks Interrogatories, Summary Investment Schedule, and Supplemental Schedule of Reinsurance Risk Interrogatories is presented for purposes of additional analysis and is not a required part of the financial statements but is supplementary information required by the Office of the Commissioner of Insurance of the State of Wisconsin. Such 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. The information has been subjected to the auditing procedures applied in the audits of the 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 financial statements as a whole.

KPMG LLP

Milwaukee, Wisconsin
May 18, 2020

CM INDEMNITY INSURANCE COMPANY

Statutory Statements of Admitted Assets, Liabilities, Capital Stock and Surplus

December 31, 2019 and 2018

(Dollars in thousands)

Admitted Assets	**2019**	**2018**
Cash and invested assets:		
Bonds	$ 19,896	$ 107
Cash, cash equivalents, and short-term investments	543	19,990
Total cash and invested assets	20,439	20,097
Other assets:		
Accrued interest and dividends	100	—
Total other assets	100	—
Total admitted assets	$ 20,539	$ 20,097

Liabilities, Capital Stock and Surplus	**2019**	**2018**
Liabilities:		
Payable to parent	$ 20	$ —
Federal income taxes payable	93	20
Total liabilities	113	20
Capital stock and surplus:		
Common capital stock, $200 par value. Authorized, 5,000,000 shares; issued and outstanding, 13,000 shares	2,600	2,600
Paid-in surplus	17,400	17,400
Unassigned surplus	426	77
Total capital stock and surplus	20,426	20,077
Total liabilities, capital stock, and surplus	$ 20,539	$ 20,097

See accompanying notes to statutory financial statements.

CM INDEMNITY INSURANCE COMPANY

Statutory Statements of Operations

Year ended December 31, 2019 and period from September 14, 2018 to December 31, 2018

(Dollars in thousands)

	2019	2018
Investment and other income:		
Interest	$ 450	$ 97
Investment expenses	(8)	—
Net investment and other income	442	97
Income before dividends to policyholders and federal income tax expense	442	97
Dividends to policyholders	—	—
Income before federal income tax expense	442	97
Federal income tax expense	93	20
Net income	$ 349	$ 77

See accompanying notes to statutory financial statements.

CM INDEMNITY INSURANCE COMPANY

Statutory Statements of Changes in Capital Stock and Surplus

Year ended December 31, 2019 and period from September 14, 2018 to December 31, 2018

(Dollars in thousands)

	Common Capital Stock	Paid-In Surplus	Unassigned Surplus	Total
September 14, 2018	$ —	$ —	$ —	$ —
Issuance of common capital stock	2,600	(2,600)	—	—
Capital contribution	—	20,000	—	20,000
Net income	—	—	77	77
Total capital stock and surplus – December 31, 2018	2,600	17,400	77	20,077
Net income	—	—	349	349
Total capital stock and surplus – December 31, 2019	$ 2,600	$ 17,400	$ 426	$ 20,426

See accompanying notes to statutory financial statements.

CM INDEMNITY INSURANCE COMPANY

Statutory Statements of Cash Flow

Year ended December 31, 2019 and period from September 14, 2018 to December 31, 2018

(Dollars in thousands)

	2019	2018
Cash flows from operations:		
Net investment income	$ 364	$ 97
Federal income taxes paid	(20)	—
Net cash provided by operations	344	97
Cash flows from investments:		
Proceeds from investments sold, matured, or repaid	189	—
Cost of investments acquired	(20,000)	(107)
Net cash used by investments	(19,811)	(107)
Cash flows from financing and miscellaneous sources:		
Capital contribution	—	20,000
Other	20	—
Net cash provided by financing and miscellaneous sources	20	20,000
Net change in cash, cash equivalents, and short-term investments	(19,447)	19,990
Cash, cash equivalents, and short-term investments:		
Beginning of period	19,990	—
End of period	$ 543	$ 19,990

See accompanying notes to statutory financial statements.

