# <u>EXHIBIT L</u>

## Audited Annual Statements for NMB for Years 2015 Through 2019

The undersigned officers of NMB hereby certify that attached hereto as Exhibit L are true, correct and complete copies of the audited annual statements of NMB for years 2015 through 2019.

[See Attached]

# NATIONAL MUTUAL BENEFIT

## STATUTORY FINANCIAL STATEMENTS

December 31, 2015 and 2014

Strohm Ballweg

CPAs • ADVISORS • CONSULTANTS

Strohm Ballweg

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# INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

To the Board of Directors
National Mutual Benefit
Madison, Wisconsin

We have audited the accompanying financial statements of National Mutual Benefit (the Society), which are comprised of the statutory balance sheets as of December 31, 2015 and 2014, and the related statutory statements of operations, surplus, and cash flows for the years then ended, and the related notes to statutory financial statements.

**Management's Responsibilities for the Statutory Financial Statements**

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

**Auditor's Responsibility**

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

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

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

Strohm Ballweg

CPAs • ADVISORS • CONSULTANTS

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

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

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

**Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Society as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended.

**Opinion on Regulatory Basis of Accounting**

In our opinion, the statutory financial statements referred to above present fairly, in all material respects, the financial position of the Society as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended, in accordance with the accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin described in Note 1.

Strohm Ballweg, LLP

Madison, Wisconsin
April 18, 2016

| | 2015 | 2014 |
|---|---|---|
| **ADMITTED ASSETS** | | |
| Cash and invested assets: | | |
| Bonds | **$ 284,900,331** | $ 271,373,732 |
| Common stocks | **10,628,084** | 12,548,193 |
| Mortgage loans on real estate | **16,608,875** | 22,277,641 |
| Real estate occupied by the Society | **774,892** | 825,436 |
| Cash and short-term investments | **8,394,956** | 9,473,558 |
| Contract loans | **3,959,563** | 3,984,479 |
| Other invested assets | **1,680,039** | 1,697,352 |
| Cash and invested assets | **326,946,740** | 322,180,391 |
| Investment income due and accrued | **4,175,375** | 4,000,748 |
| Deferred and uncollected premiums | **630,545** | 590,524 |
| Recoverable from reinsurers | **391,060** | 48,525 |
| Electronic data processing equipment | **12,967** | 31,090 |
| Total admitted assets | **$ 332,156,687** | $ 326,851,278 |
| **LIABILITIES AND SURPLUS** | | |
| Liabilities: | | |
| Aggregate reserve for contracts: | | |
| Life | **$ 126,079,609** | $ 124,673,083 |
| Annuity | **143,172,110** | 139,082,015 |
| Accident and health | **820,235** | 785,153 |
| Liability for deposit-type contracts | **12,163,679** | 12,642,658 |
| Contract claims: | | |
| Life | **672,116** | 834,551 |
| Annuity | **75,556** | 229,236 |
| Supplemental contracts | **-** | 29,330 |
| Accident and health | **3,720** | 26,813 |
| Refunds payable | **428,773** | 422,022 |
| Premiums received in advance | **15,917** | 14,745 |
| Interest maintenance reserve | **770,603** | 753,249 |
| Accounts payable and accrued expenses | **893,057** | 875,842 |
| Pension and postretirement benefit obligations | **8,258,270** | 7,857,989 |
| Asset valuation reserve | **3,881,831** | 4,248,549 |
| Other liabilities | **418,875** | 219,991 |
| Total liabilities | **297,654,351** | 292,695,226 |
| Surplus | **34,502,336** | 34,156,052 |
| Total liabilities and surplus | **$ 332,156,687** | $ 326,851,278 |

See Notes to Statutory Financial Statements.

| | 2015 | 2014 |
|---|---|---|
| **INCOME** | | |
| Life premiums | **$ 9,554,212** | $ 9,917,935 |
| Annuity considerations | **7,915,625** | 9,416,315 |
| Accident and health premiums | **172,190** | 190,830 |
| Considerations for supplementary contracts with life contingencies | **13,727** | - |
| Investment income (net of expenses of $1,323,845 in 2015 and $1,355,676 in 2014) | **16,027,276** | 16,050,227 |
| Amortization of interest maintenance reserve | **149,277** | 132,926 |
| Commissions on reinsurance ceded | **299,230** | 314,263 |
| Total income | **34,131,537** | 36,022,496 |
| **BENEFITS** | | |
| Death | **4,842,983** | 4,050,136 |
| Matured endowments | **228,955** | 228,704 |
| Annuity | **8,911,425** | 11,048,117 |
| Disability, accident, and health | **119,189** | 156,607 |
| Surrender and withdrawals for life contracts | **4,140,348** | 4,888,049 |
| Interest on contract or deposit-type contract funds | **386,386** | 369,483 |
| Payments on supplementary contracts with life contingencies | **161,546** | 270,613 |
| Increase in aggregate reserves for life and accident and health contracts | **1,441,608** | 1,411,791 |
| Increase in aggregate reserves for annuity contracts | **4,090,095** | 3,243,646 |
| Total benefits | **24,322,535** | 25,667,146 |
| **OPERATING EXPENSES** | | |
| Commissions | **633,368** | 755,893 |
| General insurance and fraternal expenses | **7,807,361** | 7,529,506 |
| Insurance taxes, licenses, and fees | **330,539** | 355,013 |
| Increase in loading on deferred and uncollected premiums | **9,754** | 22,632 |
| Total operating expenses | **8,781,022** | 8,663,044 |
| Net gain before refunds to members and net realized capital gains | **1,027,980** | 1,692,306 |
| Refunds to members | **423,534** | 416,119 |
| Net gain from operations before net realized capital gains | **604,446** | 1,276,187 |
| Net realized capital gains | **1,347,732** | 1,429,191 |
| Net income | **$ 1,952,178** | $ 2,705,378 |

| | **2015** | 2014 |
|---|---|---|
| Surplus, beginning of year | **$ 34,156,052** | $ 32,302,306 |
| Net income | **1,952,178** | 2,705,378 |
| Change in net unrealized capital gain/loss | **(1,681,365)** | 271,582 |
| Change in nonadmitted assets | **(65,834)** | 74,028 |
| Change in asset valuation reserve | **366,718** | (232,569) |
| Change in pension and postretirement benefit obligations | **(225,413)** | (964,673) |
| Net change in surplus | **346,284** | 1,853,746 |
| Surplus, end of year | **$ 34,502,336** | $ 34,156,052 |

| | **2015** | 2014 |
|---|---|---|
| Cash from operations: | | |
| Net premiums collected | **$ 17,607,150** | $ 19,546,710 |
| Net investment income received | **16,577,859** | 16,571,391 |
| Other income received | **303,517** | 307,833 |
| Benefit related payments | **(19,506,194)** | (21,258,457) |
| Commissions and other expenses paid | **(8,586,526)** | (8,314,065) |
| Refunds paid to members | **(416,783)** | (404,244) |
| Net cash from operations | **5,979,023** | 6,449,168 |
| Cash from investments: | | |
| Proceeds from investments sold, matured, or repaid: | | |
| Bonds | **12,997,632** | 13,496,561 |
| Stocks | **3,689,835** | 3,054,301 |
| Mortgage loans | **5,668,765** | 10,374,688 |
| Real estate | **-** | 1,584,432 |
| | **22,356,232** | 28,509,982 |
| Cost of investments acquired: | | |
| Bonds | **(26,987,912)** | (28,472,447) |
| Stocks | **(2,103,359)** | (3,257,148) |
| Real estate | **(18,852)** | (27,356) |
| | **(29,110,123)** | (31,756,951) |
| Net decrease in contract loans | **24,916** | 356,905 |
| Net cash from investments | **(6,728,975)** | (2,890,064) |
| Cash from financing and miscellaneous sources: | | |
| Net deposits on deposit-type contracts | **(478,980)** | 404,064 |
| Other cash provided (applied) | **150,330** | (2,630) |
| Net cash from financing and miscellaneous sources | **(328,650)** | 401,434 |
| Net change in cash and short-term investments | **(1,078,602)** | 3,960,538 |
| Cash and short-term investments: | | |
| Beginning of year | **9,473,558** | 5,513,020 |
| End of year | **$ 8,394,956** | $ 9,473,558 |

**Note 1 ~ Nature of Business and Summary of Significant Accounting Contracts**

**Nature of Business.** National Mutual Benefit (the Society), which is licensed in 13 states, is organized as a fraternal benefit society. The Society's principal operations consist of underwriting and servicing member life contracts and annuities and providing fraternal benefits to members.

A summary of the Society's significant accounting policies follows:

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

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

- Investments in bonds are generally carried at amortized cost and investments in common stocks are carried at fair value. Under GAAP, bonds and common stocks would be classified as held-to-maturity, trading, or available-for-sale. For GAAP, securities classified as held-to-maturity would be carried at cost or amortized cost and securities classified as trading or available-for-sale would be carried at fair value with the unrealized holding gains and losses reported in income for those securities classified as trading and as comprehensive income for those securities classified as available-for-sale.

- An occupancy rental charge on home office real estate owned is recorded as investment income and as offsetting rental expense; under GAAP, no such rental charge would be recognized.

- Certain assets designated as "nonadmitted assets" (principally furniture and equipment and agent advances) are charged against surplus; under GAAP, furniture and equipment would be recognized as assets net of accumulated depreciation and agent advances would be recognized as assets.

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

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

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

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

- The interest maintenance and asset valuation reserves are required as discussed subsequently in this note; they would not be required under GAAP.

- Revenues for universal life-type contracts and annuity contracts consist of the entire premiums received, and benefits incurred represent the total death benefits paid and the change in contract reserves for statutory purposes. Under GAAP, revenues include only contract charges for the cost of insurance, contract initiation and administration, surrender charges, and other fees that have been assessed against contract account values; and benefits represent the excess of benefits paid over the contract account value and interest credited to the account values.

- Contract reserves are based on statutory mortality and interest assumptions and without consideration of withdrawals, which may differ from reserves based on reasonably conservative estimates of mortality, interest, and withdrawals as they would be presented under GAAP.

- Refunds to members to be paid in the following year are reflected in the statements of operations for the current year. Under GAAP, refunds to members would be recognized as expense ratably over the contract year.

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

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

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

- The estimated life, annuity, disability, and accident and health insurance contract reserves.

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

- The assumptions, including the discount rate and selected mortality tables, used to determine the liabilities for pension and postretirement benefit obligations.

**Cash and Short-Term Investments.** For purposes of reporting cash flows, the Society follows statutory accounting practices and considers cash in checking accounts and certain money market funds to be cash and short-term investments.

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

**Investments.** Investments are valued in accordance with the valuation methods prescribed by the NAIC. Investments in bonds not backed by loans are carried at amortized cost using the scientific interest method; however, bonds with an NAIC designation of six are carried at the lower of amortized cost or fair value. Loan-backed (mortgage-backed/asset-backed) securities are valued at amortized cost using the scientific interest method, including anticipated prepayments at the time of purchase. Prepayment assumptions are obtained from Bloomberg Services' cash flow system and are based on the current interest rate and economic environment. The prospective adjustment method is used to value all such securities. Investments in common stocks are carried at fair value. Mortgage loans and contract loans are carried at unpaid balances. Surplus debentures, which are classified as other invested assets, are carried at amortized cost using the scientific interest method.

Realized gains and losses on the sale of investments are recognized on the specific identification basis and are included in income. Unrealized gains and losses from changes in the fair value of common stocks are credited or charged directly to surplus. The treatment of realized gains and losses on the sale of bonds and stocks are further explained in the interest maintenance and asset valuation reserve paragraph of this note.

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

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

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

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

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

Declines in fair value that are determined to be OTTI are included in the statutory statements of operations as realized capital losses. The Society determines a decline to be other than temporary by reviewing and evaluating relevant objective and subjective factors for each security, including the extent of the depressed value, the length of time the value has been depressed, the intent and ability to hold the security, a security's current performance, the current and projected financial condition of the issuer, the issuer's projected ability to service and repay its debt obligations, the industry in which the issuer operates, the estimated future cash flows of loan-backed securities, and the status of the market as a whole.

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

Estimating the future cash flows of loan-backed securities also involves assumptions regarding the underlying collateral such as prepayment rates, default and recovery rates, existence of subordinated classes capable of absorbing losses, and third-party servicing abilities. The amount of these declines deemed OTTI were $0 for 2015 and $14,707 for 2014, and related to real estate held for sale.

**Property and Equipment.** Real estate occupied by the Society is carried at its depreciated value and is presented as an investment.

The cost, accumulated depreciation, and carrying value of property and equipment at December 31, 2015 and 2014, were as follows:

| | 2015 | | |
|---|---|---|---|
| | Cost | Accumulated Depreciation | Carrying Value |
| Real estate occupied by the Society | $ 2,321,679 | $ 1,546,787 | $ 774,892 |
| Electronic data processing equipment | 69,838 | 56,871 | 12,967 |

| | 2014 | | |
|---|---|---|---|
| | Cost | Accumulated Depreciation | Carrying Value |
| Real estate occupied by the Society | $ 2,347,378 | $ 1,521,942 | $ 825,436 |
| Electronic data processing equipment | 69,838 | 38,748 | 31,090 |

Furniture and equipment and nonoperating software are considered nonadmitted assets for statutory financial statement reporting purposes. Depreciation is calculated on these assets and charged to expense. The net change in book value (cost less depreciation) is charged or credited directly to surplus.

Depreciation is calculated by applying the straight-line method over the estimated useful lives of the respective assets. Depreciation expense was $123,018 in 2015 and $137,566 in 2014.

**Interest Maintenance and Asset Valuation Reserves.** The Interest Maintenance Reserve captures the realized capital gains and losses that result from changes in the overall level of interest rates for fixed income investments and amortizes these gains and losses into income over the remaining life of the investments sold. The Asset Valuation Reserve is a contingency reserve for possible losses on investments in bonds, stocks, mortgage loans, real estate, and other invested assets, and is recorded as a liability through a charge to surplus.

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

**Premium Revenue and Acquisition Costs.** Premium revenue from term and whole life insurance is taken into earnings over the premium paying period of the contracts. Premium revenue from universal life insurance is taken into earnings when received. All life contracts are participating contracts. Annuity considerations are taken into earnings when received according to the annuity type, which may be one time for single premium annuities or ratably for annuities with flexible premium options. Premiums for accident and health certificates are recognized ratably over the period of insurance coverage. The related acquisition costs, such as salaries, commissions, and other items, are charged to current operations as incurred.

**Reinsurance.** In the normal course of business, the Society seeks to limit its exposure to loss on any single insured and to recover a portion of the benefits paid over such limits. This is accomplished primarily through cessions to reinsurers under yearly renewable term and coinsurance contracts. If any reinsurer becomes unable to pay its share of benefits, the Society would be liable for the remaining obligations.

**Contract Reserves.** Reserves for annuities and supplementary contracts are generally based on account values of the related contracts, including interest additions at current rates. Reserves for annuities are at least equal to reserves calculated under the Commissioners' Annuity Reserve Valuation Method.

The aggregate reserve for life contracts was developed on the basis of statutory interest rates and mortality assumptions. These rates are calculated using primarily the American Experience and the 1941, 1958, 1980, and 2001 Commissioners' Standard Ordinary Mortality Tables assuming interest rates of 2.5 percent to 6.0 percent. All traditional life reserves are calculated using the mean reserve method.

The Society waives deduction of deferred fractional premiums upon death of insureds and returns any portion of the final premium beyond the date of death. Surrender values are not promised in excess of legally computed reserves. Substandard reserves are determined by computing the regular mean reserve for the plan at the rated age. Contracts issued for substandard lives are charged an additional premium over the regular gross premium for the rated age with one half of the extra premium held in reserves.

As of December 31, 2015 and 2014, the Society had $23,427,256 and $22,856,698, respectively, of insurance in force for which the gross premiums are less than the net premiums according to the standard of calculation set by the OCI. Reserves related to the above insurance totaled $144,941 and $141,020 at December 31, 2015 and 2014, respectively.

Tabular interest, tabular less actual reserve released, and tabular cost are determined by formula. The determination of tabular interest is validated by an independent calculation.

**Income Taxes.** The Society qualifies as a tax-exempt organization under Section 501(c)(8) of the Internal Revenue Code. Accordingly, no provision for income taxes has been recorded in the financial statements.

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

**Subsequent Events.** Subsequent events were evaluated through April 18, 2016, which is the date the financial statements were available to be issued.

**Note 2 ~ Investments**

The cost and fair value of investments at December 31, 2015 and 2014, were as follows:

| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **2015** | | | | |
| Bonds (at amortized cost): | | | | |
| States, territories, and possessions | $ 6,512,843 | $ 496,913 | $ (3,623) | $ 7,006,133 |
| Political subdivisions | 24,056,813 | 2,028,564 | (98,668) | 25,986,709 |
| Special revenue | 60,289,000 | 3,809,317 | (223,788) | 63,874,529 |
| Industrial and miscellaneous | 193,899,823 | 18,767,653 | (1,817,011) | 210,850,465 |
| Loan-backed securities | 141,852 | 43,996 | - | 185,848 |
| Total bonds | 284,900,331 | 25,146,443 | (2,143,090) | 307,903,684 |
| Common stocks | 9,107,822 | 2,183,830 | (663,568) | 10,628,084 |
| Other invested assets | 1,680,039 | 171,321 | - | 1,851,360 |
| | $ 295,688,192 | $ 27,501,594 | $ (2,806,658) | $ 320,383,128 |

The cumulative unrealized loss of $2,806,658 as of December 31, 2015, consisted of $1,174,426 of unrealized losses in a loss position for greater than 12 months and $1,632,232 of unrealized losses in a loss position for less than 12 months.

**Note 2 ~ Investments** (Continued)

| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **2014** | | | | |
| Bonds (at amortized cost): | | | | |
| States, territories, and possessions | $ 6,536,266 | $ 631,477 | $ - | $ 7,167,743 |
| Political subdivisions | 23,356,903 | 2,410,579 | - | 25,767,482 |
| Special revenue | 50,511,079 | 4,493,918 | (4,270) | 55,000,727 |
| Industrial and miscellaneous | 190,779,793 | 27,003,570 | (230,531) | 217,552,832 |
| Loan-backed securities | 189,691 | 37,642 | - | 227,333 |
| Total bonds | 271,373,732 | 34,577,186 | (234,801) | 305,716,117 |
| Common stocks | 9,346,565 | 3,288,014 | (86,386) | 12,548,193 |
| Other invested assets | 1,697,352 | 270,678 | - | 1,968,030 |
| | $ 282,417,649 | $ 38,135,878 | $ (321,187) | $ 320,232,340 |

The cumulative unrealized loss of $321,187 as of December 31, 2014, consisted of $82,465 of unrealized losses in a loss position for greater than 12 months and $238,722 of unrealized losses in a loss position for less than 12 months.

The amortized cost and fair value of bonds at December 31, 2015, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

| | Amortized Cost | Fair Value |
|---|---|---|
| Due in one year | $ 4,060,917 | $ 4,180,492 |
| Due after one year through five years | 36,354,053 | 39,516,804 |
| Due after five years through ten years | 97,950,909 | 104,428,672 |
| Due after ten years | 146,392,600 | 159,591,868 |
| Loan-backed securities | 141,852 | 185,848 |
| | $ 284,900,331 | $ 307,903,684 |

**Note 2 ~ Investments** (Continued)

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

| | 2015 | 2014 |
|---|---|---|
| Gains | $ 1,572,132 | $ 1,742,212 |
| Losses | (57,769) | (109,011) |
| Transfers to IMR | (166,631) | (204,010) |
| Net realized capital gains | $ 1,347,732 | $ 1,429,191 |

**Mortgage Loans.** The Society invests in mortgage loans collateralized by residential and commercial real estate. Substantially, all of the Society's mortgage loan portfolio consists of loans made on properties located in south central Wisconsin. Regions outside of Wisconsin constitute less than 1 percent of the mortgage loan portfolio. Approximately 31 percent of the mortgage loans are loans on residential real estate, with the remaining 69 percent on commercial real estate. No new mortgage loans were issued in 2015. The maximum percentage of any one loan to the value of security at the time the loan was originated is 75 percent. The Society does not have any insured or purchased money mortgages. The Society has not included taxes, assessments, or other amounts advanced in mortgage loans.

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

**Level 1 Measurements**

Common stocks: Comprised of actively traded, exchange listed equity securities. Valuation is based on unadjusted quoted prices for identical assets in active markets that are accessible to the Society at the measurement date.

Short-term investments: Comprised of actively traded money market funds that have daily quoted net asset values for identical assets that are accessible to the Society at the measurement date.

**Level 2 Measurements**

Bonds and other invested assets: Comprised of government obligations, state and municipal bonds, corporate debt, residential and commercial mortgage-backed securities, and surplus debentures. Valuation is based on leading, nationally recognized providers of market data and analytics to price a vast majority of the fixed income securities. These securities are principally valued using the market and income approaches. When available, recent trades of identical or similar assets are used to price these securities. However, because many fixed income securities do not actively trade on a daily basis, the valuation is determined by the Society's investment manager using an income approach - present value using the discount rate adjustment technique.

**Note 2 ~ Investments** (Continued)

**Financial Instruments Reported at Fair Value in the Statutory Balance Sheet**

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **December 31, 2015** | | | | |
| Common stocks | $ 10,628,084 | $ - | $ - | $ 10,628,084 |
| **December 31, 2014** | | | | |
| Common stocks | $ 12,548,193 | $ - | $ - | $ 12,548,193 |

The Society does not have any liabilities measured at fair value at December 31, 2015 and 2014. The Society also did not have any transfers between levels during 2015 and 2014.

**All Financial Instruments**

| Type of Financial Instrument | Aggregate Fair Value | Admitted Assets | Level 1 | Level 2 | Level 3 | Fair Value Not Practicable* |
|---|---|---|---|---|---|---|
| **December 31, 2015** | | | | | | |
| Bonds | $ 307,903,684 | $ 284,900,331 | $ - | $ 307,903,684 | $ - | $ - |
| Common stock | 10,628,084 | 10,628,084 | 10,628,084 | - | - | - |
| Mortgage loans | 16,608,875 | 16,608,875 | - | - | - | 16,608,875 |
| Short-term investments | 8,877,799 | 8,877,799 | 8,877,799 | - | - | - |
| Other invested assets | 1,851,360 | 1,680,039 | - | 1,851,360 | - | - |
| **December 31, 2014** | | | | | | |
| Bonds | $ 305,716,117 | $ 271,373,732 | $ - | $ 305,716,117 | $ - | $ - |
| Common stock | 12,548,193 | 12,548,193 | 12,548,193 | - | - | - |
| Mortgage loans | 22,277,641 | 22,277,641 | - | - | - | 22,277,641 |
| Short-term investments | 9,626,046 | 9,626,046 | 9,626,046 | - | - | - |
| Other invested assets | 1,968,030 | 1,697,352 | - | 1,968,030 | - | - |

*It was not practicable to determine the fair value of these mortgage loans because a quoted market price was not available and the cost of obtaining independent appraisals would be excessive.

**Note 3 ~ Analysis of Annuity Actuarial Reserves and Deposit Liabilities by Withdrawal Characteristics**

The withdrawal characteristics of annuity actuarial reserves and deposit-type contracts, at December 31, 2015 and 2014, were as follows:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Amount | Percent | Amount | Percent |
| Subject to discretionary withdrawal: | | | | |
| At book value, less surrender charge of 5 percent or more | $ 8,005,212 | 5.12% | $ 16,757,553 | 10.96% |
| At book value, without adjustment | 141,978,365 | 90.76% | 129,447,677 | 84.63% |
| Not subject to discretionary withdrawal | 6,456,380 | 4.12% | 6,746,354 | 4.41% |
| Total annuity reserves and deposit fund liabilities | $ 156,439,957 | 100.00% | $ 152,951,584 | 100.00% |

**Note 4 ~ Employee Benefit Plans**

**Defined Contribution Plan.** The Society sponsors a defined contribution plan which covers substantially all of its agents and employees. The Society's contributions to the plan are based on a percentage of compensation. Contributions are made semi-monthly to the trustee of the plan for all amounts due under the plan. The Society's contribution to the plan was $267,299 and $292,550 for 2015 and 2014, respectively.

**Pension and Postretirement Benefit Obligations.** The Society has a deferred compensation plan for all directors and for chartered officers who meet eligibility requirements. The plan provides for equal monthly payments for up to ten years to eligible participants who retire or become disabled. In the event of death of the participant before retirement, payments are made to the participant's surviving spouse or the estate. The Society also sponsors a postretirement benefit plan which provides health insurance to retired employees. The plans are unfunded.

The benefit obligations as of December 31, 2015 and 2014, were calculated under SSAP No. 92, *Accounting for Postretirement Benefits Other Than Pensions* for the health insurance plan and under SSAP No. 102, *Accounting for Pensions* for the deferred compensation plan. The details of the benefit obligations and other components of the plans are illustrated on the following pages.

