



**CHURCH MUTUAL INSURANCE COMPANY, S.I. AND
AFFILIATED PROPERTY AND CASUALTY COMPANIES**

Combined Statutory Financial Statements
and Supplemental Schedules
(With Independent Auditors' Report Thereon)
December 31, 2022 and 2021

CHURCH MUTUAL INSURANCE COMPANY, S.I. AND AFFILIATED PROPERTY AND CASUALTY COMPANIES

Combined Statutory Financial Statements

December 31, 2022 and 2021

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Independent Auditors' Report

Audit Committee of the Board of Directors
Church Mutual Insurance Company, S.I.:

Opinions

We have audited the combined financial statements of Church Mutual Insurance Company, S.I. and affiliated property and casualty companies (the Companies), which comprise the combined statutory statements of admitted assets, liabilities, and surplus of policyholders as of December 31, 2022 and December 31, 2021, and the related combined statutory statements of operations, surplus of policyholders, and cash flow for the years then ended, and the related notes to the combined financial statements.

Unmodified Opinion on Statutory Basis of Accounting

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the admitted assets, liabilities, and surplus of the Companies as of December 31, 2022 and December 31, 2021, and the results of its operations and its cash flow for the years then ended in accordance with accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin described in Note 1.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles section of our report, the combined financial statements do not present fairly, in accordance with U.S. generally accepted accounting principles, the financial position of the Companies as of December 31, 2022 and December 31, 2021, or the results of its operations or its cash flows for the years then ended.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Combined Financial Statements section of our report. We are required to be independent of the Companies and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 combined financial statements, the combined financial statements are prepared by the Companies using 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 combined financial statements are not intended to be presented in accordance with U.S. generally accepted accounting principles. The effects on the combined 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 and pervasive.



Responsibilities of Management for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Companies' ability to continue as a going concern for one year after the date that the combined financial statements are issued.

Auditors' Responsibilities for the Audit of the Combined Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the combined financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Companies' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Companies' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The supplementary information included in the combining schedule of statutory statement of admitted



assets, liabilities, and surplus of policyholders, combining schedule of statutory statement of operations, combining schedule of statutory statement of surplus of policyholders, combining schedule of statutory statement of cash flow, 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 combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

KPMG LLP

Chicago, Illinois
May 12, 2023

CHURCH MUTUAL INSURANCE COMPANY, S.I. AND AFFILIATED PROPERTY AND CASUALTY COMPANIES

Combined Statutory Statements of Admitted Assets, Liabilities, and Surplus of Policyholders

December 31, 2022 and 2021

(Dollars in thousands)

Admitted Assets	2022	2021
Cash and invested assets:		
Bonds	\$ 1,400,569	\$ 1,368,964
Common stock	247,530	320,984
Cash, cash equivalents, and short-term investments	117,593	102,783
Other invested assets	104,603	106,680
Receivable for securities	205	27
Cash surrender value of life insurance	24,873	24,967
Land and buildings – at cost, less accumulated depreciation of \$16,952 and \$16,426 in 2022 and 2021, respectively	10,620	11,196
Total cash and invested assets	<u>1,905,993</u>	<u>1,935,601</u>
Other assets:		
Premiums and other receivables	304,406	258,142
Contingent commissions receivable	2,152	2,485
Receivables from reinsurers	39,833	30,088
Receivables from subsidiaries	1,205	2,422
Federal income taxes receivable	28,589	55,596
Net deferred tax assets	43,423	20,786
Guaranty funds on deposit	899	143
Accrued interest and dividends	10,095	8,323
Electronic data processing equipment – at cost, less accumulated depreciation of \$13,310 and \$12,549 in 2022 and 2021, respectively	1,580	1,759
Other	38,201	44,790
Total other assets	<u>470,383</u>	<u>424,534</u>
Total admitted assets	<u>\$ 2,376,376</u>	<u>\$ 2,360,135</u>

See accompanying notes to combined statutory financial statements.

CHURCH MUTUAL INSURANCE COMPANY, S.I. AND AFFILIATED PROPERTY AND CASUALTY COMPANIES

Combined Statutory Statements of Admitted Assets, Liabilities, and Surplus of Policyholders (continued)

December 31, 2022 and 2021

(Dollars in thousands)

Liabilities and Surplus of Policyholders	2022	2021
Liabilities:		
Reserve for losses and loss adjustment expenses	\$ 842,316	\$ 803,866
Reinsurance payable on paid losses and loss adjustment expenses	127	148
Unearned premiums	557,416	501,429
Dividends payable to policyholders	16,956	17,995
Ceded reinsurance premiums payable	78,112	75,746
Accrued expenses	64,225	62,757
Funds held under reinsurance treaties	1,822	3,764
Funds held for others	9,289	7,199
Premium deposits	6,177	8,073
Payable for securities	7,090	28
Other taxes	5,902	6,134
Liability for deferred compensation and pension	20,690	24,720
Liability for postretirement benefits other than pension	—	53,684
Other liabilities	2,408	3,923
	1,612,530	1,569,466
Total liabilities		
Surplus of policyholders:		
Common stock	19,003	19,003
Guaranty fund	1,600	1,600
Gross paid-in and contributed surplus	115,897	115,897
Unassigned surplus	627,346	654,169
	763,846	790,669
Total surplus of policyholders		
Total liabilities and surplus of policyholders	\$ 2,376,376	\$ 2,360,135

See accompanying notes to combined statutory financial statements.

CHURCH MUTUAL INSURANCE COMPANY, S.I. AND AFFILIATED PROPERTY AND CASUALTY COMPANIES

Combined Statutory Statements of Operations

Years ended December 31, 2022 and 2021

(Dollars in thousands)

	<u>2022</u>	<u>2021</u>
Underwriting:		
Premiums earned	\$ 999,973	\$ 907,378
Losses and expenses incurred:		
Losses incurred	581,407	475,479
Loss adjustment expenses incurred	106,401	104,518
Other underwriting expenses	333,443	314,118
Total losses and expenses incurred	<u>1,021,251</u>	<u>894,115</u>
	<u>(21,278)</u>	<u>13,263</u>
Investment and other income:		
Interest	36,737	29,398
Dividends	7,172	8,186
Real estate income	4,000	4,000
Net realized gains (losses) on sales of investments, net of tax (benefit)		
expense of (\$3,840) and \$10,729 in 2022 and 2021, respectively	(14,447)	40,362
Investment expenses	(5,555)	(5,653)
Other	30,118	(2,153)
Net investment and other income	<u>58,025</u>	<u>74,140</u>
Income before dividends to policyholders and federal income tax expense	36,747	87,403
Dividends to policyholders	<u>11,858</u>	<u>11,104</u>
Income before federal income tax expense	24,889	76,299
Federal income tax expense (benefit)	<u>20,773</u>	<u>26,006</u>
Net income	<u>\$ 4,116</u>	<u>\$ 50,293</u>

See accompanying notes to combined statutory financial statements.

CHURCH MUTUAL INSURANCE COMPANY, S.I. AND AFFILIATED PROPERTY AND CASUALTY COMPANIES

Combined Statutory Statements of Surplus of Policyholders

Years ended December 31, 2022 and 2021

(Dollars in thousands)

	<u>2022</u>	<u>2021</u>
Common stock:		
Beginning balance	\$ 19,003	\$ 19,003
Common stock issuance through reorganization	<u>—</u>	<u>—</u>
Ending balance	19,003	19,003
Gross paid-in and contributed surplus:		
Beginning balance	115,897	108,197
Capital Contributions	<u>—</u>	<u>7,700</u>
Ending balance	115,897	115,897
Guaranty fund	1,600	1,600
Unassigned surplus:		
Beginning balance	654,169	614,386
Net income	4,116	50,293
Net unrealized (losses) gains on investments, net of capital gains tax (benefit) expense of (\$13,241) and \$6,403 in 2022 and 2021, respectively	(51,118)	24,090
Net deferred income taxes	10,423	20,975
Provision for reinsurance	39	313
Nonadmitted assets	(2,793)	(17,917)
Distributions	(6,200)	(51,000)
Change in post retirement and pensions	18,710	13,029
Ending balance	<u>627,346</u>	<u>654,169</u>
Total capital and surplus	<u>\$ 763,846</u>	<u>\$ 790,669</u>

See accompanying notes to combined statutory financial statements.

CHURCH MUTUAL INSURANCE COMPANY, S.I. AND AFFILIATED PROPERTY AND CASUALTY COMPANIES

Combined Statutory Statements of Cash Flow

Years ended December 31, 2022 and 2021

(Dollars in thousands)

	<u>2022</u>	<u>2021</u>
Cash flows from operations:		
Premiums collected – net of reinsurance	\$ 1,006,784	\$ 963,122
Loss and loss adjustment expenses paid – net of salvage and subrogation recoveries (including reinsurance)	(553,145)	(451,909)
Underwriting expenses paid	(434,467)	(398,732)
Net investment income	47,443	46,242
Other (loss) income	32,318	(2,152)
Dividends to policyholders	(12,897)	(12,126)
Federal income taxes received (paid)	10,074	(30,318)
Net cash provided by operations	<u>96,110</u>	<u>114,127</u>
Cash flows from investments:		
Proceeds from investments sold, matured, or repaid	953,779	1,125,589
Cost of investments acquired including purchases of real estate of \$0 and \$0 in 2022 and 2021, respectively, and purchases of other invested assets of \$5,021 and \$8,388 in 2022 and 2021, respectively	(992,198)	(1,173,821)
Net cash used in investments	<u>(38,419)</u>	<u>(48,232)</u>
Cash flows from financing and miscellaneous sources:		
Dividend to stockholders	(6,200)	(51,000)
Other	(36,681)	(20,797)
Net cash used in financing and miscellaneous sources	<u>(42,881)</u>	<u>(71,797)</u>
Net change in cash, cash equivalents, and short-term investments	14,810	(5,902)
Cash, cash equivalents, and short-term investments:		
Beginning of year	<u>102,783</u>	<u>108,685</u>
End of year	<u>\$ 117,593</u>	<u>\$ 102,783</u>
Non-cash transactions:		
Exchanges of bonds	\$ 13,326	\$ 1,838
Exchanges of stocks	—	448

See accompanying notes to combined statutory financial statements.

CHURCH MUTUAL INSURANCE COMPANY, S.I. AND AFFILIATED PROPERTY AND CASUALTY COMPANIES

Notes to Combined Statutory Financial Statements

December 31, 2022 and 2021

(Dollars in thousands)

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

(a) Nature of Operations

The accompanying combined statutory financial statements include Church Mutual Insurance Company, S.I. (CMICSI) and its affiliated property and casualty insurers CM Select Insurance Company (CMSL), CM Vantage Specialty Insurance Company (CMVA), CM Regent Insurance Company (CMRI), and CM Indemnity Insurance Company (CMIN), which are collectively referred to herein as the "Company." The Company is incorporated under the laws of the State of Wisconsin, except for CMRI which is incorporated under the laws of the state of Pennsylvania. The Company's primary business is the sale of property, liability, worker's compensation and automobile insurance.

The Company is authorized to sell property-liability insurance in all 50 states and the District of Columbia. The top geographic jurisdictions for statutory premiums earned were Texas (11.3%), California (10.2%), Pennsylvania (8.8%), and New York (7.5%) for the year ended December 31, 2022. No other jurisdiction accounted for more than 5.0% of statutory premiums earned for the years ended December 31, 2022 or 2021.

The Company has exposure to catastrophes that are an inherent risk of the property-liability insurance business, that have contributed, and will continue to contribute, to material year-to-year fluctuations in the Company's results of operations and financial position.

Based on the Company's capital levels at December 31, 2022, management is confident in the Company's ability to continue as a going concern.

(b) Principles of Combination

The accompanying combined property and casualty statutory financial statements include the accounts of CMICSI and its property and casualty affiliates which include, after elimination of all significant intercompany balances and activity, CMSL, CMVA, CMRI, and CMIN.