(1) NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Nature of Operations

CM Indemnity Insurance Company (the Company) is a wholly owned subsidiary of Church Mutual Insurance Company (CMIC), a mutual property and casualty insurance company domiciled in the State of Wisconsin. CMIC acquired 100% of American Sterling Insurance Company (ASIC) on September 14, 2018, under the laws of the States of California and Wisconsin. The name of the organization was subsequently changed in 2019. ASIC is now CM Indemnity Insurance Company. At the time of acquisition, the Company was a stock-based insurance company domiciled in the State of California that was liquidated and only a shell company with certificates of authority and no capital or surplus at the time of purchase, with 5,000,000 common shares authorized at $200 par value. The Company was recapitalized on September 14, 2018 through a $20,000 stock sale of 13,000 shares, issued and outstanding. The Company was redomiciled to the State of Wisconsin on January 1, 2019. The Company is a stock property and casualty company which has not commenced insurance operations as of December 31, 2019.

The Company has no employees of its own, does not own equipment, and has not entered into any long-term leases. It utilizes services provided by employees, equipment, and office space of its parent, CMIC, and has a services agreement in place. The Company also participates in an expense sharing agreement with CMIC and files a consolidated federal income tax return with CMIC and its other subsidiaries.

Based on the Company's capital levels at December 31, 2019, management is confident in the Company's ability to continue as a going concern.

(b) Summary of Significant Accounting Policies

The Office of the Commissioner of Insurance of the State of Wisconsin (the Commissioner of Insurance), requires insurance carriers domiciled in Wisconsin to prepare their statutory financial statements in accordance with the National Association of Insurance Commissioners' (NAIC) Accounting Practices and Procedures Manual, subject to certain deviations prescribed or permitted by the state of Wisconsin. The Company does not have any Wisconsin prescribed or permitted statutory accounting practices for 2019 or 2018 that deviate from the NAIC Statutory Accounting Principles (SAP).

The accounting treatment prescribed by SAP varies in some respects from U.S. generally accepted accounting principles (GAAP). The most significant differences between SAP and GAAP accounting are as follows:

- Investments in bonds are generally carried at amortized cost (except bonds with NAIC 3-6 ratings, which are carried at the lower of fair value or amortized cost), while under GAAP, such bonds are designated at purchase as held-to-maturity, available-for-sale, or trading. Held-to-maturity investments are reported at amortized cost. Available-for-sale investments are reported at fair value with unrealized gains and losses reported as a separate component of stockholder's equity, net of applicable deferred income taxes. Trading investments are reported at fair value with unrealized gains and losses reported in operations.
- For loan backed and structured securities only, the determination of other than temporary impairment includes a review of the recovery of the carrying value of the security based on the estimated present value of the security's

projected future cash flows, exclusive of the Company's intent to retain the security. If the security is considered to be other than temporarily impaired, a realized loss is recognized for the noninterest related decline. For bonds, the Company considers the size and duration of the excess of carrying value over fair value and the likelihood and expected timing of a recovery in value along with the credit quality of the bond issuer. If the bond is determined to be other than temporarily impaired, the Company writes the carrying value down to the fair value and recognizes a realized loss. Under GAAP, other than temporary impairments for all debt securities where the Company does not have intent to sell, or it is more likely than not that the Company will be required to sell prior to recovery, a realized loss is recognized for the noninterest related decline while an unrealized loss is recognized for the interest related decline.

- Cash, cash equivalents, and short-term investments in the statements of cash flow represent cash, cash equivalent, and short-term investment balances with initial maturities of one year or less and are prepared according to a prescribed format for statutory accounting. Under GAAP, the corresponding caption of cash and cash equivalents would include cash balances and investments with initial maturities of three months or less.

The aggregate effect of the foregoing differences has not been determined, although such effects are presumed to be material, as would be expected when comparing SAP to GAAP.

(c) Use of Estimates

The preparation of statutory financial statements in accordance with SAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statutory financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Company's other than temporarily impaired evaluation of a particular investment includes management making assumptions and estimates about future earnings potential and operations of the issuer. Management considers such factors when evaluating whether a decline in fair value is other than temporary such as (1) the Company's ability and intent to retain the investment for a period of time sufficient to allow for an anticipated recovery in value; (2) the recoverability of principal and interest; (3) the duration and extent to which the fair value has been less than the statement value; (4) the financial condition of the issuer along with future prospects, including relevant industry conditions and trends and rating agency implications; and (5) the specific reasons that a security is in a significant unrealized loss position, including market conditions, which could affect access to liquidity.