**Note 4 ~ Employee Benefit Plans** (Continued)

| | Health Insurance Plan | | Deferred Compensation Plan | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Change in benefit obligation: | | | | |
| Benefit obligation at beginning of year | $ 4,759,201 | $ 3,720,598 | $ 2,774,150 | $ 2,614,296 |
| Service cost | 72,643 | 68,520 | 60,048 | 95,408 |
| Interest cost | 181,043 | 175,176 | 81,569 | 99,795 |
| Actuarial gain | 188,716 | 865,827 | 43,189 | 30,809 |
| Net benefits paid | (120,523) | (70,920) | (100,783) | (66,158) |
| Benefit obligation at end of year | $ 5,081,080 | $ 4,759,201 | $ 2,858,173 | $ 2,774,150 |
| Funded status: | | | | |
| Amounts recognized in the statutory balance sheets: | | | | |
| Accrued benefit costs | $ 4,565,383 | $ 4,432,220 | $ 2,578,423 | $ 2,537,589 |
| Unrecognized net actuarial (gain) loss | 515,697 | 326,981 | 279,750 | 236,561 |
| Liability for benefit obligations | $ 5,081,080 | $ 4,759,201 | $ 2,858,173 | $ 2,774,150 |
| Components of net periodic postretirement benefit cost: | | | | |
| Service cost | $ 72,643 | $ 68,520 | $ 60,048 | $ 95,408 |
| Interest cost | 181,043 | 175,176 | 81,569 | 99,795 |
| Recognized net actuarial gain | - | (31,829) | - | - |
| Total net periodic pension cost | $ 253,686 | $ 211,867 | $ 141,617 | $ 195,203 |
| Amounts in surplus recognized as components of net periodic benefit cost: | | | | |
| Items not yet recognized as a component of net periodic cost – prior year | $ 326,981 | $ (570,675) | $ 236,561 | $ 205,752 |
| Net (gain) loss arising during the period | 188,716 | 865,827 | 43,189 | 30,809 |
| Net gain recognized as income | - | 31,829 | - | - |
| Items not yet recognized as a component of net periodic cost – current year | $ 515,697 | $ 326,981 | $ 279,750 | $ 236,561 |
| Amounts in surplus that have not yet been recognized as components of net periodic benefit cost: | | | | |
| Net recognized (gains) losses | $ 515,697 | $ 326,981 | $ 279,750 | $ 236,561 |
| Weighted-average assumptions as of Dec 31: | | | | |
| Discount rate | 4.2% | 3.8% | 3.2% | 3.0% |

**Note 4 ~ Employee Benefit Plans** (Continued)

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one percentage point change in assumed health care cost trend rates would have the following effects:

| | 1 Percentage Point Increase | 1 Percentage Point Decrease |
|---|---|---|
| Effect on total service and interest cost components | $ 37,386 | $ (38,103) |
| Effect on postretirement benefit obligation | 798,654 | (647,485) |

The following estimated future payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

Expected Benefit Cash Flows

| Calendar Year | Health Insurance Plan | Deferred Compensation Plan |
|---|---|---|
| 2016 | $ 175,000 | $ 235,000 |
| 2017 | 229,000 | 235,000 |
| 2018 | 231,000 | 245,000 |
| 2019 | 251,000 | 293,000 |
| 2020 | 252,000 | 331,000 |
| 2021-2025 | 1,312,000 | 1,512,000 |

The Society's funding policy is to pay premium, benefits, and claims as they come due; therefore, expected contributions are equal to expected benefits of $175,000 for the health insurance plan and $235,000 for the deferred compensation plan for 2016.

The Society also provides severance pay benefits to eligible retired employees. The benefits are based on accrued and unused sick leave pay. The plan is unfunded. The liability recorded for this plan was $635,671 and $614,091 as of December 31, 2015 and 2014, respectively.

**Note 5 ~ Line of Credit**

The Society has a bank line of credit for up to $2,000,000 at one month LIBOR plus 2.5 percent. There were no amounts outstanding on the line of credit at December 31, 2015 and 2014.

**Note 6 ~ Surplus**

The Society is required to maintain minimum surplus established by the OCI and is subject to Risk-Based Capital (RBC) requirements promulgated by the NAIC and adopted by the OCI. The RBC standards establish uniform minimum capital requirements for insurance companies. The RBC formula applies various weighting factors to financial balances or various levels of activities based on the perceived degree of risk. At December 31, 2015, the Society's surplus exceeded the minimum levels required by the OCI and RBC standards.

The Society's surplus was increased (reduced) by the following cumulative amounts at December 31, 2015 and 2014:

| | 2015 | 2014 |
|---|---|---|
| Unrealized gains/losses | $ 1,520,263 | $ 3,201,626 |
| Nonadmitted assets | (286,055) | (220,220) |
| Asset valuation reserve | (3,881,831) | (4,248,549) |

Strohm Ballweg

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## INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

To the Board of Directors
National Mutual Benefit
Madison, Wisconsin

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

Strohm Ballweg, LLP

Madison, Wisconsin
April 18, 2016

**INVESTMENT INCOME EARNED**

| | |
|---|---|
| U.S. government bonds | $ 3,674 |
| Other bonds (unaffiliated) | 15,263,996 |
| | |
| Common stocks (unaffiliated) | 280,708 |
| Mortgage loans | 1,057,363 |
| Real estate | 355,699 |
| Contract loans | 286,752 |
| | |
| Cash, cash equivalents, and short-term investments | 1,021 |
| Other invested assets | 101,514 |
| Aggregate write-ins for investment income | 394 |
| | |
| Gross investment income | $ 17,351,121 |

**INVESTMENTS**

| | |
|---|---|
| Real estate owned – book value less encumbrances | $ 774,892 |
| | |
| Mortgage loans – book value: | |
| Residential mortgages | $ 5,204,783 |
| Commercial mortgages | 11,404,092 |
| | |
| Total mortgage loans | $ 16,608,875 |
| | |
| Mortgage loans by standing – book value: | |
| Good standing | $ 16,608,875 |
| | |
| Other invested assets – statement value | $ 1,680,039 |

**INVESTMENTS**

| | |
|---|---|
| Bonds and short-term investments by NAIC designation and maturity: | |
| Bonds by maturity - statement value: | |
| Due within 1 year or less | $ 15,987,634 |
| Over 1 year through 5 years | 58,300,198 |
| Over 5 years through 10 years | 112,251,534 |
| Over 10 years through 20 years | 94,094,967 |
| Over 20 years | 13,143,796 |
| Total by maturity | $ 293,778,129 |
| Bonds by NAIC designation – statement value: | |
| NAIC 1 | $ 209,699,235 |
| NAIC 2 | 81,891,095 |
| NAIC 3 | 2,187,799 |
| Total by NAIC designation | $ 293,778,129 |
| Total bonds publicly traded | $ 237,275,523 |
| Total bonds privately placed | $ 56,502,607 |
| Common stocks – market value | $ 10,628,084 |
| Short-term investments – book value | 8,877,800 |
| Cash on deposit | (482,844) |

**INSURANCE IN FORCE**

| | |
|---|---|
| Life insurance in force: | |
| Ordinary | $ 1,142,724,257 |
| | |
| Amount of accidental death insurance in force under ordinary contracts | 34,331,963 |
| | |
| Supplementary contracts in force: | |
| Ordinary, not involving life contingencies: | |
| Amount on deposit | 1,801,631 |
| Income payable | 431,960 |
| Ordinary, involving life contingencies, income payable | 187,250 |
| | |
| Annuities: | |
| Ordinary: | |
| Immediate, amount of income payable | 1,092,926 |
| Deferred, fully paid account balance | 48,230,479 |
| Deferred, not fully paid, account balance | 95,871,677 |

**OTHER**

| | |
|---|---|
| Deposit funds and dividend accumulations: | |
| Deposit funds, account balance | $ 16,795 |
| Dividend accumulations, account balance | 7,104,384 |
| | |
| Claim payments 2015: | |
| Accident and health, year ended December 31, 2015, incurred: | |
| 2015 | 55,698 |
| 2014 and prior years | 49,257 |

1. Reporting entity's total admitted assets as reported on page two of the annual statement. $ 332,156,687

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

| | Issuer | Description of Exposure | Amount | Percentage of Total Admitted Assets |
|---|---|---|---|---|
| 2.01 | New York ST Mtge Agy Homeowner | Bonds | $ 2,586,004 | 0.779% |
| 2.02 | Denver Co City & Cnty SD #1 | Bonds | $ 2,566,345 | 0.773% |
| 2.03 | Wal-Mart Stores Inc | Bonds | $ 2,378,140 | 0.716% |
| 2.04 | San Francisco City & Cnty CA | Bonds | $ 2,262,524 | 0.681% |
| 2.05 | Morgan Stanley | Bonds | $ 2,241,181 | 0.675% |
| 2.06 | FMR LLC | Bonds | $ 2,207,141 | 0.664% |
| 2.07 | Transurban Fin | Bonds | $ 2,157,853 | 0.650% |
| 2.08 | Great River Energy | Bonds | $ 2,101,819 | 0.633% |
| 2.09 | Holcim US Finance SARL | Bonds | $ 2,069,998 | 0.623% |
| 2.10 | Heathrow Funding LTD | Bonds | $ 2,031,963 | 0.612% |

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

| Bonds | | | Preferred Stocks | | |
|---|---|---|---|---|---|
| 3.01 NAIC – 1 | $ 209,699,236 | 63.133% | 3.07 P/RP – 1 | $ | % |
| 3.02 NAIC – 2 | $ 81,891,095 | 24.654% | 3.08 P/RP – 2 | $ | % |
| 3.03 NAIC – 3 | $ 2,187,799 | 0.659% | 3.09 P/RP – 3 | $ | % |
| 3.04 NAIC – 4 | $ | % | 3.10 P/RP – 4 | $ | % |
| 3.05 NAIC – 5 | $ | % | 3.11 P/RP – 5 | $ | % |
| 3.06 NAIC – 6 | $ | % | 3.12 P/RP – 6 | $ | % |

4. Assets held in foreign investments:

| | | | |
|---|---|---|---|
| 4.01 | Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets? | Yes [ ] | No [X] |
| 4.02 | Total admitted assets held in foreign investments | $ 26,351,619 | 7.933% |
| 4.03 | Foreign-currency-denominated investments | $ | % |
| 4.04 | Insurance liabilities denominated in that same foreign currency | $ | % |

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

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

| | | | |
|---|---|---|---|
| 5.01 | Countries rated NAIC – 1 | $ 26,351,619 | 7.933% |
| 5.02 | Countries rated NAIC – 2 | $ | % |
| 5.03 | Countries rated NAIC – 3 or below | $ | % |

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

| | | |
|---|---|---|
| Countries rated NAIC – 1 | | |
| 6.01 Australia | $ 8,662,222 | 2.608% |
| 6.02 Netherlands | $ 4,155,863 | 1.251% |
| Countries rated NAIC – 2 | | |
| 6.03 | $ | % |
| 6.04 | $ | % |
| Countries rated NAIC – 3 or below | | |
| 6.05 | $ | % |
| 6.06 | $ | % |

7. Aggregate unhedged foreign currency exposure $ %

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

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

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

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

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

| Issuer | NAIC Designation | Amount | Percent |
|---|---|---|---|
| 10.01 Transurban Fin | 2 | $ 2,157,853 | 0.650% |
| 10.02 Holcim US Finance SARL | 2FE | $ 2,069,998 | 0.623% |
| 10.03 Heathrow Funding LTD | 1FE | $ 2,031,963 | 0.612% |
| 10.04 Barilla FR 12Y | 2 | $ 2,000,000 | 0.602% |
| 10.05 Shell International Fin | 1FE | $ 1,966,661 | 0.592% |
| 10.06 Koninklijke Philips NV | 2FE | $ 1,008,399 | 0.304% |
| 10.07 Barclays Bank PLC | 1FE | $ 1,007,457 | 0.303% |
| 10.08 Sydney Airport Finance | 2FE | $ 1,004,369 | 0.302% |
| 10.09 Statoil ASA | 1FE | $ 1,001,329 | 0.301% |
| 10.10 DBCT Finance | 2 | $ 1,000,000 | 0.301% |

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

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

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

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

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

12.02 Aggregate statement value of investments with contractual sales restrictions $ %

Largest 3 investments with contractual sales restrictions:

| | | | |
|---|---|---|---|
| 12.03 | | $ | % |
| 12.04 | | $ | % |
| 12.05 | | $ | % |

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

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

Assets held in equity interests:

| | | | |
|---|---|---|---|
| 13.02 Honeywell International | $ | 559,278 | 0.168% |
| 13.03 Berkshire Hathaway CL B | $ | 544,665 | 0.164% |
| 13.04 Unitedhealth Group | $ | 538,203 | 0.162% |
| 13.05 Comcast Corp CL A | $ | 519,156 | 0.156% |
| 13.06 Microsoft Corp | $ | 514,577 | 0.155% |
| 13.07 Progressive Corp OH | $ | 493,695 | 0.149% |
| 13.08 Bank of New York Mellon Corp | $ | 475,061 | 0.143% |
| 13.09 Omnicom Group Inc | $ | 465,309 | 0.140% |
| 13.10 Accenture PLC CL A | $ | 465,025 | 0.140% |
| 13.11 Danone Sponsored ADR | $ | 456,671 | 0.137% |

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

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

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

Largest 3 investments held in nonaffiliated, privately placed equities:

| | | |
|---|---|---|
| 14.03 | $ | % |
| 14.04 | $ | % |
| 14.05 | $ | % |

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

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

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

Largest 3 investments held in general partnership interests:

| | | | |
|---|---|---|---|
| 15.03 | | $ | % |
| 15.04 | | $ | % |
| 15.05 | | $ | % |

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

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

Total admitted assets held in Mortgage Loans:

| | | | |
|---|---|---|---|
| 16.02 | Residential/Commercial | $ 1,867,231 | 0.562% |
| 16.03 | Commercial | $ 1,838,772 | 0.554% |
| 16.04 | Commercial | $ 1,575,547 | 0.474% |
| 16.05 | Residential/Commercial | $ 1,466,931 | 0.442% |
| 16.06 | Commercial | $ 1,079,204 | 0.325% |
| 16.07 | Residential/Commercial | $ 935,187 | 0.282% |
| 16.08 | Commercial | $ 912,079 | 0.275% |
| 16.09 | Residential | $ 881,544 | 0.265% |
| 16.10 | Commercial | $ 872,117 | 0.263% |
| 16.11 | Commercial | $ 733,311 | 0.221% |

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

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

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

| | Loan-to-Value | Residential | | Commercial | | Agricultural | |
|---|---|---|---|---|---|---|---|
| 17.01 | Above 95% | $ | % | $ | % | $ | % |
| 17.02 | 91% to 95% | $ | % | $ | % | $ | % |
| 17.03 | 81% to 90% | $ | % | $ | % | $ | % |
| 17.04 | 71% to 80% | $ | % | $ 1,480,128 | 0.446% | $ | % |
| 17.05 | below 70% | $ 5,204,783 | 1.567% | $ 9,923,964 | 2.988% | $ | % |

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

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

Assets held in the 5 Largest Real Estate Holdings:

| | | | |
|---|---|---|---|
| 18.02 | | $ | % |
| 18.03 | | $ | % |
| 18.04 | | $ | % |
| 18.05 | | $ | % |
| 18.06 | | $ | % |

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

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

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

Largest three investments held in mezzanine real estate loans:

| | | | |
|---|---|---|---|
| 19.03 | | $ | % |
| 19.04 | | $ | % |
| 19.05 | | $ | % |

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

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

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

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

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

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

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

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

| | Gross Investment Holdings* | | Admitted Assets as Reported In the Annual Statement** | |
|---|---|---|---|---|
| | Amount | Percentage | Amount | Percentage |
| 1. Bonds: | | | | |
| 1.1 U.S. treasury securities | $ | % | $ | % |
| 1.2 U.S. government agency obligations (excluding mortgage-backed securities): | | | | |
| 1.21 Issued by U.S. government agencies | $ | % | $ | % |
| 1.22 Issued by U.S. government-sponsored agencies | $ | % | $ | % |
| 1.3 Non-U.S. government (including Canada, excluding mortgage-backed securities) | $ | % | $ | % |
| 1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.: | | | | |
| 1.41 State, territory, and possession general obligations | $ 6,512,843 | 2.0% | $ 6,512,843 | 2.0% |
| 1.42 Political subdivisions of states, territories, and possessions and political subdivisions general obligations | $ 24,056,813 | 7.4% | $ 24,056,813 | 7.4% |
| 1.43 Revenue and assessment obligations | $ 60,289,000 | 18.4% | $ 60,289,000 | 18.4% |
| 1.44 Industrial development and similar obligations | $ | % | $ | % |
| 1.5 Mortgage-backed securities (includes residential and commercial MBS): | | | | |
| 1.51 Pass-through securities: | | | | |
| 1.511 Issued or guaranteed by GNMA | $ 89,904 | 0.0% | $ 89,904 | 0.0% |
| 1.512 Issued or guaranteed by FNMA and FHLMC | $ | % | $ | % |
| 1.513 All other | $ | % | $ | % |
| 1.52 CMOs and REMICs: | | | | |
| 1.521 Issued or guaranteed by GNMA, FNMA, FHLMC, or VA | $ 51,948 | 0.0% | $ 51,948 | 0.0% |
| 1.522 Issued by non-U.S. government issuers and collateralized by MBS issued or guaranteed By agencies shown in Line 1.521 | $ | % | $ | % |
| 1.523 All other | $ | % | $ | % |
| 2. Other debt and other fixed income securities (excluding short-term): | | | | |
| 2.1 Unaffiliated domestic securities (includes credit tenant loans and hybrid securities) | $ 164,391,773 | 50.3% | $ 164,391,773 | 50.3% |
| 2.2 Unaffiliated non-U.S. securities (including Canada) | $ 29,508,050 | 9.0% | $ 29,508,050 | 9.0% |
| 2.3 Affiliated securities | $ | % | $ | % |

| | Gross Investment Holdings* | | Admitted Assets as Reported In the Annual Statement** | |
|---|---|---|---|---|
| | Amount | Percentage | Amount | Percentage |
| 3. Equity interests: | | | | |
| 3.1 Investments in mutual funds | $ | % | $ | % |
| 3.2 Preferred stocks: | | | | |
| 3.21 Affiliated | $ | % | $ | % |
| 3.22 Unaffiliated | $ | % | $ | % |
| 3.3 Publicly traded equity securities (excluding preferred stocks): | | | | |
| 3.31 Affiliated | $ | % | $ | % |
| 3.32 Unaffiliated | $ 10,628,084 | 3.3% | $ 10,628,084 | 3.3% |
| 3.4 Other equity securities: | | | | |
| 3.41 Affiliated | $ | % | $ | % |
| 3.42 Unaffiliated | $ | % | $ | % |
| 3.5 Other equity interests including tangible personal property under lease: | | | | |
| 3.51 Affiliated | $ | % | $ | % |
| 3.52 Unaffiliated | $ | % | $ | % |
| 4. Mortgage loans: | | | | |
| 4.1 Construction and land development | $ | % | $ | % |
| 4.2 Agricultural | $ | % | $ | % |
| 4.3 Single family residential properties | $ 5,204,783 | 1.6% | $ 5,204,783 | 1.6% |
| 4.4 Multifamily residential properties | $ 7,193,537 | 2.2% | $ 7,193,537 | 2.2% |
| 4.5 Commercial loans | $ 4,210,555 | 1.3% | $ 4,210,555 | 1.3% |
| 4.6 Mezzanine real estate loans | $ | % | $ | % |
| 5. Real estate investments: | | | | |
| 5.1 Property occupied by company | $ 774,892 | 0.2% | $ 774,892 | 0.2% |
| 5.2 Property held for production of income (includes $0 of property acquired in satisfaction of debt) | $ | % | $ | % |
| 5.3 Property held for sale (including $0 property acquired in satisfaction of debt) | $ | % | $ | % |
| 6. Contract loans | $ 3,959,563 | 1.2% | $ 3,959,563 | 1.2% |
| 7. Derivatives | $ | % | $ | % |
| 8. Receivables for securities | $ | % | $ | % |
| 9. Securities Lending (Line 10, Asset Page reinvested collateral) | $ | % | $ | % |
| 10. Cash, cash equivalents, and short-term investments | $ 8,394,956 | 2.6% | $ 8,394,956 | 2.6% |
| 11. Other invested assets | $ 1,680,039 | 0.5% | $ 1,680,039 | 0.5% |
| 12. Total invested assets | $ 326,946,740 | 100.0% | $ 326,946,740 | 100.0% |

*Gross Investment Holdings as valued in compliance with NAIC *Accounting Practices & Procedures Manual.*
**National Mutual Benefit has no admitted assets in reinvested collateral related to securities lending.

# NATIONAL MUTUAL BENEFIT

## STATUTORY FINANCIAL STATEMENTS

December 31, 2016 and 2015

Strohm Ballweg

CPAs • ADVISORS • CONSULTANTS

Strohm Ballweg

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# INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

To the Board of Directors
National Mutual Benefit
Madison, Wisconsin

We have audited the accompanying financial statements of National Mutual Benefit (the Society), which are comprised of the statutory balance sheets as of December 31, 2016 and 2015, and the related statutory statements of operations, surplus, and cash flows for the years then ended, and the related notes to statutory financial statements.

**Management's Responsibilities for the Statutory Financial Statements**

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

**Auditor's Responsibility**

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

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

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

Strohm Ballweg

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

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

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

**Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Society as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended.

**Opinion on Regulatory Basis of Accounting**

In our opinion, the statutory financial statements referred to above present fairly, in all material respects, the financial position of the Society as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended, in accordance with the accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin described in Note 1.

Strohm Ballweg, LLP

Madison, Wisconsin
April 27, 2017

| | **2016** | 2015 |
|---|---|---|
| **ADMITTED ASSETS** | | |
| Cash and invested assets: | | |
| Bonds | **$ 299,180,050** | $ 284,900,331 |
| Common stocks | **11,976,863** | 10,628,084 |
| Mortgage loans on real estate | **9,771,860** | 16,608,875 |
| Real estate occupied by the Society | **719,208** | 774,892 |
| Cash and short-term investments | **5,715,749** | 8,394,956 |
| Contract loans | **3,816,012** | 3,959,563 |
| Other invested assets | **1,661,719** | 1,680,039 |
| Cash and invested assets | **332,841,461** | 326,946,740 |
| Investment income due and accrued | **4,243,668** | 4,175,375 |
| Deferred and uncollected premiums | **648,769** | 630,545 |
| Recoverable from reinsurers | **175,414** | 391,060 |
| Electronic data processing equipment | **23,768** | 12,967 |
| Total admitted assets | **$ 337,933,080** | $ 332,156,687 |
| **LIABILITIES AND SURPLUS** | | |
| Liabilities: | | |
| Aggregate reserve for contracts: | | |
| Life | **$ 126,579,579** | $ 126,079,609 |
| Annuity | **148,017,489** | 143,172,110 |
| Accident and health | **612,508** | 820,235 |
| Liability for deposit-type contracts | **11,588,004** | 12,163,679 |
| Contract claims: | | |
| Life | **646,148** | 672,116 |
| Annuity | **90,858** | 75,556 |
| Accident and health | **8,063** | 3,720 |
| Refunds payable | **436,261** | 428,773 |
| Premiums received in advance | **14,453** | 15,917 |
| Interest maintenance reserve | **455,522** | 770,603 |
| Accounts payable and accrued expenses | **565,331** | 893,057 |
| Pension and postretirement benefit obligations | **8,605,423** | 8,258,270 |
| Asset valuation reserve | **4,120,615** | 3,881,831 |
| Other liabilities | **361,392** | 418,875 |
| Total liabilities | **302,101,646** | 297,654,351 |
| Surplus | **35,831,434** | 34,502,336 |
| Total liabilities and surplus | **$ 337,933,080** | $ 332,156,687 |

See Notes to Statutory Financial Statements.

| | 2016 | 2015 |
|---|---|---|
| **INCOME** | | |
| Life premiums | **$ 10,037,195** | $ 9,554,212 |
| Annuity considerations | **9,103,962** | 7,915,625 |
| Accident and health premiums | **159,962** | 172,190 |
| Considerations for supplementary contracts with life contingencies | **-** | 13,727 |
| Investment income (net of expenses of $1,267,979 in 2016 and $1,323,845 in 2015) | **15,819,415** | 16,027,276 |
| Amortization of interest maintenance reserve | **162,510** | 149,277 |
| Commissions on reinsurance ceded | **269,714** | 299,230 |
| Other income | **1,325** | - |
| Total income | **35,554,083** | 34,131,537 |
| **BENEFITS** | | |
| Death | **5,705,853** | 4,842,983 |
| Matured endowments | **189,242** | 228,955 |
| Annuity | **9,452,852** | 8,911,425 |
| Disability, accident, and health | **137,987** | 119,189 |
| Surrender and withdrawals for life contracts | **4,884,878** | 4,140,348 |
| Interest on contract or deposit-type contract funds | **376,358** | 386,386 |
| Payments on supplementary contracts with life contingencies | **170,452** | 161,546 |
| Increase in aggregate reserves for life and accident and health contracts | **292,243** | 1,441,608 |
| Increase in aggregate reserves for annuity contracts | **4,845,380** | 4,090,095 |
| Total benefits | **26,055,245** | 24,322,535 |
| **OPERATING EXPENSES** | | |
| Commissions | **715,275** | 633,368 |
| General insurance and fraternal expenses | **7,267,923** | 7,807,361 |
| Insurance taxes, licenses, and fees | **332,816** | 330,539 |
| Increase in loading on deferred and uncollected premiums | **8,111** | 9,754 |
| Total operating expenses | **8,324,125** | 8,781,022 |
| Net gain before refunds to members and net realized capital gains | **1,174,713** | 1,027,980 |
| Refunds to members | **430,319** | 423,534 |
| Net gain from operations before net realized capital gains | **744,394** | 604,446 |
| Net realized capital gains | **359,404** | 1,347,732 |
| Net income | **$ 1,103,798** | $ 1,952,178 |

See Notes to Statutory Financial Statements.

| | **2016** | 2015 |
|---|---|---|
| Surplus, beginning of year | **$ 34,502,336** | $ 34,156,052 |
| Net income | **1,103,798** | 1,952,178 |
| Change in net unrealized capital gain/loss | **1,043,088** | (1,681,365) |
| Change in nonadmitted assets | **(798,209)** | (65,834) |
| Change in asset valuation reserve | **(238,784)** | 366,718 |
| Change in pension and postretirement benefit obligations | **219,205** | (225,413) |
| Net change in surplus | **1,329,098** | 346,284 |
| Surplus, end of year | **$ 35,831,434** | $ 34,502,336 |

| | **2016** | 2015 |
|---|---|---|
| Cash from operations: | | |
| Net premiums collected | **$ 19,273,320** | $ 17,607,150 |
| Net investment income received | **16,397,526** | 16,577,859 |
| Other income received | **272,652** | 303,517 |
| Benefit related payments | **(20,709,912)** | (19,506,194) |
| Commissions and other expenses paid | **(8,086,524)** | (8,586,526) |
| Refunds paid to members | **(422,831)** | (416,783) |
| Net cash from operations | **6,724,231** | 5,979,023 |
| Cash from investments: | | |
| Proceeds from investments sold, matured, or repaid: | | |
| Bonds | **11,515,400** | 12,997,632 |
| Stocks | **2,473,067** | 3,689,835 |
| Mortgage loans | **6,837,016** | 5,668,765 |
| | **20,825,483** | 22,356,232 |
| Cost of investments acquired: | | |
| Bonds | **(26,494,939)** | (26,987,912) |
| Stocks | **(2,419,352)** | (2,103,359) |
| Real estate | **(15,300)** | (18,852) |
| | **(28,929,591)** | (29,110,123) |
| Net decrease in contract loans | **143,552** | 24,916 |
| Net cash from investments | **(7,960,556)** | (6,728,975) |
| Cash from financing and miscellaneous sources: | | |
| Net deposits on deposit-type contracts | **(575,675)** | (478,980) |
| Other cash provided (applied) | **(867,207)** | 150,330 |
| Net cash from financing and miscellaneous sources | **(1,442,882)** | (328,650) |
| Net change in cash and short-term investments | **(2,679,207)** | (1,078,602) |
| Cash and short-term investments: | | |
| Beginning of year | **8,394,956** | 9,473,558 |
| End of year | **$ 5,715,749** | $ 8,394,956 |

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

**Nature of Business.** National Mutual Benefit (the Society), which is licensed in 13 states, is organized as a fraternal benefit society. The Society's principal operations consist of underwriting and servicing member life contracts and annuities and providing fraternal benefits to members.

