

**CM VANTAGE SPECIALTY
INSURANCE COMPANY**

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

CM VANTAGE SPECIALTY INSURANCE COMPANY

December 31, 2019 and 2018

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KPMG LLP
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Milwaukee, WI 53202-5337

Independent Auditors' Report

The Board of Directors
CM Vantage Specialty Insurance Company:

We have audited the accompanying financial statements of CM Vantage Specialty 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 years then ended, 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 Vantage Specialty 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 Vantage Specialty Insurance Company as of December 31, 2019 and 2018, or the results of its operations or its cash flows for the years then ended.

Opinion on 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 Vantage Specialty Insurance Company as of December 31, 2019 and 2018, and the results of its operations and its cash flow for the years then ended, 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 VANTAGE SPECIALTY 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	\$ 53,749	\$ 51,275
Cash, cash equivalents, and short-term investments	3,886	6,507
Total cash and invested assets	57,635	57,782
Other assets:		
Premiums and other receivables	7,155	5,307
Receivables from reinsurers	2,581	1,324
Net deferred tax asset	56	19
Accrued interest and dividends	246	255
Other	5	—
Total other assets	10,043	6,905
Total admitted assets	\$ 67,678	\$ 64,687
Liabilities, Capital Stock and Surplus		
	2019	2018
Liabilities:		
Ceded reinsurance premiums payable	\$ 4,579	\$ 3,274
Accrued expenses	1	1
Funds held under reinsurance treaties	5,000	5,000
Payable to parent	3,053	2,692
Federal income taxes payable	32	74
Other liabilities	46	26
Total liabilities	12,711	11,067
Capital stock and surplus:		
Common capital stock, \$1 par value. Authorized, 5,000 shares; issued and outstanding, 2,600 shares	3	3
Paid-in surplus	51,997	51,997
Unassigned surplus	2,967	1,620
Total capital stock and surplus	54,967	53,620
Total liabilities, capital stock, and surplus	\$ 67,678	\$ 64,687

See accompanying notes to statutory financial statements.

CM VANTAGE SPECIALTY INSURANCE COMPANY

Statutory Statements of Operations

Years ended December 31, 2019 and 2018

(Dollars in thousands)

	<u>2019</u>	<u>2018</u>
Investment and other income:		
Interest	\$ 1,566	\$ 1,382
Investment expenses	(50)	(63)
Net realized gain (loss) on sales of investments, net of tax expense (benefit) of \$89 and (\$90) in 2019 and 2018, respectively	337	(341)
Other	—	(25)
Net investment and other income	<u>1,853</u>	<u>953</u>
Income before dividends to policyholders and federal income tax expense	1,853	953
Dividends to policyholders	—	—
Income before federal income tax expense	<u>1,853</u>	<u>953</u>
Federal income tax expense	429	242
Net income	<u>\$ 1,424</u>	<u>\$ 711</u>

See accompanying notes to statutory financial statements.

CM VANTAGE SPECIALTY INSURANCE COMPANY
Statutory Statements of Changes in Capital Stock and Surplus
Years ended December 31, 2019 and 2018
(Dollars in thousands)

	Common Capital Stock	Paid-In Surplus	Unassigned Surplus	Total
January 1, 2018	\$ 3	51,997	1,164	\$ 53,164
Net income	—	—	711	711
Change in net deferred income tax	—	—	16	16
Change in provision for reinsurance	—	—	(22)	(22)
Change in nonadmitted assets	—	—	(249)	(249)
Total capital stock and surplus – December 31, 2018	<u>\$ 3</u>	<u>51,997</u>	<u>1,620</u>	<u>\$ 53,620</u>
Year ended December 31, 2019				
Net income	\$ —	—	1,424	\$ 1,424
Change in net deferred income taxes	—	—	120	120
Change in provision for reinsurance	—	—	(21)	(21)
Change in nonadmitted assets	—	—	(176)	(176)
Total capital stock and surplus – December 31, 2019	<u>\$ 3</u>	<u>51,997</u>	<u>2,967</u>	<u>\$ 54,967</u>

See accompanying notes to statutory financial statements.