For income tax balances, management utilizes external tax accounting experts and management's reasoned expectations of future events.

It is reasonably possible that expectations associated with the above assumptions and estimates can change. Such changes are generally recorded in the statutory statements of operations in the period of the change.

(d) Investments

Bonds are stated at values as prescribed by the NAIC, as follows:

Bonds, excluding loan backed and structured securities, are generally stated at amortized cost using the scientific interest method. Loan backed and structured securities are generally stated at either amortized cost, including anticipated prepayments, or the lower of amortized cost or the present value of estimated future cash flows. Prepayment assumptions are obtained from external sources based on historical trends. The retrospective adjustment method is used to value all securities except for interest only securities or securities where the yield has become negative; those securities are valued using the prospective method. The fair value of bonds is determined based on values determined by an independent pricing service, which management reviews for reasonableness.

The Company analyzes its investment portfolio holdings for other than temporary impairments. For loan backed and structured securities where the Company has not recorded other than temporary impairments as a realized loss, the Company has the ability and intent to hold the securities to maturity or recovery. Additionally, for loan backed and structured securities, the Company expects to recover the carrying value of the security from the estimated present value of the security’s projected future cash flows. For bonds that are not loan backed or structured securities, management looks at a number of factors to determine if the investment is other than temporarily impaired including the Company’s ability and intent to retain the investment for a period of time sufficient to allow for an anticipated recovery in value; the recoverability of principal and interest; the duration and extent to which the fair value has been less than the statement value; the financial condition of the issuer along with future prospects, including relevant industry conditions and trends and rating agency implications; the specific reasons that a security is in a significant unrealized loss position, including market conditions, which could affect access to liquidity; and objective evidence that it will recover in a reasonable period of time. The Company did not recognize any other than temporary impairment for its investments during 2019 or 2018.

Investment income consists primarily of interest, recognized on an accrual basis. Interest income on mortgage- and asset-backed securities is determined using the effective yield method based on estimated principal repayments.

(e) Income Taxes

Income taxes are accounted for under the asset and liability method. Tax planning strategies designed to recognize the benefits afforded under the tax law that (a) are prudent and feasible, (b) are taken to prevent an operating loss or tax credit carryforward from expiring unused, or (c) would result in realization of deferred tax assets, are considered in determining the statutory valuation allowance adjustment of the adjusted gross admitted assets and the realization of deferred tax assets. The Company has determined that there is no impact from tax planning strategies as there are no adjusted gross and net admitted deferred tax assets as of December 31, 2019 or 2018.

(Dollars in thousands)

(2) INVESTMENTS

The Company monitors its investment exposure by investing its funds in accordance with guidelines set by CMIC's Risk Management Committee. The carrying value, gross unrealized gains, gross unrealized losses, and fair value of bonds at December 31, 2019 and 2018 were as follows:

	2019			
	Carrying value	Gross unrealized gains	Gross unrealized losses	Fair value
Bonds:				
U.S. government				
and government agencies	$ 606	$ 5	$ —	$ 611
States and political subdivisions	1,945	6	(12)	1,939
Special revenue and special				
assessment obligations	6,981	17	(29)	6,969
Corporate	10,364	15	(7)	10,372
Total bonds	$ 19,896	$ 43	$ (48)	$ 19,891

	2018			
	Carrying value	Gross unrealized gains	Gross unrealized losses	Fair value
Bonds:				
U.S. government				
and government agencies	$ 107	$ 1	$ —	$ 108
States and political subdivisions	—	—	—	—
Special revenue and special				
assessment obligations	—	—	—	—
Corporate	—	—	—	—
Total bonds	$ 107	$ 1	$ —	$ 108

Included within the above tables are mortgage and asset backed securities with carrying values of approximately $10,044 and $0 as of December 31, 2019 and 2018, respectively, with approximately 52% and 0% classified as government agency securities at December 31, 2019 and 2018, respectively, and the remainder classified as nongovernment agency securities.

Securities with government guarantees are reflected within the U.S. government and government agencies and the special revenue and special assessment obligations above. Securities with government guarantees that are in an unrealized loss position have fair values of approximately $4,038 and $0 at December 31, 2019 and 2018, respectively. The remaining securities that are in an unrealized loss position are reflected in corporate bonds.