A summary of the Society's significant accounting policies follows:

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

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

- Investments in bonds are generally carried at amortized cost and investments in common stocks are carried at fair value. Under GAAP, bonds and common stocks would be classified as held-to-maturity, trading, or available-for-sale. For GAAP, securities classified as held-to-maturity would be carried at cost or amortized cost and securities classified as trading or available-for-sale would be carried at fair value with the unrealized holding gains and losses reported in income for those securities classified as trading and as comprehensive income for those securities classified as available-for-sale.

- An occupancy rental charge on home office real estate owned is recorded as investment income and as offsetting rental expense; under GAAP, no such rental charge would be recognized.

- Certain assets designated as "nonadmitted assets" (principally furniture and equipment, non-operating software, and agent advances) are charged against surplus; under GAAP, furniture and equipment and non-operating software would be recognized as assets net of accumulated depreciation and amortization and agent advances would be recognized as assets.

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

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

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

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

- The interest maintenance and asset valuation reserves are required as discussed subsequently in this note; they would not be required under GAAP.

- Revenues for universal life-type contracts and annuity contracts consist of the entire premiums received, and benefits incurred represent the total death benefits paid and the change in contract reserves for statutory purposes. Under GAAP, revenues include only contract charges for the cost of insurance, contract initiation and administration, surrender charges, and other fees that have been assessed against contract account values; and benefits represent the excess of benefits paid over the contract account value and interest credited to the account values.

- Contract reserves are based on statutory mortality and interest assumptions and without consideration of withdrawals, which may differ from reserves based on reasonably conservative estimates of mortality, interest, and withdrawals as they would be presented under GAAP.

- Refunds to members to be paid in the following year are reflected in the statements of operations for the current year. Under GAAP, refunds to members would be recognized as expense ratably over the contract year.

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

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

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

- The estimated life, annuity, disability, and accident and health insurance contract reserves.

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

- The assumptions, including the discount rate and selected mortality tables, used to determine the liabilities for pension and postretirement benefit obligations.

**Cash and Short-Term Investments.** For purposes of reporting cash flows, the Society follows statutory accounting practices and considers cash in checking accounts and certain money market funds to be cash and short-term investments.

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

**Investments.** Investments are valued in accordance with the valuation methods prescribed by the NAIC. Investments in bonds not backed by loans are carried at amortized cost using the scientific interest method; however, bonds with an NAIC designation of six are carried at the lower of amortized cost or fair value. Loan-backed (mortgage-backed/asset-backed) securities are valued at amortized cost using the scientific interest method, including anticipated prepayments at the time of purchase. Prepayment assumptions are obtained from Bloomberg Services' cash flow system and are based on the current interest rate and economic environment. The prospective adjustment method is used to value all such securities. Investments in common stocks are carried at fair value. Mortgage loans and contract loans are carried at unpaid balances. Surplus debentures, which are classified as other invested assets, are carried at amortized cost using the scientific interest method.

Realized gains and losses on the sale of investments are recognized on the specific identification basis and are included in income. Unrealized gains and losses from changes in the fair value of common stocks are credited or charged directly to surplus. The treatment of realized gains and losses on the sale of bonds and stocks are further explained in the interest maintenance and asset valuation reserves paragraph of this note.

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

- Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Society has the ability to access.
- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

Declines in fair value that are determined to be OTTI are included in the statutory statements of operations as realized capital losses. The Society determines a decline to be other than temporary by reviewing and evaluating relevant objective and subjective factors for each security, including the extent of the depressed value, the length of time the value has been depressed, the intent and ability to hold the security, a security's current performance, the current and projected financial condition of the issuer, the issuer's projected ability to service and repay its debt obligations, the industry in which the issuer operates, the estimated future cash flows of loan-backed securities, and the status of the market as a whole.

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

Estimating the future cash flows of loan-backed securities also involves assumptions regarding the underlying collateral such as prepayment rates, default and recovery rates, existence of subordinated classes capable of absorbing losses, and third-party servicing abilities. The amount of these declines deemed OTTI were $364,572 for 2016 and $0 for 2015.

**Property and Equipment.** Real estate occupied by the Society is carried at its depreciated value and is presented as an investment.

The cost, accumulated depreciation, and carrying value of property and equipment at December 31, 2016 and 2015, were as follows:

| | 2016 | | |
|---|---|---|---|
| | Cost | Accumulated Depreciation | Carrying Value |
| Real estate occupied by the Society | $ 2,334,618 | $ 1,615,410 | $ 719,208 |
| Electronic data processing equipment | 30,397 | 6,629 | 23,768 |

| | 2015 | | |
|---|---|---|---|
| | Cost | Accumulated Depreciation | Carrying Value |
| Real estate occupied by the Society | $ 2,321,679 | $ 1,546,787 | $ 774,892 |
| Electronic data processing equipment | 69,838 | 56,871 | 12,967 |

Furniture and equipment and nonoperating software are considered nonadmitted assets for statutory financial statement reporting purposes. Depreciation is calculated on these assets and charged to expense. The net change in book value (cost less depreciation) is charged or credited directly to surplus.

Depreciation is calculated by applying the straight-line method over the estimated useful lives of the respective assets. Depreciation expense was $129,020 in 2016 and $123,018 in 2015.

**Interest Maintenance and Asset Valuation Reserves.** The Interest Maintenance Reserve (IMR) captures the realized capital gains and losses that result from changes in the overall level of interest rates for fixed income investments and amortizes these gains and losses into income over the remaining life of the investments sold. The Asset Valuation Reserve is a contingency reserve for possible losses on investments in bonds, stocks, mortgage loans, real estate, and other invested assets, and is recorded as a liability through a charge to surplus.

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

**Premium Revenue and Acquisition Costs.** Premium revenue from term and whole life insurance is taken into earnings over the premium paying period of the contracts. Premium revenue from universal life insurance is taken into earnings when received. All life contracts are participating contracts. Annuity considerations are taken into earnings when received according to the annuity type, which may be one time for single premium annuities or ratably for annuities with flexible premium options. Premiums for accident and health certificates are recognized ratably over the period of insurance coverage. The related acquisition costs, such as salaries, commissions, and other items, are charged to current operations as incurred.

**Reinsurance.** In the normal course of business, the Society seeks to limit its exposure to loss on any single insured and to recover a portion of the benefits paid over such limits. This is accomplished primarily through cessions to reinsurers under yearly renewable term and coinsurance contracts. If any reinsurer becomes unable to pay its share of benefits, the Society would be liable for the remaining obligations.

**Contract Reserves.** Reserves for annuities and supplementary contracts are generally based on account values of the related contracts, including interest additions at current rates. Reserves for annuities are at least equal to reserves calculated under the Commissioners' Annuity Reserve Valuation Method.

The aggregate reserve for life contracts was developed on the basis of statutory interest rates and mortality assumptions. These rates are calculated using primarily the American Experience and the 1941, 1958, 1980, and 2001 Commissioners' Standard Ordinary Mortality Tables assuming interest rates of 2.5 percent to 6.0 percent. All traditional life reserves are calculated using the mean reserve method.

The Society waives deduction of deferred fractional premiums upon death of insureds and returns any portion of the final premium beyond the date of death. Surrender values are not promised in excess of legally computed reserves. Substandard reserves are determined by computing the regular mean reserve for the plan at the rated age. Contracts issued for substandard lives are charged an additional premium over the regular gross premium for the rated age with one half of the extra premium held in reserves.

As of December 31, 2016 and 2015, the Society had $23,977,256 and $23,427,256, respectively, of insurance in force for which the gross premiums are less than the net premiums according to the standard of calculation set by the OCI. Reserves related to the above insurance totaled $154,093 and $144,941 at December 31, 2016 and 2015, respectively.

Tabular interest, tabular less actual reserve released, and tabular cost are determined by formula. The determination of tabular interest is validated by an independent calculation.

**Income Taxes.** The Society qualifies as a tax-exempt organization under Section 501(c)(8) of the Internal Revenue Code. Accordingly, no provision for income taxes has been recorded in the financial statements.

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

**Subsequent Events.** Subsequent events were evaluated through April 27, 2017, which is the date the financial statements were available to be issued.

**Note 2 ~ Investments**

The cost and fair value of investments at December 31, 2016 and 2015, were as follows:

| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **2016** | | | | |
| Bonds (at amortized cost): | | | | |
| States, territories, and possessions | $ 7,512,334 | $ 486,447 | $ (11,470) | $ 7,987,311 |
| Political subdivisions | 23,965,517 | 1,858,186 | (57,077) | 25,766,626 |
| Special revenue | 67,804,266 | 3,550,656 | (523,649) | 70,831,273 |
| Industrial and miscellaneous | 199,763,078 | 19,840,722 | (1,025,819) | 218,577,981 |
| Loan-backed securities | 134,855 | 11,450 | - | 146,305 |
| Total bonds | 299,180,050 | 25,747,461 | (1,618,015) | 323,309,496 |
| Common stocks | 9,418,511 | 2,798,495 | (240,143) | 11,976,863 |
| Other invested assets | 1,661,719 | 118,226 | - | 1,779,945 |
| | $ 310,260,280 | $ 28,664,182 | $ (1,858,158) | $ 337,066,304 |

The cumulative unrealized loss of $1,858,158 as of December 31, 2016, consisted of $512,070 of unrealized losses in a loss position for greater than 12 months and $1,346,088 of unrealized losses in a loss position for less than 12 months.

**Note 2 ~ Investments** (Continued)

| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **2015** | | | | |
| Bonds (at amortized cost): | | | | |
| States, territories, and possessions | $ 6,512,843 | $ 496,913 | $ (3,623) | $ 7,006,133 |
| Political subdivisions | 24,056,813 | 2,028,564 | (98,668) | 25,986,709 |
| Special revenue | 60,289,000 | 3,809,317 | (223,788) | 63,874,529 |
| Industrial and miscellaneous | 193,899,823 | 18,767,653 | (1,817,011) | 210,850,465 |
| Loan-backed securities | 141,852 | 43,996 | - | 185,848 |
| Total bonds | 284,900,331 | 25,146,443 | (2,143,090) | 307,903,684 |
| Common stocks | 9,107,822 | 2,183,830 | (663,568) | 10,628,084 |
| Other invested assets | 1,680,039 | 171,321 | - | 1,851,360 |
| | $ 295,688,192 | $ 27,501,594 | $ (2,806,658) | $ 320,383,128 |

The cumulative unrealized loss of $2,806,658 as of December 31, 2015, consisted of $1,174,426 of unrealized losses in a loss position for greater than 12 months and $1,632,232 of unrealized losses in a loss position for less than 12 months.

The amortized cost and fair value of bonds (including short-term and certain money market mutual funds) at December 31, 2016, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

| | Amortized Cost | Fair Value |
|---|---|---|
| Due in one year | $ 8,528,891 | $ 8,596,126 |
| Due after one year through five years | 40,964,546 | 43,793,430 |
| Due after five years through ten years | 107,768,884 | 117,615,506 |
| Due after ten years | 147,883,854 | 159,259,109 |
| Loan-backed securities | 134,855 | 146,305 |
| | $ 305,281,030 | $ 329,410,476 |

**Note 2 ~ Investments** (Continued)

**Gains and Losses on Investments.** The components of net realized capital gains (losses) were as follows:

| | 2016 | 2015 |
|---|---|---|
| Gains | $ 875,615 | $ 1,572,132 |
| Losses | (304,210) | (57,769) |
| Transfers to IMR | 152,571 | (166,631) |
| OTTI | (364,572) | - |
| Net realized capital gains | $ 359,404 | $ 1,347,732 |

**Mortgage Loans.** The Society invests in mortgage loans collateralized by residential and commercial real estate. Substantially all of the Society's mortgage loan portfolio consists of loans made on properties located in south central Wisconsin. Regions outside of Wisconsin constitute less than 1 percent of the mortgage loan portfolio. Approximately 39 percent of the mortgage loans are loans on residential real estate, with the remaining 61 percent on commercial real estate. No new mortgage loans were issued in 2016. The maximum percentage of any one loan to the value of security at December 31, 2016, is 66 percent. The Society does not have any insured or purchased money mortgages. The Society has not included taxes, assessments, or other amounts advanced in mortgage loans.

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

**Level 1 Measurements**

Common stocks: Comprised of actively traded, exchange listed equity securities. Valuation is based on unadjusted quoted prices for identical assets in active markets that are accessible to the Society at the measurement date.

Short-term investments: Comprised of actively traded money market funds that have daily quoted net asset values for identical assets that are accessible to the Society at the measurement date.

**Level 2 Measurements**

Bonds and other invested assets: Comprised of government obligations, state and municipal bonds, corporate debt, residential and commercial mortgage-backed securities, and surplus debentures. Valuation is based on leading, nationally recognized providers of market data and analytics to price a vast majority of the fixed income securities. These securities are principally valued using the market and income approaches. When available, recent trades of identical or similar assets are used to price these securities. However, because many fixed income securities do not actively trade on a daily basis, the valuation is determined by the Society's investment manager using an income approach - present value using the discount rate adjustment technique.

**Note 2 ~ Investments** (Continued)

**Financial Instruments Reported at Fair Value in the Statutory Balance Sheets**

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **December 31, 2016** | | | | |
| Common stocks | $ 12,082,952 | $ - | $ - | $ 12,082,952 |
| **December 31, 2015** | | | | |
| Common stocks | $ 10,628,084 | $ - | $ - | $ 10,628,084 |

The Society does not have any liabilities measured at fair value at December 31, 2016 and 2015. The Society also did not have any transfers between levels during 2016 and 2015.

**All Financial Instruments**

| Type of Financial Instrument | Aggregate Fair Value | Admitted Assets | Level 1 | Level 2 | Level 3 | Fair Value Not Practicable* |
|---|---|---|---|---|---|---|
| **December 31, 2016** | | | | | | |
| Bonds | $ 323,309,496 | $ 299,180,050 | $ - | $ 323,309,496 | $ - | $ - |
| Common stock | 12,082,952 | 12,082,952 | 12,082,952 | - | - | - |
| Mortgage loans | 9,771,860 | 9,771,860 | - | - | - | 9,771,860 |
| Short-term investments | 6,100,981 | 6,100,981 | 6,100,981 | - | - | - |
| Other invested assets | 1,779,945 | 1,661,719 | - | 1,779,945 | - | - |
| **December 31, 2015** | | | | | | |
| Bonds | $ 307,903,684 | $ 284,900,331 | $ - | $ 307,903,684 | $ - | $ - |
| Common stock | 10,628,084 | 10,628,084 | 10,628,084 | - | - | - |
| Mortgage loans | 16,608,875 | 16,608,875 | - | - | - | 16,608,875 |
| Short-term investments | 8,877,799 | 8,877,799 | 8,877,799 | - | - | - |
| Other invested assets | 1,851,360 | 1,680,039 | - | 1,851,360 | - | - |

*It was not practicable to determine the fair value of these mortgage loans because a quoted market price was not available and the cost of obtaining independent appraisals would be excessive.

### Note 3 ~ Analysis of Annuity Actuarial Reserves and Deposit Liabilities by Withdrawal Characteristics

The withdrawal characteristics of annuity actuarial reserves and deposit-type contracts, at December 31, 2016 and 2015, were as follows:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Amount | Percent | Amount | Percent |
| Subject to discretionary withdrawal: | | | | |
| At book value, less surrender charge of 5 percent or more | $ 6,510,846 | 4.06% | $ 8,005,212 | 5.12% |
| At book value, without adjustment | 147,968,597 | 92.19% | 141,978,365 | 90.76% |
| Not subject to discretionary withdrawal | 6,028,734 | 3.75% | 6,456,380 | 4.12% |
| Total annuity reserves and deposit fund liabilities | $ 160,508,177 | 100.00% | $ 156,439,957 | 100.00% |

### Note 4 ~ Employee Benefit Plans

**Defined Contribution Plan.** The Society sponsors a defined contribution plan which covers substantially all of its agents and employees. The Society's contributions to the plan are based on a percentage of compensation. Contributions are made semi-monthly to the trustee of the plan for all amounts due under the plan. The Society's contribution to the plan was $272,679 and $267,299 for 2016 and 2015, respectively.

**Pension and Postretirement Benefit Obligations.** The Society has a deferred compensation plan for all directors and for chartered officers who meet eligibility requirements. The plan provides for equal monthly payments for up to ten years to eligible participants who retire or become disabled. In the event of death of the participant before retirement, payments are made to the participant's surviving spouse or estate. The Society also sponsors a postretirement benefit plan which provides health insurance to retired employees. The plans are unfunded.

The benefit obligations as of December 31, 2016 and 2015, were calculated under SSAP No. 92, *Accounting for Postretirement Benefits Other Than Pensions* for the health insurance plan and under SSAP No. 102, *Accounting for Pensions* for the deferred compensation plan. The details of the benefit obligations and other components of the plans are illustrated on the following pages.

**Note 4 ~ Employee Benefit Plans** (Continued)

| | Health Insurance Plan | | Deferred Compensation Plan | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Change in benefit obligation: | | | | |
| Benefit obligation at beginning of year | $ 5,081,080 | $ 4,759,201 | $ 2,858,173 | $ 2,774,150 |
| Service cost | 67,308 | 72,643 | 60,100 | 60,048 |
| Interest cost | 212,555 | 181,043 | 89,627 | 81,569 |
| Actuarial (gain) loss | (180,891) | 188,716 | 565 | 43,189 |
| Net benefits paid | (132,356) | (120,523) | (122,284) | (100,783) |
| Benefit obligation at end of year | $ 5,047,696 | $ 5,081,080 | $ 2,886,181 | $ 2,858,173 |
| Funded status: | | | | |
| Amounts recognized in the statutory balance sheets: | | | | |
| Accrued benefit costs | $ 4,714,159 | $ 4,565,383 | $ 2,605,866 | $ 2,578,423 |
| Unrecognized net actuarial loss | 333,537 | 515,697 | 280,315 | 279,750 |
| Liability for benefit obligations | $ 5,047,696 | $ 5,081,080 | $ 2,886,181 | $ 2,858,173 |
| Components of net periodic postretirement benefit cost: | | | | |
| Service cost | $ 67,308 | $ 72,643 | $ 60,100 | $ 60,048 |
| Interest cost | 212,555 | 181,043 | 89,627 | 81,569 |
| Recognized net actuarial loss | 1,269 | - | - | - |
| Total net periodic pension cost | $ 281,132 | $ 253,686 | $ 149,727 | $ 141,617 |
| Amounts in surplus recognized as components of net periodic benefit cost: | | | | |
| Items not yet recognized as a component of net periodic cost – prior year | $ 515,697 | $ 326,981 | $ 279,750 | $ 236,561 |
| Net (gain) loss arising during the period | (180,891) | 188,716 | 565 | 43,189 |
| Net gain recognized as income | (1,269) | - | - | - |
| Items not yet recognized as a component of net periodic cost – current year | $ 333,537 | $ 515,697 | $ 280,315 | $ 279,750 |
| Amounts in surplus that have not yet been recognized as components of net periodic benefit cost: | | | | |
| Net recognized losses | $ 333,537 | $ 515,697 | $ 280,315 | $ 279,750 |
| Weighted-average assumptions as of Dec 31: | | | | |
| Discount rate | 4.0% | 4.2% | 3.2% | 3.2% |

**Note 4 ~ Employee Benefit Plans** (Continued)

Assumed health care cost trend rates have a significant effect on the amounts reported for the health insurance plan. A one percentage point change in assumed health care cost trend rates would have the following effects:

| | 1 Percentage Point Increase | 1 Percentage Point Decrease |
|---|---|---|
| Effect on total service and interest cost components | $ 49,926 | $ (39,849) |
| Effect on postretirement benefit obligation | 750,587 | (613,482) |

The following estimated future payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

Expected Benefit Cash Flows

| Calendar Year | Health Insurance Plan | Deferred Compensation Plan |
|---|---|---|
| 2017 | $ 221,000 | $ 235,000 |
| 2018 | 226,000 | 243,000 |
| 2019 | 247,000 | 288,000 |
| 2020 | 249,000 | 324,000 |
| 2021 | 231,000 | 324,000 |
| 2022-2026 | 1,345,000 | 1,456,000 |

The Society's funding policy is to pay premium, benefits, and claims as they come due; therefore, expected contributions are equal to expected benefits of $221,000 for the health insurance plan and $235,000 for the deferred compensation plan for 2016.

The Society also provides severance pay benefits to eligible retired employees. The benefits are based on accrued and unused sick leave pay. The plan is unfunded. The liability recorded for this plan was $625,720 and $635,671 as of December 31, 2016 and 2015, respectively.

**Note 5 ~ Line of Credit**

The Society has a bank line of credit for up to $2,000,000 at one month LIBOR plus 2.5 percent. There were no amounts outstanding on the line of credit at December 31, 2016 and 2015.

**Note 6 ~ Surplus**

The Society is required to maintain minimum surplus established by the OCI and is subject to Risk-Based Capital (RBC) requirements promulgated by the NAIC and adopted by the OCI. The RBC standards establish uniform minimum capital requirements for insurance companies. The RBC formula applies various weighting factors to financial balances or various levels of activities based on the perceived degree of risk. At December 31, 2016, the Society's surplus exceeded the minimum levels required by the OCI and RBC standards.