In the normal course of business, the Company seeks to limit exposure to loss on any single insured and to certain aggregate loss limits. This is accomplished by ceding insurance to other insurance companies or reinsurers under quota share or excess of loss. Liabilities related to insurance contracts are reported after the effects of reinsurance. Estimated reinsurance recoverables are recognized in a manner consistent with the liabilities related to the underlying reinsured contracts. After reinsurance cessions to external parties, CMSL, CMVA, and CMIN cede the remaining insurance business to CMICSI under 100% quota share reinsurance contracts. CMRI retains risks written prior to acquisition and cedes 100% of risks written after acquisition to CMICSI under a quota share reinsurance contract.

Annual approval to file the Company's combined audited statutory financial statements, in lieu of separate audited financial statements for CMICSI and its property and casualty insurance affiliates is obtained from the Commissioners of the insurance departments of the states of domicile for these entities.

CHURCH MUTUAL INSURANCE COMPANY, S.I. AND AFFILIATED PROPERTY AND CASUALTY COMPANIES

Notes to Combined Statutory Financial Statements

December 31, 2022 and 2021

(Dollars in thousands)

All other material intercompany accounts and transactions have been eliminated in combination.

(c) 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 prescribed or permitted statutory accounting practices from Wisconsin for 2022 or 2021 that deviate from the NAIC Statutory Accounting Principles (SAP) except as disclosed above related to filing of the Company's combined audited statutory financial statements.

The accounting treatment prescribed by SAP varies in some respects from 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.
- Common stocks are stated at fair value as required by SAP and GAAP. Unrealized common stock investment gains and losses, net of deferred taxes, are credited or charged directly to unassigned policyholders' surplus. Under GAAP, unrealized common stock gains and losses are reported in net income.

CHURCH MUTUAL INSURANCE COMPANY, S.I. AND AFFILIATED PROPERTY AND CASUALTY COMPANIES

Notes to Combined Statutory Financial Statements

December 31, 2022 and 2021

(Dollars in thousands)

- Acquisition costs, such as commissions and other costs related to successfully acquiring new business are expensed as incurred, while under GAAP, they 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 combined 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 \$44,241 and \$41,448 at December 31, 2022 and 2021, 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 combined statutory statements of admitted assets, liabilities, and surplus of policyholders 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.
- Policyholder dividends are recognized and accrued for when declared. For GAAP, they are recognized over the term of the related policies, and are accrued based on estimates of ultimate payments on current policies.
- The estimated rental cost (imputed rent) of home office facilities owned is presented in the combined statutory statements of operations as investment income and underwriting expense, whereas in GAAP imputed rent is not recorded.
- Cash, cash equivalents, and short-term investments in the combined statutory 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.
- Realized investment gains or losses are reported net of related income taxes while under GAAP such gains or losses are reported gross of tax.

CHURCH MUTUAL INSURANCE COMPANY, S.I. AND AFFILIATED PROPERTY AND CASUALTY COMPANIES

Notes to Combined Statutory Financial Statements

December 31, 2022 and 2021

(Dollars in thousands)

- Business purchases are recorded at cost, including direct costs of acquisition, with goodwill (including negative goodwill) recorded and amortized over no more than ten years. Under GAAP, acquired assets and liabilities are recorded at fair value, costs of acquisition are expensed as incurred, positive goodwill is not amortized but annually tested for impairment, and negative goodwill is recognized as a bargain purchase gain.

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.

(d) 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), pension liabilities, 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.

Management utilizes external pension actuaries to assist them in developing pension liability estimates. As of December 31, 2022 and 2021, the Company has recorded balances in accordance with these actuarially determined amounts.

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 (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 combined statutory statements of operations in the period of the change.

CHURCH MUTUAL INSURANCE COMPANY, S.I. AND AFFILIATED PROPERTY AND CASUALTY COMPANIES

Notes to Combined Statutory Financial Statements

December 31, 2022 and 2021

(Dollars in thousands)

(e) Investments

Bonds, common stock, short-term investments, and other 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.

Common stocks are carried at fair value from an independent pricing service, which management reviews for reasonableness. The change in the stated value is recorded as a change in net unrealized gains (losses), a component of unassigned surplus.

The Company's other invested assets are comprised of ownership interests in joint ventures, partnerships, and limited liability companies. If the Company does not have the power to control the direction of these interests, the Company will carry these investments based on the underlying audited GAAP equity of the investee. If the underlying GAAP equity value is unknown, these interests are nonadmitted with a book/adjusted carrying value of zero. If the Company's ownership interest is in excess of 10% (considered minority interest) it will then determine if it has the power to control the joint ventures, partnerships, and limited liability companies. Control is defined as the possession, directly or indirectly, of the power to direct or cause the direction of management and policies of the investee. It is the intention of the Company's management to not invest in or contract with joint ventures, partnerships or limited liability companies in such a manner that causes the Company to have control over the direction of these investees.

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.

Fair value adjustments for securities carried at fair value are charged to unassigned surplus as unrealized gains (losses) on investments net of any related deferred tax. Realized gains and losses are determined on the specific identification method on the trade date and are presented in the combined statutory statements of operations net of federal income tax. Realized investment gains and losses also include valuation adjustments for impairment of bonds, stocks, and other invested assets with a decline in value that management considers to be other-than-temporary. In determining whether impairments are other-than-temporary, the Company considers the size and duration of the excess of carrying value over fair value for common stocks and the likelihood and expected timing of a recovery in value. 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

CHURCH MUTUAL INSURANCE COMPANY, S.I. AND AFFILIATED PROPERTY AND CASUALTY COMPANIES

Notes to Combined Statutory Financial Statements

December 31, 2022 and 2021

(Dollars in thousands)

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 stocks and 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.

Land is stated at cost, and buildings are stated at cost, less accumulated depreciation.

Life insurance contracts are policies in which the Company is both the owner and beneficiary. The contracts are carried at the cash surrender value, meaning the amount that is realizable on demand, as of December 31, 2022 and 2021. There are no contractual restrictions on the ability to surrender the policies.

Investment income consists primarily of interest and dividends. Interest is recognized on an accrual basis and dividends are recorded as earned at the ex-dividend date. Interest income on mortgage- and asset-backed securities is determined using the effective-yield method based on estimated principal repayments.

(f) 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

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allowances received or receivable. Earned but unbilled premiums are reported as a component of earned premiums.

(g) 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 reported. Such liabilities are necessarily based on claim evaluations, statistical analysis, and estimates. While management believes the amount is reasonable, the ultimate liability may be in excess of or less than the amount provided. The methods used in making estimates and establishing liabilities are continually reviewed. If there are any adjustments, they are reflected in the period such a change would be deemed necessary. The Company does not discount the liability for unpaid losses and LAE.

(h) Property and Equipment

Property and equipment are carried at cost, less accumulated depreciation. The Company provides for depreciation of property and equipment using straight-line and accelerated methods over the estimated useful lives of the assets. Buildings are generally depreciated over 40 years. Furniture and fixtures are generally depreciated over 5 to 10 years. The Company provides for amortization of leasehold improvements using the straight-line method over the lesser of the useful life of the asset or the remaining original lease term, excluding options or renewal periods. Leasehold improvements are generally depreciated over 3 to 20 years. Depreciation and amortization expense was approximately \$6,635 and \$7,052 for the years ended December 31, 2022 and 2021, respectively.

Maintenance and repairs are charged to expense as incurred.

(i) 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 domicile; an unauthorized reinsurer is not licensed, accredited, or approved by the state of domicile.

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

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December 31, 2022 and 2021, the Company did not have any reinsurance settlements that were in dispute or reinsurance recoveries that were deemed uncollectible.

(j) 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. The admissibility of the net deferred tax assets recorded is subject to the limitation. Changes in deferred tax assets and liabilities are recognized as a separate component of the change in policyholders' surplus. 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 deferred tax 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, 2022 or 2021.

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.

(k) Postretirement Benefits and Pensions

Pension and other postretirement benefit liabilities are recognized at the full unfunded amount determined by comparing the projected benefit obligation for pension plans and the accumulated benefit obligation for other postretirement plans to the fair value of plan assets.

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(2) INVESTMENTS

The Company monitors its investment exposure by investing its funds in accordance with guidelines set by the Company's Risk Management Committee. The carrying value, gross unrealized gains, gross unrealized losses, and fair value of bonds at December 31, 2022 and 2021 were as follows:

		2022			
		Carrying value	Gross unrealized gains	Gross unrealized losses	Fair value
Bonds:					
U.S. government					
and government agencies	\$	91,470	\$	78	\$
States and political subdivisions		108,005		(4,691)	\$
Special revenue and special				(9,929)	86,857
assessment obligations		483,062	676	(50,459)	433,279
Corporate		718,032	1,456	(60,432)	659,056
Total bonds	\$	<u>1,400,569</u>	\$	<u>2,677</u>	\$
				<u>(125,511)</u>	<u>1,277,735</u>
		2021			
		Carrying value	Gross unrealized gains	Gross unrealized losses	Fair value
Bonds:					
U.S. government					
and government agencies	\$	143,811	\$	1,234	\$
States and political subdivisions		103,837		(801)	\$
Special revenue and special				(676)	144,244
assessment obligations		463,231	12,596	(3,667)	472,160
Corporate		658,085	9,841	(3,800)	664,126
Total bonds	\$	<u>1,368,964</u>	\$	<u>27,440</u>	\$
				<u>(8,944)</u>	<u>1,387,460</u>

The Company held no preferred stock at December 31, 2022 or 2021.

Common stocks, were carried at fair value of \$247,530 at December 31, 2022 with an actual cost of \$255,456, unrealized gains of \$20,566 and unrealized losses of \$28,492. Common stocks, were carried at fair value of \$320,984 at December 31, 2021 with an actual cost of \$264,415, unrealized gains of \$58,847 and unrealized losses of \$2,278.

Other invested assets are comprised of ownership interests in joint ventures, partnerships, and limited liability companies. Other invested assets were carried at \$104,603 at December 31, 2022 with an actual cost of \$62,660, unrealized gains of \$42,077 and unrealized losses of \$134. Other invested assets were carried at \$106,680 at December 31, 2021 with an actual cost of \$65,170, unrealized gains of \$22,119 and unrealized losses of \$460. The Company has \$23,774 and \$7,282 in unfunded commitments to joint ventures, partnerships, and limited

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liability companies at December 31, 2022 and 2021, respectively. These commitments represent agreements to provide additional capital contributions.

Included within the above tables are mortgage- and asset-backed securities with carrying values of approximately \$519,373 and \$436,246 and approximately 46% and 44% classified as government agency securities as of December 31, 2022 and 2021, 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 \$565,191 and \$274,004 at December 31, 2022 and 2021, respectively. The remaining securities that are in an unrealized loss position are reflected in corporate bonds.

Fair values for bonds and stocks are determined using market quotations from independent pricing services. Unrealized gains and losses on investments in common stock are reported directly in unassigned surplus.

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 and stocks 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 stock or the outlook for its industry sector change, the Company may sell the bond or stock and realize a loss.