(Dollars in thousands)

Fair values for bonds are determined using market quotations from independent pricing services.

The risks inherent in reviewing the impairment of any investment include the risk that market results may differ from expectations; facts and circumstances may change in the future and differ from estimates and assumptions; or the Company may later decide to sell the security as a result of changes in circumstances.

The Company's bonds are subject to normal market fluctuations. The Company intends to hold them until they mature or recover in value. However, if the specific facts and circumstances surrounding a bond or the outlook for its industry sector change, the Company may sell the bond and realize a loss.

The following tables summarize, for all bonds in an unrealized loss position and deemed to be temporarily impaired at December 31, 2019 and 2018, the aggregate fair value and the gross unrealized loss by length of time such securities have been in an unrealized loss position:

	2019					
	Less than 12 months		12 months or longer		Total	
	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value
At December 31, 2019:						
Bonds:						
U.S. government and government agencies	$ —	$ —	$ —	$ —	$ —	$ —
States and political subdivisions	(12)	950	—	—	(12)	950
Special revenue and special assessment obligations	(29)	3,088	—	—	(29)	3,088
Corporate	(7)	3,518	—	—	(7)	3,518
Total temporarily impaired bonds	$ (48)	$ 7,556	$ —	$ —	$ (48)	$ 7,556

	2018					
	Less than 12 months		12 months or longer		Total	
	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value
At December 31, 2018:						
Bonds:						
U.S. government and government agencies	$ —	$ —	$ —	$ —	$ —	$ —
States and political subdivisions	—	—	—	—	—	—
Special revenue and special assessment obligations	—	—	—	—	—	—
Corporate	—	—	—	—	—	—
Total temporarily impaired bonds	$ —	$ —	$ —	$ —	$ —	$ —

There were no bonds with a NAIC rating of 3 or lower at December 31, 2019 or 2018.

The majority of the unrealized losses in the Company's bond investments were caused by interest rate increases.

The Company's evaluation of a particular security for other than temporary impairment includes management making assumptions and estimates about future earnings potential and operations of the issuer. Management considers several factors when evaluating whether a decline in fair value is other than temporary such as (1) the Company's ability and intent to retain the investment for a period of time sufficient to allow for an anticipated recovery in value; (2) the recoverability of principal and interest; (3) the duration and extent to which the fair value has been less than amortized cost for bonds; (4) the financial condition of the issuer along with future prospects, including relevant industry conditions and trends and rating agency implications; (5) the specific reasons that a security is in a significant unrealized` loss position, including market conditions, which could affect access to liquidity. Based on the evaluation of the fundamentals of the issuer's financial condition and other objective evidence, the issuer's continued satisfaction of the securities' obligations in accordance with their contractual terms and the expectation that they will continue to do so, and the Company's ability to hold these investments until a recovery of fair value, which may be maturity, no other than temporary impairment was recorded for the periods ended December 31, 2019 and 2018.

For mortgage and asset backed securities, management considers such factors as the Company's intent and ability to retain the security until its amortized cost is recovered and its ability to recover the entire amortized cost based on the present value of the security's cash flows, regardless of the intent and ability to retain. For specific holdings where the Company does not expect to recover the entire amortized cost, management performs cash flow analysis to determine whether other than temporary impairment has occurred. If the results of this cash flow modeling result in a negative yield (i.e., present value of expected future cash flows are less than amortized cost), an other than temporary impairment is recorded for the noninterest related decline, which is the difference between the security's amortized cost and the present value of cash flows expected to be collected. No other than temporary impairment on mortgage and asset backed securities was recognized for the periods ended December 31, 2019 and 2018. The Company continues to receive contractual principal and interest payments on all of its mortgage and asset backed securities. The Company does not hold any mortgage or asset backed securities in its December 31, 2019 portfolio that were other than temporarily impaired in prior years.

The Company has reviewed all loan backed and structured securities held as of December 31, 2019 and 2018 and believes that there are no noninterest related declines in which other than temporary impairment should have been recorded for the periods ended December 31, 2019 or 2018.