CM VANTAGE SPECIALTY INSURANCE COMPANY

Statutory Statements of Cash Flow

Years ended December 31, 2019 and 2018

(Dollars in thousands)

	<u>2019</u>	<u>2018</u>
Cash flows from operations:		
Premiums collected – net of reinsurance	\$ (636)	\$ 1,644
Loss and loss adjustment expenses paid – net of salvage and subrogation recoveries (including reinsurance)	(1,257)	1,494
Underwriting expenses paid	56	101
Net investment income	1,631	1,399
Other loss	—	(25)
Federal income taxes (paid) received	(560)	24
Net cash (used) provided by operations	<u>(766)</u>	<u>4,637</u>
Cash flows from investments:		
Proceeds from investments sold, matured, or repaid	27,228	28,356
Cost of investments acquired	<u>(29,381)</u>	<u>(29,395)</u>
Net cash used by investments	<u>(2,153)</u>	<u>(1,039)</u>
Cash flows from financing and miscellaneous sources:		
Other	\$ <u>298</u>	\$ <u>(299)</u>
Net cash provided (used) by financing and miscellaneous sources	<u>298</u>	<u>(299)</u>
Net change in cash and short-term investments	(2,621)	3,299
Cash and short-term investments:		
Beginning of period	6,507	3,208
End of year	\$ <u><u>3,886</u></u>	\$ <u><u>6,507</u></u>

See accompanying notes to statutory financial statements.

CM VANTAGE SPECIALTY INSURANCE COMPANY

Notes to Statutory Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

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

(a) Nature of Operations

CM Vantage Specialty Insurance Company (the Company) is a wholly owned subsidiary of Church Mutual Insurance Company (CMIC). CMIC incorporated the Company on November 12, 2015, under the laws of the State of Wisconsin, as a wholly owned stock insurance company with 5,000 common shares authorized at \$1 par value. The Company was capitalized on December 4, 2015 through a \$52,000 issuance of 2,600 shares, issued and outstanding. The Company, which commenced operations in 2016, is a property and casualty insurance carrier in the United States, engaged in the sale of mono-line property and liability insurance in the surplus lines market.

Effective January 1, 2016, the Company entered into 100% ceded quota-share reinsurance agreement with CMIC. The agreement cedes all written premiums, along with related losses and expenses, after the effective date of the contract.

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.

The top geographic jurisdictions for statutory premiums earned were New York (18.0%), California (10.2%), Texas (7.7%), New Jersey (6.7%), and Florida (5.8%) for the year ended December 31, 2019. No other jurisdiction accounted for more than 5.0% of statutory premiums earned for the year ended December 31, 2019; however, premiums were written in 48 states and the District of Columbia.

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.

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(Dollars in thousands)

- 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.
- Acquisition costs, such as commissions and other costs related to acquiring new business are expensed as incurred, while under GAAP, such costs related to successful efforts are deferred and amortized to income as premiums are earned.
- SAP requires an amount to be recorded for deferred taxes; however, there are limitations as to the amount of deferred tax assets that may be reported as "admitted assets" and the change in deferred taxes is recorded directly to surplus for SAP. Under GAAP, the provision for deferred taxes is made within the income statement.
- Assets in the accompanying statutory financial statements are stated at "admitted asset values" in accordance with the rules and regulations of the Commissioner of Insurance. The Company had "nonadmitted assets" of \$434 and \$258 at December 31, 2019 and 2018, respectively. Under GAAP, such assets would be recognized at the lower of cost or net realizable value.
- The change in provision for reinsurance is charged or credited directly through surplus under SAP, while this provision is not prescribed for GAAP purposes, rather an allowance for amounts deemed uncollectible is established as a charge to the statement of operations.
- The statutory statements of admitted assets, liabilities, capital stock, and surplus under SAP are reported net of reinsurance, while under GAAP, the balance sheets report reinsurance recoverables, including amounts related to losses incurred but not reported, and prepaid reinsurance premiums as assets.
- Comprehensive income and its components are not presented for statutory financial statements and there is no statement of comprehensive income under SAP.
- Cash, cash equivalents, and short-term investments in the statements of cash flow represent cash, cash equivalents, 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.
- Negative cash balances are reported as a contra-asset under SAP. Under GAAP, the negative cash balance would be reclassified as a liability.

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- Realized investment gains or losses are reported net of related income taxes while under GAAP such gains or losses are reported gross of tax.

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. Similar to most companies with property and casualty operations the Company uses estimates and assumptions for some assets and liabilities including loss and loss adjustment expenses (LAE), other than temporarily impaired investments and income tax balances.