The following tables summarize, for all bonds and stocks in an unrealized loss position and deemed to be temporarily impaired at December 31, 2022 and 2021, the aggregate fair value and the gross unrealized loss by length of time such securities have been in an unrealized loss position:

	2022					
	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, 2022:						
Bonds:						
U.S. government and government agencies	\$ (1,788)	\$ 63,403	\$ (2,903)	\$ 21,008	\$ (4,691)	\$ 84,411
States and political subdivisions	(3,654)	50,743	(6,275)	29,537	(9,929)	80,280
Special revenue and special assessment obligations	(23,814)	278,205	(26,645)	122,295	(50,459)	400,500
Corporate	(32,921)	397,954	(27,512)	179,300	(60,433)	577,254
Common stocks, unaffiliated	(25,239)	129,072	(3,253)	16,794	(28,492)	145,866
Total temporarily impaired bonds and preferred and common stocks	\$ (87,416)	\$ 919,377	\$ (66,588)	\$ 368,934	\$ (154,004)	\$ 1,288,311

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	2021					
	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, 2021:						
Bonds:						
U.S. government and government agencies	\$ (639)	\$ 65,321	\$ (162)	\$ 1,541	\$ (801)	\$ 66,862
States and political subdivisions	(619)	37,277	(57)	1,801	(676)	39,078
Special revenue and special assessment obligations	(2,573)	145,205	(1,094)	22,859	(3,667)	168,064
Corporate	(3,680)	290,039	(120)	7,901	(3,800)	297,940
Common stocks, unaffiliated	(1,365)	12,434	(93)	19,268	(2,278)	31,702
Total temporarily impaired bonds and preferred and common stocks	\$ (8,876)	\$ 550,276	\$ (2,346)	\$ 53,370	\$ (11,222)	\$ 603,646

At December 31, 2022, the Company had three bonds with a fair value of \$1,020 and an amortized cost of \$1,317 that had a NAIC rating of 3 which indicated a potential adjustment from being carried at amortized cost. Each of these bonds is carried at the lower of amortized cost or fair value, resulting in an aggregate reduction to the carrying value of bonds of \$297, which is reflected in surplus as an unrealized loss.

There were no bonds with a NAIC rating of 3 or lower at December 31, 2021.

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

Based on the evaluation of the fundamentals of the issuers' 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, the Company recorded other-than-temporary impairments in common stock and other invested assets of \$1,942 and \$2,105, respectively, for the year ended December 31, 2022. The Company recorded other-than-temporary impairments in common stock and other invested assets of \$0 and \$1,372, respectively, for the year ended December 31, 2021.

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. The Company continues to receive contractual principal and interest payments on all of its

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mortgage- and asset-backed securities. The Company does not hold any mortgage- or asset-backed securities in its December 31, 2022 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, 2022 and 2021 and believes that there are no noninterest related declines in which other-than-temporary impairment should have been recorded for the year ended December 31, 2022 or 2021.

The table below sets forth the maturity aging schedule of bonds at December 31, 2022. 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	\$ 12,900	\$ 12,741
Due after 1 year through 5 years	431,960	407,195
Due after 5 years through 10 years	315,236	284,876
Due after 10 years	121,099	108,888
Mortgage- and asset-backed securities	519,374	464,035
Total	<u>\$ 1,400,569</u>	<u>\$ 1,277,735</u>

Proceeds from sales of bonds during 2022 and 2021 were \$917,809 and \$928,700, respectively. Gross gains of \$2,176 and \$9,130 were realized in 2022 and 2021, respectively, relating to those sales. Gross losses of \$25,665 and \$6,508 were realized in 2022 and 2021, respectively, relating to those sales.

Proceeds from the sale of investments in common stocks during 2022 and 2021 totaled \$33,236 and \$168,932, respectively. Gross gains of \$7,593 and \$46,242 were realized in 2022 and 2021, respectively, relating to those sales. Gross losses of \$2,053 and \$213 were realized in 2022 and 2021, respectively, relating to those sales. Proceeds for the sale of investments in preferred stocks during 2022 and 2021 were \$0 and \$22,268, respectively. Gross gains of \$0 and \$947 were realized in 2022 and 2021, respectively, relating to those sales. Gross losses of \$0 and \$70 were realized in 2022 and 2021, respectively, relating to those sales.

Securities with a carrying value of approximately \$101,079 and \$98,598 at December 31, 2022 and 2021, respectively, were on deposit with government agencies, as prescribed by law in the applicable state.

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, 2022 and 2021. 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.

During 2020, the Company replaced an existing \$20,000 line of credit with a new line of credit in the amount of \$40,000. As of December 31, 2022 and 2021, there were no balances outstanding on this line of credit.

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(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.
- Bonds and stocks are valued primarily by using quoted prices.

	2022		2021	
	Statement value	Estimated fair value	Statement value	Estimated fair value
Financial instruments recorded as assets:				
Bonds	\$ 1,400,569	\$ 1,277,735	\$ 1,368,964	\$ 1,387,460
Common stock, unaffiliated	247,530	247,530	320,984	320,984
Cash, cash equivalents, and short-term investments	117,593	117,593	102,783	102,783

Included in various investment related line items in the statutory financial statements are certain financial instruments carried at fair value. Other 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.

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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 common stocks and 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 valuation 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, 2022 and 2021.

Assets and liabilities measured or disclosed at fair value as of December 31, 2022 and 2021 are as follows:

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
Assets:				
Bonds:				
U.S. government and government agencies	\$ 75,975	\$ 10,882	\$ —	\$ 86,857
States and political subdivisions	—	98,543	—	98,543
Special revenue and special assessment obligations	—	433,279	—	433,279
Corporate	—	659,056	—	659,056
Total bonds	<u>75,975</u>	<u>1,201,760</u>	<u>—</u>	<u>1,277,735</u>
Common stocks, unaffiliated	<u>247,530</u>	<u>—</u>	<u>—</u>	<u>247,530</u>
Total bonds and stocks	<u>\$ 323,505</u>	<u>\$ 1,201,760</u>	<u>\$ —</u>	<u>\$ 1,525,265</u>

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	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Assets:				
Bonds:				
U.S. government and government agencies	\$ 133,304	\$ 10,940	\$ —	\$ 144,244
States and political subdivisions	—	106,930	—	106,930
Special revenue and special assessment obligations	—	472,160	—	472,160
Corporate	—	664,126	—	664,126
Total bonds	133,304	1,254,156	—	1,387,460
Common stocks, unaffiliated	320,984	—	—	320,984
Total bonds and stocks	\$ 454,288	\$ 1,254,156	\$ —	\$ 1,708,444

There were no transfers into or out of Level 3 for the year ended December 31, 2022 and 2021.

(4) RESERVE FOR LOSSES AND LAE

The Company establishes 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 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.

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

	2022	2021
Balance at January 1	\$ 966,446	\$ 929,050
Less reinsurance recoverables	162,580	140,461
Net balance at January 1	<u>\$ 803,866</u>	<u>\$ 788,589</u>
Incurred related to:		
Current year	\$ 625,201	\$ 557,264
Prior years	62,607	22,733
Total incurred	<u>\$ 687,808</u>	<u>\$ 579,997</u>
Paid related to:		
Current year	\$ 286,198	\$ 247,031
Prior years	363,160	317,689
Total Paid	<u>\$ 649,358</u>	<u>\$ 564,720</u>
Net balance at December 31	842,316	803,866
Plus reinsurance recoverables	137,228	162,580
Balance at December 31	<u>\$ 979,544</u>	<u>\$ 966,446</u>

The estimated cost of loss and loss adjustment expenses attributable to insured events from prior years increased in 2022 and 2021 as a result of re-estimation of unpaid loss and loss adjustment expenses primarily on the commercial multiple peril lines of insurance due to the effect of inflation increasing building costs.

Increases or decreases of this nature occur as a result of claim settlements during the current year and as additional information is received regarding individual claims, causing changes from the prior year estimates of the unpaid costs of these claims. Management reviews recent loss development trends when evaluating the overall adequacy of unpaid loss and loss adjustment expenses.

(5) INCOME TAXES

The Company files a consolidated federal income tax return including the results of operations of the CMICSI, CMCO, CMSP, CMVA, CMSL, CMRR, CMRI, and CMIN. At December 31, 2022 and 2021, 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:

2022	\$ 21,457
2021	37,118
2020	—

The Company's total current federal income tax and change in net deferred income taxes without unrealized gains for the years ended December 31, 2022 and 2021 differ from the amount obtained by applying the federal

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statutory income tax rate of 21% in 2022 and 2021 to income before income taxes from the combined statutory statements of operations for the following reasons:

	2022		2021	
	Tax Effect	Effective Tax Rate	Tax Effect	Effective Tax Rate
Income before taxes (excluding capital gains)	\$ 39,336		\$ 35,937	
Capital gains	(18,287)		51,091	
Income before taxes	\$ 21,049		\$ 87,028	
Income tax expense at statutory rate	\$ 4,421	21.0 %	\$ 18,277	21.0 %
Increase (decrease) in tax resulting from:				
Tax-exempt interest	(920)	(4.4)	(1,172)	(1.3)
Dividends received deduction	(179)	(0.9)	(294)	(0.3)
Nondeductible expenses	175	0.8	85	0.1
Other items	971	4.6	68	0.1
Rate differential on net operating loss carryback	—	—	—	—
Cash surrender value of life insurance increase	(206)	(1.0)	(155)	(0.2)
Total income tax expense (benefit) expected	\$ 4,262	20.2 %	\$ 16,809	19.3 %
Current income taxes incurred	\$ 17,912	85.1 %	\$ 37,325	42.9 %
Prior year overaccrual	(983)	(4.7)	(592)	(0.7)
Other items	3	—	2	—
Change in deferred income tax (without tax on unrealized gains and losses and nonadmitted assets)	(12,670)	(60.2)	(19,926)	(22.9)
Total statutory income tax expense (benefit)	\$ 4,262	20.2 %	\$ 16,809	19.3 %

The components of the net deferred tax asset at December 31, 2022 and 2021 are as follows:

	December 31, 2022			December 31, 2021			Change
	Ordinary	Capital	Total	Ordinary	Capital	Total	
Total gross deferred tax assets	\$ 53,786	\$ 470	\$ 54,256	\$ 63,407	\$ 197	\$ 63,604	\$ (9,348)
Statutory valuation allowance	—	—	—	—	—	—	—
Adjusted gross deferred tax assets	53,786	470	54,256	63,407	197	63,604	(9,348)
Total gross deferred tax liabilities	(2,504)	(7,202)	(9,706)	(21,126)	(21,592)	(42,718)	33,012
Net deferred tax assets (liabilities)	51,282	(6,732)	44,550	42,281	(21,395)	20,886	23,664
Total deferred tax assets noadmitted	(1,127)	—	(1,127)	(100)	—	(100)	(1,027)
Net admitted deferred tax assets (liabilities)	\$ 50,155	\$ (6,732)	\$ 43,423	\$ 42,181	\$ (21,395)	\$ 20,786	\$ 22,637
							\$ 22,637
							\$ (13,515)
							\$ 2,893
							\$ 12,015
							\$ (1,027)
							\$ 13,042

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The amount of admitted adjusted gross deferred tax assets allowed under each component of SSAP No. 101, *Income Taxes*, as of December 31, 2022 and 2021 is as follows:

Admission calculation	December 31, 2022			December 31, 2021			Change
	Ordinary	Capital	Total	Ordinary	Capital	Total	
Admitted carrybacks for taxes paid in prior periods	\$ 40,340	\$ 313	\$ 40,653	\$ 35,930	\$ 197	\$ 36,127	\$ 4,526
Admitted Gross DTAs:							
Admitted adjusted DTA expected to be realized within applicable period	3,788	157	3,945	6,339	—	6,339	(2,394)
Admitted per applicable percentage of surplus and capital excluding DTAs, EDP, operating software, and positive goodwill	—	—	114,973	—	—	114,973	—
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)	3,788	157	3,945	6,339	—	6,339	(2,394)
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	8,531	—	8,531	21,038	—	21,038	(12,507)
Total admitted deferred tax assets	<u>52,659</u>	<u>470</u>	<u>53,129</u>	<u>63,307</u>	<u>197</u>	<u>63,504</u>	<u>(10,375)</u>
Total deferred tax liabilities	<u>(2,504)</u>	<u>(7,202)</u>	<u>(9,706)</u>	<u>(21,126)</u>	<u>(21,592)</u>	<u>(42,718)</u>	<u>33,012</u>
Net admitted deferred tax assets (liabilities)	<u>\$ 50,155</u>	<u>\$ (6,732)</u>	<u>\$ 43,423</u>	<u>\$ 42,181</u>	<u>\$ (21,395)</u>	<u>\$ 20,786</u>	<u>\$ 22,637</u>
Authorized control level ratio excluding DTAs			589%			690%	