The table below sets forth the maturity aging schedule of bonds at December 31, 2019. The actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Dollars in thousands)

	Statement value	Fair value
Due in 1 year or less	$ —	$ —
Due after 1 year through 5 years	5,411	5,425
Due after 5 years through 10 years	3,097	3,081
Due after 10 years	1,344	1,329
Mortgage- and asset-backed securities	10,044	10,056
Total	$ 19,896	$ 19,891

Proceeds from sales of bonds during 2019 and 2018 were $189 and $0, respectively. Gross gains of $0 and $0 were realized in 2019 and 2018, respectively, relating to those sales. Gross losses of $0 and $0 were realized in 2019 and 2018, respectively, relating to those sales.

The Company does not invest directly in mortgages. Any mortgage exposure in the portfolio is through mortgage related securities. The Company has no direct investments in subprime mortgages as of December 31, 2019 and 2018. The Company defines subprime mortgage securities as residential mortgage securities that are not guaranteed by a government agency or government sponsored entity and which include meaningful exposure to residential mortgages with special risk factors such as lower rated borrowers, high loan to value ratios, or second liens. The only exposure the Company has through other mortgage backed investments is through commercial mortgage backed securities.

(3) FAIR VALUE MEASUREMENTS

Statutory accounting principles define the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Certain financial instruments and all nonfinancial instruments are excluded from statutory disclosure requirements.

The following methods and assumptions were used to estimate the fair value of each class of significant financial instrument for which it is practicable to estimate that value:

- Due to the relatively short-term nature of cash, cash equivalents, and short-term investments, accrued interest and dividends, accrued expenses and all other payables, the carrying value is a reasonable estimate of fair value.
- Bonds are valued primarily by using quoted prices.

	2019		2018	
	Statement value	Estimated fair value	Statement value	Estimated fair value
Financial instruments recorded as assets:				
Bonds	$ 19,896	$ 19,891	$ 107	$ 108
Cash and short-term investments	543	543	19,990	19,990

Certain financial instruments are periodically measured at fair value, such as when impaired or, for certain bonds, when carried at the lower of cost or fair value, based on the associated NAIC designation.

The fair value of an asset is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses a market approach and maximizes the use of observable inputs and minimizes the use of unobservable inputs.

For disclosure purposes, based on a hierarchy defined by the Statement of Statutory Accounting Principles (SSAP) No. 100R, *Fair Value*, the Company categorizes its financial instruments into a hierarchy based on the priority of the inputs to the valuation technique. The fair value hierarchy gives highest priority to quotes in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument in its entirety.

The Company categorizes financial assets and liabilities as follows:

Level 1 – Management's valuations are based on unadjusted quoted prices in active markets for identical, unrestricted assets. Since valuations are based on quoted prices that are readily available in an active market, valuation of these assets does not involve any meaningful degree of judgment. An active market is defined as a market where transactions for the financial instrument occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 inputs generally include U.S. government debt securities where management's valuations are based on quoted market prices.

Level 2 – Management's valuations are based on quoted market prices where such markets are not deemed to be sufficiently "active." In such circumstances, additional valuations metrics will be used, which involve direct or indirect observable market inputs. Level 2 inputs generally include debt securities other than debt issued by the U.S. government. Third party dealer quotes typically constitute a significant input in management's determination of the fair value of these types of bonds. In developing such quotes, dealers will use the terms of the security and market based inputs. Terms of the security include coupon, maturity date, and any special provision that may enable the investor to redeem the security prior to its maturity date. Market based inputs include the level of interest rates applicable to comparable securities in the market and current credit ratings of the security.

Level 3 – Management's valuations are based on inputs that are unobservable and significant to the overall fair value measurement. Valuations under Level 3 generally involve a significant degree of judgment on the part of management. The Company does not hold Level 3 assets as of December 31, 2019 and 2018.

(Dollars in thousands)

Assets and liabilities measured or disclosed at fair value as of December 31, 2019 and 2018 are as follows:

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
Assets:				
Bonds:				
U.S. government and government agencies	$ 611	$ —	$ —	$ 611
States and political subdivisions	—	1,939	—	1,939
Special revenue and special assessment obligations	—	6,969	—	6,969
Corporate	—	10,372	—	10,372
Total bonds	$ 611	$ 19,280	$ —	$ 19,891

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Assets:				
Bonds:				
U.S. government and government agencies	$ 108	$ —	$ —	$ 108
States and political subdivisions	—	—	—	—
Special revenue and special assessment obligations	—	—	—	—
Corporate	—	—	—	—
Total bonds	$ 108	$ —	$ —	$ 108

There were no transfers into or out of Level 3 for the period ended December 31, 2019 or 2018.