The reserves for losses and LAE, although supported by actuarial science and other supportive data, are ultimately based on management's reasoned expectations of future development.

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 and short-term investments 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.

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Short-term investments include all investments whose maturities, at the time of acquisition, are one year or less and are stated at amortized cost, which approximates fair value.

Realized gains and losses are determined on the specific identification method on the trade date and are presented in the statutory statements of operations net of federal income tax. Realized investment gains and losses also include valuation adjustments for impairment of bonds and other invested assets with a decline in value that management considers to be other than temporary. For bonds, the credit quality of the issuer is also considered. When it is determined that an investment is other than temporarily impaired, the Company writes the carrying value down to the fair value and recognizes a realized loss. For loan backed and structured securities, the determination of other than temporary impairment is measured based on an estimate of the noninterest loss, which is recognized in operations. Such impairments result in the establishment of a new cost basis for these assets for book purposes.

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) Premiums and Related Commissions

Premiums are earned on a pro rata basis over the terms of the related insurance policies and reinsurance contracts. Unearned premium reserves are established to cover the unexpired portion of premiums written.

Premiums receivable that are over 90 days past due are nonadmitted with a corresponding decrease in surplus.

Expenses incurred in connection with acquiring new insurance business, including such acquisition costs as sales commissions, are charged to operations as incurred. Expenses incurred are reduced for ceding allowances received or receivable. Earned but unbilled premiums are reported as a component of earned premiums.

(f) Reserve for Losses and LAE

The reserve for unpaid losses and LAE includes an amount for reported losses, which includes an amount determined from individual case estimates and loss reports and an amount, based on past experience, for losses incurred but not

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reported. Such liabilities are necessarily based on assumptions and estimates and while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed and any adjustments are reflected in the period a change is determined to be necessary. The Company does not discount the liability for unpaid losses and LAE.

(g) Funds Held Under Reinsurance Treaties

Funds held under reinsurance treaties consist of funds provided by CMIC to establish and maintain a paid loss deposit fund to provide a source of funds for payment of CMIC's liability under the reinsurance agreement between the Company and CMIC. At December 31, 2019 and 2018, the Company admitted \$5,000 and \$5,000, respectively, of such deposits on the statutory statements of admitted assets, liabilities capital and surplus.

(h) Reinsurance

Under state regulations, insurance companies are permitted to treat risks that have been reinsured with other approved insurance companies, to the extent of the reinsurance and within the limits specified, as though they were not risks for which the Company is liable. However, in the event of nonperformance by reinsurers, the Company remains primarily liable to policyholders.

The Company records a provision for reinsurance liability for non-collateralized unauthorized reinsurance recoveries and overdue reinsurance recoveries on paid losses. This is recorded as a liability and the change between years is recorded as a gain or loss directly to unassigned funds (surplus). An authorized reinsurer is licensed, accredited, or approved by the State of Wisconsin; an unauthorized reinsurer is not licensed, accredited, or approved by the State of Wisconsin.

In addition to the provision for reinsurance liability, the Company evaluates its reinsurance recoveries for evidence of any settlements in dispute or reinsurance that is deemed uncollectible based on the underlying circumstances of the reinsurance transaction or the financial capacity of the reinsurer. As of December 31, 2019 and 2018, the Company did not have any reinsurance settlements that were in dispute or reinsurance recoveries that were deemed uncollectible.

(i) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the statutory financial statement carrying amounts of existing assets and liabilities and their respective tax basis, and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. 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 on the adjusted gross and net admitted deferred tax assets as of December 31, 2019 or 2018.

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(Dollars in thousands)

Management uses best estimates to establish reserves based on current facts and circumstances regarding tax exposure items where the ultimate deductibility is open to interpretation.