The Society's surplus was increased (reduced) by the following cumulative amounts at December 31, 2016 and 2015:

| | 2016 | 2015 |
|---|---|---|
| Unrealized gains/losses | $ 2,563,351 | $ 1,520,263 |
| Nonadmitted assets | (1,084,264) | (286,055) |
| Asset valuation reserve | (4,120,615) | (3,881,831) |

Strohm Ballweg

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## INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

To the Board of Directors
National Mutual Benefit
Madison, Wisconsin

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

Strohm Ballweg, LLP

Madison, Wisconsin
April 27, 2017

**INVESTMENT INCOME EARNED**

| | | |
|---|---|---|
| U.S. government bonds | $ | 9,002 |
| Other bonds (unaffiliated) | | 15,358,987 |
| | | |
| Common stocks (unaffiliated) | | 194,678 |
| Mortgage loans | | 784,810 |
| Real estate | | 350,004 |
| Contract loans | | 283,546 |
| | | |
| Cash, cash equivalents, and short-term investments | | 5,982 |
| Other invested assets | | 100,180 |
| Aggregate write-ins for investment income | | 206 |
| | | |
| Gross investment income | $ | 17,087,395 |

**INVESTMENTS**

| | | |
|---|---|---|
| Real estate owned – book value less encumbrances | $ | 719,208 |
| | | |
| Mortgage loans – book value: | | |
| Residential mortgages | $ | 3,822,291 |
| Commercial mortgages | | 5,949,569 |
| | | |
| Total mortgage loans | $ | 9,771,860 |
| | | |
| Mortgage loans by standing – book value: | | |
| Good standing | $ | 9,771,860 |
| | | |
| Other invested assets – statement value | $ | 1,661,719 |

**INVESTMENTS**

| | |
|---|---|
| Bonds and short-term investments by NAIC designation and maturity: | |
| Bonds by maturity - statement value: | |
| Due within 1 year or less | $ 8,528,891 |
| Over 1 year through 5 years | 40,964,546 |
| Over 5 years through 10 years | 107,903,738 |
| Over 10 years through 20 years | 116,176,220 |
| Over 20 years | 31,707,635 |
| Total by maturity | $ 305,281,030 |
| Bonds by NAIC designation – statement value: | |
| NAIC 1 | $ 216,706,978 |
| NAIC 2 | 85,964,681 |
| NAIC 3 | 2,609,371 |
| Total by NAIC designation | $ 305,281,030 |
| Total bonds publicly traded | $ 251,878,342 |
| Total bonds privately placed | $ 53,402,688 |
| Common stocks – market value | $ 11,976,863 |
| Short-term investments – book value | 6,100,981 |
| Cash on deposit | (385,232) |

**INSURANCE IN FORCE**

| | |
|---|---|
| Life insurance in force: | |
| Ordinary | $ 1,136,902,086 |
| Amount of accidental death insurance in force under ordinary contracts | 32,368,000 |
| Supplementary contracts in force: | |
| Ordinary, not involving life contingencies: | |
| Amount on deposit | 1,510,529 |
| Income payable | 565,644 |
| Ordinary, involving life contingencies, income payable | 159,571 |
| Annuities: | |
| Ordinary: | |
| Immediate, amount of income payable | 940,004 |
| Deferred, fully paid account balance | 48,969,730 |
| Deferred, not fully paid, account balance | 99,506,666 |

**OTHER**

| | |
|---|---|
| Deposit funds and dividend accumulations: | |
| Deposit funds, account balance | $ 14,700 |
| Dividend accumulations, account balance | 6,901,734 |
| Claim payments 2016: | |
| Accident and health, year ended December 31, 2016, incurred: | |
| 2016 | 40,549 |
| 2015 and prior years | 47,291 |

1. Reporting entity's total admitted assets as reported on page two of the annual statement. $ 337,933,080

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

| | Issuer | Description of Exposure | Amount | Percentage of Total Admitted Assets |
|---|---|---|---|---|
| 2.01 | JP Morgan Chase & Co | Bonds/Common Stock | $ 3,073,085 | 0.909% |
| 2.02 | New York ST Mtge Agy Homeowner | Bonds | $ 2,587,562 | 0.766% |
| 2.03 | Denver Co City & Cnty SD #1 | Bonds | $ 2,566,255 | 0.759% |
| 2.04 | Wal-Mart Stores Inc | Bonds | $ 2,364,313 | 0.700% |
| 2.05 | Conocophillips Hldg Co | Bonds | $ 2,254,968 | 0.667% |
| 2.06 | San Francisco CA City & Cnty | Bonds | $ 2,254,332 | 0.667% |
| 2.07 | Morgan Stanley | Bonds | $ 2,237,797 | 0.662% |
| 2.08 | FMR LLC | Bonds | $ 2,177,292 | 0.644% |
| 2.09 | Burlington North Santa Fe | Bonds | $ 2,162,685 | 0.640% |
| 2.10 | Transurban Finance | Bonds | $ 2,097,105 | 0.621% |

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

| Bonds | | | Preferred Stocks | | |
|---|---|---|---|---|---|
| 3.01 NAIC – 1 | $ 216,706,980 | 64.127% | 3.07 P/RP – 1 | $ | % |
| 3.02 NAIC – 2 | $ 85,964,681 | 25.438% | 3.08 P/RP – 2 | $ | % |
| 3.03 NAIC – 3 | $ 2,609,371 | 0.772% | 3.09 P/RP – 3 | $ | % |
| 3.04 NAIC – 4 | $ | % | 3.10 P/RP – 4 | $ | % |
| 3.05 NAIC – 5 | $ | % | 3.11 P/RP – 5 | $ | % |
| 3.06 NAIC – 6 | $ | % | 3.12 P/RP – 6 | $ | % |

4. Assets held in foreign investments:

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

| | | | |
|---|---|---|---|
| 4.02 | Total admitted assets held in foreign investments | $ 29,369,123 | 8.691% |
| 4.03 | Foreign-currency-denominated investments | $ | % |
| 4.04 | Insurance liabilities denominated in that same foreign currency | $ | % |

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

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

| | | | |
|---|---|---|---|
| 5.01 | Countries rated NAIC – 1 | $ 29,369,123 | 8.691% |
| 5.02 | Countries rated NAIC – 2 | $ | % |
| 5.03 | Countries rated NAIC – 3 or below | $ | % |

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

| | | |
|---|---|---|
| Countries rated NAIC – 1 | | |
| 6.01 Australia | $ 8,638,312 | 2.556% |
| 6.02 Netherlands | $ 5,342,142 | 1.581% |
| Countries rated NAIC – 2 | | |
| 6.03 | $ | % |
| 6.04 | $ | % |
| Countries rated NAIC – 3 or below | | |
| 6.05 | $ | % |
| 6.06 | $ | % |

7. Aggregate unhedged foreign currency exposure $ %

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

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

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

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

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

| Issuer | NAIC Designation | Amount | Percent |
|---|---|---|---|
| 10.01 Transurban Finance | 2 | $ 2,134,479 | 0.632% |
| 10.02 Holcim US Finance SARL | 2FE | $ 2,053,766 | 0.608% |
| 10.03 Heathrow Funding LTD | 1FE | $ 2,026,766 | 0.600% |
| 10.04 Barilla FR | 2 | $ 2,000,000 | 0.592% |
| 10.05 Shell International Fin | 1FE | $ 1,967,799 | 0.582% |
| 10.06 Voya Holdings Inc | 1FE | $ 1,868,970 | 0.553% |
| 10.07 Eaton Corp | 2FE | $ 1,300,528 | 0.385% |
| 10.08 Koninklijke Philips NV | 2FE | $ 1,007,739 | 0.298% |
| 10.09 Barclays Bank PLC | 1FE | $ 1,005,735 | 0.298% |
| 10.10 Sydney Airport Finance | 2FE | $ 1,003,833 | 0.297% |

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

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

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

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

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

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

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

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

Assets held in equity interests:

| | | | |
|---|---|---|---|
| 13.02 Berkshire Hathaway CL B | $ | 672,293 | 0.199% |
| 13.03 Comcast Corp CL A | $ | 635,260 | 0.188% |
| 13.04 Unitedhealth Group | $ | 584,146 | 0.173% |
| 13.05 Dollar General Corp | $ | 561,080 | 0.166% |
| 13.06 Honeywell International | $ | 547,391 | 0.162% |
| 13.07 Twenty First Century Fox Inc | $ | 542,444 | 0.161% |
| 13.08 Accenture PLC CL A | $ | 521,229 | 0.154% |
| 13.09 Schlumberger Ltd | $ | 516,293 | 0.153% |
| 13.10 JP Morgan Chase & Co | $ | 515,583 | 0.153% |
| 13.11 Bank of New York Mellon Corp | $ | 466,693 | 0.138% |

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

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

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

Largest 3 investments held in nonaffiliated, privately placed equities:

| | | | |
|---|---|---|---|
| 14.03 | | $ | % |
| 14.04 | | $ | % |
| 14.05 | | $ | % |

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

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

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

Largest 3 investments held in general partnership interests:

| | | | |
|---|---|---|---|
| 15.03 | | $ | % |
| 15.04 | | $ | % |
| 15.05 | | $ | % |

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

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

Total admitted assets held in Mortgage Loans:

| | | |
|---|---|---|
| 16.02 Commercial | $ 1,529,663 | 0.453% |
| 16.03 Residential/Commercial | $ 1,425,467 | 0.422% |
| 16.04 Residential/Commercial | $ 1,309,769 | 0.388% |
| 16.05 Residential/Commercial | $ 907,659 | 0.269% |
| 16.06 Residential | $ 858,106 | 0.254% |
| 16.07 Commercial | $ 855,435 | 0.253% |
| 16.08 Residential | $ 570,711 | 0.169% |
| 16.09 Commercial | $ 438,226 | 0.130% |
| 16.10 Residential/Commercial | $ 283,373 | 0.084% |
| 16.11 Commercial | $ 269,030 | 0.080% |

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

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

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

| | Loan-to-Value | Residential | | Commercial | | Agricultural | |
|---|---|---|---|---|---|---|---|
| 17.01 | Above 95% | $ | % | $ | % | $ | % |
| 17.02 | 91% to 95% | $ | % | $ | % | $ | % |
| 17.03 | 81% to 90% | $ | % | $ | % | $ | % |
| 17.04 | 71% to 80% | $ | % | $ | % | $ | % |
| 17.05 | below 70% | $ 3,822,291 | 1.131% | $ 5,949,569 | 1.761% | $ | % |

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

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

Assets held in the 5 Largest Real Estate Holdings:

| | | | |
|---|---|---|---|
| 18.02 | | $ | % |
| 18.03 | | $ | % |
| 18.04 | | $ | % |
| 18.05 | | $ | % |
| 18.06 | | $ | % |

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

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

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

Largest three investments held in mezzanine real estate loans:

| | | | |
|---|---|---|---|
| 19.03 | | $ | % |
| 19.04 | | $ | % |
| 19.05 | | $ | % |

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

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

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

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

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

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

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

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

| | Gross Investment Holdings* | | Admitted Assets as Reported In the Annual Statement** | |
|---|---|---|---|---|
| | Amount | Percentage | Amount | Percentage |
| 1. Bonds: | | | | |
| 1.1 U.S. treasury securities | $ | % | $ | % |
| 1.2 U.S. government agency obligations (excluding mortgage-backed securities): | | | | |
| 1.21 Issued by U.S. government agencies | $ | % | $ | % |
| 1.22 Issued by U.S. government-sponsored agencies | $ | % | $ | % |
| 1.3 Non-U.S. government (including Canada, excluding mortgage-backed securities) | $ | % | $ | % |
| 1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.: | | | | |
| 1.41 State, territory, and possession general obligations | $ 6,995,812 | 2.1% | $ 6,995,812 | 2.1% |
| 1.42 Political subdivisions of states, territories, and possessions and political subdivisions general obligations | $ 23,965,517 | 7.2% | $ 23,965,517 | 7.2% |
| 1.43 Revenue and assessment obligations | $ 68,320,789 | 20.5% | $ 68,320,789 | 20.5% |
| 1.44 Industrial development and similar obligations | $ | % | $ | % |
| 1.5 Mortgage-backed securities (includes residential and commercial MBS): | | | | |
| 1.51 Pass-through securities: | | | | |
| 1.511 Issued or guaranteed by GNMA | $ 76,144 | 0.0% | $ 76,144 | 0.0% |
| 1.512 Issued or guaranteed by FNMA and FHLMC | $ | % | $ | % |
| 1.513 All other | $ | % | $ | % |
| 1.52 CMOs and REMICs: | | | | |
| 1.521 Issued or guaranteed by GNMA, FNMA, FHLMC, or VA | $ 58,711 | 0.0% | $ 58,711 | 0.0% |
| 1.522 Issued by non-U.S. government issuers and collateralized by MBS issued or guaranteed By agencies shown in Line 1.521 | $ | % | $ | % |
| 1.523 All other | $ | % | $ | % |
| 2. Other debt and other fixed income securities (excluding short-term): | | | | |
| 2.1 Unaffiliated domestic securities (includes credit tenant loans and hybrid securities) | $ 166,815,780 | 50.1% | $ 166,815,780 | 50.1% |
| 2.2 Unaffiliated non-U.S. securities (including Canada) | $ 32,947,297 | 9.9% | $ 32,947,297 | 9.9% |
| 2.3 Affiliated securities | $ | % | $ | % |

| | Gross Investment Holdings* | | Admitted Assets as Reported In the Annual Statement** | |
|---|---|---|---|---|
| | Amount | Percentage | Amount | Percentage |
| 3. Equity interests: | | | | |
| 3.1 Investments in mutual funds | $ | % | $ | % |
| 3.2 Preferred stocks: | | | | |
| 3.21 Affiliated | $ | % | $ | % |
| 3.22 Unaffiliated | $ | % | $ | % |
| 3.3 Publicly traded equity securities (excluding preferred stocks): | | | | |
| 3.31 Affiliated | $ | % | $ | % |
| 3.32 Unaffiliated | $ 12,082,952 | 3.6% | $ 12,082,952 | 3.6% |
| 3.4 Other equity securities: | | | | |
| 3.41 Affiliated | $ (106,089) | (0.0%) | $ (106,089) | (0.0%) |
| 3.42 Unaffiliated | $ | % | $ | % |
| 3.5 Other equity interests including tangible personal property under lease: | | | | |
| 3.51 Affiliated | $ | % | $ | % |
| 3.52 Unaffiliated | $ | % | $ | % |
| 4. Mortgage loans: | | | | |
| 4.1 Construction and land development | $ | % | $ | % |
| 4.2 Agricultural | $ | % | $ | % |
| 4.3 Single family residential properties | $ 3,822,291 | 1.2% | $ 3,822,291 | 1.2% |
| 4.4 Multifamily residential properties | $ 3,378,830 | 1.0% | $ 3,378,830 | 1.0% |
| 4.5 Commercial loans | $ 2,570,739 | 0.8% | $ 2,570,739 | 0.8% |
| 4.6 Mezzanine real estate loans | $ | % | $ | % |
| 5. Real estate investments: | | | | |
| 5.1 Property occupied by company | $ 719,208 | 0.2% | $ 719,208 | 0.2% |
| 5.2 Property held for production of income (includes $0 of property acquired in satisfaction of debt) | $ | % | $ | % |
| 5.3 Property held for sale (including $0 property acquired in satisfaction of debt) | $ | % | $ | % |
| 6. Contract loans | $ 3,816,012 | 1.2% | $ 3,816,012 | 1.2% |
| 7. Derivatives | $ | % | $ | % |
| 8. Receivables for securities | $ | % | $ | % |
| 9. Securities Lending (Line 10, Asset Page reinvested collateral) | $ | % | $ | % |
| 10. Cash, cash equivalents, and short-term investments | $ 5,715,749 | 1.7% | $ 5,715,749 | 1.7% |
| 11. Other invested assets | $ 1,661,719 | 0.5% | $ 1,661,719 | 0.5% |
| 12. Total invested assets | $ 332,841,461 | 100.0% | $ 332,841,461 | 100.0% |

*Gross Investment Holdings as valued in compliance with NAIC *Accounting Practices & Procedures Manual.*
**National Mutual Benefit has no admitted assets in reinvested collateral related to securities lending.

**NATIONAL MUTUAL BENEFIT**

**STATUTORY FINANCIAL STATEMENTS**

December 31, 2017 and 2016

Strohm Ballweg

CPAs • ADVISORS • CONSULTANTS

Strohm Ballweg

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# INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

To the Board of Directors
National Mutual Benefit
Madison, Wisconsin

We have audited the accompanying statutory financial statements of National Mutual Benefit (the Society), which are comprised of the statutory balance sheets as of December 31, 2017 and 2016, and the related statutory statements of operations, surplus, and cash flows for the years then ended, and the related notes to statutory financial statements.

**Management's Responsibilities for the Financial Statements**

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

**Auditor's Responsibility**

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

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

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

Strohm Ballweg

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

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

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

**Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Society as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended.

**Opinion on Regulatory Basis of Accounting**

In our opinion, the statutory financial statements referred to above present fairly, in all material respects, the financial position of the Society as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended, in accordance with the accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin described in Note 1.

Strohm Ballweg, LLP

Madison, Wisconsin
April 20, 2018

| | 2017 | 2016 |
|---|---|---|
| **ADMITTED ASSETS** | | |
| Cash and invested assets: | | |
| Bonds | **$ 309,769,131** | $ 299,180,050 |
| Common stocks | **12,061,693** | 11,976,863 |
| Mortgage loans on real estate | **4,635,446** | 9,771,860 |
| Real estate occupied by the Society | **739,028** | 719,208 |
| Cash, cash equivalents, and short-term investments | **5,984,724** | 5,715,749 |
| Contract loans | **3,724,172** | 3,816,012 |
| Other invested assets | **1,642,440** | 1,661,719 |
| Receivable for securities | **37,465** | - |
| Cash and invested assets | **338,594,099** | 332,841,461 |
| Investment income due and accrued | **4,241,835** | 4,243,668 |
| Deferred and uncollected premiums | **665,319** | 648,769 |
| Recoverable from reinsurers | **68,674** | 175,414 |
| Electronic data processing equipment | **71,485** | 23,768 |
| Total admitted assets | **$ 343,641,412** | $ 337,933,080 |
| **LIABILITIES AND SURPLUS** | | |
| Liabilities: | | |
| Aggregate reserve for contracts: | | |
| Life | **$ 126,507,905** | $ 126,579,579 |
| Annuity | **152,789,821** | 148,017,489 |
| Accident and health | **735,746** | 612,508 |
| Liability for deposit-type contracts | **10,802,661** | 11,588,004 |
| Contract claims: | | |
| Life | **763,227** | 646,148 |
| Annuity | **1,157,032** | 90,858 |
| Accident and health | **2,672** | 8,063 |
| Refunds payable | **442,365** | 436,261 |
| Premiums received in advance | **16,070** | 14,453 |
| Interest maintenance reserve | **553,567** | 455,522 |
| Accounts payable and accrued expenses | **555,850** | 565,331 |
| Pension and postretirement benefit obligations | **9,326,989** | 8,605,423 |
| Asset valuation reserve | **4,134,762** | 4,120,615 |
| Other liabilities | **489,681** | 361,392 |
| Total liabilities | **308,278,348** | 302,101,646 |
| Surplus | **35,363,064** | 35,831,434 |
| Total liabilities and surplus | **$ 343,641,412** | $ 337,933,080 |

See Notes to Statutory Financial Statements.

| | 2017 | 2016 |
|---|---|---|
| **INCOME** | | |
| Life premiums | **$ 10,122,750** | $ 10,037,195 |
| Annuity considerations | **8,450,867** | 9,103,962 |
| Accident and health premiums | **146,418** | 159,962 |
| Considerations for supplementary contracts with life contingencies | **382,595** | - |
| Investment income (net of expenses of $1,319,395 in 2017 and $1,267,979 in 2016) | **15,755,582** | 15,819,415 |
| Amortization of interest maintenance reserve | **189,442** | 162,510 |
| Commissions on reinsurance ceded | **253,356** | 269,714 |
| Other income | **447** | 1,325 |
| Total income | **35,301,457** | 35,554,083 |
| **BENEFITS** | | |
| Death | **5,932,385** | 5,705,853 |
| Matured endowments | **159,553** | 189,242 |
| Annuity | **9,057,824** | 9,452,852 |
| Disability, accident, and health | **87,179** | 137,987 |
| Surrender and withdrawals for life contracts | **6,220,055** | 4,884,878 |
| Interest on contract or deposit-type contract funds | **344,678** | 376,358 |
| Payments on supplementary contracts with life contingencies | **181,143** | 170,452 |
| Increase in aggregate reserves for life and accident and health contracts | **51,564** | 292,243 |
| Increase in aggregate reserves for annuity contracts | **4,772,332** | 4,845,380 |
| Total benefits | **26,806,713** | 26,055,245 |
| **OPERATING EXPENSES** | | |
| Commissions | **715,225** | 715,275 |
| General insurance and fraternal expenses | **8,295,742** | 7,267,923 |
| Insurance taxes, licenses, and fees | **344,271** | 332,816 |
| Increase in loading on deferred and uncollected premiums | **21,203** | 8,111 |
| Total operating expenses | **9,376,441** | 8,324,125 |
| Net gain (loss) before refunds to members and net realized capital gains | **(881,697)** | 1,174,713 |
| Refunds to members | **426,844** | 430,319 |
| Net gain (loss) from operations before net realized capital gains | **(1,308,541)** | 744,394 |
| Net realized capital gains | **961,462** | 359,404 |
| Net (loss) income | **$ (347,079)** | $ 1,103,798 |

See Notes to Statutory Financial Statements.

| | **2017** | 2016 |
|---|---|---|
| Surplus, beginning of year | **$ 35,831,434** | $ 34,502,336 |
| Net income (loss) | **(347,079)** | 1,103,798 |
| Change in net unrealized capital gain/loss | **1,314,212** | 1,043,088 |
| Change in nonadmitted assets | **(896,170)** | (798,209) |
| Change in asset valuation reserve | **(14,147)** | (238,784) |
| Change in pension and postretirement benefit obligations | **(525,186)** | 219,205 |
| Net change in surplus | **(468,370)** | 1,329,098 |
| Surplus, end of year | **$ 35,363,064** | $ 35,831,434 |

| | 2017 | 2016 |
|---|---|---|
| Cash from operations: | | |
| Net premiums collected | **$ 19,066,493** | $ 19,273,320 |
| Net investment income received | **16,447,836** | 16,397,526 |
| Other income received | **255,056** | 272,652 |
| Benefit related payments | **(20,699,468)** | (20,709,912) |
| Commissions and other expenses paid | **(9,152,243)** | (8,086,524) |
| Refunds paid to members | **(420,740)** | (422,831) |
| Net cash from operations | **5,496,934** | 6,724,231 |
| Cash from investments: | | |
| Proceeds from investments sold, matured, or repaid: | | |
| Bonds | **17,145,195** | 11,515,400 |
| Stocks | **4,204,223** | 2,473,067 |
| Mortgage loans | **5,136,414** | 6,837,016 |
| | **26,485,832** | 20,825,483 |
| Cost of investments acquired: | | |
| Bonds | **(28,080,343)** | (26,494,939) |
| Stocks | **(2,013,379)** | (2,419,352) |
| Real estate | **(95,759)** | (15,300) |
| Miscellaneous applications | **(14,761)** | - |
| | **(30,204,242)** | (28,929,591) |
| Net decrease in contract loans | **91,839** | 143,552 |
| Net cash from investments | **(3,626,571)** | (7,960,556) |
| Cash from financing and miscellaneous sources: | | |
| Net deposits on deposit-type contracts | **(785,343)** | (575,675) |
| Other cash applied | **(816,045)** | (867,207) |
| Net cash from financing and miscellaneous sources | **(1,601,388)** | (1,442,882) |
| Net change in cash, cash equivalents, and short-term investments | **268,975** | (2,679,207) |
| Cash, cash equivalents, and short-term investments: | | |
| Beginning of year | **5,715,749** | 8,394,956 |
| End of year | **$ 5,984,724** | $ 5,715,749 |

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

**Nature of Business.** National Mutual Benefit (the Society), which is licensed in 13 states, is organized as a fraternal benefit society. The Society's principal operations consist of underwriting and servicing member life contracts and annuities and providing fraternal benefits to members.

A summary of the Society's significant accounting policies follows:

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

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

- Investments in bonds are generally carried at amortized cost and investments in common stocks are carried at fair value. Under GAAP, bonds and common stocks would be classified as held-to-maturity, trading, or available-for-sale. For GAAP, securities classified as held-to-maturity would be carried at cost or amortized cost and securities classified as trading or available-for-sale would be carried at fair value with the unrealized holding gains and losses reported in income for those securities classified as trading and as comprehensive income for those securities classified as available-for-sale.

- An occupancy rental charge on home office real estate owned is recorded as investment income and as offsetting rental expense; under GAAP, no such rental charge would be recognized.

- Certain assets designated as "nonadmitted assets" (principally furniture and equipment, non-operating software, and agent advances) are charged against surplus; under GAAP, furniture and equipment and non-operating software would be recognized as assets net of accumulated depreciation and amortization and agent advances would be recognized as assets.

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

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

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

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

- The interest maintenance and asset valuation reserves are required as discussed subsequently in this note; they would not be required under GAAP.

- Revenues for universal life-type contracts and annuity contracts consist of the entire premiums received, and benefits incurred represent the total death benefits paid and the change in contract reserves for statutory purposes. Under GAAP, revenues include only contract charges for the cost of insurance, contract initiation and administration, surrender charges, and other fees that have been assessed against contract account values; and benefits represent the excess of benefits paid over the contract account value and interest credited to the account values.

- Contract reserves are based on statutory mortality and interest assumptions and without consideration of withdrawals, which may differ from reserves based on reasonably conservative estimates of mortality, interest, and withdrawals as they would be presented under GAAP.

- Refunds to members to be paid in the following year are reflected in the statements of operations for the current year. Under GAAP, refunds to members would be recognized as expense ratably over the contract year.

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

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

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

- The estimated life, annuity, disability, and accident and health insurance contract reserves.

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

- The assumptions, including the discount rate and selected mortality tables, used to determine the liabilities for pension and postretirement benefit obligations.

**Cash, Cash Equivalents, and Short-Term Investments.** For purposes of reporting cash flows, the Society follows statutory accounting practices and considers cash in checking accounts and certain money market funds to be cash, cash equivalents, and short-term investments.

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

**Investments.** Investments are valued in accordance with the valuation methods prescribed by the NAIC. Investments in bonds not backed by loans are carried at amortized cost using the scientific interest method; however, bonds with an NAIC designation of six are carried at the lower of amortized cost or fair value. Loan-backed (mortgage-backed/asset-backed) securities are valued at amortized cost using the scientific interest method, including anticipated prepayments at the time of purchase. Prepayment assumptions were obtained from Clearwater Analytics, who use the Mortgage Industry Advisory Corporation (MIAC) Mortgage Industry Medians. These assumptions are consistent with the current interest rate and economic environment. The prospective adjustment method is used to value all such securities. Investments in common stocks are carried at fair value. Mortgage loans and contract loans are carried at unpaid balances. Surplus debentures, which are classified as other invested assets, are carried at amortized cost using the scientific interest method.

Realized gains and losses on the sale of investments are recognized on the specific identification basis and are included in income. Unrealized gains and losses from changes in the fair value of common stocks are credited or charged directly to surplus. The treatment of realized gains and losses on the sale of bonds and stocks are further explained in the interest maintenance and asset valuation reserves paragraph of this note.

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

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

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

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

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

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

Declines in fair value that are determined to be OTTI are included in the statutory statements of operations as realized capital losses. The Society determines a decline to be other-than-temporary by reviewing and evaluating relevant objective and subjective factors for each security, including the extent of the depressed value, the length of time the value has been depressed, the intent and ability to hold the security, a security's current performance, the current and projected financial condition of the issuer, the issuer's projected ability to service and repay its debt obligations, the industry in which the issuer operates, the estimated future cash flows of loan-backed securities, and the status of the market as a whole.

Estimating the future cash flows of loan-backed securities also involves assumptions regarding the underlying collateral such as prepayment rates, default and recovery rates, existence of subordinated classes capable of absorbing losses, and third-party servicing abilities. The amount of these declines deemed OTTI were $0 for 2017 and $364,572 for 2016.