(4) RESERVE FOR LOSSES AND LAE

As the Company has not commenced business, it has zero liability for unpaid losses and LAE at December 31, 2019 or 2018.

(5) INCOME TAXES

The Company is a subsidiary in the consolidated federal income tax return of Church Mutual Insurance Company and subsidiaries. As the Company has not commenced business at December 31, 2019, the Company had no net operating loss and tax credit carryforwards.

The Company had investment income of $442 and $97 for the periods ended December 31, 2019 and 2018, respectively, and applied the federal statutory income tax rate of 21%, to arrive at a tax liability of $93 and $20.

(6) REINSURANCE ACTIVITY

The Company has not entered into any reinsurance agreements.

(7) CONTINGENCIES

As the Company has not commenced business, in the opinion of management, the ultimate liability of any unknown non-claim contingency, if any, will not have a material effect on the statutory financial condition of the Company.

(8) CAPITAL AND RISK-BASED CAPITAL

The Company is regulated by the state in which it is domiciled. Such regulations, among other things, limit the amount of dividends, impose restrictions on the amount and types of investments the Company may hold, and regulate rates insurers may charge for various products.

The NAIC has developed Property-Casualty Risk-Based Capital (RBC) standards that relate an insurer’s reported statutory capital and surplus to the risks inherent in its overall operations. The RBC formula uses the statutory annual statement to calculate the minimum indicated capital level to support asset risk (investment and credit) and underwriting risk (loss reserves, premiums written, and unearned premium). The NAIC model law calls for various levels of regulatory action based on the magnitude of an indicated RBC deficiency, if any. The Company has determined that its capital levels are in excess of the minimum capital requirements for all RBC action levels.

Dividends may not be paid to CMIC until 30 days after a written authorization by the Company’s board to the Commissioner of Insurance. Approval is not required, but the Commissioner of Insurance may deny the dividend within the 30-day period. Dividends are limited to the lesser of 10% of policyholder surplus as of the preceding December 31 or 100% of the Company’s total net income minus realized capital gains for the preceding calendar year.

(9) SUBSEQUENT EVENTS

The Company evaluated subsequent events through May 18, 2020, the date the accompanying statutory financial statements were available to be issued.

Effective January 1, 2020, the Company's parent, CMIC, restructured into a mutual holding company structure pursuant to Chapter 644 of the Wisconsin Insurance Code. CMIC will become a Wisconsin stock insurance company. All membership interests and rights in the surplus of CMIC will be extinguished and the members of CMIC will become members of Church Mutual Holding Company, Inc., with membership interests and rights in surplus of Church Mutual Holding Company, Inc. as provided pursuant to the Wisconsin Insurance Code and the articles of incorporation and bylaws of Church Mutual Holding Company, Inc. As part of the restructuring CMIC will transfer 100% of its shares in the Company to Church Mutual Holding Company, Inc.

Subsequent to December 31, 2019, equity and financial markets have experienced significant volatility and interest rates have continued to decline due to the COVID-19 pandemic. The Company and CMIC have adjusted certain aspects of their operations to protect their employees and customers while still meeting customers' needs for services. The Company will continue to monitor the situation closely and will implement further measures if necessary. In light of the uncertainty as to the length or severity of this pandemic, the Company cannot reasonably estimate the full impact of the pandemic on its operations and financial statements at this time. On March 27, 2020, H.R. 748, the Coronavirus Aid, Relief, and Economic Security Act, "the CARES ACT", was signed into legislation which includes tax provisions relevant to businesses that during 2020 could impact taxes related to 2018 and 2019. The Company is required to recognize the effect on the financial statements in the period the law was enacted, which is 2020. At this time, for 2018 and 2019, the Company does not expect the impact of the CARES ACT on the Company's financial position or results of operations to be material.

No other subsequent events were identified.