(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			
	<u>Carrying value</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Fair value</u>
Bonds:				
U.S. government and government agencies	\$ 11,085	\$ 221	\$ (236)	\$ 11,070
States and political subdivisions	997	—	(2)	995
Special revenue and special assessment obligations	15,683	341	(70)	15,954
Corporate	<u>25,984</u>	<u>535</u>	<u>(12)</u>	<u>26,507</u>
Total bonds	<u>\$ 53,749</u>	<u>\$ 1,097</u>	<u>\$ (320)</u>	<u>\$ 54,526</u>

	2018			
	<u>Carrying value</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Fair value</u>
Bonds:				
U.S. government and government agencies	\$ 11,479	\$ 137	\$ (289)	\$ 11,327
States and political subdivisions	240	—	(5)	235
Special revenue and special assessment obligations	14,205	52	(409)	13,848
Corporate	<u>25,351</u>	<u>36</u>	<u>(349)</u>	<u>25,038</u>
Total bonds	<u>\$ 51,275</u>	<u>\$ 225</u>	<u>\$ (1,052)</u>	<u>\$ 50,448</u>

Included within the above tables are mortgage- and asset-backed securities with carrying values of approximately \$27,910 and \$25,381 as of December 31, 2019 and 2018, respectively, with approximately 64% and 67% 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

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position have fair values of approximately \$10,747 and \$15,915 at December 31, 2019 and 2018, respectively. The remaining securities that are in an unrealized loss position are reflected in corporate bonds.

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	\$	(1)	\$ 424	\$	(235)	\$ 2,566	\$	2,990
States and political								
subdivisions		(2)	755	—	240	(2)	995	
Special revenue and special								
assessment obligations		(10)	2,153	(60)	4,609	(70)	6,762	
Corporate		(7)	3,786	(5)	1,322	(12)	5,108	
Total temporarily								
impaired bonds	\$	(20)	\$ 7,118	\$	(300)	\$ 8,737	\$	15,855

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(Dollars in thousands)

	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	\$ (27)	\$ 1,534	\$ (262)	\$ 3,239	\$ (289)	\$ 4,773
States and political subdivisions	—	—	(5)	235	(5)	235
Special revenue and special assessment obligations	(23)	1,292	(386)	9,615	(409)	10,907
Corporate	(109)	8,039	(240)	11,869	(349)	19,908
Total temporarily impaired bonds	\$ (159)	\$ 10,865	\$ (893)	\$ 24,958	\$ (1,052)	\$ 35,823

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 years 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 years 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.

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(Dollars in thousands)

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 years 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.

	Statement value	Fair value
Due in 1 year or less	\$ 1,240	\$ 1,242
Due after 1 year through 5 years	19,896	20,334
Due after 5 years through 10 years	4,702	4,875
Due after 10 years	—	—
Mortgage- and asset-backed securities	27,911	28,075
Total	<u>\$ 53,749</u>	<u>\$ 54,526</u>

Proceeds from sales of bonds during 2019 and 2018 were \$27,230 and \$28,360, respectively. Gross gains of \$465 and \$22 were realized in 2019 and 2018, respectively, relating to those sales. Gross losses of \$39 and \$453 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, premiums and all other receivables, accrued expenses and all other payables, the carrying value is a reasonable estimate of fair value.

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- 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	\$ 53,749	\$ 54,526	\$ 51,275	\$ 50,448
Cash and short-term investments	3,886	3,886	6,507	6,507

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 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.

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(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	\$	7,324	\$ 3,746	\$ —	\$ 11,070
States and political subdivisions		—	995	—	995
Special revenue and special assessment obligations		—	15,954	—	15,954
Corporate		—	26,507	—	26,507
		<u>7,324</u>	<u>47,202</u>	<u>—</u>	<u>54,526</u>
Total bonds	\$	<u>7,324</u>	\$ <u>47,202</u>	\$ <u>—</u>	\$ <u>54,526</u>

		December 31, 2018			
		Level 1	Level 2	Level 3	Total
Assets:					
Bonds:					
U.S. government and government agencies	\$	7,177	\$ 4,150	\$ —	\$ 11,327
States and political subdivisions		—	235	—	235
Special revenue and special assessment obligations		—	13,848	—	13,848
Corporate		—	25,038	—	25,038
		<u>7,177</u>	<u>43,271</u>	<u>—</u>	<u>50,448</u>
Total bonds	\$	<u>7,177</u>	\$ <u>43,271</u>	\$ <u>—</u>	\$ <u>50,448</u>

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

(4) RESERVE FOR LOSSES AND LAE

The Company will establish a liability for losses and LAE to cover its estimated ultimate liability for property and casualty losses and LAE with respect to reported claims and claims incurred but not yet reported as of the end of each accounting period. As required by applicable accounting rules, no liabilities are established until a loss occurs, including a loss from a catastrophe. Loss and LAE liabilities are estimates of what the Company expects the ultimate settlement and administration

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(Dollars in thousands)

of claims will cost based on facts and circumstances then known, predictions of future events, and estimates of future trends in claims severity and frequency, judicial theories of liability, and other factors.