**Property and Equipment.** Real estate occupied by the Society is carried at its depreciated value and is presented as an investment.

The cost, accumulated depreciation, and carrying value of property and equipment at December 31, 2017 and 2016, were as follows:

| | Cost | Accumulated Depreciation | Carrying Value |
|---|---|---|---|
| **2017** | | | |
| Real estate occupied by the Society | $ 2,408,903 | $ 1,669,875 | $ 739,028 |
| Electronic data processing equipment | 84,713 | 13,228 | 71,485 |
| **2016** | | | |
| Real estate occupied by the Society | $ 2,334,618 | $ 1,615,410 | $ 719,208 |
| Electronic data processing equipment | 30,397 | 6,629 | 23,768 |

Furniture and equipment and nonoperating software are considered nonadmitted assets for statutory financial statement reporting purposes. Depreciation is calculated on these assets and charged to expense. The net change in book value (cost less depreciation) is charged or credited directly to surplus.

Depreciation is calculated by applying the straight-line method over the estimated useful lives of the respective assets. Depreciation expense was $129,679 in 2017 and $129,020 in 2016.

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

**Interest Maintenance and Asset Valuation Reserves.** The Interest Maintenance Reserve (IMR) captures the realized capital gains and losses that result from changes in the overall level of interest rates for fixed income investments and amortizes these gains and losses into income over the remaining life of the investments sold. The Asset Valuation Reserve is a contingency reserve for possible losses on investments in bonds, stocks, mortgage loans, real estate, and other invested assets, and is recorded as a liability through a charge to surplus.

**Premium Revenue and Acquisition Costs.** Premium revenue from term and whole life insurance is taken into earnings over the premium paying period of the contracts. Premium revenue from universal life insurance is taken into earnings when received. All life contracts are participating contracts. Annuity considerations are taken into earnings when received according to the annuity type, which may be one time for single premium annuities or ratably for annuities with flexible premium options. Premiums for accident and health certificates are recognized ratably over the period of insurance coverage. The related acquisition costs, such as salaries, commissions, and other items, are charged to current operations as incurred.

**Reinsurance.** In the normal course of business, the Society seeks to limit its exposure to loss on any single insured and to recover a portion of the benefits paid over such limits. This is accomplished primarily through cessions to reinsurers under yearly renewable term and coinsurance contracts. If any reinsurer becomes unable to pay its share of benefits, the Society would be liable for the remaining obligations.

**Contract Reserves.** Reserves for annuities and supplementary contracts are generally based on account values of the related contracts, including interest additions at current rates. Reserves for annuities are at least equal to reserves calculated under the Commissioners' Annuity Reserve Valuation Method.

The aggregate reserve for life contracts was developed on the basis of statutory interest rates and mortality assumptions. These rates are calculated using primarily the American Experience and the 1941, 1958, 1980, and 2001 Commissioners' Standard Ordinary Mortality Tables assuming interest rates of 2.5 percent to 6.0 percent. All traditional life reserves are calculated using the mean reserve method.

The Society waives deduction of deferred fractional premiums upon death of insureds and returns any portion of the final premium beyond the date of death. Surrender values are not promised in excess of legally computed reserves. Substandard reserves are determined by computing the regular mean reserve for the plan at the rated age. Contracts issued for substandard lives are charged an additional premium over the regular gross premium for the rated age with one half of the extra premium held in reserves.

As of December 31, 2017 and 2016, the Society had $21,412,256 and $23,977,256, respectively, of insurance in force for which the gross premiums are less than the net premiums according to the standard of calculation set by the OCI. Reserves related to the above insurance totaled $122,979 and $154,093 at December 31, 2017 and 2016, respectively.

Tabular interest, tabular less actual reserve released, and tabular cost are determined by formula. The determination of tabular interest is validated by an independent calculation.

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

**Income Taxes.** The Society qualifies as a tax-exempt organization under Section 501(c)(8) of the Internal Revenue Code. Accordingly, no provision for income taxes has been recorded in the financial statements.

**Subsequent Events.** Subsequent events were evaluated through April 20, 2018, which is the date the financial statements were available to be issued.

**Note 2 ~ Investments**

The cost and fair value of investments at December 31, 2017 and 2016, were as follows:

| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **2017** | | | | |
| Bonds (at amortized cost): | | | | |
| U.S. government | $ 1,929,129 | $ 69,161 | $ - | $ 1,998,290 |
| States, territories, and possessions | 3,121,468 | 140,427 | - | 3,261,895 |
| Political subdivisions | 18,009,864 | 1,580,641 | - | 19,590,505 |
| Special revenue | 73,699,844 | 4,671,499 | (78,043) | 78,293,300 |
| Industrial and miscellaneous | 208,200,102 | 22,358,403 | (168,730) | 230,389,775 |
| Loan-backed securities | 4,025,521 | 308,810 | (3) | 4,334,328 |
| Hybrid securities | 783,203 | 73,317 | - | 856,520 |
| Total bonds | 309,769,131 | 29,202,258 | (246,776) | 338,724,613 |
| Common stocks | 8,189,130 | 4,053,116 | (180,553) | 12,061,693 |
| Other invested assets | 1,642,440 | 193,665 | - | 1,836,105 |
| | $ 319,600,701 | $ 33,449,039 | $ (427,329) | $ 352,622,411 |

The cumulative unrealized loss of $427,329 as of December 31, 2017, consisted of $226,720 of unrealized losses in a loss position for greater than 12 months and $200,609 of unrealized losses in a loss position for less than 12 months.

**Note 2 ~ Investments** (Continued)

| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **2016** | | | | |
| Bonds (at amortized cost): | | | | |
| States, territories, and possessions | $ 7,512,334 | $ 486,447 | $ (11,470) | $ 7,987,311 |
| Political subdivisions | 23,965,517 | 1,858,186 | (57,077) | 25,766,626 |
| Special revenue | 67,804,266 | 3,550,656 | (523,649) | 70,831,273 |
| Industrial and miscellaneous | 199,763,078 | 19,840,722 | (1,025,819) | 218,577,981 |
| Loan-backed securities | 134,855 | 11,450 | - | 146,305 |
| Total bonds | 299,180,050 | 25,747,461 | (1,618,015) | 323,309,496 |
| Common stocks | 9,418,511 | 2,798,495 | (240,143) | 11,976,863 |
| Other invested assets | 1,661,719 | 118,226 | - | 1,779,945 |
| | $ 310,260,280 | $ 28,664,182 | $ (1,858,158) | $ 337,066,304 |

The cumulative unrealized loss of $1,858,158 as of December 31, 2016, consisted of $512,070 of unrealized losses in a loss position for greater than 12 months and $1,346,088 of unrealized losses in a loss position for less than 12 months.

The amortized cost and fair value of bonds at December 31, 2017, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

| | Amortized Cost | Fair Value |
|---|---|---|
| Due in one year | $ 7,737,571 | $ 7,919,373 |
| Due after one year through five years | 37,520,370 | 40,086,230 |
| Due after five years through ten years | 114,251,084 | 124,706,627 |
| Due after ten years | 150,260,106 | 166,012,383 |
| | $ 309,769,131 | $ 338,724,613 |

**Note 2 ~ Investments** (Continued)

**Gains and Losses on Investments.** The components of net realized capital gains (losses) were as follows:

| | 2017 | 2016 |
|---|---|---|
| Gains | $ 1,513,553 | $ 875,615 |
| Losses | (264,605) | (304,210) |
| Transfers to IMR | (287,486) | 152,571 |
| OTTI | - | (364,572) |
| Net realized capital gains | $ 961,462 | $ 359,404 |

**Mortgage Loans.** The Society invests in mortgage loans collateralized by residential and commercial real estate. Substantially all of the Society's mortgage loan portfolio consists of loans made on properties located in south central Wisconsin. Regions outside of Wisconsin constitute about 1 percent of the mortgage loan portfolio. Approximately 52 percent of the mortgage loans are loans on residential real estate, with the remaining 48 percent on commercial real estate. No new mortgage loans were issued in 2017. The maximum percentage of any one loan to the value of security at December 31, 2017, is 63 percent. The Society does not have any insured or purchased money mortgages. The Society has not included taxes, assessments, or other amounts advanced in mortgage loans. The Society did not hold any mortgages with interest more than 180 days past due at December 31, 2017 or 2016.

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

**Level 1 Measurements**

Common stocks: Comprised of actively traded, exchange-listed equity securities. Valuation is based on unadjusted quoted prices for identical assets in active markets that are accessible to the Society at the measurement date.

Short-term investments: Comprised of actively traded money market funds that have daily quoted net asset values for identical assets that are accessible to the Society at the measurement date.

**Level 2 Measurements**

Bonds and other invested assets: Comprised of government obligations, state and municipal bonds, corporate debt, residential and commercial mortgage-backed securities, and surplus debentures. Valuation is based on leading, nationally recognized providers of market data and analytics to price a vast majority of the fixed income securities. These securities are principally valued using the market and income approaches. When available, recent trades of identical or similar assets are used to price these securities. However, because many fixed income securities do not actively trade on a daily basis, the valuation is determined by the Society's investment manager using an income approach - present value using the discount rate adjustment technique.

**Note 2 ~ Investments** (Continued)

**Financial Instruments Reported at Fair Value in the Statutory Balance Sheets**

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **December 31, 2017** | | | | |
| Common stocks | $ 12,143,079 | $ - | $ - | $ 12,143,079 |
| **December 31, 2016** | | | | |
| Common stocks | $ 12,082,952 | $ - | $ - | $ 12,082,952 |

The Society does not have any liabilities measured at fair value at December 31, 2017 and 2016. The Society also did not have any transfers between levels during 2017 and 2016.

**All Financial Instruments**

| Type of Financial Instrument | Aggregate Fair Value | Admitted Assets | Level 1 | Level 2 | Level 3 | Fair Value Not Practicable* |
|---|---|---|---|---|---|---|
| **December 31, 2017** | | | | | | |
| Bonds | $ 338,724,613 | $ 309,769,131 | $ - | $ 338,724,613 | $ - | $ - |
| Common stock | 12,143,079 | 12,143,079 | 12,143,079 | - | - | - |
| Mortgage loans | 4,635,446 | 4,635,446 | - | - | - | 4,635,446 |
| Cash equivalents | 6,136,954 | 6,136,954 | 6,136,954 | - | - | - |
| Other invested assets | 1,836,105 | 1,642,440 | - | 1,836,105 | - | - |
| **December 31, 2016** | | | | | | |
| Bonds | $ 323,309,496 | $ 299,180,050 | $ - | $ 323,309,496 | $ - | $ - |
| Common stock | 12,082,952 | 12,082,952 | 12,082,952 | - | - | - |
| Mortgage loans | 9,771,860 | 9,771,860 | - | - | - | 9,771,860 |
| Cash equivalents | 6,100,981 | 6,100,981 | 6,100,981 | - | - | - |
| Other invested assets | 1,779,945 | 1,661,719 | - | 1,779,945 | - | - |

*It was not practicable to determine the fair value of these mortgage loans because a quoted market price was not available and the cost of obtaining independent appraisals would be excessive.

**Note 3 ~ Analysis of Annuity Actuarial Reserves and Deposit Liabilities by Withdrawal Characteristics**

The withdrawal characteristics of annuity actuarial reserves and deposit-type contracts, at December 31, 2017 and 2016, were as follows:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Amount | Percent | Amount | Percent |
| Subject to discretionary withdrawal: | | | | |
| At book value, less surrender charge | | | | |
| of 5 percent or more | $ 7,582,873 | 4.60% | $ 6,510,846 | 4.06% |
| At book value, without adjustment | 151,436,673 | 91.91% | 147,968,597 | 92.19% |
| Not subject to discretionary withdrawal | 5,753,449 | 3.49% | 6,028,734 | 3.75% |
| Total annuity reserves and deposit fund liabilities | $ 164,772,995 | 100.00% | $ 160,508,177 | 100.00% |

**Note 4 ~ Employee Benefit Plans**

**Defined Contribution Plan.** The Society sponsors a defined contribution plan which covers substantially all of its agents and employees. The Society's contributions to the plan are based on a percentage of compensation. Contributions are made semi-monthly to the trustee of the plan for all amounts due under the plan. The Society's contribution to the plan was $304,638 and $272,679 for 2017 and 2016, respectively.

**Pension and Postretirement Benefit Obligations.** The Society has a deferred compensation plan for all directors and for chartered officers who meet eligibility requirements. The plan provides for equal monthly payments for up to ten years to eligible participants who retire or become disabled. In the event of death of the participant before retirement, payments are made to the participant's surviving spouse or estate. The Society also sponsors a postretirement benefit plan which provides health insurance to retired employees. The plans are unfunded.

The benefit obligations as of December 31, 2017 and 2016, were calculated under SSAP No. 92, *Accounting for Postretirement Benefits Other Than Pensions* for the health insurance plan and under SSAP No. 102, *Accounting for Pensions* for the deferred compensation plan. The details of the benefit obligations and other components of the plans are illustrated on the following pages.

**Note 4 ~ Employee Benefit Plans** (Continued)

| | Health Insurance Plan | | Deferred Compensation Plan | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Change in benefit obligation: | | | | |
| Benefit obligation at beginning of year | $ 5,047,696 | $ 5,081,080 | $ 2,886,181 | $ 2,858,173 |
| Service cost | 58,513 | 67,308 | 62,092 | 60,100 |
| Interest cost | 199,820 | 212,555 | 90,587 | 89,627 |
| Actuarial (gain) loss | 370,343 | (180,891) | 125,823 | 565 |
| Net benefits paid | (141,409) | (132,356) | (126,584) | (122,284) |
| Benefit obligation at end of year | $ 5,534,963 | $ 5,047,696 | $ 3,038,099 | $ 2,886,181 |
| Funded status: | | | | |
| Amounts recognized in the statutory balance sheets: | | | | |
| Accrued benefit costs | $ 4,831,083 | $ 4,714,159 | $ 2,631,961 | $ 2,605,866 |
| Unrecognized net actuarial loss | 703,880 | 333,537 | 406,138 | 280,315 |
| Liability for benefit obligations | $ 5,534,963 | $ 5,047,696 | $ 3,038,099 | $ 2,886,181 |
| Components of net periodic postretirement benefit cost: | | | | |
| Service cost | $ 58,513 | $ 67,308 | $ 62,092 | $ 60,100 |
| Interest cost | 199,820 | 212,555 | 90,587 | 89,627 |
| Recognized net actuarial loss | - | 1,269 | - | - |
| Total net periodic pension cost | $ 258,333 | $ 281,132 | $ 152,679 | $ 149,727 |
| Amounts in surplus recognized as components of net periodic benefit cost: | | | | |
| Items not yet recognized as a component of net periodic cost – prior year | $ 333,537 | $ 515,697 | $ 280,315 | $ 279,750 |
| Net (gain) loss arising during the period | 370,343 | (180,891) | 125,823 | 565 |
| Net gain recognized as income | - | (1,269) | - | - |
| Items not yet recognized as a component of net periodic cost – current year | $ 703,880 | $ 333,537 | $ 406,138 | $ 280,315 |
| Amounts in surplus that have not yet been recognized as components of net periodic benefit cost: | | | | |
| Net recognized losses | $ 703,880 | $ 333,537 | $ 406,138 | $ 280,315 |
| Weighted-average assumptions as of Dec 31: | | | | |
| Discount rate | 3.5% | 4.0% | 3.0% | 3.2% |

**Note 4 ~ Employee Benefit Plans** (Continued)

Assumed health care cost trend rates have a significant effect on the amounts reported for the health insurance plan. A one percentage point change in assumed health care cost trend rates would have the following effects:

| | 1 Percentage Point Increase | 1 Percentage Point Decrease |
|---|---|---|
| Effect on total service and interest cost components | $ 44,012 | $ 35,410 |
| Effect on postretirement benefit obligation | 820,663 | 670,514 |

The following estimated future payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

Expected Benefit Cash Flows

| Calendar Year | Health Insurance Plan | Deferred Compensation Plan |
|---|---|---|
| 2018 | $ 240,000 | $ 186,000 |
| 2019 | 277,000 | 299,000 |
| 2020 | 280,000 | 340,000 |
| 2021 | 265,000 | 340,000 |
| 2022-2027 | 1,625,000 | 1,852,000 |

The Society's funding policy is to pay premium, benefits, and claims as they come due; therefore, expected contributions are equal to expected benefits of $240,000 for the health insurance plan and $186,000 for the deferred compensation plan for 2017.

The Society also provides severance pay benefits to eligible retired employees. The benefits are based on accrued and unused sick leave pay. The plan is unfunded. The liability recorded for this plan was $664,155 and $625,720 as of December 31, 2017 and 2016, respectively.

**Note 5 ~ Line of Credit**

The Society has a bank line of credit for up to $2,000,000 at one month LIBOR plus 2.5 percent. There were no amounts outstanding on the line of credit at December 31, 2017 and 2016.

## Note 6 ~ Surplus

The Society is required to maintain minimum surplus established by the OCI and is subject to Risk-Based Capital (RBC) requirements promulgated by the NAIC and adopted by the OCI. The RBC standards establish uniform minimum capital requirements for insurance companies. The RBC formula applies various weighting factors to financial balances or various levels of activities based on the perceived degree of risk. At December 31, 2017, the Society's surplus exceeded the minimum levels required by the OCI and RBC standards.

The Society's surplus was increased (reduced) by the following cumulative amounts at December 31, 2017 and 2016:

| | 2017 | 2016 |
|---|---|---|
| Unrealized gains/losses | $ 3,958,949 | $ 2,563,351 |
| Nonadmitted assets | (1,980,434) | (1,084,264) |
| Asset valuation reserve | (4,134,762) | (4,120,615) |

Strohm Ballweg

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

To the Board of Directors
National Mutual Benefit
Madison, Wisconsin

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

Strohm Ballweg, LLP

Madison, Wisconsin
April 20, 2018

**INVESTMENT INCOME EARNED**

| | |
|---|---|
| U.S. government bonds | $ 171,418 |
| Other bonds (unaffiliated) | 15,505,890 |
| Common stocks (unaffiliated) | 207,999 |
| Mortgage loans | 410,999 |
| Real estate | 350,004 |
| Contract loans | 267,262 |
| Cash, cash equivalents, and short-term investments | 42,563 |
| Other invested assets | 99,221 |
| Aggregate write-ins for investment income | 19,621 |
| Gross investment income | $ 17,074,977 |

**INVESTMENTS**

| | |
|---|---|
| Real estate owned – book value less encumbrances | $ 739,028 |
| Mortgage loans – book value: | |
| Residential mortgages | $ 2,416,743 |
| Commercial mortgages | 2,218,703 |
| Total mortgage loans | $ 4,635,446 |
| Mortgage loans by standing – book value: | |
| Good standing | $ 4,635,446 |
| Other invested assets – statement value | $ 1,642,440 |

**INVESTMENTS**

| | |
|---|---|
| Bonds and short-term investments by NAIC designation and maturity: | |
| Bonds by maturity - statement value: | |
| Due within 1 year or less | $ 10,025,018 |
| Over 1 year through 5 years | 72,287,065 |
| Over 5 years through 10 years | 115,553,154 |
| Over 10 years through 20 years | 81,371,891 |
| Over 20 years | 30,532,003 |
| Total by maturity | $ 309,769,131 |
| Bonds by NAIC designation – statement value: | |
| NAIC 1 | $ 223,067,694 |
| NAIC 2 | 83,705,707 |
| NAIC 3 | 1,371,364 |
| NAIC 4 | 1,624,366 |
| Total by NAIC designation | $ 309,769,131 |
| Total bonds publicly traded | $ 266,136,451 |
| Total bonds privately placed | $ 43,632,680 |
| Common stocks – market value | $ 12,061,693 |
| Short-term investments – book value | - |
| Cash on deposit | (152,230) |

**INSURANCE IN FORCE**

| | |
|---|---|
| Life insurance in force: | |
| Ordinary | $ 1,111,211,993 |
| Amount of accidental death insurance in force under ordinary contracts | 30,171,000 |
| Supplementary contracts in force: | |
| Ordinary, not involving life contingencies: | |
| Amount on deposit | 1,349,751 |
| Income payable | 426,295 |
| Ordinary, involving life contingencies, income payable | 182,832 |
| Annuities: | |
| Ordinary: | |
| Immediate, amount of income payable | 698,241 |
| Deferred, fully paid account balance | 49,912,229 |
| Deferred, not fully paid, account balance | 103,021,925 |

**OTHER**

| | |
|---|---|
| Deposit funds and dividend accumulations: | |
| Deposit funds, account balance | $ 12,642 |
| Dividend accumulations, account balance | 6,655,253 |
| Claim payments 2017: | |
| Accident and health, year ended December 31, 2017, incurred: | |
| 2017 | 38,650 |
| 2016 and prior years | 11,058 |

1. Reporting entity's total admitted assets as reported on page two of the annual statement. $ 343,641,412

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

| | Issuer | Description of Exposure | Amount | Percentage of Total Admitted Assets |
|---|---|---|---|---|
| 2.01 | JP Morgan Chase & Co | Bonds/Common Stock | $ 3,088,297 | 0.9% |
| 2.02 | New York ST Mtge Agy Homeowner | Bonds | $ 2,589,269 | 0.8% |
| 2.03 | Denver Co City & Cnty SD #1 | Bonds | $ 2,566,205 | 0.7% |
| 2.04 | Fedex Corp | Bonds | $ 2,533,693 | 0.7% |
| 2.05 | Microsoft Corp | Bonds/Common Stock | $ 2,509,034 | 0.7% |
| 2.06 | Wal-Mart Stores Inc | Bonds | $ 2,349,557 | 0.7% |
| 2.07 | San Francisco CA City & Cnty | Bonds | $ 2,248,722 | 0.7% |
| 2.08 | Conocophillips Hldg Co | Bonds | $ 2,241,397 | 0.7% |
| 2.09 | Morgan Stanley | Bonds | $ 2,234,077 | 0.7% |
| 2.10 | Comcast Corp | Bonds/Common Stock | $ 2,231,707 | 0.6% |

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

| Bonds | | | Preferred Stocks | | |
|---|---|---|---|---|---|
| 3.01 NAIC – 1 | $ 223,067,694 | 64.9% | 3.07 P/RP – 1 | $ | % |
| 3.02 NAIC – 2 | $ 83,705,707 | 24.4% | 3.08 P/RP – 2 | $ | % |
| 3.03 NAIC – 3 | $ 1,371,364 | 0.4% | 3.09 P/RP – 3 | $ | % |
| 3.04 NAIC – 4 | $ 1,624,367 | 0.5% | 3.10 P/RP – 4 | $ | % |
| 3.05 NAIC – 5 | $ | % | 3.11 P/RP – 5 | $ | % |
| 3.06 NAIC – 6 | $ | % | 3.12 P/RP – 6 | $ | % |

4. Assets held in foreign investments:

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

| | | | |
|---|---|---|---|
| 4.02 | Total admitted assets held in foreign investments | $ 27,254,783 | 7.9% |
| 4.03 | Foreign-currency-denominated investments | $ | % |
| 4.04 | Insurance liabilities denominated in that same foreign currency | $ | % |

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

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

| | | | |
|---|---|---|---|
| 5.01 | Countries rated NAIC – 1 | $ 27,254,783 | 7.9% |
| 5.02 | Countries rated NAIC – 2 | $ | % |
| 5.03 | Countries rated NAIC – 3 or below | $ | % |

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

| | | |
|---|---|---|
| Countries rated NAIC – 1 | | |
| 6.01 Australia | $ 8,614,606 | 2.5% |
| 6.02 Netherlands | $ 4,467,935 | 1.3% |
| Countries rated NAIC – 2 | | |
| 6.03 | $ | % |
| 6.04 | $ | % |
| Countries rated NAIC – 3 or below | | |
| 6.05 | $ | % |
| 6.06 | $ | % |

7. Aggregate unhedged foreign currency exposure $ %

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

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

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

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

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

| Issuer | NAIC Designation | Amount | Percent |
|---|---|---|---|
| 10.01 Transurban Finance | 2 | $ 2,111,294 | 0.6% |
| 10.02 Holcim US Finance SARL | 2FE | $ 2,036,662 | 0.6% |
| 10.03 Heathrow Funding LTD | 1FE | $ 2,021,353 | 0.6% |
| 10.04 Barilla FR | 2 | $ 2,000,000 | 0.6% |
| 10.05 Shell International Fin | 1FE | $ 1,969,074 | 0.6% |
| 10.06 Koninklijke Philips | 2FE | $ 1,007,134 | 0.3% |
| 10.07 BP Capital Markets | 1FE | $ 1,006,175 | 0.3% |
| 10.08 Barclays Bank | 1FE | $ 1,003,935 | 0.3% |
| 10.09 Sydney Airport Finance | 2FE | $ 1,003,313 | 0.3% |
| 10.10 Norsk Hydro A.S. | 1FE | $ 1,001,237 | 0.3% |

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

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

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

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

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

12.02 Aggregate statement value of investments with contractual sales restrictions $ %

Largest 3 investments with contractual sales restrictions:

| | | |
|---|---|---|
| 12.03 | $ | % |
| 12.04 | $ | % |
| 12.05 | $ | % |

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

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

Assets held in equity interests:

| | | | |
|---|---|---|---|
| 13.02 Unitedhealth Group | $ | 694,449 | 0.2% |
| 13.03 Berkshire Hathway CL B | $ | 693,770 | 0.2% |
| 13.04 Comcast Corp CL A | $ | 637,796 | 0.2% |
| 13.05 Honeywell International | $ | 628,776 | 0.2% |
| 13.06 Dollar General | $ | 616,191 | 0.2% |
| 13.07 TJX | $ | 592,565 | 0.2% |
| 13.08 Accenture PLC CL A | $ | 581,742 | 0.2% |
| 13.09 JP Morgan Chase & Co | $ | 556,088 | 0.2% |
| 13.10 Progressive | $ | 551,936 | 0.2% |
| 13.11 Stanley Black and Decker | $ | 513,312 | 0.1% |