CM INDEMNITY INSURANCE COMPANY
Supplemental Investment Risks Interrogatories
December 31, 2019
(Dollars in thousands)

1. The Company’s total admitted assets as reported on page two of the Company’s Annual Statement for the year ended December 31, 2019 was $ 20,539

2. Ten largest exposures to a single issuer/borrower/investment (excluding U.S. government securities):

	Issuer		Amount	Percentage of total admitted assets
2.01	Federal National Mortgage Association	$	2,308	11.2
2.02	Federal Home Loan Mortgage Corporation		939	4.6
2.03	Federal Home Loan Mortgage Association		925	4.5
2.04	Capital One Multi-Asset Execution		901	4.4
2.05	Federal National Mortgage Association		706	3.4
2.06	Citibank CCIT		503	2.4
2.07	Chase Issuance TR SER		500	2.4
2.08	Discover Card Execution Note		461	2.2
2.09	American Express Credit Account Master		460	2.2
2.10	American Express Credit Services		450	2.2

3. The Company’s total admitted assets held in bonds and preferred stocks by NAIC rating at December 31, 2019 are:

	Bond and Preferred Stock NAIC rating		Amount	Percentage of total admitted assets
3.01	NAIC-1	$	20,241	98.5
3.02	NAIC-2		—	—
3.03	NAIC-3		—	—
3.04	NAIC-4		—	—
3.05	NAIC-5		—	—
3.06	NAIC-6		—	—
3.07	P/RP-1		—	—
3.08	P/RP-2		—	—
3.09	P/RP-3		—	—
3.10	P/RP-4		—	—
3.11	P/RP-5		—	—
3.12	P/RP-6		—	—

4. The Company’s total admitted assets in foreign investments are more than 2.5% of total admitted assets.

		Amount	Percentage
Total admitted assets held in foreign investments	$	1,251	6.1
Foreign-currency-denominated investments		—	—
Insurance liabilities denominated in that same foreign currency		—	—

5. The Company's total admitted assets in foreign investment exposure by NAIC sovereign designation are:

Foreign Investments by NAIC Sovereign Designation		Amount	Percentage of total admitted assets
Countries designated NAIC-1	$	—	—
Countries designated NAIC-2		—	—
Countries designated NAIC-3 or below		—	—

6. The Company's total admitted assets in foreign investment exposure by country, categorized by country's NAIC sovereign designation are:

Foreign Investments in Countries Designated NAIC-1		Amount	Percentage of total admitted assets
Country 1: United Kingdom	$	751	3.7
Country 2: Switzerland		250	1.2

7. The Company does not have an aggregate unhedged foreign currency exposure.
8. The Company does not have an aggregate unhedged foreign currency exposure.
9. The Company does not have an aggregate unhedged foreign currency exposure.
10. Ten largest nonsovereign (i.e., nongovernmental) foreign issues:

	Issuer		Amount	Percentage of total admitted assets
10.01	Reckitt Benckiser Treas Svcs	$	251	1.2
10.02	Lloyds Bank PLC SR		250	1.2
10.03	Credit Suisse First Boston SR NT		250	1.2
10.04	Diageo Cap PLC		250	1.2
10.05	DNB Bank ASA		250	1.2
10.06			—	—
10.07			—	—
10.08			—	—
10.09			—	—
10.10			—	—

11. The Company’s assets in Canadian investments are less than 2.5% of total admitted assets.
12. The Company’s assets held in investments with contractual sales restrictions are less than 2.5% of total admitted assets.

CM INDEMNITY INSURANCE COMPANY
Supplemental Investment Risks Interrogatories
December 31, 2019
(Dollars in thousands)

13 The Company’s assets held in equity investments are less than 2.5% of total admitted assets.

14. The Company’s assets held in nonaffiliated, privately placed equities are less than 2.5% of total admitted assets.

15. The Company’s assets held in general partnership interests are less than 2.5% of total admitted assets.

16. Mortgage loans reported in Schedule B are less than 2.5% of total admitted assets.

17. Due to the percentage of assets being less than 2.5% of total admitted assets, Question 17 is omitted.

18. The Company’s assets held in real estate reported are less than 2.5% of total admitted assets.

19. The Company does not have any investments in mezzanine real estate loans

20. The Company does not have any securities agreements or repurchase agreements.

21. The Company does not have any warrants attached to financial instruments, options, caps, or floors.

22. The Company does not have potential exposure for collars, swaps, or forwards.

23. The Company does not have any potential exposure for futures contracts.

See accompanying independent auditors’ report.