Activity in the liability for unpaid losses and LAE is summarized as follows:

	<u>2019</u>	<u>2018</u>
Balance at January 1	\$ 29,834	\$ 17,323
Less reinsurance recoverables	<u>29,834</u>	<u>17,323</u>
Net balance at January 1	\$ <u>—</u>	\$ <u>—</u>
Incurred related to:		
Current year	\$ —	\$ —
Prior years	<u>—</u>	<u>—</u>
Total incurred	\$ <u>—</u>	\$ <u>—</u>
Paid related to:		
Current year	\$ —	\$ —
Prior years	<u>—</u>	<u>—</u>
Total paid	\$ <u>—</u>	\$ <u>—</u>
Net balance at December 31	—	—
Plus reinsurance recoverables	<u>39,091</u>	<u>29,834</u>
Balance at December 31	\$ <u>39,091</u>	\$ <u>29,834</u>

Losses and LAE are ceded to the Company's parent, therefore, the provision is \$0 as of December 31, 2019 and 2018, net of the change in estimated reinsurance recoveries of \$9,257 and \$12,511 as of December 31, 2019 and 2018, respectively.

Anticipated salvage and subrogation of approximately \$0 are included as a reduction in loss reserves at December 31, 2019 and 2018.

(5) INCOME TAXES

The Company is a subsidiary in the consolidated federal income tax return of Church Mutual Insurance Company and subsidiaries. At December 31, 2019 and 2018, the Company had no net operating loss or tax credit carryforwards.

The following are income taxes incurred in the current and prior years for federal tax reporting purposes that will be available for recoupment in the event of future losses:

2019	\$	491
2018		—
2017		—

The Company's total current federal income tax and change in net deferred income taxes without unrealized gains and losses for the years ended December 31, 2019 and 2018 differ from the amount obtained by applying the federal statutory income

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Notes to Statutory Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

tax rate of 21% in 2019 and 2018 to income before income taxes from the statutory statements of operations for the following reasons:

	<u>2019</u>	<u>2018</u>
Income before taxes (excluding capital losses)	\$ 1,516	\$ 1,294
Capital gains	426	(431)
Income before taxes	<u>\$ 1,942</u>	<u>\$ 863</u>
Income tax expense at statutory rate	\$ 408	\$ 181
Increase (decrease) in tax resulting from:		
State taxes	(3)	(1)
Nondeductible expenses	10	11
Tax rate impact due to TCJA enactment	—	(8)
Other permanent items	3	(1)
Total income tax expense expected	<u>\$ 418</u>	<u>\$ 182</u>
Current income taxes incurred	\$ 506	\$ 172
Prior year overaccrual (underaccrual)	12	(20)
Change in deferred income tax (without tax on unrealized gains and losses and nonadmitted assets)	(100)	30
Total statutory income tax expense	<u>\$ 418</u>	<u>\$ 182</u>

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Notes to Statutory Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

The components of the net deferred tax asset at December 31, 2019 and 2018 are as follows:

	December 31, 2019			December 31, 2018			Change
	Ordinary	Capital	Total	Ordinary	Capital	Total	
Total gross deferred tax assets	\$ 168	\$ —	\$ 168	\$ 48	\$ —	\$ 48	\$ 120
Statutory valuation allowance	—	—	—	—	—	—	—
Adjusted gross deferred tax assets	168	—	168	48	—	48	120
Total gross deferred tax liabilities	—	—	—	—	—	—	—
Net deferred tax assets (liabilities)	168	—	168	48	—	48	120
Total deferred tax assets nonadmitted	(112)	—	(112)	(29)	—	(29)	(83)
Net admitted deferred tax assets (liabilities)	\$ 56	\$ —	\$ 56	\$ 19	\$ —	\$ 19	\$ 37
				Change in net admitted deferred tax assets			\$ 37
				Plus: tax effect of unrealized gains (losses)			—
				Equals change in net admitted deferred tax assets			\$ 37
				Less: Change in deferred tax assets nonadmitted			(83)
				Change in net deferred income taxes			\$ 120

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Notes to Statutory Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