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

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

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

Largest 3 investments held in nonaffiliated, privately placed equities:

| | | |
|---|---|---|
| 14.03 | $ | % |
| 14.04 | $ | % |
| 14.05 | $ | % |

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

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

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

Largest 3 investments held in general partnership interests:

| | | | |
|---|---|---|---|
| 15.03 | | $ | % |
| 15.04 | | $ | % |
| 15.05 | | $ | % |

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

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

Total admitted assets held in Mortgage Loans:

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

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

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

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

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

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

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

Assets held in the 5 Largest Real Estate Holdings:

| | | | |
|---|---|---|---|
| 18.02 | | $ | % |
| 18.03 | | $ | % |
| 18.04 | | $ | % |
| 18.05 | | $ | % |
| 18.06 | | $ | % |

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

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

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

Largest three investments held in mezzanine real estate loans:

| | | | |
|---|---|---|---|
| 19.03 | | $ | % |
| 19.04 | | $ | % |
| 19.05 | | $ | % |

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

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

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

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

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

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

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

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

| | Gross Investment Holdings* | | Admitted Assets as Reported In the Annual Statement** | |
|---|---|---|---|---|
| | Amount | Percentage | Amount | Percentage |
| 1. Bonds: | | | | |
| 1.1 U.S. treasury securities | $ | % | $ | % |
| 1.2 U.S. government agency obligations (excluding mortgage-backed securities): | | | | |
| 1.21 Issued by U.S. government agencies | $ 1,929,129 | 0.6% | $ 1,929,129 | 0.6% |
| 1.22 Issued by U.S. government-sponsored agencies | $ | % | $ | % |
| 1.3 Non-U.S. government (including Canada, excluding mortgage-backed securities) | $ | % | $ | % |
| 1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.: | | | | |
| 1.41 State, territory, and possession general obligations | $ 3,121,467 | 0.9% | $ 3,121,467 | 0.9% |
| 1.42 Political subdivisions of states, territories, and possessions and political subdivisions general obligations | $ 18,009,864 | 5.3% | $ 18,009,864 | 5.3% |
| 1.43 Revenue and assessment obligations | $ 73,699,844 | 21.8% | $ 73,699,844 | 21.8% |
| 1.44 Industrial development and similar obligations | $ 1,500,000 | 0.4% | $ 1,500,000 | 0.4% |
| 1.5 Mortgage-backed securities (includes residential and commercial MBS): | | | | |
| 1.51 Pass-through securities: | | | | |
| 1.511 Issued or guaranteed by GNMA | $ 61,472 | 0.0% | $ 61,472 | 0.0% |
| 1.512 Issued or guaranteed by FNMA and FHLMC | $ 20,234 | 0.0% | $ 20,234 | 0.0% |
| 1.513 All other | $ | % | $ | % |
| 1.52 CMOs and REMICs: | | | | |
| 1.521 Issued or guaranteed by GNMA, FNMA, FHLMC, or VA | $ 27,096 | 0.0% | $ 27,096 | 0.0% |
| 1.522 Issued by non-U.S. government issuers and collateralized by MBS issued or guaranteed By agencies shown in Line 1.521 | $ | % | $ | % |
| 1.523 All other | $ | % | $ | % |
| 2. Other debt and other fixed income securities (excluding short-term): | | | | |
| 2.1 Unaffiliated domestic securities (includes credit tenant loans and hybrid securities) | $ 184,145,242 | 54.4% | $ 184,145,242 | 54.4% |
| 2.2 Unaffiliated non-U.S. securities (including Canada) | $ 27,254,783 | 8.0% | $ 27,254,783 | 8.0% |
| 2.3 Affiliated securities | $ | % | $ | % |

| | Gross Investment Holdings* | | Admitted Assets as Reported In the Annual Statement** | |
|---|---|---|---|---|
| | Amount | Percentage | Amount | Percentage |
| 3. Equity interests: | | | | |
| 3.1 Investments in mutual funds | $ | % | $ | % |
| 3.2 Preferred stocks: | | | | |
| 3.21 Affiliated | $ | % | $ | % |
| 3.22 Unaffiliated | $ | % | $ | % |
| 3.3 Publicly traded equity securities (excluding preferred stocks): | | | | |
| 3.31 Affiliated | $ | % | $ | % |
| 3.32 Unaffiliated | $ 12,143,079 | 3.6% | $ 12,143,079 | 3.6% |
| 3.4 Other equity securities: | | | | |
| 3.41 Affiliated | $ (81,386) | 0.0% | $ (81,386) | 0.0% |
| 3.42 Unaffiliated | $ | % | $ | % |
| 3.5 Other equity interests including tangible personal property under lease: | | | | |
| 3.51 Affiliated | $ | % | $ | % |
| 3.52 Unaffiliated | $ | % | $ | % |
| 4. Mortgage loans: | | | | |
| 4.1 Construction and land development | $ | % | $ | % |
| 4.2 Agricultural | $ | % | $ | % |
| 4.3 Single family residential properties | $ 2,416,743 | 0.7% | $ 2,416,743 | 0.7% |
| 4.4 Multifamily residential properties | $ 1,880,887 | 0.6% | $ 1,880,887 | 0.6% |
| 4.5 Commercial loans | $ 337,816 | 0.1% | $ 337,816 | 0.1% |
| 4.6 Mezzanine real estate loans | $ | % | $ | % |
| 5. Real estate investments: | | | | |
| 5.1 Property occupied by company | $ 739,028 | 0.2% | $ 739,028 | 0.2% |
| 5.2 Property held for production of income (includes $______ of property acquired in satisfaction of debt) | $ | % | $ | % |
| 5.3 Property held for sale (including $______ property acquired in satisfaction of debt) | $ | % | $ | % |
| 6. Contract loans | $ 3,724,172 | 1.1% | $ 3,724,172 | 1.1% |
| 7. Derivatives | $ | % | $ | % |
| 8. Receivables for securities | $ 37,465 | 0.0% | $ 37,465 | 0.0% |
| 9. Securities Lending (Line 10, Asset Page reinvested collateral) | $ | % | $ | % |
| 10. Cash, cash equivalents, and short-term investments | $ 5,984,724 | 1.8% | $ 5,984,724 | 1.8% |
| 11. Other invested assets | $ 1,642,440 | 0.5% | $ 1,642,440 | 0.5% |
| 12. Total invested assets | $ 338,594,099 | 100.0% | $ 338,594,099 | 100.0% |

*Gross Investment Holdings as valued in compliance with NAIC *Accounting Practices & Procedures Manual.*
**National Mutual Benefit has no admitted assets in reinvested collateral related to securities lending.

# NATIONAL MUTUAL BENEFIT

## STATUTORY FINANCIAL STATEMENTS

December 31, 2018 and 2017

Strohm Ballweg

CPAs • ADVISORS • CONSULTANTS

Strohm Ballweg

CPAs • ADVISORS • CONSULTANTS

# INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

To the Board of Directors
National Mutual Benefit
Madison, Wisconsin

We have audited the accompanying statutory financial statements of National Mutual Benefit (the Society), which are comprised of the statutory balance sheets as of December 31, 2018 and 2017, and the related statutory statements of operations, surplus, and cash flows for the years then ended, and the related notes to statutory financial statements.

**Management's Responsibilities for the Financial Statements**

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

**Auditor's Responsibility**

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

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

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

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

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

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

**Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Society as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended.

**Opinion on Regulatory Basis of Accounting**

In our opinion, the statutory financial statements referred to above present fairly, in all material respects, the financial position of the Society as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended, in accordance with the accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin described in Note 1.

*Strohm Ballweg, LLP*

Madison, Wisconsin
April 30, 2019

| | **2018** | 2017 |
|---|---|---|
| **ADMITTED ASSETS** | | |
| Cash and invested assets: | | |
| Bonds | **$ 317,125,170** | $ 309,769,131 |
| Common stocks | **10,413,375** | 12,061,693 |
| Mortgage loans on real estate | **-** | 4,635,446 |
| Real estate occupied by the Society | **776,822** | 739,028 |
| Cash and cash equivalents | **3,735,138** | 5,984,724 |
| Contract loans | **3,461,918** | 3,724,172 |
| Other invested assets | **1,622,038** | 1,642,440 |
| Receivable for securities | **46,751** | 37,465 |
| Cash and invested assets | **337,181,212** | 338,594,099 |
| Investment income due and accrued | **4,179,571** | 4,241,835 |
| Deferred and uncollected premiums | **659,760** | 665,319 |
| Recoverable from reinsurers | **189,455** | 68,674 |
| Electronic data processing equipment | **126,054** | 71,485 |
| Total admitted assets | **$ 342,336,052** | $ 343,641,412 |
| **LIABILITIES AND SURPLUS** | | |
| Liabilities: | | |
| Aggregate reserve for contracts: | | |
| Life | **$ 127,265,251** | $ 126,507,905 |
| Annuity | **153,503,019** | 152,789,821 |
| Accident and health | **758,281** | 735,746 |
| Liability for deposit-type contracts | **11,112,975** | 10,802,661 |
| Contract claims: | | |
| Life | **862,281** | 763,227 |
| Annuity | **253,039** | 1,157,032 |
| Accident and health | **7,550** | 2,672 |
| Refunds payable | **453,547** | 442,365 |
| Premiums received in advance | **14,602** | 16,070 |
| Interest maintenance reserve | **411,045** | 553,567 |
| Accounts payable and accrued expenses | **633,240** | 555,850 |
| Pension and postretirement benefit obligations | **8,301,219** | 9,326,989 |
| Asset valuation reserve | **3,192,050** | 4,134,762 |
| Other liabilities | **535,158** | 489,681 |
| Total liabilities | **307,303,257** | 308,278,348 |
| Surplus | **35,032,795** | 35,363,064 |
| Total liabilities and surplus | **$ 342,336,052** | $ 343,641,412 |

| | 2018 | 2017 |
|---|---|---|
| **INCOME** | | |
| Life premiums | **$ 9,852,538** | $ 10,122,750 |
| Annuity considerations | **6,936,903** | 8,450,867 |
| Accident and health premiums | **128,725** | 146,418 |
| Considerations for supplementary contracts with life contingencies | **354,426** | 382,595 |
| Investment income (net of expenses of $1,368,361 in 2018 and $1,319,395 in 2017) | **15,330,830** | 15,755,582 |
| Amortization of interest maintenance reserve | **194,079** | 189,442 |
| Commissions on reinsurance ceded | **229,975** | 253,356 |
| Other income | **227** | 447 |
| Total income | **33,027,703** | 35,301,457 |
| **BENEFITS** | | |
| Death | **5,221,186** | 5,932,385 |
| Matured endowments | **204,483** | 159,553 |
| Annuity | **11,810,105** | 9,057,824 |
| Disability, accident, and health | **118,385** | 87,179 |
| Surrender and withdrawals for life contracts | **5,508,888** | 6,220,055 |
| Interest on contract or deposit-type contract funds | **411,687** | 344,678 |
| Payments on supplementary contracts with life contingencies | **159,651** | 181,143 |
| Increase in aggregate reserves for life and accident and health contracts | **713,198** | 51,564 |
| Increase in aggregate reserves for annuity contracts | **779,881** | 4,772,332 |
| Total benefits | **24,927,464** | 26,806,713 |
| **OPERATING EXPENSES** | | |
| Commissions | **766,637** | 715,225 |
| General insurance and fraternal expenses | **8,287,741** | 8,295,742 |
| Insurance taxes, licenses, and fees | **348,600** | 344,271 |
| Increase in loading on deferred and uncollected premiums | **26,046** | 21,203 |
| Total operating expenses | **9,429,024** | 9,376,441 |
| Net loss from operations before refunds to members and net realized capital gains | **(1,328,785)** | (881,697) |
| Refunds to members | **445,750** | 426,844 |
| Net loss from operations before net realized capital gains | **(1,774,535)** | (1,308,541) |
| Net realized capital gains | **1,613,455** | 961,462 |
| Net loss | **$ (161,080)** | $ (347,079) |

See Notes to Statutory Financial Statements.

| | **2018** | 2017 |
|---|---|---|
| Surplus, beginning of year | **$ 35,363,064** | $ 35,831,434 |
| Net loss | **(161,080)** | (347,079) |
| Change in net unrealized capital gain/loss | **(2,121,990)** | 1,314,212 |
| Change in nonadmitted assets | **(178,962)** | (896,170) |
| Change in asset valuation reserve | **942,712** | (14,147) |
| Change in pension and postretirement benefit obligations | **1,189,051** | (525,186) |
| Net change in surplus | **(330,269)** | (468,370) |
| Surplus, end of year | **$ 35,032,795** | $ 35,363,064 |

| | 2018 | 2017 |
|---|---|---|
| Cash from operations: | | |
| Net premiums collected | **$ 17,250,638** | $ 19,066,493 |
| Net investment income received | **16,124,439** | 16,447,836 |
| Other income received | **213,597** | 255,056 |
| Benefit related payments | **(24,338,620)** | (20,699,468) |
| Commissions and other expenses paid | **(9,174,357)** | (9,152,243) |
| Refunds paid to members | **(434,568)** | (420,740) |
| Net cash from operations | **(358,871)** | 5,496,934 |
| Cash from investments: | | |
| Proceeds from investments sold, matured, or repaid: | | |
| Bonds | **15,297,921** | 17,145,195 |
| Stocks | **5,470,784** | 4,204,223 |
| Mortgage loans | **4,635,446** | 5,136,414 |
| Miscellaneous proceeds | **14,759** | - |
| | **25,418,910** | 26,485,832 |
| Cost of investments acquired: | | |
| Bonds | **(23,246,884)** | (28,080,343) |
| Stocks | **(4,331,002)** | (2,013,379) |
| Real estate | **(116,315)** | (95,759) |
| Miscellaneous applications | **-** | (14,761) |
| | **(27,694,201)** | (30,204,242) |
| Net decrease in contract loans | **262,256** | 91,839 |
| Net cash from investments | **(2,013,035)** | (3,626,571) |
| Cash from financing and miscellaneous sources: | | |
| Net deposits on deposit-type contracts | **310,313** | (785,343) |
| Other cash applied | **(187,993)** | (816,045) |
| Net cash from financing and miscellaneous sources | **122,320** | (1,601,388) |
| Net change in cash and cash equivalents | **(2,249,586)** | 268,975 |
| Cash and cash equivalents | | |
| Beginning of year | **5,984,724** | 5,715,749 |
| End of year | **$ 3,735,138** | $ 5,984,724 |

See Notes to Statutory Financial Statements.

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

**Nature of Business.** National Mutual Benefit (the Society), which is licensed in 13 states, is organized as a fraternal benefit society. The Society's principal operations consist of underwriting and servicing member life contracts and annuities and providing fraternal benefits to members.

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

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

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

- Investments in bonds are generally carried at amortized cost and investments in common stocks are carried at fair value. Under GAAP, bonds and common stocks would be classified as held-to-maturity, trading, or available-for-sale. For GAAP, securities classified as held-to-maturity would be carried at cost or amortized cost and securities classified as trading or available-for-sale would be carried at fair value with the unrealized holding gains and losses reported in income for those securities classified as trading and as comprehensive income for those securities classified as available-for-sale.

- An occupancy rental charge on home office real estate owned is recorded as investment income and as offsetting rental expense; under GAAP, no such rental charge would be recognized.

- Certain assets designated as "nonadmitted assets" (principally furniture and equipment, non-operating software, and agent advances) are charged against surplus; under GAAP, furniture and equipment and non-operating software would be recognized as assets net of accumulated depreciation and amortization and agent advances would be recognized as assets.

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

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

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

- Assets and liabilities related to reinsurance ceded transactions are netted with respective accounts; under GAAP, reinsurance balances would be shown on a separate gross basis.
- The interest maintenance and asset valuation reserves are required as discussed subsequently in this note; they would not be required under GAAP.
- Revenues for universal life-type contracts and annuity contracts consist of the entire premiums received, and benefits incurred represent the total death benefits paid and the change in contract reserves. Under GAAP, revenues include only contract charges for the cost of insurance, contract initiation and administration, surrender charges, and other fees that have been assessed against contract account values; and benefits represent the excess of benefits paid over the contract account value and interest credited to the account values.
- Contract reserves are based on statutory mortality and interest assumptions and without consideration of withdrawals, which may differ from reserves based on reasonably conservative estimates of mortality, interest, and withdrawals as they would be presented under GAAP.
- Refunds to members to be paid in the following year are reflected in the statements of operations for the current year. Under GAAP, refunds to members would be recognized as expense ratably over the contract year.
- Statutory financial statements are prepared in a form using language and groupings substantially the same as the annual statement of the Society filed with the NAIC and state regulatory authorities which differ from the presentation and disclosure of financial statements presented under GAAP.

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

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

- The estimated life, annuity, and disability insurance contract reserves.
- The assumptions regarding the other-than-temporary impairment (OTTI) analysis of the investment portfolio.
- The assumptions, primarily the discount rate and selected mortality tables, used to determine the liabilities for pension and postretirement benefit obligations.

**Cash and Cash Equivalents.** For purposes of reporting cash flows, the Society follows statutory accounting practices and considers cash in checking accounts and certain money market funds to be cash and cash equivalents.

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

**Investments.** Investments are valued in accordance with the valuation methods prescribed by the NAIC. Investments in bonds not backed by loans are carried at amortized cost using the scientific interest method; however, bonds with an NAIC designation of six are carried at the lower of amortized cost or fair value. Loan-backed (mortgage-backed/asset-backed) securities are valued at amortized cost using the scientific interest method, including anticipated prepayments at the time of purchase; however, loan-backed securities with an initial NAIC designation of six or lower are carried at the lower of amortized cost or fair value. Prepayment assumptions were obtained from Clearwater Analytics, who use the Mortgage Industry Advisory Corporation (MIAC) Mortgage Industry Medians. These assumptions are consistent with the current interest rate and economic environment. The prospective adjustment method is used to value all such securities. Investments in common stocks are carried at fair value. Mortgage loans and contract loans are carried at unpaid balances. Surplus debentures, which are classified as other invested assets, are carried at amortized cost using the scientific interest method. Investments in common stock of affiliates are carried at the underlying equity value, and if positive, are nonadmitted as these entities are unaudited. If the equity is negative, the negative equity results in a further reduction of carrying value of common stock.

Realized gains and losses on the sale of investments are recognized on the specific identification basis and are included in income. Unrealized gains and losses from changes in the fair value of common stocks are credited or charged directly to surplus. The treatment of realized gains and losses on the sale of bonds and stocks are further explained in the interest maintenance and asset valuation reserves paragraph of this note.

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

- Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Society has the ability to access.
- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

Declines in fair value that are determined to be OTTI are included in the statutory statements of operations as realized capital losses. The Society determines a decline to be other than temporary by reviewing and evaluating relevant objective and subjective factors for each security, including the extent of the depressed value, the length of time the value has been depressed, the intent and ability to hold the security, a security's current performance, the current and projected financial condition of the issuer, the issuer's projected ability to service and repay its debt obligations, the industry in which the issuer operates, the estimated future cash flows of loan-backed securities, and the status of the market as a whole.

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

Estimating the future cash flows of loan-backed securities also involves assumptions regarding the underlying collateral such as prepayment rates, default and recovery rates, existence of subordinated classes capable of absorbing losses, and third-party servicing abilities. The amount of these declines deemed OTTI were $0 for 2018 and 2017.

**Property and Equipment.** Real estate occupied by the Society is carried at its depreciated value and is presented as an investment.

The cost, accumulated depreciation, and carrying value of property and equipment at December 31, 2018 and 2017, were as follows:

| | Cost | Accumulated Depreciation | Carrying Value |
|---|---|---|---|
| **2018** | | | |
| Real estate occupied by the Society | $ 2,486,068 | $ (1,709,246) | $ 776,822 |
| Electronic data processing equipment | 160,897 | (34,843) | 126,054 |
| **2017** | | | |
| Real estate occupied by the Society | $ 2,408,903 | $ (1,669,875) | $ 739,028 |
| Electronic data processing equipment | 84,713 | (13,228) | 71,485 |

Furniture and equipment and nonoperating software are considered nonadmitted assets for statutory financial statement reporting purposes. Depreciation is calculated on these assets and charged to expense. The net change in book value (cost less depreciation) is charged or credited directly to surplus.

Depreciation is calculated by applying the straight-line method over the estimated useful lives of the respective assets. Depreciation expense was $175,568 in 2018 and $129,679 in 2017.

**Interest Maintenance and Asset Valuation Reserves.** The Interest Maintenance Reserve (IMR) captures the realized capital gains and losses that result from changes in the overall level of interest rates for fixed income investments and amortizes these gains and losses into income over the remaining life of the investments sold. The Asset Valuation Reserve is a contingency reserve for possible losses on investments in bonds, stocks, mortgage loans, real estate, and other invested assets and is recorded as a liability through a charge to surplus.

**Premium Revenue and Acquisition Costs.** Premium revenue from term and whole life insurance is taken into earnings over the premium paying period of the contracts. Premium revenue from universal life insurance is taken into earnings when received. All life contracts are participating contracts. Annuity considerations are taken into earnings when received according to the annuity type, which may be one time for single premium annuities or ratably for annuities with flexible premium options. Premiums for accident and health certificates are recognized ratably over the period of insurance coverage. The related acquisition costs, such as salaries, commissions, and other items, are charged to current operations as incurred.

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

**Reinsurance.** In the normal course of business, the Society seeks to limit its exposure to loss on any single insured and to recover a portion of the benefits paid over such limits. This is accomplished primarily through cessions to reinsurers under yearly renewable term and coinsurance contracts. If any reinsurer becomes unable to pay its share of benefits, the Society would be liable for the remaining obligations.

**Contract Reserves.** Reserves for annuities and supplementary contracts are generally based on account values of the related contracts, including interest additions at current rates. Reserves for annuities are at least equal to reserves calculated under the Commissioners' Annuity Reserve Valuation Method.

The aggregate reserve for life contracts was developed on the basis of statutory interest rates and mortality assumptions. These rates are calculated using primarily the American Experience and the 1941, 1958, 1980, and 2001 Commissioners' Standard Ordinary Mortality Tables assuming interest rates of 2.5 percent to 6.0 percent. All traditional life reserves are calculated using the mean reserve method.

The Society waives deduction of deferred fractional premiums upon death of insureds and returns any portion of the final premium beyond the date of death. Surrender values are not promised in excess of legally computed reserves. Substandard reserves are determined by computing the regular mean reserve for the plan at the rated age. Contracts issued for substandard lives are charged an additional premium over the regular gross premium for the rated age with one half of the extra premium held in reserves.

As of December 31, 2018 and 2017, the Society had $20,542,256 and $21,412,256, respectively, of insurance in force for which the gross premiums are less than the net premiums according to the standard of calculation set by the OCI. Reserves related to the above insurance totaled $110,588 and $122,979 at December 31, 2018 and 2017, respectively.

Tabular interest, tabular less actual reserve released, and tabular cost are determined by formula. The determination of tabular interest is validated by an independent calculation.

**Income Taxes.** The Society qualifies as a tax-exempt organization under Section 501(c)(8) of the Internal Revenue Code. Accordingly, no provision for income taxes has been recorded in the financial statements.

**Subsequent Events.** Subsequent events were evaluated through April 30, 2019, which is the date the financial statements were available to be issued.

**Note 2 ~ Investments**

The cost and fair value of investments at December 31, 2018 and 2017, were as follows:

| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **2018** | | | | |
| Bonds (at amortized cost): | | | | |
| U.S. government | $ 1,896,796 | $ 22,571 | $ - | $ 1,919,367 |
| States, territories, and possessions | 4,675,135 | 73,090 | (15,815) | 4,732,410 |
| Political subdivisions | 16,657,435 | 1,114,875 | (630) | 17,771,680 |
| Special revenue | 76,628,778 | 3,155,040 | (380,796) | 79,403,022 |
| Industrial and miscellaneous | 212,391,701 | 11,705,766 | (3,587,141) | 220,510,326 |
| Loan-backed securities | 4,110,660 | 146,238 | - | 4,256,898 |
| Hybrid securities | 764,665 | 42,298 | - | 806,963 |
| Total bonds | 317,125,170 | 16,259,878 | (3,984,382) | 329,400,666 |
| Common stocks | 8,662,803 | 2,273,215 | (522,643) | 10,413,375 |
| Other invested assets | 1,622,038 | 145,802 | - | 1,767,840 |
| | $ 327,410,011 | $ 18,678,895 | $ (4,507,025) | $ 341,581,881 |

The cumulative unrealized loss of $4,507,025 as of December 31, 2018, consisted of $1,378,215 of unrealized losses in a loss position for greater than 12 months and $3,128,810 of unrealized losses in a loss position for less than 12 months.

**Note 2 ~ Investments** (Continued)

| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **2017** | | | | |
| Bonds (at amortized cost): | | | | |
| U.S. government | $ 1,929,129 | $ 69,161 | $ - | $ 1,998,290 |
| States, territories, and possessions | 3,121,468 | 140,427 | - | 3,261,895 |
| Political subdivisions | 18,009,864 | 1,580,641 | - | 19,590,505 |
| Special revenue | 73,699,844 | 4,671,499 | (78,043) | 78,293,300 |
| Industrial and miscellaneous | 208,200,102 | 22,358,403 | (168,730) | 230,389,775 |
| Loan-backed securities | 4,025,521 | 308,810 | (3) | 4,334,328 |
| Hybrid securities | 783,203 | 73,317 | - | 856,520 |
| Total bonds | 309,769,131 | 29,202,258 | (246,776) | 338,724,613 |
| Common stocks | 8,189,130 | 4,053,116 | (180,553) | 12,061,693 |
| Other invested assets | 1,642,440 | 193,665 | - | 1,836,105 |
| | $ 319,600,701 | $ 33,449,039 | $ (427,329) | $ 352,622,411 |

The cumulative unrealized loss of $427,329 as of December 31, 2017, consisted of $226,720 of unrealized losses in a loss position for greater than 12 months and $200,609 of unrealized losses in a loss position for less than 12 months.