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The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2022 and 2021 are as follows:

	2022		
	Ordinary	Capital	Total
Deferred tax assets:			
Tax basis discount on			
unpaid losses	\$ 14,824	\$ —	\$ 14,824
Adjustment for unearned premiums	23,411	—	23,411
Accrued deferred compensation	7,119	—	7,119
Accrued compensation and benefits	482	—	482
Accrued postretirement and			
pension benefits	5	—	5
Nonadmitted intangibles	315	—	315
Non-admitted common stock/prepays	1,283	—	1,283
Acquired intangibles	573	—	573
Other accrued expenses	6	—	6
Nonadmitted premiums receivable	261	—	261
Fixed assets	3,088	—	3,088
Other	2,419	470	2,889
Total deferred tax assets	<u>53,786</u>	<u>470</u>	<u>54,256</u>
Total deferred tax assets nonadmitted	<u>(1,127)</u>	<u>—</u>	<u>(1,127)</u>
Total admitted deferred			
tax assets	<u>52,659</u>	<u>470</u>	<u>53,129</u>
Deferred tax liabilities:			
Unrealized gains on stocks	—	7,081	7,081
Salvage & subrogation	596	—	596
Policy acquisition expenses	190	—	190
Unpaid losses liability	1,643	—	1,643
Fixed assets adjustment	—	—	—
Other	75	121	196
Total deferred			
tax liabilities	<u>2,504</u>	<u>7,202</u>	<u>9,706</u>
Net deferred tax asset			
admitted	<u>\$ 50,155</u>	<u>\$ (6,732)</u>	<u>\$ 43,423</u>

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	2021		
	Ordinary	Capital	Total
Deferred tax assets:			
Tax basis discount on			
unpaid losses	\$ 15,212	\$ —	\$ 15,212
Adjustment for unearned premiums	21,060	—	21,060
Accrued deferred compensation	8,350	—	8,350
Accrued postretirement and			
pension benefits	11,556	—	11,556
Alternative minimum tax credits		—	—
Nonadmitted intangibles	420	—	420
Non-admitted common stock/prepays	1,396	—	1,396
Acquired intangibles	865	—	865
Other tax credit carryforwards	40	—	40
Securities impairment	166	—	166
Fixed assets	1,554	—	1,554
Other	2,788	197	2,985
Total deferred tax assets	<u>63,407</u>	<u>197</u>	<u>63,604</u>
Total deferred tax assets nonadmitted	<u>(100)</u>	<u>—</u>	<u>(100)</u>
Total admitted deferred			
tax assets	<u>63,307</u>	<u>197</u>	<u>63,504</u>
Deferred tax liabilities:			
Unrealized gains on stocks	—	20,596	20,596
Unpaid losses liability	2,191	—	2,191
Fixed assets adjustment	17,986	—	17,986
Other	949	996	1,945
Total deferred			
tax liabilities	<u>21,126</u>	<u>21,592</u>	<u>42,718</u>
Net deferred tax asset			
admitted	\$ <u>42,181</u>	\$ <u>(21,395)</u>	\$ <u>20,786</u>

There are no deferred tax liabilities that are not recognized as of December 31, 2022 or 2021.

As of December 31, 2022 and 2021, no statutory valuation allowance has been reported against the Company's deferred tax assets.

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The changes in the main components of deferred tax assets and deferred tax liabilities for the years ended December 31, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Changes in deferred tax assets from book/tax differences in:		
Net loss reserve discounting for tax	\$ (388)	\$ 222
Adjustment for unearned premiums	2,351	1,120
Accrued deferred compensation	(1,231)	1,023
Accrued compensation and benefits	482	—
Accrued pension and postretirement benefits	(11,551)	(397)
Accrued compensated absences	—	(303)
Nonadmitted intangibles	(105)	403
Non-admitted common stock/prepays	(113)	1,146
Acquired intangibles	(292)	(275)
Other accrued expenses	(34)	15
Nonadmitted premiums receivable	95	21
Fixed assets	1,534	585
Other	(96)	(341)
Total change in gross deferred tax assets	<u>(9,348)</u>	<u>3,219</u>
Total change in nonadmitted deferred tax assets	<u>(1,027)</u>	<u>106</u>
Total change in net admitted deferred tax assets	<u>\$ (10,375)</u>	<u>\$ 3,325</u>
Deferred tax liabilities resulting from book/tax differences in:		
Unrealized gains on stocks	13,515	(6,403)
Salvage & subrogation	(596)	—
Policy acquisition expenses	(190)	—
Unpaid losses liability	548	548
Fixed assets adjustment	17,986	17,986
Other	1,749	(778)
Total change in deferred tax asset (liabilities)	<u>33,012</u>	<u>11,353</u>
Total change in net deferred tax asset (liabilities)	<u>\$ 22,637</u>	<u>\$ 14,678</u>

In August 2022, the Inflation Reduction Act of 2022 (“Act”) was passed by U.S. Congress and signed into law by President Biden. The Act includes a new Federal alternative minimum tax (“AMT”), effective in 2023, that is based on the adjusted financial statement income set forth on the applicable financial statement of an applicable corporation. The controlled group of corporations of which the Company is a member has determined that it likely will not be an applicable corporation in 2023. In making such determination, the group has made certain interpretations of, and assumptions regarding, the AMT provisions of the Act. The U.S. Treasury Department is expected to issue guidance throughout 2023 that may differ from the group’s interpretations and assumptions and that could alter the group’s determination.

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The Company has determined that there is no impact from tax-planning strategy on the adjusted gross and net admitted deferred tax assets as of December 31, 2022 or 2021. The Company's tax-planning strategy does not include the use of reinsurance related tax-planning strategies.

The examinations of the Company's consolidated federal income tax returns for the years 2018 and prior are closed, and the years 2019 through 2022 remain open under the IRS statute of limitations.

(6) EMPLOYEE BENEFIT PLANS

(a) Pension Plan

CMICSI sponsors a noncontributory defined benefit pension plan (Pension Plan), which covers substantially all employees.

The cash balance account at the end of any plan year is equal to the beginning cash balance account plus any interest credit, contribution credit, and transition credit for the plan year. The normal cost for the year ended December 31, 2022 and 2021 and applicable amortization of prior service costs have been funded in accordance with the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). As of December 31, 2022 and 2021, CMICSI has reported pension balances in accordance with actuarially determined amounts.

Summarized information on the Pension Plan for the year ended December 31, 2022 and 2021 is as follows:

	Measurement date	
	December 31, 2022	December 31, 2021
	<u> </u>	<u> </u>
Change in benefit obligation:		
Projected benefit obligation at beginning of year	\$ 112,665	\$ 117,441
Service cost	4,187	4,707
Interest cost	3,267	3,036
Actuarial loss (gain)	(17,197)	(3,325)
Settlements	(10,638)	—
Other benefits paid	(1,464)	(9,194)
Projected benefit obligation at end of year	<u>\$ 90,820</u>	<u>\$ 112,665</u>

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	Measurement date	
	December 31, 2022	December 31, 2021
Change in plan assets:		
Fair value of plan assets at beginning of year	119,183	116,661
Actual return on plan assets	(8,488)	10,768
Employer contribution	475	948
Settlements	(11,893)	0
Other benefits paid	(1,464)	(9,194)
Fair value of plan assets at end of year	<u>\$ 97,813</u>	<u>\$ 119,183</u>
Funded (unfunded) status	<u>\$ 6,993</u>	<u>\$ 6,518</u>
Items not yet recognized as a component of net periodic pension costs:		
Unrecognized prior service cost (vested)	\$ (5,786)	\$ —
Unrecognized actuarial loss	15,320	—
Components of net periodic benefit cost:		
Service cost	\$ 4,187	\$ 4,707
Interest cost	3,267	3,036
Expected return on plan assets	(6,421)	(6,288)
Amortization of net loss (gain) from earlier periods	529	1,164
Amortization of unrecognized prior service (credit) cost	(991)	(991)
Total net period benefit cost	<u>\$ 571</u>	<u>\$ 1,628</u>

The accumulated benefit obligations as of December 31, 2022 and 2021 is \$90,141 and \$110,110, respectively. A measurement date of December 31, 2022 was used to determine the benefit obligation and net benefit cost.

CMICSI had a nonadmitted prepaid pension asset of \$6,993 at December 31, 2022 and a nonadmitted prepaid pension asset of \$6,518 at December 31, 2021.

The following table summarizes benefits expected to be paid in each of the next five years and, in the aggregate, for the five fiscal years thereafter:

2023	\$ 5,155
2024	5,626
2025	6,004
2026	7,110
2027	7,442
2028 – 2032	<u>43,492</u>
Total	<u>\$ 74,829</u>

CMICSI expects to make contributions to the 2023 Pension Plan year in the amount of \$1,000 pursuant to board approval. This contribution amount is in line with contributions of previous years.

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The following weighted average assumptions were used in determining the costs and liabilities associated with the Pension Plan:

	<u>2022</u>	<u>2021</u>
Used to determine benefit cost:		
Measurement date	12/31/2022	12/31/2021
Discount rate	2.97%	2.61%
Rate of compensation increase	3.75	3.75
Expected long-term rate of return on plan assets	5.50	5.50
Interest crediting rates	4.00	4.00
Used to determine benefit obligation:		
Measurement date	12/31/2022	12/31/2021
Discount rate	5.59%	2.97%
Rate of compensation increase	3.75	3.75
Interest crediting rates	5.41	4.00

CMICSI's investment objectives are designed to (1) provide a long-term investment return greater than the actuarial assumption; (2) maximize investment returns commensurate with appropriate levels of risk; and (3) invest funds in a manner consistent with ERISA's fiduciary standards. Assets are allocated to provide adequate liquidity for plan disbursements and managed such that all retirement benefits payments are met as they become due. CMICSI's guidance to its manager permits equity exposure up to 40.0% of the portfolio depending on market conditions.

The tables below present the fair value hierarchy for the balances of the assets of the Pension Plan measured at fair value on a recurring basis and other balances as of December 31, 2022 and 2021. Fair value of Level 1 assets is based on unadjusted quoted prices for identical assets in active markets that are accessible to the Company. Fair value of Level 2 assets is based on quoted prices other than those included within Level 1 that are observable for the asset, either directly or indirectly. Fair value of Level 3 assets is estimated by CMICSI using one or more significant unobservable inputs.

	<u>December 31, 2022</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash equivalents	\$ 1,248	\$ —	\$ —	\$ 1,248
U.S. government securities	10,829	—	—	10,829
Corporate bonds and debentures	—	50,735	—	50,735
Foreign issued bonds and debentures	—	1,827	—	1,827
Common stocks	32,618	—	—	32,618
Mutual funds	—	—	—	—
Accrued income	556	—	—	556
Total	<u>\$ 45,251</u>	<u>\$ 52,562</u>	<u>\$ —</u>	<u>\$ 97,813</u>

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	December 31, 2021			Total
	Level 1	Level 2	Level 3	
Cash equivalents	\$ 1,238	\$ —	\$ —	\$ 1,238
U.S. government securities	10,242	—	—	10,242
Corporate bonds and debentures	—	61,527	—	61,527
Foreign issued bonds and debentures	—	2,078	—	2,078
Common stocks	42,490	—	—	42,490
Mutual funds	1,028	—	—	1,028
Accrued income	580	—	—	580
Total	\$ 55,578	\$ 63,605	\$ —	\$ 119,183

The expected long-term rate of return on the Pension Plan's assets is reviewed at least annually, taking into account the asset allocation, historical and future returns on the types of assets in the plan, and the current economic environment. CMICSI strives to keep asset allocation consistent over time and within a relatively narrow band of asset class ranges regardless of short-term market moves. Based on these factors, CMICSI expects the plan assets will earn an average 5.50% per year in the future. This return assumption is based on its expectations for expected returns in the equity and bond markets over a longer-term expectation horizon.