The amount of admitted adjusted gross deferred tax assets allowed under each component of SSAP No. 101, *Income Taxes*, as of December 31, 2019 and 2018 is as follows:

Admission calculation	December 31, 2019			December 31, 2018			Change
	Ordinary	Capital	Total	Ordinary	Capital	Total	
Admitted carrybacks for taxes paid in prior periods	\$ 56	\$ —	\$ 56	\$ —	\$ —	\$ —	56
Admitted Gross DTAs:							
Admitted adjusted DTA expected to be realized within applicable period	—	—	—	19	—	19	(19)
Admitted per applicable percentage of surplus and capital excluding DTAs, EDP, operating software, and positive goodwill	—	—	—	—	—	8,040	(8,040)
Admitted Gross DTAs (equal to the lesser of adjusted DTA expected in applicable period and applicable percentage of surplus and capital adjusted for DTAs, EDP, operating software, and positive goodwill)	—	—	—	19	—	19	(19)
Admitted adjusted DTAs that can be offset against gross DTLs considering character of DTAs and DTLs such that offsetting would be allowed under federal income tax laws	—	—	—	—	—	—	—
Total admitted deferred tax assets	56	—	56	19	—	19	37
Total deferred tax liabilities	—	—	—	—	—	—	—
Net admitted deferred tax assets (liabilities)	\$ 56	\$ —	\$ 56	\$ 19	\$ —	\$ 19	\$ 37
Authorized control level ratio excluding DTAs			20,323%			21,049%	514%

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December 31, 2019 and 2018

(Dollars in thousands)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2019 and 2018 are as follows:

	2019		
	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
Deferred tax assets:			
Accrued compensated absences	\$ 24	\$ —	\$ 24
Accrued postretirement and pension benefits	72	—	72
Nonadmitted premium receivable	68	—	68
Other	4	—	4
	<hr/>	<hr/>	<hr/>
Total deferred tax assets	168	—	168
Total deferred tax assets nonadmitted	<hr/> (112)	<hr/> —	<hr/> (112)
	<hr/>	<hr/>	<hr/>
Total admitted deferred tax assets	56	—	56
Deferred tax liabilities:			
Total deferred tax liabilities	<hr/> —	<hr/> —	<hr/> —
Net deferred tax asset admitted	<hr/> \$ 56	<hr/> \$ —	<hr/> \$ 56
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	2018		
	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
Deferred tax assets:			
Accrued compensated absences	\$ —	\$ —	\$ —
Accrued postretirement and pension benefits	—	—	—
Nonadmitted premiums receivable	48	—	48
Other	—	—	—
	<hr/>	<hr/>	<hr/>
Total deferred tax assets	48	—	48
Total deferred tax assets nonadmitted	<hr/> (29)	<hr/> —	<hr/> (29)
	<hr/>	<hr/>	<hr/>
Total admitted deferred tax assets	19	—	19
Deferred tax liabilities:			
Total deferred tax liabilities	<hr/> —	<hr/> —	<hr/> —
Net deferred tax asset admitted	<hr/> \$ 19	<hr/> \$ —	<hr/> \$ 19
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

There are no deferred tax liabilities that are not recognized as of December 31, 2019 or 2018.

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Notes to Statutory Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

As of December 31, 2019, no statutory valuation allowance has been reported against the Company's deferred tax assets.

The Company's beginning and ending balances for income tax contingencies were zero for years ending December 31, 2019 and 2018 with no contingency additions or reductions and no additions for tax positions during either year.

The changes in the main components of deferred tax assets and deferred tax liabilities at December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Changes in deferred tax assets from book/tax differences in:		
Accrued compensated absences	\$ 24	\$ (30)
Accrued pension and postretirement benefits	72	—
Nonadmitted premiums receivable	20	46
Other	4	—
	<u>120</u>	<u>16</u>
Total change in gross deferred tax assets		
Total change in nonadmitted deferred tax assets	<u>(83)</u>	<u>(28)</u>
Total change in net admitted deferred tax assets	\$ <u>37</u>	\$ <u>(12)</u>

The change in net deferred income taxes comprises the following at December 31, 2019:

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Total deferred tax assets	\$ 168	\$ 48	\$ 120
Total deferred tax liabilities	—	—	—
Net deferred tax asset	\$ <u>168</u>	\$ <u>48</u>	<u>120</u>
Change in net deferred income taxes			\$ <u>120</u>

CMIC has determined that there is no impact from tax-planning strategies on the adjusted gross and net admitted deferred tax assets as of December 31, 2019. CMIC's tax-planning strategies do not include the use of reinsurance related tax-planning strategies.