The amortized cost and fair value of bonds at December 31, 2018, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

| | Amortized Cost | Fair Value |
|---|---|---|
| Due in one year | $ 6,638,969 | $ 6,715,302 |
| Due after one year through five years | 61,966,727 | 64,361,759 |
| Due after five years through ten years | 112,587,014 | 118,751,809 |
| Due after ten years | 135,932,460 | 139,571,796 |
| | $ 317,125,170 | $ 329,400,666 |

**Note 2 ~ Investments** (Continued)

**Gains and Losses on Investments.** The components of net realized capital gains were as follows:

| | 2018 | 2017 |
|---|---|---|
| Gains | $ 1,698,246 | $ 1,513,553 |
| Losses | (33,234) | (264,605) |
| Transfers to IMR | (51,557) | (287,486) |
| Net realized capital gains | $ 1,613,455 | $ 961,462 |

**Mortgage Loans.** The Society invested in mortgage loans collateralized by residential and commercial real estate. Substantially all of the Society's mortgage loan portfolio consisted of loans made on properties located in south central Wisconsin. During 2018, the Society sold its remaining mortgage loan portfolio.

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

**Level 1 Measurements**

Common stocks: Comprised of actively traded, exchange-listed equity securities. Valuation is based on unadjusted quoted prices for identical assets in active markets that are accessible to the Society at the measurement date.

**Level 2 Measurements**

Bonds and other invested assets: Comprised of government obligations, state and municipal bonds, corporate debt, residential and commercial mortgage-backed securities, and surplus debentures. Valuation is based on leading, nationally recognized providers of market data and analytics to price a vast majority of the fixed income securities. These securities are principally valued using the market and income approaches. When available, recent trades of identical or similar assets are used to price these securities. However, because many fixed income securities do not actively trade on a daily basis, the valuation is determined by the Society's investment manager using an income approach - present value using the discount rate adjustment technique.

**Note 2 ~ Investments** (Continued)

**Financial Instruments Reported at Fair Value in the Statutory Balance Sheets**

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **December 31, 2018** | | | | |
| Common stocks | $ 10,467,152 | $ - | $ - | $ 10,467,152 |
| **December 31, 2017** | | | | |
| Common stocks | $ 12,143,079 | $ - | $ - | $ 12,143,079 |

The Society does not have any liabilities measured at fair value at December 31, 2018 and 2017. The Society also did not have any transfers between levels during 2018 and 2017.

**All Financial Instruments**

| Type of Financial Instrument | Aggregate Fair Value | Admitted Assets | Level 1 | Level 2 | Level 3 | Fair Value Not Practicable* |
|---|---|---|---|---|---|---|
| **December 31, 2018** | | | | | | |
| Bonds | $ 329,400,666 | $ 317,125,170 | $ - | $ 329,400,666 | $ - | $ - |
| Common stock | 10,467,152 | 10,467,152 | 10,467,152 | - | - | - |
| Mortgage loans | - | - | - | - | - | - |
| Other invested assets | 1,767,840 | 1,622,038 | - | 1,767,840 | - | - |
| **December 31, 2017** | | | | | | |
| Bonds | $ 338,724,613 | $ 309,769,131 | $ - | $ 338,724,613 | $ - | $ - |
| Common stock | 12,143,079 | 12,143,079 | 12,143,079 | - | - | - |
| Mortgage loans | 4,635,446 | 4,635,446 | - | - | - | 4,635,446 |
| Other invested assets | 1,836,105 | 1,642,440 | - | 1,836,105 | - | - |

*It was not practicable to determine the fair value of these mortgage loans because a quoted market price was not available and the cost of obtaining independent appraisals would be excessive.

The Society's investments in common stock of affiliates are not included above as they are accounted for under the equity method.

**Note 3 ~ Analysis of Annuity Actuarial Reserves and Deposit Liabilities by Withdrawal Characteristics**

The withdrawal characteristics of annuity actuarial reserves and deposit-type contracts at December 31, 2018 and 2017, were as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Amount | Percent | Amount | Percent |
| Subject to discretionary withdrawal: | | | | |
| At book value, less surrender charge | | | | |
| of 5 percent or more | $ 7,047,125 | 4.24% | $ 7,582,873 | 4.60% |
| At book value, without adjustment | 152,452,635 | 91.83% | 151,436,673 | 91.91% |
| Not subject to discretionary withdrawal | 6,523,065 | 3.93% | 5,753,449 | 3.49% |
| Total annuity reserves and deposit fund liabilities | $ 166,022,825 | 100.00% | $ 164,772,995 | 100.00% |

**Note 4 ~ Employee Benefit Plans**

**Defined Contribution Plan.** The Society sponsors a defined contribution plan which covers substantially all of its agents and employees. The Society's contributions to the plan are based on a percentage of compensation. Contributions are made semi-monthly to the trustee of the plan for all amounts due under the plan. The Society's contribution to the plan was $296,091 and $304,638 for 2018 and 2017, respectively.

**Pension and Postretirement Benefit Obligations.** The Society has a deferred compensation plan for all directors and officers who meet eligibility requirements. The plan provides for equal monthly payments for up to ten years to eligible participants who retire or become disabled. In the event of death of the participant before retirement, payments are made to the participant's surviving spouse or estate. The Society also sponsors a postretirement benefit plan which provides health insurance to retired employees. The plans are unfunded.

The benefit obligations as of December 31, 2018 and 2017, were calculated under SSAP No. 92, *Accounting for Postretirement Benefits Other Than Pensions* for the health insurance plan and under SSAP No. 102, *Accounting for Pensions* for the deferred compensation plan. The details of the benefit obligations and other components of the plans are illustrated on the following pages.

**Note 4 ~ Employee Benefit Plans** (Continued)

| | Health Insurance Plan | | Deferred Compensation Plan | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Change in benefit obligation: | | | | |
| Benefit obligation at beginning of year | $ 5,534,963 | $ 5,047,696 | $ 3,038,099 | $ 2,886,181 |
| Service cost | 51,903 | 58,513 | 53,648 | 62,092 |
| Interest cost | 191,342 | 199,820 | 89,956 | 90,587 |
| Actuarial (gain) loss | (948,917) | 370,343 | (135,770) | 125,823 |
| Net benefits paid | (171,108) | (141,409) | (74,261) | (126,584) |
| Benefit obligation at end of year | $ 4,658,183 | $ 5,534,963 | $ 2,971,672 | $ 3,038,099 |
| Funded status: | | | | |
| Amounts recognized in the statutory balance sheets: | | | | |
| Accrued benefit costs | $ 4,931,382 | $ 4,831,083 | $ 2,719,008 | $ 2,631,961 |
| Unrecognized net actuarial loss | (273,199) | 703,880 | 252,664 | 406,138 |
| Liability for benefit obligations | $ 4,658,183 | $ 5,534,963 | $ 2,971,672 | $ 3,038,099 |
| Components of net periodic postretirement benefit cost: | | | | |
| Service cost | $ 51,903 | $ 58,513 | $ 53,648 | $ 62,092 |
| Interest cost | 191,342 | 199,820 | 89,956 | 90,587 |
| Recognized net actuarial loss | 28,162 | - | 17,704 | - |
| Total net periodic pension cost | $ 271,407 | $ 258,333 | $ 161,308 | $ 152,679 |
| Amounts in surplus recognized as components of net periodic benefit cost: | | | | |
| Items not yet recognized as a component of net periodic cost – prior year | $ 703,880 | $ 333,537 | $ 406,138 | $ 280,315 |
| Net (gain) loss arising during the period | (948,917) | 370,343 | (135,770) | 125,823 |
| Net loss recognized as expense | (28,162) | - | (17,704) | - |
| Items not yet recognized as a component of net periodic cost – current year | $ (273,199) | $ 703,880 | $ 252,664 | $ 406,138 |
| Amounts in surplus that have not yet been recognized as components of net periodic benefit cost: | | | | |
| Net recognized (gains) losses | $ (273,199) | $ 703,880 | $ 252,664 | $ 406,138 |
| Weighted-average assumptions as of Dec 31: | | | | |
| Discount rate | 4.1% | 3.5% | 3.7% | 3.0% |

**Note 4 ~ Employee Benefit Plans** (Continued)

Assumed health care cost trend rates have a significant effect on the amounts reported for the health insurance plan. A one percentage point change in assumed health care cost trend rates would have the following effects:

| | 1 Percentage Point Increase | 1 Percentage Point Decrease |
|---|---|---|
| Effect on total service and interest cost components | $ 41,665 | $ (33,461) |
| Effect on postretirement benefit obligation | 637,579 | (525,971) |

The following estimated future payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

Expected Benefit Cash Flows

| Calendar Year | Health Insurance Plan | Deferred Compensation Plan |
|---|---|---|
| 2019 | $ 264,000 | $ 257,000 |
| 2020 | 264,000 | 345,000 |
| 2021 | 248,000 | 345,000 |
| 2022 | 257,000 | 345,000 |
| 2023 | 243,000 | 345,000 |
| 2024 – 2028 | 1,230,000 | 1,515,000 |

The Society's funding policy is to pay premium, benefits, and claims as they come due; therefore, expected contributions are equal to expected benefits of $264,000 for the health insurance plan and $257,000 for the deferred compensation plan for 2019.

The Society also provides severance pay benefits to eligible retired employees. The benefits are based on accrued and unused sick leave pay. The plan is unfunded. The liability recorded for this plan was $548,941 and $664,155 as of December 31, 2018 and 2017, respectively.

**Note 5 ~ Line of Credit**

The Society has a bank line of credit for up to $2,000,000 at one month LIBOR plus 2.5 percent. There were no amounts outstanding on the line of credit at December 31, 2018 and 2017.

**Note 6 ~ Surplus**

The Society is required to maintain minimum surplus established by the OCI and is subject to Risk-Based Capital (RBC) requirements promulgated by the NAIC and adopted by the OCI. The RBC standards establish uniform minimum capital requirements for insurance companies. The RBC formula applies various weighting factors to financial balances or various levels of activities based on the perceived degree of risk. At December 31, 2018, the Society's surplus exceeded the minimum levels required by the OCI and RBC standards.

The Society's surplus was increased (reduced) by the following cumulative amounts at December 31, 2018 and 2017:

| | 2018 | 2017 |
|---|---|---|
| Unrealized capital gains | $ 1,809,350 | $ 3,958,949 |
| Nonadmitted assets | (2,159,396) | (1,980,434) |
| Asset valuation reserve | (3,192,050) | (4,134,762) |

Strohm Ballweg

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## INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

To the Board of Directors
National Mutual Benefit
Madison, Wisconsin

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

Strohm Ballweg, LLP

Madison, Wisconsin
April 30, 2019

**INVESTMENT INCOME EARNED**

| | | |
|---|---|---|
| U.S. government bonds | $ | 102,840 |
| Other bonds (unaffiliated) | | 15,481,264 |
| Common stocks (unaffiliated) | | 244,414 |
| Mortgage loans | | 85,827 |
| Real estate | | 350,004 |
| Contract loans | | 253,437 |
| Cash and cash equivalents | | 79,285 |
| Other invested assets | | 98,098 |
| Aggregate write-ins for investment income | | 4,020 |
| Gross investment income | $ | 16,699,189 |

**INVESTMENTS**

| | | |
|---|---|---|
| Real estate owned – book value less encumbrances | $ | 776,822 |
| Mortgage loans – book value: | | |
| Residential mortgages | $ | - |
| Commercial mortgages | | - |
| Total mortgage loans | $ | - |
| Mortgage loans by standing – book value: | | |
| Good standing | $ | - |
| Other invested assets – statement value | $ | 1,622,038 |

**INVESTMENTS**

| | |
|---|---|
| Bonds and short-term investments by NAIC designation and maturity: | |
| Bonds by maturity - statement value: | |
| Due within 1 year or less | $ 18,229,994 |
| Over 1 year through 5 years | 82,650,362 |
| Over 5 years through 10 years | 111,534,886 |
| Over 10 years through 20 years | 63,769,540 |
| Over 20 years | 40,940,388 |
| Total by maturity | $ 317,125,170 |
| Bonds by NAIC designation – statement value: | |
| NAIC 1 | $ 231,759,242 |
| NAIC 2 | 83,834,252 |
| NAIC 3 | - |
| NAIC 4 | 1,531,676 |
| Total by NAIC designation | $ 317,125,170 |
| Total bonds publicly traded | $ 274,439,864 |
| Total bonds privately placed | $ 42,685,306 |
| Common stocks – market value | $ 10,413,375 |
| Short-term investments – book value | - |
| Cash on deposit | (193,994) |

**INSURANCE IN FORCE**

| | |
|---|---|
| Life insurance in force: | |
| Ordinary | $ 1,084,418,249 |
| Amount of accidental death insurance in force under ordinary contracts | 27,262,000 |
| Supplementary contracts in force: | |
| Ordinary, not involving life contingencies: | |
| Amount on deposit | 1,852,806 |
| Income payable | 452,195 |
| Ordinary, involving life contingencies, income payable | 174,605 |
| Annuities: | |
| Ordinary: | |
| Immediate, amount of income payable | 1,040,970 |
| Deferred, fully paid account balance | 48,666,156 |
| Deferred, not fully paid, account balance | 104,480,315 |

**OTHER**

| | |
|---|---|
| Deposit funds and dividend accumulations: | |
| Deposit funds, account balance | $ 13,673 |
| Dividend accumulations, account balance | 6,418,726 |
| Claim payments 2018: | |
| Accident and health, year ended December 31, 2018, incurred: | |
| 2018 | 23,596 |
| 2017 and prior years | 43,640 |

1. Reporting entity's total admitted assets as reported on page two of the annual statement. $ 342,336,052

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

| | Issuer | Description of Exposure | Amount | Percentage of Total Admitted Assets |
|---|---|---|---|---|
| 2.01 | JP Morgan Chase Bk | Bonds/Common Stock | $ 2,945,981 | 0.9% |
| 2.02 | New York Mtg Agy | Bonds | $ 2,590,923 | 0.8% |
| 2.03 | Denver Co City & Cnty Sch Dist | Bonds | $ 2,566,110 | 0.7% |
| 2.04 | Fedex Corp | Bonds | $ 2,532,264 | 0.7% |
| 2.05 | Univ of California CA Gen-LTD | Bonds | $ 2,489,036 | 0.7% |
| 2.06 | WalMart Inc | Bonds | $ 2,334,287 | 0.7% |
| 2.07 | San Francisco Pub Wtr Utils | Bonds | $ 2,242,919 | 0.7% |
| 2.08 | Morgan Stanley | Bonds | $ 2,230,109 | 0.7% |
| 2.09 | Conocophillips Hldg Co | Bonds | $ 2,226,969 | 0.7% |
| 2.10 | Union Pacific Corp | Bonds | $ 2,224,367 | 0.6% |

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

| Bonds | | | Preferred Stocks | | |
|---|---|---|---|---|---|
| 3.01 NAIC – 1 | $ 231,759,242 | 67.7% | 3.07 P/RP – 1 | $ | % |
| 3.02 NAIC – 2 | $ 83,834,252 | 24.5% | 3.08 P/RP – 2 | $ | % |
| 3.03 NAIC – 3 | $ | % | 3.09 P/RP – 3 | $ | % |
| 3.04 NAIC – 4 | $ 1,531,676 | 0.4% | 3.10 P/RP – 4 | $ | % |
| 3.05 NAIC – 5 | $ | % | 3.11 P/RP – 5 | $ | % |
| 3.06 NAIC – 6 | $ | % | 3.12 P/RP – 6 | $ | % |

4. Assets held in foreign investments:

| | | | |
|---|---|---|---|
| 4.01 | Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets? | Yes [ ] | No [X] |
| 4.02 | Total admitted assets held in foreign investments | $ 28,451,725 | 8.3% |
| 4.03 | Foreign-currency-denominated investments | $ | % |
| 4.04 | Insurance liabilities denominated in that same foreign currency | $ | % |

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

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

| | | | |
|---|---|---|---|
| 5.01 | Countries rated NAIC – 1 | $ 26,451,725 | 7.7% |
| 5.02 | Countries rated NAIC – 2 | $ | % |
| 5.03 | Countries rated NAIC – 3 or below | $ | % |

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

| | | |
|---|---|---|
| Countries rated NAIC – 1 | | |
| 6.01 Australia | $ 9,793,303 | 2.9% |
| 6.02 Netherlands | $ 4,469,111 | 1.3% |
| Countries rated NAIC – 2 | | |
| 6.03 | $ | % |
| 6.04 | $ | % |
| Countries rated NAIC – 3 or below | | |
| 6.05 | $ | % |
| 6.06 | $ | % |

7. Aggregate unhedged foreign currency exposure $ %

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

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

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

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

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

| Issuer | NAIC Designation | Amount | Percent |
|---|---|---|---|
| 10.01 Orica Fin LTD | 2FE | $ 2,086,991 | 0.6% |
| 10.02 Holcim US Fin | 2FE | $ 2,018,733 | 0.6% |
| 10.03 Heathrow Fdg LTD | 1FE | $ 2,015,657 | 0.6% |
| 10.04 Barilla FR 12Y | 2 | $ 2,000,000 | 0.6% |
| 10.05 Shell Intl Fin | 1FE | $ 1,970,309 | 0.6% |
| 10.06 Westpac Bkg Corp | 1FE | $ 1,203,584 | 0.4% |
| 10.07 Koninklijke Philips | 2FE | $ 1,006,365 | 0.3% |
| 10.08 BP Cap Mkts Plc | 1FE | $ 1,005,618 | 0.3% |
| 10.09 Sydney Arpt Fin | 2FE | $ 1,002,728 | 0.3% |
| 10.10 Barclays Bk Plc | 1FE | $ 1,002,034 | 0.3% |

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

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

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

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

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

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

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

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

Assets held in equity interests:

| | | | |
|---|---|---|---|
| 13.02 | Berkshire Hathaway Inc. | $ 622,749 | 0.2% |
| 13.03 | Dollar General Corporation | $ 613,894 | 0.2% |
| 13.04 | Twenty-First Century Fox, Inc. | $ 607,284 | 0.2% |
| 13.05 | UnitedHealth Group Incorporated | $ 561,766 | 0.2% |
| 13.06 | Honeywell International Inc. | $ 465,723 | 0.1% |
| 13.07 | JPMorgan Chase & Co | $ 440,266 | 0.1% |
| 13.08 | PepsiCo, Inc. | $ 382,813 | 0.1% |
| 13.09 | Accenture Public Limited Company | $ 376,497 | 0.1% |
| 13.10 | Nestle S.A. | $ 362,656 | 0.1% |
| 13.11 | eBay Inc. | $ 356,489 | 0.1% |

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

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

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

Largest 3 investments held in nonaffiliated, privately placed equities:

| | | | |
|---|---|---|---|
| 14.03 | | $ | % |
| 14.04 | | $ | % |
| 14.05 | | $ | % |

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

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

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

Largest 3 investments held in general partnership interests:

| | | | |
|---|---|---|---|
| 15.03 | | $ | % |
| 15.04 | | $ | % |
| 15.05 | | $ | % |

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

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

Total admitted assets held in Mortgage Loans:

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

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

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

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

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

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

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

Assets held in the 5 Largest Real Estate Holdings:

| | | | |
|---|---|---|---|
| 18.02 | | $ | % |
| 18.03 | | $ | % |
| 18.04 | | $ | % |
| 18.05 | | $ | % |
| 18.06 | | $ | % |

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

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

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

Largest three investments held in mezzanine real estate loans:

| | | | |
|---|---|---|---|
| 19.03 | | $ | % |
| 19.04 | | $ | % |
| 19.05 | | $ | % |

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

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

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

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

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

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

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

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

| | Gross Investment Holdings* | | Admitted Assets as Reported In the Annual Statement** | |
|---|---|---|---|---|
| | Amount | Percentage | Amount | Percentage |
| 1. Bonds: | | | | |
| 1.1 U.S. treasury securities | $ | % | $ | % |
| 1.2 U.S. government agency obligations (excluding mortgage-backed securities): | | | | |
| 1.21 Issued by U.S. government agencies | $ 1,896,796 | 0.6% | $ 1,896,796 | 0.6% |
| 1.22 Issued by U.S. government-sponsored agencies | $ | % | $ | % |
| 1.3 Non-U.S. government (including Canada, excluding mortgage-backed securities) | $ | % | $ | % |
| 1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.: | | | | |
| 1.41 State, territory, and possession general obligations | $ 4,675,134 | 1.4% | $ 4,675,134 | 1.4% |
| 1.42 Political subdivisions of states, territories, and possessions and political subdivisions general obligations | $ 17,926,352 | 5.3% | $ 17,926,352 | 5.3% |
| 1.43 Revenue and assessment obligations | $ 74,359,860 | 22.1% | $ 74,359,860 | 22.1% |
| 1.44 Industrial development and similar obligations | $ 2,500,000 | 0.7% | $ 2,500,000 | 0.7% |
| 1.5 Mortgage-backed securities (includes residential and commercial MBS): | | | | |
| 1.51 Pass-through securities: | | | | |
| 1.511 Issued or guaranteed by GNMA | $ 40,674 | 0.0% | $ 40,674 | 0.0% |
| 1.512 Issued or guaranteed by FNMA and FHLMC | $ 18,054 | 0.0% | $ 18,054 | 0.0% |
| 1.513 All other | $ | % | $ | % |
| 1.52 CMOs and REMICs: | | | | |
| 1.521 Issued or guaranteed by GNMA, FNMA, FHLMC, or VA | $ 19,551 | 0.0% | $ 19,551 | 0.0% |
| 1.522 Issued by non-U.S. government issuers and collateralized by MBS issued or guaranteed By agencies shown in Line 1.521 | $ | % | $ | % |
| 1.523 All other | $ | % | $ | % |
| 2. Other debt and other fixed income securities (excluding short-term): | | | | |
| 2.1 Unaffiliated domestic securities (includes credit tenant loans and hybrid securities) | $ 163,437,236 | 48.5% | $ 163,437,236 | 48.5% |
| 2.2 Unaffiliated non-U.S. securities (including Canada) | $ 52,251,513 | 15.5% | $ 52,251,513 | 15.5% |
| 2.3 Affiliated securities | $ | % | $ | % |

| | Gross Investment Holdings* | | Admitted Assets as Reported In the Annual Statement** | |
|---|---|---|---|---|
| | Amount | Percentage | Amount | Percentage |
| 3. Equity interests: | | | | |
| 3.1 Investments in mutual funds | $ | % | $ | % |
| 3.2 Preferred stocks: | | | | |
| 3.21 Affiliated | $ | % | $ | % |
| 3.22 Unaffiliated | $ | % | $ | % |
| 3.3 Publicly traded equity securities (excluding preferred stocks): | | | | |
| 3.31 Affiliated | $ | % | $ | % |
| 3.32 Unaffiliated | $ 10,467,152 | 3.1% | $ 10,467,152 | 3.1% |
| 3.4 Other equity securities: | | | | |
| 3.41 Affiliated | $ | % | $ | % |
| 3.42 Unaffiliated | $ | % | $ | % |
| 3.5 Other equity interests including tangible personal property under lease: | | | | |
| 3.51 Affiliated | $ (53,777) | (0.0%) | $ (53,777) | (0.0%) |
| 3.52 Unaffiliated | $ | % | $ | % |
| 4. Mortgage loans: | | | | |
| 4.1 Construction and land development | $ | % | $ | % |
| 4.2 Agricultural | $ | % | $ | % |
| 4.3 Single family residential properties | $ | % | $ | % |
| 4.4 Multifamily residential properties | $ | % | $ | % |
| 4.5 Commercial loans | $ | % | $ | % |
| 4.6 Mezzanine real estate loans | $ | % | $ | % |
| 5. Real estate investments: | | | | |
| 5.1 Property occupied by company | $ 776,822 | 0.2% | $ 776,822 | 0.2% |
| 5.2 Property held for production of income (includes $______ of property acquired in satisfaction of debt) | $ | % | $ | % |
| 5.3 Property held for sale (including $______ property acquired in satisfaction of debt) | $ | % | $ | % |
| 6. Contract loans | $ 3,461,918 | 1.0% | $ 3,461,918 | 1.0% |
| 7. Derivatives | $ | % | $ | % |
| 8. Receivables for securities | $ 46,751 | 0.0% | $ 46,751 | 0.0% |
| 9. Securities Lending (Line 10, Asset Page reinvested collateral) | $ | % | $ | % |
| 10. Cash, cash equivalents, and short-term investments | $ 3,735,138 | 1.1% | $ 3,735,138 | 1.1% |
| 11. Other invested assets | $ 1,622,038 | 0.5% | $ 1,622,038 | 0.5% |
| 12. Total invested assets | $ 337,181,212 | 100.0% | $ 337,181,212 | 100.0% |

*Gross Investment Holdings as valued in compliance with NAIC *Accounting Practices & Procedures Manual.*
**The Society has no admitted assets in reinvested collateral related to securities lending.

# NATIONAL MUTUAL BENEFIT

## STATUTORY FINANCIAL STATEMENTS

December 31, 2019 and 2018

Strohm Ballweg

CPAs • ADVISORS • CONSULTANTS

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December 31, 2019 and 2018

Strohm Ballweg

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# INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

To the Board of Directors
National Mutual Benefit
Madison, Wisconsin

We have audited the accompanying statutory financial statements of National Mutual Benefit (the Society), which are comprised of the statutory balance sheets as of December 31, 2019 and 2018, and the related statutory statements of operations, surplus, and cash flows for the years then ended, and the related notes to statutory financial statements.