In 2022 the cost of all settlements in the defined benefit plan was less than the sum of the service cost and interest cost of the plan. As a result of these settlements, the Projected Benefit Obligation was reduced by \$10,638 in 2022, with a corresponding reduction in the Fair Value of Plan Assets of \$11,893 in 2022, for a decrease to the Funded Status of the Plan of \$1,255 in 2022. Following settlement accounting treatment, the Company also recognized a net loss of \$1,766 in 2022 from previously unrecognized net loss. The net result was an additional pension expense of \$3,020 in the Statutory Statement of Operations for the years ended December 31, 2022.

(b) Postretirement Benefits Other than Pensions

CMICSI sponsored a defined benefit plan that provided certain postretirement healthcare and life insurance benefits for retired employees. The Company elected to terminate the post-retirement health plan effective December 31, 2022.

The postretirement benefit plan is unfunded and as such, there are no assets associated with the plan.

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The following tables present the Plan's funded status reconciled with amounts recognized in the Company's surplus of policyholders at December 31:

	<u>2022</u>	<u>2021</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 53,684	\$ 56,195
Service cost	598	2,086
Interest cost	752	1,390
Actuarial loss (gain)	(16,473)	(4,881)
Other events: Settlement	(4,965)	0
Curtailment	(22,344)	—
Benefits paid	(11,252)	(1,106)
Accrued postretirement cost	\$ —	\$ 53,684

	<u>2022</u>	<u>2021</u>
Fair value of plan assets	\$ —	\$ —
Benefit obligation at end of year	—	53,684
Unfunded status	\$ —	\$ (53,684)

	<u>2022</u>	<u>2021</u>
Items not yet recognized as a component of net periodic postretirement costs:		
Unrecognized prior service (credit) (vested)	\$ —	\$ (12,440)
Unrecognized prior service cost (nonvested)	—	—
Unrecognized actuarial loss (gain)	—	22,626

	<u>2022</u>	<u>2021</u>
Components of net periodic benefit cost:		
Service cost	\$ 598	\$ 2,086
Interest cost	752	1,390
Amount of recognized prior service credit (vested)	(344)	(1,032)
Amount of recognized prior service cost (nonvested)	—	—
Amount of recognized losses	266	1,201
Total net periodic benefit cost	\$ 1,272	\$ 3,645

The following assumptions were used in determining the costs and liabilities associated with the postretirement benefit plan:

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	<u>2022</u>	<u>2021</u>
Used to determine benefit obligation and benefit cost:		
Measurement date	12/31/22	12/31/21
Discount rate benefit cost	5.15%	2.59%
Discount rate benefit obligation	5.15	2.86

CMICSI has accrued a liability of \$0 and \$53,684 at December 31, 2022 and 2021, respectively.

For measurement of the benefit obligation, the following medical trend rates were assumed for the annual increase in the per capita cost of covered healthcare benefits:

	<u>Medical Pre-65</u>	<u>Medical Post-65</u>
2022 first year medical trend rate	5.40%	4.70%
2023 first year medical trend rate	5.20	4.80
Ultimate medical trend rate	3.70	3.70

CMICSI has a profit-sharing plan covering substantially all full-time employees. The Company's incurred profit-sharing expense was \$2,796 and \$4,651 as of December 31, 2022 and 2021, respectively, and profit-sharing contribution payments based on prior year accrued amounts were \$4,991 and \$2,562 in 2022 and 2021, respectively.

CMICSI sponsors a defined contribution plan. The plan includes an IRS qualified 401(k) plan, which provides for a Company matching contribution of 100% of the first 3% and 50% of the next 2% contributed or deferred annually by each eligible participant, to a maximum matched contribution of 4% of the participant's earnings. In addition, the Company will contribute 2% to each eligible participant regardless of their participation. CMICSI's matching contribution for the plan was \$5,064 and \$4,859 in 2022 and 2021, respectively.

(c) Deferred Compensation

CMICSI has granted various deferred compensation and supplemental retirement benefits to certain senior officers and sales representatives. The liability at December 31, 2022 and 2021 was approximately \$20,690 and \$24,720, respectively. The expense for these plans was \$2,402 and \$1,790 for the years ended December 31, 2022 and 2021, respectively.

(7) 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, either on an automatic basis or under general reinsurance contracts known as "treaties" or by negotiation on substantial facultative risks. Ceded reinsurance is treated as the risk and liability of the assuming companies.

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CMICSI is an assuming member of the Mutual Re (MRB), an unincorporated joint reinsurance association made up of five member companies. Excluding any business ceded by the Company to MRB, all member companies participate equally (at 20%) in the association's underwriting results. Any business ceded by the Company to MRB is assumed equally (at 25%) by the other four member companies.

The following tables summarize amounts related to reinsurance assumed and ceded as of December 31, 2022 and 2021 for the years then ended:

Premium activity:

	2022		
	Written	Earned	Unearned
Direct	\$ 1,247,427	\$ 1,185,893	\$ 598,538
Assumed - unaffiliated	33,069	32,499	8,171
Ceded	(224,536)	(218,419)	(49,293)
Net	<u>\$ 1,055,960</u>	<u>\$ 999,973</u>	<u>\$ 557,416</u>

	2021		
	Written	Earned	Unearned
Direct	\$ 1,116,368	\$ 1,093,172	\$ 537,004
Assumed - unaffiliated	31,125	29,582	7,601
Ceded	(213,444)	(215,376)	(43,176)
Net	<u>\$ 934,049</u>	<u>\$ 907,378</u>	<u>\$ 501,429</u>

Loss and LAE activity:

	2022		2021	
	Incurred loss and LAE	Liability for loss and LAE	Incurred loss and LAE	Liability for loss and LAE
Direct	\$ 784,124	\$ 909,958	\$ 792,526	\$ 902,745
Assumed - unaffiliated	26,068	69,587	17,556	63,701
Ceded	(122,384)	(137,229)	(230,085)	(162,580)
Net	<u>\$ 687,808</u>	<u>\$ 842,316</u>	<u>\$ 579,997</u>	<u>\$ 803,866</u>

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

The Company receives contingent commissions from reinsurance contracts. Contingent commissions of approximately \$1,298 and \$1,468 were recognized for the years ended December 31, 2022 and 2021, respectively.

CMICSI is a Standard Reinsurance Agreement holder through the Federal Crop Insurance Corporation. All of the multiple peril crop business is 100% ceded to a group of six highly rated reinsurers. The reinsurers are Validus Reinsurance LTD (50%), Starstone National Insurance Company (20%), Toa Reinsurance Company of America (12.5%), Arch Reinsurance Company (7%), American Agricultural Insurance Co (5.5%), and Catlin Re

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Switzerland (5%). The Company also entered into an agreement with Precision Risk Management, who will serve as the Managing General Agent (MGA), for the multiple peril crop insurance for the Company effective with the 2020 crop season.

The Company elected to compute unearned premium reserve associated with the Multiple Peril Crop Insurance Program on a daily pro rata method using a calendar period approach, as the Company did not believe it could demonstrate that the period of risk differs significantly from the contract period.

The Company reduced its loss expenses for expense payments associated with catastrophe coverage by \$0 in both 2022 and 2021. The Company reduced its other underwriting expenses for expense payments associated with buy-up coverage by \$0 in both 2022 and 2021.

Direct unearned premium reserve was \$598,538 and net direct unearned premium reserve was \$557,416 as of December 31, 2022. 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 assumed as of the end of 2022 is as follows:

	<u>Assumed reinsurance</u>		<u>Ceded reinsurance</u>		<u>Net</u>	
	<u>Unearned premiums</u>	<u>Commission equity</u>	<u>Unearned premiums</u>	<u>Commission equity</u>	<u>Unearned premiums</u>	<u>Commission equity</u>
Nonaffiliates	\$ 8,171	\$ 1,348	\$ 49,293	\$ 7,789	\$ (41,122)	\$ (6,441)

Unsecured aggregate recoverables from reinsurers for losses and LAE paid, losses and LAE unpaid, and unearned premium in excess of 3.0% of the Company's total surplus were \$74,089 and \$34,127 for the years ended December 31, 2022 and 2021, respectively.

(8) LEASES

The Company leases certain facilities and equipment under operating leases having terms of more than one year.

Total lease expense under the operating leases was approximately \$1,432 and \$1,710 for the years ended December 31, 2022 and 2021, respectively.

The following is a schedule of future minimum lease payments required under terms of the aforementioned leases as of December 31, 2022:

Fiscal year ending:		
2023	\$	1,334
2024		1,364
2025		732
2026		377
Thereafter		993
Total minimum lease payments	\$	<u>4,800</u>

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(9) 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.

In conjunction with structured claims settlements, the Company has purchased various annuities for which claimants are payees but for which the Company is contingently liable. The aggregate present value of such annuities was \$984 and \$987 as of December 31, 2022 and 2021, respectively.

As a condition of doing business, all states and jurisdictions have adopted laws requiring membership in the insurance guaranty funds. Member companies are subject to assessments each year based on premiums written in the state. The Company has estimated its costs related to past insolvencies and has recorded a charge to operations of \$1,095 and \$303 for the years ended December 31, 2022 and 2021, respectively. The Company has accrued a liability for future guaranty fund assessments of \$518 and \$1,625 as of December 31, 2022 and 2021, respectively.

(10) RELATED PARTIES

In 2022, CMICSI issued a dividend to CMHC in the amount of \$700 for contribution to the Church Mutual Insurance Company Foundation. CMICSI issued dividends to CMHC totaling \$5,500 to finalize the purchase of WMMS and SING.

In 2021, the following related party transactions occurred. CMICSI issued a dividend to CMHC in the amount of \$50,000 for the acquisitions of SING and WMMS. CMICSI issued a dividend to CMHC in the amount of \$1,000 for contribution to the Church Mutual Insurance Company Foundation. CMRR made a cash distribution to CMHC of \$7,700 which was then redistributed to CMICSI to allow better investment through its already well-established investment program.

(11) 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 paid to the Company from its insurance subsidiaries, may be limited by regulatory requirements.

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(Dollars in thousands)

(12) SUBSEQUENT EVENTS

Management has evaluated events subsequent to December 31, 2022 through May 12, 2023, the date these financial statements were available to be issued. Based on this evaluation, it is management's opinion that no events subsequent to December 31, 2022, have occurred that are material to the Company's financial position at that date or the results of its operations for the period then ended, except as disclosed below.

On April 14, 2023 Form A, *Statement Regarding the Acquisition of Control of or Merger with a Domestic Insurer*, was filed by the intended buyer with the Wisconsin Department of Insurance regarding the intended acquisition of CM Select. Form A is subject to approval by the Insurance Commissioner of the State of Wisconsin.