The examinations of CMIC's consolidated federal income tax returns for the years 2015 and prior are closed, and the years 2016 through 2019 remain open under the IRS statute of limitations.

(6) REINSURANCE ACTIVITY

The Company limits the maximum net loss, which can arise from large risks or risks in concentrated areas of exposure by reinsuring (ceding) certain levels of risks with other insurers or reinsurers, by negotiation on substantial facultative risks. Ceded reinsurance is treated as the risk and liability of the assuming companies.

Effective January 1, 2016, the Company entered into a 100% cession quota-share reinsurance agreement with its parent, CMIC. The agreement covers all written premiums after the effective date of the contract.

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(Dollars in thousands)

The following tables summarize amounts related to reinsurance ceded as of December 31, 2019 and 2018 and for the periods then ended, respectively:

Premium activity:

	2019		
	Written	Earned	Unearned
Direct	\$ 58,732	\$ 54,535	\$ 27,831
Ceded - unaffiliated	(16,318)	(12,734)	(6,524)
Ceded - affiliated	(42,414)	(41,801)	(21,307)
Net	\$ —	\$ —	\$ —

	2018		
	Written	Earned	Unearned
Direct	\$ 50,847	\$ 44,451	\$ 23,634
Ceded - unaffiliated	(9,472)	(8,003)	(2,940)
Ceded - affiliated	(41,375)	(36,448)	(20,694)
Net	\$ —	\$ —	\$ —

Loss and LAE activity:

	2019		2018	
	Incurred loss and LAE	Liability for loss and LAE	Incurred loss and LAE	Liability for loss and LAE
Direct	\$ 33,308	\$ 39,091	\$ 28,727	\$ 29,834
Ceded - unaffiliated	(1,572)	(2,082)	(3,336)	(3,127)
Ceded - affiliated	(31,736)	(37,009)	(25,391)	(26,707)
Net	\$ —	\$ —	\$ —	\$ —

Estimated amounts recoverable from reinsurers are deducted from the liability for losses and LAE.

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(Dollars in thousands)

Direct unearned premium reserves as of December 31, 2019 were \$27,831. The maximum amount of unearned premiums and returned commissions that would have been due reinsurers if they or the Company or a receiver canceled all insurance ceded as of the end of 2019 is as follows:

	Ceded reinsurance	
	Unearned premiums	Commission equity
Affiliates	\$ 21,307	\$ 6,392
Nonaffiliates	6,524	1,609
Total	<u>\$ 27,831</u>	<u>\$ 8,001</u>

As of December 31, 2019 and 2018, the Company has no unsecured aggregate recoverable from reinsurers for losses and LAE paid, losses and LAE unpaid, and unearned premium that exceed 3.0% of the Company's total surplus in either year.

(7) CONTINGENCIES

In the ordinary course of business, the Company is involved in certain claim and nonclaim-related litigation, some of which involves or may involve substantial amounts. In the opinion of management, the ultimate liability, if any, will not have a material effect on the statutory financial condition of the Company.

(8) RELATED PARTIES

The Company receives labor and some administrative services from CMIC under an expense sharing agreement. During the years ended December 31, 2019 and 2018, the total expenses of all of these services were \$4,377 and \$3,059, respectively.

The Company participates in a 100% ceded quota-share reinsurance agreement with CMIC. The agreement cedes all written premiums, along with related losses and expenses.

(9) CAPITAL AND RISK-BASED CAPITAL

The Company is regulated by the state in which it is domiciled, as well as by states in which it does business. 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.

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December 31, 2019 and 2018

(Dollars in thousands)

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.

(10) 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 has adjusted certain aspects of its operations to protect its 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 VANTAGE SPECIALTY 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 \$ 67,678

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 Home Loan Mortgage Corporation Gold Pool	\$ 1,739	2.6
2.02	American Express Credit Services	1,601	2.4
2.03	Federal Home Loan Mortgage Corporation PARTN CTF	1,362	2.0
2.04	Government National Mortgage Association CTF Pool	1,241	1.8
2.05	Capital One	1,099	1.6
2.06	Federal National Mortgage Association UMBS Pool	904	1.3
2.07	Federal National Mortgage Association GTD Passthu	774	1.1
2.08	JP Morgan Chase Bank	735	1.1
2.09	Exxon Mobil Corp	730	1.1
2.10	Caterpillar Financial Services	729	1.1

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	\$ 53,890	79.6
3.02	NAIC-2	419	0.6
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.