Schedule 2

CM INDEMNITY INSURANCE COMPANY

Summary Investment Schedule

December 31, 2019

(Dollars in thousands)

Investment categories	Gross investment holdings 1 Amount	Gross investment holdings 2 Percentage	Admitted assets as reported in the annual statement 3 Amount	Admitted assets as reported in the annual statement 4 Percentage
Long-Term Bonds				
U.S. governments	$ 606	2.965	$ 606	2.965
All other governments	—	—	—	—
U.S. states, territories and possesions, etc. guaranteed	482	2.358	482	2.358
U.S. political subdivisions of states, territories, and possessions, guaranteed	1,463	7.158	1,463	7.158
U.S. special revenue and special assessment obligations, etc. non-guaranteed	6,981	34.155	6,981	34.155
Industrial and miscellaneous	10,364	50.707	10,364	50.707
Hybrid securities	—	—	—	—
Parent, subsidiaries and affiliates	—	—	—	—
SVO identified funds	—	—	—	—
Unaffiliated bank loans	—	—	—	—
Total long-term bonds	19,896	97.343	19,896	97.343
Preferred stocks:				
Industrial and miscellaneous (Unaffiliated)	—	—	—	—
Parent, subsidiaries and affiliates	—	—	—	—
Total preferred stocks	—	—	—	—
Common stocks:				
Industrial and miscellaneous Publicly traded (Unaffiliated)	—	—	—	—
Industrial and miscellaneous Other (Unaffiliated)	—	—	—	—
Parent, subsidiaries and affiliates Publicly traded	—	—	—	—
Parent, subidiaries and affiliates Other	—	—	—	—
Mutual funds	—	—	—	—
Unit investment trusts	—	—	—	—
Closed-end funds	—	—	—	—
Total common stocks	—	—	—	—
Mortgage loans:				
Farm mortgages	—	—	—	—
Residential mortgages	—	—	—	—
Commercial mortgages	—	—	—	—
Mezzanine real estate loans	—	—	—	—
Total mortgage loans	—	—	—	—
Real estate:				
Properties occuped by company	—	—	—	—
Properties held for production of income	—	—	—	—
Properties held for sale	—	—	—	—
Total real estate	—	—	—	—
Cash, cash equivalents and short-term investments:				
Cash	196	0.959	196	0.959
Cash equivalents	347	1.698	347	1.698
Short-term investments	—	—	—	—
Total cash, cash equivalents and short-term investments	543	2.657	543	2.657
Contract loans	—	—	—	—
Other invested assets	—	—	—	—
Receivables for securities	—	—	—	—
The Company does not have a securities lending program	—	—	—	—
Total invested assets	$ 20,439	100	$ 20,439	100

See accompanying independent auditors' report.

CM INDEMNITY INSURANCE COMPANY

Supplemental Schedule of Reinsurance Risk Interrogatories

December 31, 2019

(Dollars in thousands)

(1) REINSURANCE INTERROGATORIES

1. Has the 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 cap, an aggregate limit or any similar provisions)? Yes [ ] No [X]

2. If yes, indicate the number of reinsurance contracts containing such provisions. 0

3. If yes, does the amount of reinsurance credit taken reflect the reduction in quota share coverage caused by any applicable limiting provision(s)? Yes [ ] No [ ]

4. 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) An unconditional or unilateral right by either party to commute the reinsurance contract except for such provisions which are only triggered by a decline in the credit status of the other party;

   e) A provision permitting reporting of 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]

CM INDEMNITY INSURANCE COMPANY

Supplemental Schedule of Reinsurance Risk Interrogatories

December 31, 2019

(Dollars in thousands)

5. 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), 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.

   Yes [ ] No [X]

6. If yes to 4 or 5, please provide the following information:

   a) The aggregate financial statement impact gross of all such ceded reinsurance contracts on the balance sheet and statement of income;

   b) A summary of the reinsurance contract terms and indicate whether it applies to the contracts meeting the criteria in 4 or 5; and

   c) A brief discussion of management's principle objectives in entering into the reinsurance contract including the economic purpose to be achieved.

7. 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]

8. If yes to 7, explain why the contract(s) is treated differently for GAAP and SAP. N/A

See accompanying independent auditors' report.