CHURCH MUTUAL INSURANCE COMPANY, S.I. AND AFFILIATED PROPERTY AND CASUALTY COMPANIES

Combining Schedule of Statutory Statement of Admitted Assets, Liabilities, and Surplus of Policyholders

December 31, 2022
(Dollars in thousands)

Admitted Assets	CMICSI	CMSL	CMVA	CMRI	CMIN	Eliminations	CMICSI Combined
Cash and invested assets:							
Bonds	\$ 1,191,227	21,248	57,747	109,442	20,905	—	\$ 1,400,569
Common stocks	226,219	—	—	21,311	—	—	247,530
Cash and cash equivalents	96,102	2,108	13,148	5,823	412	—	117,593
Other invested assets	104,603	—	—	—	—	—	104,603
Receivable for securities	205	—	—	—	—	—	205
Cash surrender value of life insurance	24,873	—	—	—	—	—	24,873
Land and buildings – net	10,620	—	—	—	—	—	10,620
Total cash and invested assets	<u>1,653,849</u>	<u>23,356</u>	<u>70,895</u>	<u>136,576</u>	<u>21,317</u>	<u>—</u>	<u>1,905,993</u>
Other assets:							
Premiums and other receivables	310,266	3,261	11,756	6,098	—	(26,975)	304,406
Contingent commissions receivable	2,017	—	—	135	—	—	2,152
Receivables from reinsurers	47,985	305	2,841	3,053	—	(14,351)	39,833
Receivables from subsidiaries	5,441	—	—	—	—	(4,236)	1,205
Federal income taxes receivable	28,788	21	—	32	—	(252)	28,589
Net deferred tax asset	43,572	74	595	—	—	(818)	43,423
Guaranty funds on deposit	893	6	—	—	—	—	899
Accrued interest and dividends	8,994	106	286	603	106	—	10,095
Electronic data processing equipment – net	1,580	—	—	—	—	—	1,580
Other	38,174	26	—	1	—	—	38,201
Total other assets	<u>487,710</u>	<u>3,799</u>	<u>15,478</u>	<u>9,922</u>	<u>106</u>	<u>(46,632)</u>	<u>470,383</u>
Total admitted assets	<u>\$ 2,141,559</u>	<u>27,155</u>	<u>86,373</u>	<u>146,498</u>	<u>21,423</u>	<u>(46,632)</u>	<u>\$ 2,376,376</u>

See accompanying independent auditors' report.

CHURCH MUTUAL INSURANCE COMPANY, S.I. AND AFFILIATED PROPERTY AND CASUALTY COMPANIES

Combining Schedule of Statutory Statement of Admitted Assets, Liabilities, and Surplus of Policyholders

December 31, 2021
(Dollars in thousands)

Admitted Assets	CMICSI	CMSL	CMVA	CMRI	CMIN	Eliminations	CMICSI Combined
Cash and invested assets:							
Bonds	\$ 1,166,828	20,807	55,792	105,686	19,851	—	\$ 1,368,964
Common stocks	294,825	—	—	26,159	—	—	320,984
Cash and cash equivalents	78,512	1,317	12,957	8,807	1,190	—	102,783
Other invested assets	106,680	—	—	—	—	—	106,680
Receivable for securities	27	—	—	—	—	—	27
Cash surrender value of life insurance	24,967	—	—	—	—	—	24,967
Land and buildings – net	11,196	—	—	—	—	—	11,196
Total cash and invested assets	<u>1,683,035</u>	<u>22,124</u>	<u>68,749</u>	<u>140,652</u>	<u>21,041</u>	<u>—</u>	<u>1,935,601</u>
Other assets:							
Premiums and other receivables	260,389	1,583	10,058	5,977	—	(19,865)	258,142
Contingent commissions receivable	2,375	—	—	110	—	—	2,485
Receivables from reinsurers	36,490	(206)	644	6,988	—	(13,828)	30,088
Receivables from subsidiaries	6,092	—	—	—	—	(3,670)	2,422
Federal income taxes receivable	56,296	—	8	—	—	(708)	55,596
Net deferred tax asset	22,017	63	347	—	—	(1,641)	20,786
Guaranty funds on deposit	143	—	—	—	—	—	143
Accrued interest and dividends	7,369	96	258	506	94	—	8,323
Electronic data processing equipment – net	1,759	—	—	—	—	—	1,759
Other	44,782	—	1	7	—	—	44,790
Total other assets	<u>437,712</u>	<u>1,536</u>	<u>11,316</u>	<u>13,588</u>	<u>94</u>	<u>(39,712)</u>	<u>424,534</u>
Total admitted assets	<u>\$ 2,120,747</u>	<u>23,660</u>	<u>80,065</u>	<u>154,240</u>	<u>21,135</u>	<u>(39,712)</u>	<u>\$ 2,360,135</u>

See accompanying independent auditors' report.

CHURCH MUTUAL INSURANCE COMPANY, S.I. AND AFFILIATED PROPERTY AND CASUALTY COMPANIES
Combining Schedule of Statutory Statement of Admitted Assets, Liabilities, and Surplus of Policyholders (continued)
December 31, 2022
(Dollars in thousands)

Liabilities and Surplus of Policyholders	CMICSI	CMSL	CMVA	CMRI	CMIN	Eliminations	CMICSI Combined
Liabilities:							
Reserve for losses and loss adjustment expenses	\$ 831,031	—	—	11,285	—	—	\$ 842,316
Reinsurance payable on paid losses and loss adjustment expenses	4,351	—	—	127	—	(4,351)	127
Unearned premiums	557,416	—	—	—	—	—	557,416
Dividends payable to policyholders	16,956	—	—	—	—	—	16,956
Ceded reinsurance premiums payable	77,754	4,188	20,516	2,628	—	(26,974)	78,112
Accrued expenses	62,527	(179)	35	1,842	—	—	64,225
Funds held under reinsurance treaties	1,771	16	5,019	5,016	—	(10,000)	1,822
Funds held for others	8,848	5	296	140	—	—	9,289
Premium deposits	5,917	260	—	—	—	—	6,177
Payable to parent	—	870	2,793	573	—	(4,236)	—
Payable for securities	7,090	—	—	—	—	—	7,090
Federal income taxes payable	—	—	176	—	77	(253)	—
Net deferred tax liability	—	—	—	818	—	(818)	—
Other taxes	5,561	191	—	150	—	—	5,902
Liability for deferred compensation and pension	20,690	—	—	—	—	—	20,690
Other liabilities	491	27	378	1,512	—	—	2,408
Total liabilities	1,600,403	5,378	29,213	24,091	77	(46,632)	1,612,530
Capital and surplus:							
Common stock	5,000	4,000	3	5,000	5,000	—	19,003
Guaranty fund	1,600	—	—	—	—	—	1,600
Gross paid-in and contributed surplus	8,875	16,000	51,997	24,025	15,000	—	115,897
Unassigned surplus	525,681	1,777	5,160	93,382	1,346	—	627,346
Total surplus of policyholders	541,156	21,777	57,160	122,407	21,346	—	763,846
Total liabilities and surplus of policyholders	\$ 2,141,559	27,155	86,373	146,498	21,423	(46,632)	\$ 2,376,376

See accompanying independent auditors' report.

CHURCH MUTUAL INSURANCE COMPANY, S.I. AND AFFILIATED PROPERTY AND CASUALTY COMPANIES
Combining Schedule of Statutory Statement of Admitted Assets, Liabilities, and Surplus of Policyholders (continued)
December 31, 2021
(Dollars in thousands)

Liabilities and Surplus of Policyholders	CMICSI	CMSL	CMVA	CMRI	CMIN	Eliminations	CMICSI Combined
Liabilities:							
Reserve for losses and loss adjustment expenses	\$ 786,474	—	—	17,392	—	—	\$ 803,866
Reinsurance payable on paid losses and loss adjustment expenses	3,828	—	—	148	—	(3,828)	148
Unearned premiums	501,429	—	—	—	—	—	501,429
Dividends payable to policyholders	17,995	—	—	—	—	—	17,995
Ceded reinsurance premiums payable	74,582	1,847	16,189	2,993	—	(19,865)	75,746
Accrued expenses	60,968	(90)	28	1,851	—	—	62,757
Funds held under reinsurance treaties	3,721	16	5,012	5,015	—	(10,000)	3,764
Funds held for others	6,879	1	95	224	—	—	7,199
Premium deposits	7,999	74	—	—	—	—	8,073
Payable to parent	—	229	2,082	1,359	—	(3,670)	—
Payable for securities	28	—	—	—	—	—	28
Federal income taxes payable	—	3	—	628	77	(708)	—
Net deferred tax liability	—	—	—	1,641	—	(1,641)	—
Other taxes	5,871	102	—	161	—	—	6,134
Liability for deferred compensation and pension	24,720	—	—	—	—	—	24,720
Liability for postretirement benefits other than pension	53,684	—	—	—	—	—	53,684
Other liabilities	1,817	9	54	2,043	—	—	3,923
Total liabilities	1,549,995	2,191	23,460	33,455	77	(39,712)	1,569,466
Capital and surplus:							
Common stock	5,000	4,000	3	5,000	5,000	—	19,003
Guaranty fund	1,600	—	—	—	—	—	1,600
Gross paid-in and contributed surplus	8,875	16,000	51,997	24,025	15,000	—	115,897
Unassigned surplus	555,277	1,469	4,605	91,760	1,058	—	654,169
Total surplus of policyholders	570,752	21,469	56,605	120,785	21,058	—	790,669
Total liabilities and surplus of policyholders	\$ 2,120,747	23,660	80,065	154,240	21,135	(39,712)	\$ 2,360,135

See accompanying independent auditors' report.

CHURCH MUTUAL INSURANCE COMPANY, S.I. AND AFFILIATED PROPERTY AND CASUALTY COMPANIES

Combining Schedule of Statutory Statement of Operations

Year ended December 31, 2022

(Dollars in thousands)

	<u>CMICI</u>	<u>CMSL</u>	<u>CMVA</u>	<u>CMRI</u>	<u>CMIN</u>	<u>Eliminations</u>	<u>CMICI Combined</u>
Underwriting:							
Premiums earned	\$ 999,973	—	—	—	—	—	\$ 999,973
Losses and expenses incurred:							
Losses incurred	584,249	—	—	(2,842)	—	—	581,407
Loss adjustment expenses incurred	107,636	—	—	(1,235)	—	—	106,401
Other underwriting expenses	333,293	—	—	150	—	—	333,443
Total losses and expenses incurred	1,025,178	—	—	(3,927)	—	—	1,021,251
Net underwriting gain	(25,205)	—	—	3,927	—	—	(21,278)
Investment and other income:							
Interest	31,860	478	1,360	2,641	398	—	36,737
Dividends	6,822	—	—	350	—	—	7,172
Real estate income	4,000	—	—	—	—	—	4,000
Net realized gain on sales of investments, net of tax	(14,408)	(9)	(3)	(21)	(6)	—	(14,447)
Investment expenses	(4,838)	(47)	(127)	(516)	(27)	—	(5,555)
Other	30,131	(1)	(12)	—	—	—	30,118
Net investment and other income	53,567	421	1,218	2,454	365	—	58,025
Income before dividends to policyholders and federal income tax expense	28,362	421	1,218	6,381	365	—	36,747
Dividends to policyholders	11,858	—	—	—	—	—	11,858
Income before federal income tax expense	16,504	421	1,218	6,381	365	—	24,889
Federal income tax (benefit) expense	18,896	107	472	1,221	77	—	20,773
Net income	\$ (2,392)	314	746	5,160	288	—	\$ 4,116

See accompanying independent auditors' report.

CHURCH MUTUAL INSURANCE COMPANY, S.I. AND AFFILIATED PROPERTY AND CASUALTY COMPANIES

Combining Schedule of Statutory Statement of Operations

December 31, 2021

(Dollars in thousands)

	<u>CMCSI</u>	<u>CMSL</u>	<u>CMVA</u>	<u>CMRI</u>	<u>CMIN</u>	<u>Eliminations</u>	<u>CMCSI Combined</u>
Underwriting:							
Premiums earned	\$ 907,379	—	—	(1)	—	—	\$ 907,378
Losses and expenses incurred:							
Losses incurred	480,141	—	—	(4,662)	—	—	475,479
Loss adjustment expenses incurred	104,541	—	—	(23)	—	—	104,518
Other underwriting expenses	313,968	—	—	150	—	—	314,118
Total losses and expenses incurred	898,650	—	—	(4,535)	—	—	894,115
Net underwriting gain	8,729	—	—	4,534	—	—	13,263
Investment and other income:							
Interest	24,916	434	1,217	2,453	378	—	29,398
Dividends	7,867	—	—	319	—	—	8,186
Real estate income	4,000	—	—	—	—	—	4,000
Net realized gain on sales of investments, net of tax	40,285	10	27	29	11	—	40,362
Investment expenses	(4,929)	(50)	(124)	(523)	(27)	—	(5,653)
Other	(2,137)	—	(14)	(2)	—	—	(2,153)
Net investment and other income	70,002	394	1,106	2,276	362	—	74,140
Income before dividends to policyholders and federal income tax expense	78,731	394	1,106	6,810	362	—	87,403
Dividends to policyholders	11,104	—	—	—	—	—	11,104
Income before federal income tax expense	67,627	394	1,106	6,810	362	—	76,299
Federal income tax (benefit) expense	24,352	122	218	1,240	74	—	26,006
Net income	\$ 43,275	272	888	5,570	288	—	\$ 50,293

See accompanying independent auditors' report.