Total admitted assets held in foreign investments	\$ 3,592	5.3
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	\$ 3,592	5.3
	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	\$ 1,354	2.0
	Country 2: Sweden	815	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	Svenska Handelsbanken AB	\$ 555	0.8
10.02	Reckitt Benckiser	514	0.8
10.03	Cooperatieve Rabobank	505	0.7
10.04	BMW Finance	500	0.7
10.05	HSBC Holdings	460	0.7
10.06	Skandinaviska Enskilda Banken NT	260	0.4
10.07	Asian Dev BK	240	0.4
10.08	Lloyds Banking Group	200	0.3
10.09	BP Capital Markets PLC SR NT	180	0.3
10.10	Total Capital SR Global NT	130	0.2

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 VANTAGE SPECIALTY 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.

CM VANTAGE SPECIALTY INSURANCE COMPANY
 Summary Investment Schedule
 December 31, 2019
 (Dollars in thousands)

Schedule 2

<u>Investment categories</u>	Gross investment holdings		Admitted assets as reported in the annual statement	
	1	2	3	4
	Amount	Percentage	Amount	Percentage
Long-Term Bonds				
U.S. governments	\$ 11,085	19.233	\$ 11,085	19.233
All other governments	240	0.416	240	0.416
U.S. states, territories and possessions, etc. guaranteed	500	0.868	500	0.868
U.S. political subdivisions of states, territories, and possessions, guaranteed	257	0.446	257	0.446
U.S. special revenue and special assessment obligations, etc. non-guaranteed	15,683	27.211	15,683	27.211
Industrial and miscellaneous	25,984	45.084	25,984	45.084
Hybrid securities	—	—	—	—
Parent, subsidiaries and affiliates	—	—	—	—
SVO identified funds	—	—	—	—
Unaffiliated bank loans	—	—	—	—
Total long-term bonds	53,749	93.258	53,749	93.258
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, subsidiaries 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 occupied by company	—	—	—	—
Properties held for production of income	—	—	—	—
Properties held for sale	—	—	—	—
Total real estate	—	—	—	—
Cash, cash equivalents and short-term investments:				
Cash	3,324	5.767	3,324	5.767
Cash equivalents	381	0.661	381	0.661
Short-term investments	181	0.314	181	0.314
Total cash, cash equivalents and short-term investments	3,886	6.742	3,886	6.742
Contract loans	—	—	—	—
Other invested assets	—	—	—	—
Receivables for securities	—	—	—	—
The Company does not have a securities lending program	—	—	—	—
Total invested assets	\$ 57,635	100	\$ 57,635	100

See accompanying independent auditors' report.

CM VANTAGE SPECIALTY INSURANCE COMPANY
 Supplemental Schedule of Reinsurance Risk Interrogatories
 December 31, 2019
 (Dollars in thousands)

(1) REINSURANCE INTERROGATORIES

- | | |
|--|------------------|
| <p>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)?</p> | Yes [] No [X] |
| <p>2. If yes, indicate the number of reinsurance contracts containing such provisions.</p> | 0 |
| <p>3. If yes, does the amount of reinsurance credit taken reflect the reduction in quota share coverage caused by any applicable limiting provision(s)?</p> | Yes [] No [] |
| <p>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:</p> <p>a) A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;</p> <p>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;</p> <p>c) Aggregate stop loss reinsurance coverage;</p> <p>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;</p> <p>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</p> <p>f) Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity.</p> | Yes [] No [X] |

CM VANTAGE SPECIALTY 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:
- 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
 - 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:
- The aggregate financial statement impact gross of all such ceded reinsurance contracts on the balance sheet and statement of income;
 - A summary of the reinsurance contract terms and indicate whether it applies to the contracts meeting the criteria in 4 or 5; and
 - 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:
- 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
 - Accounted for that contract as reinsurance under GAAP and as a deposit under SAP?
8. If yes to 7, explain why the contract(s) is treated differently for GAAP and SAP.

Yes [] No [X]

N/A

See accompanying independent auditors' report.