CHURCH MUTUAL INSURANCE COMPANY, S.I. AND AFFILIATED PROPERTY AND CASUALTY COMPANIES

Combining Schedule of Statutory Statement of Surplus of Policyholders

Year ended December 31, 2022

(Dollars in thousands)

	<u>CMCSI</u>	<u>CMSL</u>	<u>CMVA</u>	<u>CMRI</u>	<u>CMIN</u>	<u>Eliminations</u>	<u>CMICI Combined</u>
Common stock:							
Beginning balance	\$ 5,000	4,000	3	5,000	5,000	—	\$ 19,003
Common stock issuance through reorganization	—	—	—	—	—	—	—
Ending balance	<u>5,000</u>	<u>4,000</u>	<u>3</u>	<u>5,000</u>	<u>5,000</u>	<u>—</u>	<u>19,003</u>
Gross paid-in and contributed surplus:							
Beginning balance	8,875	16,000	51,997	24,025	15,000	—	115,897
Paid-in surplus through reorganization	—	—	—	—	—	—	—
Ending balance	<u>8,875</u>	<u>16,000</u>	<u>51,997</u>	<u>24,025</u>	<u>15,000</u>	<u>—</u>	<u>115,897</u>
Guaranty fund	<u>1,600</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,600</u>
Unassigned surplus:							
Beginning balance	555,276	1,469	4,605	91,761	1,058	—	654,169
Net income	(2,392)	314	746	5,160	288	—	4,116
Net unrealized (losses) gains on investments, net of capital	(47,014)	—	—	(4,104)	—	—	(51,118)
Net deferred income taxes	10,028	11	305	79	—	—	10,423
Provision for reinsurance	8	(17)	11	37	—	—	39
Nonadmitted assets	(2,735)	—	(507)	449	—	—	(2,793)
Distributions	(6,200)	—	—	—	—	—	(6,200)
Change in post retirement and pensions	18,710	—	—	—	—	—	18,710
Ending balance	<u>525,681</u>	<u>1,777</u>	<u>5,160</u>	<u>93,382</u>	<u>1,346</u>	<u>—</u>	<u>627,346</u>
Total capital and surplus	<u>\$ 541,156</u>	<u>21,777</u>	<u>57,160</u>	<u>122,407</u>	<u>21,346</u>	<u>—</u>	<u>\$ 763,846</u>

See accompanying independent auditors' report.

CHURCH MUTUAL INSURANCE COMPANY, S.I. AND AFFILIATED PROPERTY AND CASUALTY COMPANIES

Combining Schedule of Statutory Statement of Surplus of Policyholders

December 31, 2021
(Dollars in thousands)

	<u>CMCSI</u>	<u>CMSL</u>	<u>CMVA</u>	<u>CMRI</u>	<u>CMIN</u>	<u>Eliminations</u>	<u>CMCSI Combined</u>
Common stock:							
Beginning balance	\$ 5,000	4,000	3	5,000	5,000	—	\$ 19,003
Common stock issuance through reorganization	—	—	—	—	—	—	—
Ending balance	<u>5,000</u>	<u>4,000</u>	<u>3</u>	<u>5,000</u>	<u>5,000</u>	<u>—</u>	<u>19,003</u>
Gross paid-in and contributed surplus:							
Beginning balance	1,175	16,000	51,997	24,025	15,000	—	108,197
Paid-in surplus through reorganization	7,700	—	—	—	—	—	7,700
Ending balance	<u>8,875</u>	<u>16,000</u>	<u>51,997</u>	<u>24,025</u>	<u>15,000</u>	<u>—</u>	<u>115,897</u>
Guaranty fund	<u>1,600</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,600</u>
Unassigned surplus:							
Beginning balance	525,204	1,170	3,629	83,612	770	—	614,385
Net income	43,275	272	888	5,570	288	—	50,293
Net unrealized (losses) gains on investments, net of capital	19,864	—	—	4,226	—	—	24,090
Net deferred income taxes	20,702	37	4	232	—	—	20,975
Provision for reinsurance	249	(8)	78	(6)	—	—	313
Nonadmitted assets	(16,046)	(2)	5	(1,874)	—	—	(17,917)
Distributions	(51,000)	—	—	—	—	—	(51,000)
Change in post retirement and pensions	13,029	—	—	—	—	—	13,029
Ending balance	<u>555,277</u>	<u>1,469</u>	<u>4,604</u>	<u>91,760</u>	<u>1,058</u>	<u>—</u>	<u>654,168</u>
Total capital and surplus	<u>\$ 570,752</u>	<u>21,469</u>	<u>56,604</u>	<u>120,785</u>	<u>21,058</u>	<u>—</u>	<u>\$ 790,668</u>

See accompanying independent auditors' report.

CHURCH MUTUAL INSURANCE COMPANY, S.I. AND AFFILIATED PROPERTY AND CASUALTY COMPANIES

Combining Schedule of Statutory Statement of Cash Flow

Year ended December 31, 2022

(Dollars in thousands)

	CMICSI	CMSL	CMVA	CMRI	CMIN	Eliminations	CMICSI Combined
Cash flows from operations:							
Premiums collected – net of reinsurance	\$ 1,004,282	850	2,186	(534)	—	—	\$ 1,006,784
Loss and loss adjustment expenses paid – net of salvage and subrogation recoveries (including reinsurance)	(551,047)	(511)	(2,197)	610	—	—	(553,145)
Underwriting expenses paid	(433,486)	(4)	6	(983)	—	—	(434,467)
Net investment income	42,669	463	1,336	2,530	445	—	47,443
Other income (loss)	30,131	(1)	(12)	2,200	—	—	32,318
Dividends to policyholders	(12,897)	—	—	—	—	—	(12,897)
Federal income taxes paid	12,443	(129)	(288)	(1,875)	(77)	—	10,074
Net cash provided by (used in) operations	<u>92,095</u>	<u>668</u>	<u>1,031</u>	<u>1,948</u>	<u>368</u>	<u>—</u>	<u>96,110</u>
Cash flows from investments:							
Proceeds from investments sold, matured, or repaid	921,292	3,716	7,691	17,619	3,461	—	953,779
Cost of investments acquired	(952,052)	(4,209)	(9,774)	(21,556)	(4,607)	—	(992,198)
Net cash used in investments	<u>(30,760)</u>	<u>(493)</u>	<u>(2,083)</u>	<u>(3,937)</u>	<u>(1,146)</u>	<u>—</u>	<u>(38,419)</u>
Cash flows from financing and miscellaneous sources:							
Dividend to stockholders	(6,200)	—	—	—	—	—	(6,200)
Other	(37,545)	616	1,243	(995)	—	—	(36,681)
Net cash provided by (used in) financing and miscellaneous sources	<u>(43,745)</u>	<u>616</u>	<u>1,243</u>	<u>(995)</u>	<u>—</u>	<u>—</u>	<u>(42,881)</u>
Net change in cash, cash equivalents, and short-term investments	17,590	791	191	(2,984)	(778)	—	14,810
Cash, cash equivalents, and short-term investments:							
Beginning of year	78,512	1,317	12,957	8,807	1,190	—	102,783
End of year	<u>\$ 96,102</u>	<u>2,108</u>	<u>13,148</u>	<u>5,823</u>	<u>412</u>	<u>—</u>	<u>\$ 117,593</u>
Non-cash transactions:							
Exchanges of bonds	\$ 13,326	—	—	—	—	—	\$ 13,326
Exchanges of stocks	—	—	—	—	—	—	—

See accompanying independent auditors' report.

CHURCH MUTUAL INSURANCE COMPANY, S.I. AND AFFILIATED PROPERTY AND CASUALTY COMPANIES

Combining Schedule of Statutory Statement of Cash Flow

December 31, 2021

(Dollars in thousands)

	CMICI	CMSL	CMVA	CMRI	CMIN	Eliminations	CMICI Combined
Cash flows from operations:							
Premiums collected – net of reinsurance	\$ 960,837	966	2,262	(943)	—	—	\$ 963,122
Loss and loss adjustment expenses paid – net of salvage and subrogation recoveries (including reinsurance)	(452,519)	444	1,444	(1,278)	—	—	(451,909)
Underwriting expenses paid	(398,066)	6	11	(683)	—	—	(398,732)
Net investment income	41,260	454	1,325	2,734	469	—	46,242
Other income (loss)	(2,136)	—	(14)	(2)	—	—	(2,152)
Dividends to policyholders	(12,126)	—	—	—	—	—	(12,126)
Federal income taxes paid	(26,839)	(106)	(350)	(2,931)	(92)	—	(30,318)
Net cash provided by (used in) operations	<u>110,411</u>	<u>1,764</u>	<u>4,678</u>	<u>(3,103)</u>	<u>377</u>	<u>—</u>	<u>114,127</u>
Cash flows from investments:							
Proceeds from investments sold, matured, or repaid	1,070,807	4,299	14,215	29,620	6,648	—	1,125,589
Cost of investments acquired	(1,122,190)	(4,893)	(15,122)	(24,852)	(6,764)	—	(1,173,821)
Net cash used in investments	<u>(51,383)</u>	<u>(594)</u>	<u>(907)</u>	<u>4,768</u>	<u>(116)</u>	<u>—</u>	<u>(48,232)</u>
Cash flows from financing and miscellaneous sources:							
Dividend to stockholders	(51,000)	—	—	—	—	—	(51,000)
Other	(24,449)	(313)	3,225	740	—	—	(20,797)
Net cash provided by (used in) financing and miscellaneous sources	<u>(75,449)</u>	<u>(313)</u>	<u>3,225</u>	<u>740</u>	<u>—</u>	<u>—</u>	<u>(71,797)</u>
Net change in cash, cash equivalents, and short-term investments	(16,421)	857	6,996	2,405	261	—	(5,902)
Cash, cash equivalents, and short-term investments:							
Beginning of year	94,933	460	5,961	6,402	929	—	108,685
End of year	<u>\$ 78,512</u>	<u>1,317</u>	<u>12,957</u>	<u>8,807</u>	<u>1,190</u>	<u>—</u>	<u>\$ 102,783</u>
Non-cash transactions:							
Exchanges of bonds	\$ 1,838	—	—	—	—	—	\$ 1,838
Exchanges of stocks	448	—	—	—	—	—	448

See accompanying independent auditors' report.

CHURCH MUTUAL INSURANCE COMPANY, S.I. AND AFFILIATED PROPERTY AND CASUALTY COMPANIES

Supplemental Investment Risks Interrogatories

December 31, 2022

(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, 2022 was \$ 2,376,376

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

	Issuer	Amount	Percentage of total admitted assets
2.01	FNMA	\$ 162,344	6.8
2.02	FHLMC	61,458	2.6
2.03	BLACKROCK US CORE PROPERTY FUND	49,243	2.1
2.04	VALOR EQUITY PARTNERS	34,410	1.4
2.05	BANK	25,061	1.1
2.06	BANK OF AMERICA CORP	18,722	0.8
2.07	JPMORGAN CHASE & CO	16,352	0.7
2.08	WELLS FARGO	16,181	0.7
2.09	BENCHMARK MORTGAGE TRUST	16,131	0.7
2.10	VESEY STREET FUND V (ERISA), LP	15,168	0.6

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	\$ 1,231,985	51.8
3.02	NAIC-2	168,437	7.1
3.03	NAIC-3	1,020	0.0
3.04	NAIC-4	—	—
3.05	NAIC-5	—	—
3.06	NAIC-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	\$ 161,351	6.8
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	\$ 146,569	6.2	
Countries designated NAIC-2	4,035	0.2	
Countries designated NAIC-3 or below	10,748	0.5	

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

	Largest foreign investment exposures by country, categorized by the country's NAIC sovereign designation	Amount	Percentage of total admitted assets
Countries designated NAIC 1:			
Country 1: CAYMAN ISLANDS	\$ 22,838	1.0	
Country 2: UNITED KINGDOM	20,885	0.9	
Countries designated NAIC 2:			
Country 1: ITALY	\$ 3,122	0.1	
Country 2: MEXICO	913	0.0	
Countries designated NAIC 3 or below:			
Country 1: JORDAN	\$ 10,524	0.4	
Country 2: SOUTH AFRICA	224	0.0	

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.

CHURCH MUTUAL INSURANCE COMPANY, S.I. AND AFFILIATED PROPERTY AND CASUALTY COMPANIES

Supplemental Investment Risks Interrogatories

December 31, 2022

(Dollars in thousands)

10. Ten largest nonsovereign (i.e., nongovernmental) foreign issues:

	Issuer	Amount	Percentage of total admitted assets
10.01	IGI HOLDINGS LTD	\$ 10,524	0.4
10.02	HSBC HOLDINGS PLC	7,078	0.3
10.03	ARES CLO LTD	4,740	0.2
10.04	CREDIT SUISSE	4,111	0.2
10.05	DNB BANK	3,860	0.2
10.06	WESTPAC BKG CORP	3,335	0.1
10.07	JBS	2,995	0.1
10.08	ALLEGRO	2,950	0.1
10.09	BNP PARIBAS	2,758	0.1
10.10	SUMITOMO MITSUI FINL GRP	2,673	0.1

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.

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

Amounts and percentages of admitted assets held in the ten largest equity interests:

	Issuer	Amount	Percentage of total admitted assets
13.02	VANGUARD DEVELOPED MARKETS INDEX	\$ 60,807	2.6
13.03	VANGUARD INSTITUTIONAL INDEX	53,881	2.3
13.04	BLACKROCK US CORE PROPERTY FUND	49,243	2.1
13.05	ISHARES RUS TOP 200 ETF	42,009	1.8
13.06	VALOR EQUITY PARTNERS IV & V LP	34,410	1.4
13.07	ISHARES CORE S&P 500 ETF	15,981	0.7
13.08	BLACKROCK DIVPEP V, LLC	15,168	0.6
13.09	IGI HOLDINGS LTD	10,524	0.4
13.10	CARBON CAPITAL VI LP	3,307	0.1
13.11	ISHARES CORE S&P MID-CAP ETF	3,268	0.1

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

Aggregate admitted assets held in nonaffiliated, privately placed equities:

104,603 4.4

Amounts and percentages of admitted assets held in the three largest nonaffiliated, privately placed equities:

	Issuer	Amount	Percentage of total admitted assets
14.03	BLACKROCK US CORE PROPERTY FUND	\$ 49,243	2.1
14.04	VALOR EQUITY PARTNERS IV & V LP	34,410	1.4
14.05	BLACKROCK DIVPEP V, LLC	15,168	0.6

Amounts and percentages of admitted assets held in the ten largest fund managers:

	Issuer	Amount	Percentage of total admitted assets
14.06	BLACKROCK	\$ 127,732	5.4
14.07	VANGUARD	114,688	4.8

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.

CHURCH MUTUAL INSURANCE COMPANY, S.I. AND AFFILIATED PROPERTY AND CASUALTY COMPANIES
Summary Investment Schedule
December 31, 2022
(Dollars in thousands)

Investment categories	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	\$ 91,470	4.863	\$ 91,470	4.863
All other governments	627	0.033	627	0.033
U.S. states, territories and possessions, etc. guaranteed	36,547	1.943	36,547	1.943
U.S. political subdivisions of states, territories, and possessions, guaranteed	70,830	3.765	70,830	3.765
U.S. special revenue and special assessment obligations, etc. non-guaranteed	483,062	25.679	483,062	25.679
Industrial and miscellaneous	718,032	38.170	718,032	38.170
Hybrid securities	—	—	—	—
Parent, subsidiaries and affiliates	—	—	—	—
SVO identified funds	—	—	—	—
Unaffiliated bank loans	—	—	—	—
Unaffiliated certificates of deposit	—	—	—	—
Total long-term bonds	1,400,569	74.454	1,400,569	74.454
Common stocks:				
Industrial and miscellaneous Publicly traded (Unaffiliated)	69,522	3.696	69,522	3.696
Industrial and miscellaneous Other (Unaffiliated)	—	—	—	—
Parent, subsidiaries and affiliates Publicly traded	—	—	—	—
Parent, subsidiaries and affiliates Other	—	—	—	—
Mutual funds	156,697	8.330	156,697	8.330
Unit investment trusts	—	—	—	—
Closed-end funds	—	—	—	—
Exchange traded funds	21,311	1.133	21,311	1.133
Total common stocks	247,530	13.159	247,530	13.159
Real estate:				
Properties occupied by company	10,620	0.565	10,620	0.565
Properties held for production of income	—	—	—	—
Properties held for sale	—	—	—	—
Total real estate	10,620	0.565	10,620	0.565
Cash, cash equivalents and short-term investments:				
Cash	19,099	1.015	19,099	1.015
Cash equivalents	97,621	5.190	97,621	5.190
Short-term investments	873	0.046	873	0.046
Total cash, cash equivalents and short-term investments	117,593	6.251	117,593	6.251
Contract loans	—	—	—	—
Derivatives	—	—	—	—
Other invested assets	104,603	5.561	104,603	5.561
Receivables for securities	205	0.011	205	0.011
The Company does not have a securities lending program	—	—	—	—
Total invested assets	\$ 1,881,120	100	\$ 1,881,120	100

See accompanying independent auditors' report.

CHURCH MUTUAL INSURANCE COMPANY, S.I. AND AFFILIATED PROPERTY AND CASUALTY COMPANIES

Supplemental Schedule of Reinsurance Risk Interrogatories

December 31, 2022

(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]

CHURCH MUTUAL INSURANCE COMPANY, S.I. AND AFFILIATED PROPERTY AND CASUALTY COMPANIES

Supplemental Schedule of Reinsurance Risk Interrogatories

December 31, 2022

(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?
- 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.



KPMG LLP
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200 E. Randolph Street
Chicago, IL 60601-6436

The Audit Committee of the Board of Directors
Church Mutual Insurance Company, S.I. and affiliated property and casualty companies

We have audited, in accordance with auditing standards generally accepted in the United States of America, the combined financial statements prepared in accordance with statutory accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin of Church Mutual Insurance Company, S.I. and affiliated property and casualty companies (the Companies) for the years ended December 31, 2022 and 2021, and have issued our report thereon dated May 12, 2023. In connection therewith, we advise you as follows:

- a. We are independent certified public accountants with respect to the Companies and conform to the standards of the accounting profession as contained in the Code of Professional Conduct and pronouncements of the American Institute of Certified Public Accountants, and the Rules of Professional Conduct of the Illinois Department of Financial and Professional Regulation.
- b. The engagement partner and engagement manager, who are certified public accountants, have 17 years and 8 years, respectively, of experience in public accounting and are experienced in auditing insurance enterprises. Members of the engagement team, most of whom have had experience in auditing insurance enterprises and 38 percent of whom are certified public accountants, were assigned to perform tasks commensurate with their training and experience.
- c. We understand that the Companies intend to file its audited combined financial statements and our report thereon with the Office of the Commissioner of Insurance of the State of Wisconsin and other state insurance departments in states in which the Companies are licensed, and that the insurance commissioners of those states will be relying on that information in monitoring and regulating the statutory financial condition of the Companies.

While we understand that an objective of issuing a report on the combined financial statements is to satisfy regulatory requirements, our audit was not planned or conducted to satisfy all objectives or responsibilities of insurance regulators. In this context, the Companies and the insurance commissioners should understand that the objective of an audit of combined financial statements in accordance with auditing standards generally accepted in the United States of America is to form an opinion and issue a report on whether the combined financial statements present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus, results of operations and cash flow in conformity with accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin. Consequently, under auditing standards generally accepted in the United States of America, we have the responsibility, within the inherent limitations of the auditing process, to plan and perform our audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement, whether caused by error or fraud, and to exercise due professional care in the conduct of the audit. The concept of selective testing of the data being audited, which involves judgment both as to the number of transactions to be audited and the areas to be tested, has been generally accepted as a valid and sufficient basis for an auditor to express an opinion on the combined financial statements. Audit procedures that are effective for detecting errors, if they exist, may be ineffective for detecting misstatements resulting from fraud. Because of the characteristics of fraud, particularly those involving concealment (including collusion, falsified documentation, and forgery), a properly planned and performed audit may not detect a material misstatement resulting from fraud. In addition, an audit does not address the possibility that material errors or misstatements caused by fraud may occur in the future. Also, our use of professional judgment and the



assessment of materiality for the purpose of our audit means that matters may exist that would have been assessed differently by insurance commissioners.

It is the responsibility of the management of the Companies to adopt sound accounting policies, to maintain an adequate and effective system of accounts, and to establish and maintain internal control that will, among other things, provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the combined financial statements in accordance with accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin.

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with 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 the combined financial statements that are free from material misstatement, whether due to fraud or error.

The Insurance Commissioners should exercise due diligence to obtain whatever other information that may be necessary for the purpose of monitoring and regulating the statutory financial position of insurers and should not rely solely upon the independent auditors' report.

- d. We will retain the workpapers (including those kept in a hard copy or electronic medium) prepared in compliance with professional standards, for seven years from the date that we grant permission to use our report in connection with the issuance of the Companies' combined financial statements (report release date). After notification to the Companies, we will make the workpapers available for review by the Office of the Commissioner of Insurance of the State of Wisconsin or its delegates (as permitted by law or regulation), at the offices of the Companies, at our offices, at the Insurance Department, or at any other reasonable place designated by the Insurance Commissioner. Furthermore, in the conduct of the aforementioned periodic review by the Office of the Commissioner of Insurance of the State of Wisconsin, photocopies or electronic equivalents of pertinent audit workpapers may be made (under the control of the accountant) and such copies may be retained by the Office of the Commissioner of Insurance of the State of Wisconsin. In addition, to the extent requested, we may provide the Office of the Commissioner of Insurance of the State of Wisconsin with electronic copies of certain of our audit working papers (such as unlocked electronic copies of Excel spreadsheets) that do not contain password protection or encryption. As such, these copies of our audit working papers will be subject to potential modification by the Office of the Commissioner of Insurance of the State of Wisconsin or by others. We are not responsible for any modifications made to the copies, electronic or otherwise, after they are provided to the Office of the Commissioner of Insurance of the State of Wisconsin and we are likewise not responsible for any effect that any such modifications, whether intentional or not, might have on the process, substance, or outcome of your regulatory examination.
- e. The engagement partner has served in that capacity with respect to the Companies since 2022, is licensed by the Illinois Department of Financial and Professional Regulation, and is a member in good standing of the American Institute of Certified Public Accountants.
- f. To the best of our knowledge and belief, we are in compliance with the requirements of Section 7 of the NAIC's Annual Financial Reporting Model Regulation regarding qualifications of independent certified public accountants. We are not subject to disqualification, under Section Ins 50.08 of the Wisconsin Administrative Code.

This letter is intended solely for the information and use of the Audit Committee of the Board of Directors and management of the Companies and the Office of the Commissioner of Insurance of the State of Wisconsin and



other state insurance departments in states in which the Companies are licensed and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

Chicago, Illinois
May 12, 2023