**Management's Responsibilities for the Financial Statements**

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

**Auditor's Responsibility**

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

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

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

Strohm Ballweg

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

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

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

**Adverse Opinion on U.S. Generally Accepted Accounting Principles**

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

**Opinion on Regulatory Basis of Accounting**

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

*Strohm Ballweg, LLP*

Madison, Wisconsin
April 29, 2020

| | **2019** | 2018 |
|---|---|---|
| **ADMITTED ASSETS** | | |
| Cash and invested assets: | | |
| Bonds | **$ 314,973,427** | $ 317,125,170 |
| Common stocks | **13,104,551** | 10,413,375 |
| Real estate occupied by the Society | **706,361** | 776,822 |
| Cash and cash equivalents | **6,468,582** | 3,735,138 |
| Contract loans | **3,123,898** | 3,461,918 |
| Other invested assets | **1,600,397** | 1,622,038 |
| Receivable for securities | **54,760** | 46,751 |
| Cash and invested assets | **340,031,976** | 337,181,212 |
| Investment income due and accrued | **3,932,213** | 4,179,571 |
| Deferred and uncollected premiums | **806,915** | 659,760 |
| Recoverable from reinsurers | **86,273** | 189,455 |
| Electronic data processing equipment | **102,651** | 126,054 |
| Total admitted assets | **$ 344,960,028** | $ 342,336,052 |
| **LIABILITIES AND SURPLUS** | | |
| Liabilities: | | |
| Aggregate reserve for contracts: | | |
| Life | **$ 127,355,898** | $ 127,265,251 |
| Annuity | **153,935,315** | 153,503,019 |
| Accident and health | **636,647** | 758,281 |
| Liability for deposit-type contracts | **10,684,582** | 11,112,975 |
| Contract claims: | | |
| Life | **731,582** | 862,281 |
| Annuity | **1,053,175** | 253,039 |
| Accident and health | **2,740** | 7,550 |
| Refunds payable | **347,367** | 453,547 |
| Premiums received in advance | **16,419** | 14,602 |
| Interest maintenance reserve | **415,787** | 411,045 |
| Accounts payable and accrued expenses | **629,289** | 633,240 |
| Pension and postretirement benefit obligations | **8,178,093** | 8,301,219 |
| Asset valuation reserve | **2,935,905** | 3,192,050 |
| Other liabilities | **564,397** | 535,158 |
| Total liabilities | **307,487,196** | 307,303,257 |
| Surplus | **37,472,832** | 35,032,795 |
| Total liabilities and surplus | **$ 344,960,028** | $ 342,336,052 |

| | 2019 | 2018 |
|---|---|---|
| **INCOME** | | |
| Life premiums | **$ 9,865,165** | $ 9,852,538 |
| Annuity considerations | **8,240,105** | 6,936,903 |
| Accident and health premiums | **116,338** | 128,725 |
| Considerations for supplementary contracts with life contingencies | **94,361** | 354,426 |
| Investment income (net of expenses of $1,115,843 in 2019 and $1,368,361 in 2018) | **15,256,848** | 15,330,830 |
| Amortization of interest maintenance reserve | **256,567** | 194,079 |
| Commissions on reinsurance ceded | **219,263** | 229,975 |
| Other income | **251** | 227 |
| Total income | **34,048,898** | 33,027,703 |
| **BENEFITS** | | |
| Death | **4,302,820** | 5,221,186 |
| Matured endowments | **321,170** | 204,483 |
| Annuity | **13,176,773** | 11,810,105 |
| Disability, accident, and health | **99,626** | 118,385 |
| Surrender and withdrawals for life contracts | **5,772,584** | 5,508,888 |
| Interest on contract or deposit-type contract funds | **359,895** | 411,687 |
| Payments on supplementary contracts with life contingencies | **174,473** | 159,651 |
| Increase in aggregate reserves for life and accident and health contracts | **9,372** | 779,881 |
| Increase in aggregate reserves for annuity contracts | **391,937** | 713,198 |
| Total benefits | **24,608,650** | 24,927,464 |
| **OPERATING EXPENSES** | | |
| Commissions | **876,580** | 766,637 |
| General insurance and fraternal expenses | **8,358,414** | 8,287,741 |
| Insurance taxes, licenses, and fees | **390,283** | 348,600 |
| Increase in loading on deferred and uncollected premiums | **20,575** | 26,046 |
| Total operating expenses | **9,645,852** | 9,429,024 |
| Net loss from operations before refunds to members and net realized capital gains | **(205,604)** | (1,328,785) |
| Refunds to members | **283,761** | 445,750 |
| Net loss from operations before net realized capital gains | **(489,365)** | (1,774,535) |
| Net realized capital gains | **593,223** | 1,613,455 |
| Net income (loss) | **$ 103,858** | $ (161,080) |

See Notes to Statutory Financial Statements.

| | **2019** | 2018 |
|---|---|---|
| Surplus, beginning of year | **$ 35,032,795** | $ 35,363,064 |
| Net income (loss) | **103,858** | (161,080) |
| Change in net unrealized capital gain/loss | **2,001,214** | (2,121,990) |
| Change in nonadmitted assets | **(186,695)** | (178,962) |
| Change in asset valuation reserve | **256,145** | 942,712 |
| Change in pension and postretirement benefit obligations | **265,515** | 1,189,051 |
| Net change in surplus | **2,440,037** | (330,269) |
| Surplus, end of year | **$ 37,472,832** | $ 35,032,795 |

| | 2019 | 2018 |
|---|---|---|
| Cash from operations: | | |
| Net premiums collected | **$ 18,150,055** | $ 17,250,638 |
| Net investment income received | **16,237,036** | 16,124,439 |
| Other income received | **237,033** | 213,597 |
| Benefit related payments | **(23,457,051)** | (24,338,620) |
| Commissions and other expenses paid | **(9,505,008)** | (9,174,357) |
| Refunds paid to members | **(389,941)** | (434,568) |
| Net cash from operations | **1,272,124** | (358,871) |
| Cash from investments: | | |
| Proceeds from investments sold, matured, or repaid: | | |
| Bonds | **20,599,893** | 15,297,921 |
| Stocks | **3,597,127** | 5,470,784 |
| Mortgage loans | **-** | 4,635,446 |
| Miscellaneous proceeds | **80,020** | 14,759 |
| | **24,277,040** | 25,418,910 |
| Cost of investments acquired: | | |
| Bonds | **(18,837,158)** | (23,246,884) |
| Stocks | **(3,693,865)** | (4,331,002) |
| Real estate | **(14,904)** | (116,315) |
| | **(22,545,927)** | (27,694,201) |
| Net decrease in contract loans | **338,019** | 262,256 |
| Net cash from investments | **2,069,132** | (2,013,035) |
| Cash from financing and miscellaneous sources: | | |
| Net deposits on deposit-type contracts | **(428,393)** | 310,313 |
| Other cash applied | **(179,419)** | (187,993) |
| Net cash from financing and miscellaneous sources | **(607,812)** | 122,320 |
| Net change in cash and cash equivalents | **2,733,444** | (2,249,586) |
| Cash and cash equivalents: | | |
| Beginning of year | **3,735,138** | 5,984,724 |
| End of year | **$ 6,468,582** | $ 3,735,138 |

See Notes to Statutory Financial Statements.

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

**Nature of Business.** National Mutual Benefit (the Society), which is licensed in 13 states, is organized as a fraternal benefit society. The Society's principal operations consist of underwriting and servicing member life contracts and annuities and providing fraternal benefits to members.

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

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

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

- Investments in debt securities are generally carried at amortized cost. Under GAAP, the Society's debt securities would be classified as held-to-maturity, trading, or available-for-sale. For GAAP, debt securities classified as held-to-maturity would be carried at cost or amortized cost and debt securities classified as trading or available-for-sale would be carried at fair value with the unrealized holding gains and losses reported in income for those securities classified as trading and as a separate component of surplus for those securities classified as available-for-sale.

- Investments in equity securities are generally carried at fair value with unrealized holding gains and losses reported as a direct charge or credit to surplus. Under GAAP, the Society's equity securities would be carried at fair value with the unrealized holding gains and losses reported in income.

- An occupancy rental charge on home office real estate owned is recorded as investment income and as offsetting rental expense; under GAAP, no such rental charge would be recognized.

- Certain assets designated as "nonadmitted assets" (principally furniture and equipment, non-operating software, and agent advances) are charged against surplus; under GAAP, furniture and equipment and non-operating software would be recognized as assets net of accumulated depreciation and amortization and agent advances would be recognized as assets.

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

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

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

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

- The interest maintenance and asset valuation reserves are required as discussed subsequently in this note; they would not be required under GAAP.

- Revenues for universal life-type contracts and annuity contracts consist of the entire premiums received, and benefits incurred represent the total death benefits paid and the change in contract reserves. Under GAAP, revenues include only contract charges for the cost of insurance, contract initiation and administration, surrender charges, and other fees that have been assessed against contract account values; and benefits represent the excess of benefits paid over the contract account value and interest credited to the account values.

- Contract reserves are based on statutory mortality and interest assumptions and without consideration of withdrawals, which may differ from reserves based on reasonably conservative estimates of mortality, interest, and withdrawals as they would be presented under GAAP.

- Refunds to members to be paid in the following year are reflected in the statements of operations for the current year. Under GAAP, refunds to members would be recognized as expense ratably over the contract year.

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

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

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

- The estimated life, annuity, and disability insurance contract reserves.

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

- The assumptions, primarily the discount rate and selected mortality tables, used to determine the liabilities for pension and postretirement benefit obligations.

**Cash and Cash Equivalents.** For purposes of reporting cash flows, the Society follows statutory accounting practices and considers cash in checking accounts and certain money market funds to be cash and cash equivalents.

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

**Investments.** Investments are valued in accordance with the valuation methods prescribed by the NAIC. Investments in bonds not backed by loans are carried at amortized cost using the scientific interest method; however, bonds with an NAIC designation of six are carried at the lower of amortized cost or fair value. Loan-backed (mortgage-backed/asset-backed) securities are valued at amortized cost using the scientific interest method, including anticipated prepayments at the time of purchase; however, loan-backed securities with an initial NAIC designation of six or lower are carried at the lower of amortized cost or fair value. Prepayment assumptions were obtained from Clearwater Analytics, who use the Mortgage Industry Advisory Corporation (MIAC) Mortgage Industry Medians. These assumptions are consistent with the current interest rate and economic environment. The prospective adjustment method is used to value all such securities. Investments in common stocks are carried at fair value. Mortgage loans and contract loans are carried at unpaid balances. Surplus debentures, which are classified as other invested assets, are carried at amortized cost using the scientific interest method. Investments in common stock of affiliates are carried at the underlying equity value, and if positive, are nonadmitted as these entities are unaudited. If the equity is negative, the negative equity results in a further reduction of carrying value of common stock.

Realized gains and losses on the sale of investments are recognized on the specific identification basis and are included in income. Unrealized gains and losses from changes in the fair value of common stocks are credited or charged directly to surplus. The treatment of realized gains and losses on the sale of bonds and stocks are further explained in the interest maintenance and asset valuation reserves paragraph of this note.

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

- Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Society has the ability to access.
- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

Declines in fair value that are determined to be OTTI are included in the statutory statements of operations as realized capital losses. The Society determines a decline to be other than temporary by reviewing and evaluating relevant objective and subjective factors for each security, including the extent of the depressed value, the length of time the value has been depressed, the intent and ability to hold the security, a security's current performance, the current and projected financial condition of the issuer, the issuer's projected ability to service and repay its debt obligations, the industry in which the issuer operates, the estimated future cash flows of loan-backed securities, and the status of the market as a whole.

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

Estimating the future cash flows of loan-backed securities also involves assumptions regarding the underlying collateral such as prepayment rates, default and recovery rates, existence of subordinated classes capable of absorbing losses, and third-party servicing abilities. The amount of these declines deemed other than temporary were $0 for 2019 and 2018.

**Property and Equipment.** Real estate occupied by the Society is carried at its depreciated value and is presented as an investment.

The cost, accumulated depreciation, and carrying value of property and equipment at December 31, 2019 and 2018, were as follows:

| | Cost | Accumulated Depreciation | Carrying Value |
|---|---|---|---|
| **2019** | | | |
| Real estate occupied by the Society | $ 2,500,971 | $ (1,794,610) | $ 706,361 |
| Electronic data processing equipment | 144,525 | (41,874) | 102,651 |
| **2018** | | | |
| Real estate occupied by the Society | $ 2,486,068 | $ (1,709,246) | $ 776,822 |
| Electronic data processing equipment | 160,897 | (34,843) | 126,054 |

Furniture and equipment and nonoperating software are considered nonadmitted assets for statutory financial statement reporting purposes. Depreciation is calculated on these assets and charged to expense. The net change in book value (cost less depreciation) is charged or credited directly to surplus.

Depreciation is calculated by applying the straight-line method over the estimated useful lives of the respective assets. Depreciation expense was $231,689 in 2019 and $175,568 in 2018.

**Interest Maintenance and Asset Valuation Reserves.** The Interest Maintenance Reserve (IMR) captures the realized capital gains and losses that result from changes in the overall level of interest rates for fixed income investments and amortizes these gains and losses into income over the remaining life of the investments sold. The Asset Valuation Reserve is a contingency reserve for possible losses on investments in bonds, stocks, real estate, and other invested assets and is recorded as a liability through a charge to surplus.

**Premium Revenue and Acquisition Costs.** Premium revenue from term and whole life insurance is taken into earnings over the premium paying period of the contracts. Premium revenue from universal life insurance is taken into earnings when received. All life contracts are participating contracts. Annuity considerations are taken into earnings when received according to the annuity type, which may be one time for single premium annuities or ratably for annuities with flexible premium options. Premiums for accident and health certificates are recognized ratably over the period of insurance coverage. The related acquisition costs, such as salaries, commissions, and other items, are charged to current operations as incurred.

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

**Reinsurance.** In the normal course of business, the Society seeks to limit its exposure to loss on any single insured and to recover a portion of the benefits paid over such limits. This is accomplished primarily through cessions to reinsurers under yearly renewable term and coinsurance contracts. If any reinsurer becomes unable to pay its share of benefits, the Society would be liable for the remaining obligations.

**Contract Reserves.** Reserves for annuities and supplementary contracts are generally based on account values of the related contracts, including interest additions at current rates. Reserves for annuities are at least equal to reserves calculated under the Commissioners' Annuity Reserve Valuation Method.

The aggregate reserve for life contracts was developed on the basis of statutory interest rates and mortality assumptions. These rates are calculated using primarily the American Experience and the 1941, 1958, 1980, 2001, and 2017 Commissioners' Standard Ordinary Mortality Tables assuming interest rates of 2.5 percent to 5.0 percent. All traditional life reserves are calculated using the mean reserve method.

The Society waives deduction of deferred fractional premiums upon death of insureds and returns any portion of the final premium beyond the date of death. Surrender values are not promised in excess of legally computed reserves. Substandard reserves are determined by computing the regular mean reserve for the plan at the rated age. Contracts issued for substandard lives are charged an additional premium over the regular gross premium for the rated age with one half of the extra premium held in reserves.

As of December 31, 2019 and 2018, the Society had $19,092,256 and $20,542,256, respectively, of insurance in force for which the gross premiums are less than the net premiums according to the standard of calculation set by the OCI. Reserves related to the above insurance totaled $101,203 and $110,588 at December 31, 2019 and 2018, respectively.

Tabular interest, tabular less actual reserve released, and tabular cost are determined by formula. The determination of tabular interest is validated by an independent calculation.

**Income Taxes.** The Society qualifies as a tax-exempt organization under Section 501(c)(8) of the Internal Revenue Code. Accordingly, no provision for income taxes has been recorded in the financial statements.

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

**Subsequent Events.** Subsequent events were evaluated through April 29, 2020, which is the date the financial statements were available to be issued.

**Note 2 ~ Investments**

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

| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **2019** | | | | |
| Bonds (at amortized cost): | | | | |
| States, territories, and possessions | $ 3,353,047 | $ 154,948 | $ - | $ 3,507,995 |
| Political subdivisions | 18,817,398 | 1,628,407 | - | 20,445,805 |
| Special revenue | 79,366,954 | 5,817,209 | (61,188) | 85,122,975 |
| Industrial and miscellaneous | 205,832,393 | 26,727,647 | (24,203) | 232,535,837 |
| Loan-backed securities | 6,858,658 | 516,919 | - | 7,375,577 |
| Hybrid securities | 744,977 | 37,119 | - | 782,096 |
| Total bonds | 314,973,427 | 34,882,249 | (85,391) | 349,770,285 |
| Common stocks | 9,352,763 | 3,949,470 | (197,682) | 13,104,551 |
| Other invested assets | 1,600,397 | 160,933 | - | 1,761,330 |
| | $ 325,926,587 | $ 38,992,652 | $ (283,073) | $ 364,636,166 |

The cumulative unrealized loss of $283,073 as of December 31, 2019, consisted of $216,250 of unrealized losses in a loss position for greater than 12 months and $66,823 of unrealized losses in a loss position for less than 12 months.

| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **2018** | | | | |
| Bonds (at amortized cost): | | | | |
| U.S. government | $ 1,896,796 | $ 22,571 | $ - | $ 1,919,367 |
| States, territories, and possessions | 4,675,135 | 73,090 | (15,815) | 4,732,410 |
| Political subdivisions | 16,657,435 | 1,114,875 | (630) | 17,771,680 |
| Special revenue | 76,628,778 | 3,155,040 | (380,796) | 79,403,022 |
| Industrial and miscellaneous | 212,391,701 | 11,705,766 | (3,587,141) | 220,510,326 |
| Loan-backed securities | 4,110,660 | 146,238 | - | 4,256,898 |
| Hybrid securities | 764,665 | 42,298 | - | 806,963 |
| Total bonds | 317,125,170 | 16,259,878 | (3,984,382) | 329,400,666 |
| Common stocks | 8,662,803 | 2,273,215 | (522,643) | 10,413,375 |
| Other invested assets | 1,622,038 | 145,802 | - | 1,767,840 |
| | $ 327,410,011 | $ 18,678,895 | $ (4,507,025) | $ 341,581,881 |

**Note 2 ~ Investments** (Continued)

The cumulative unrealized loss of $4,507,025 as of December 31, 2018, consisted of $1,378,215 of unrealized losses in a loss position for greater than 12 months and $3,128,810 of unrealized losses in a loss position for less than 12 months.

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

| | Amortized Cost | Fair Value |
|---|---|---|
| Due in one year | $ 6,505,865 | $ 6,583,455 |
| Due after one year through five years | 70,702,494 | 75,551,897 |
| Due after five years through ten years | 112,322,880 | 126,825,182 |
| Due after ten years | 125,442,188 | 140,809,751 |
| | $ 314,973,427 | $ 349,770,285 |

**Gains and Losses on Investments.** The components of net realized capital gains were as follows:

| | 2019 | 2018 |
|---|---|---|
| Gains | $ 1,094,135 | $ 1,698,246 |
| Losses | (239,603) | (33,234) |
| Transfers to IMR | (261,309) | (51,557) |
| Net realized capital gains | $ 593,223 | $ 1,613,455 |

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

**Level 1 Measurements**

Common stocks: Comprised of actively traded, exchange-listed equity securities. Valuation is based on unadjusted quoted prices for identical assets in active markets that are accessible to the Society at the measurement date.

**Note 2 ~ Investments** (Continued)

**Level 2 Measurements**

Bonds and other invested assets: Comprised of government obligations, state and municipal bonds, corporate debt, residential and commercial mortgage-backed securities, and surplus debentures. Valuation is based on leading, nationally recognized providers of market data and analytics to price a vast majority of the fixed income securities. These securities are principally valued using the market and income approaches. When available, recent trades of identical or similar assets are used to price these securities. However, because many fixed income securities do not actively trade on a daily basis, the valuation is determined by the Society's investment manager using an income approach - present value using the discount rate adjustment technique.

**Financial Instruments Reported at Fair Value in the Statutory Balance Sheets**

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **December 31, 2019** | | | | |
| Common stocks | $ 13,128,308 | $ - | $ - | $ 13,128,308 |
| **December 31, 2018** | | | | |
| Common stocks | $ 10,467,152 | $ - | $ - | $ 10,467,152 |

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

**All Financial Instruments**

| Type of Financial Instrument | Aggregate Fair Value | Admitted Assets | Level 1 | Level 2 | Level 3 | Fair Value Not Practicable* |
|---|---|---|---|---|---|---|
| **December 31, 2019** | | | | | | |
| Bonds | $ 349,770,285 | $ 314,973,427 | $ - | $ 349,770,285 | $ - | $ - |
| Common stock | 13,128,308 | 13,128,308 | 13,128,308 | - | - | - |
| Other invested assets | 1,761,330 | 1,600,397 | - | 1,761,330 | - | - |
| **December 31, 2018** | | | | | | |
| Bonds | $ 329,400,666 | $ 317,125,170 | $ - | $ 329,400,666 | $ - | $ - |
| Common stock | 10,467,152 | 10,467,152 | 10,467,152 | - | - | - |
| Other invested assets | 1,767,840 | 1,622,038 | - | 1,767,840 | - | - |

The Society's investments in common stock of affiliates are not included above as they are accounted for under the equity method.

**Note 3 ~ Analysis of Annuity Actuarial Reserves and Deposit Liabilities by Withdrawal Characteristics**

The withdrawal characteristics of annuity actuarial reserves and deposit-type contracts at December 31, 2019, were as follows:

**Individual Annuities**

| | 2019 | |
|---|---|---|
| | Amount | Percent |
| Subject to discretionary withdrawal: | | |
| At book value, less surrender charge of 5 percent or more | $ 7,800,327 | 5.02% |
| At book value, without adjustment | 145,716,688 | 93.83 |
| Not subject to discretionary withdrawal | 1,784,772 | 1.15 |
| Total annuity reserves and deposit fund liabilities | $ 155,301,787 | 100.00% |

**Deposit-Type Contracts (No Life Contingencies)**

| | 2019 | |
|---|---|---|
| | Amount | Percent |
| Subject to discretionary withdrawal: | | |
| At book value without adjustment (minimal or no charge or adjustment) | $ 8,547,837 | 80.00% |
| Not subject to discretionary withdrawal | 2,136,745 | 20.00 |
| Total | $ 10,684,582 | 100.00% |

**Note 4 ~ Analysis of Life Actuarial Reserves by Withdrawal Characteristics**

| | 2019 | | |
|---|---|---|---|
| | Account Value | Cash Value | Reserve |
| Subject to discretionary withdrawal, surrender values, or policy loans: | | | |
| Term policies without cash value | $ - | $ 14,652 | $ 31,769 |
| Universal life | 72,158,792 | 70,279,292 | 71,192,336 |
| Universal life with secondary guarantees | 1,815,900 | 1,419,324 | 3,091,386 |
| Other permanent cash value life | - | 43,998,047 | 49,587,399 |
| Not subject to discretionary withdrawal or no cash values: | | | |
| Term policies without cash value | - | - | 1,252,746 |
| Accidental death benefits | - | - | 7,362 |
| Disability – active lives | - | - | 22,358 |
| Disability – disabled lives | - | - | 285,780 |
| Miscellaneous reserves | - | - | 747,343 |
| Total | 73,974,692 | 115,711,315 | 126,218,479 |
| Reinsurance ceded | - | - | 229,053 |
| Net Total | $ 73,974,692 | $ 115,711,315 | $ 125,989,426 |

**Note 5 ~ Employee Benefit Plans**

**Defined Contribution Plan.** The Society sponsors a defined contribution plan which covers substantially all of its agents and employees. The Society's contributions to the plan are based on a percentage of compensation. Contributions are made semi-monthly to the trustee of the plan for all amounts due under the plan. The Society's contribution to the plan was $351,358 and $296,091 for 2019 and 2018, respectively.

**Pension and Postretirement Benefit Obligations.** The Society has a deferred compensation plan for all directors and officers who meet eligibility requirements. The plan provides for equal monthly payments for up to 10 years to eligible participants who retire or become disabled. In the event of death of the participant before retirement, payments are made to the participant's surviving spouse or estate. The Society also sponsors a postretirement benefit plan which provides health insurance to retired employees. The plans are unfunded.

The benefit obligations as of December 31, 2019 and 2018, were calculated under SSAP No. 92, *Accounting for Postretirement Benefits Other Than Pensions* for the health insurance plan and under SSAP No. 102, *Accounting for Pensions* for the deferred compensation plan. The details of the benefit obligations and other components of the plans are illustrated on the following pages.

| | Health Insurance Plan | | Deferred Compensation Plan | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Change in benefit obligation: | | | | |
| Benefit obligation at beginning of year | $ 4,658,183 | $ 5,534,963 | $ 2,971,672 | $ 3,038,099 |
| Service cost | 38,671 | 51,903 | 35,677 | 53,648 |
| Interest cost | 187,161 | 191,342 | 106,519 | 89,956 |
| Actuarial (gain) loss | (392,066) | (948,917) | 115,089 | (135,770) |
| Net benefits paid | (169,948) | (171,108) | (76,059) | (74,261) |
| Benefit obligation at end of year | $ 4,322,001 | $ 4,658,183 | $ 3,152,898 | $ 2,971,672 |
| Funded status: | | | | |
| Amounts recognized in the statutory balance sheets: | | | | |
| Accrued benefit costs | $ 4,987,266 | $ 4,931,382 | $ 2,785,145 | $ 2,719,008 |
| Unrecognized net actuarial (gain) loss | (665,265) | (273,199) | 367,753 | 252,664 |
| Liability for benefit obligations | $ 4,322,001 | $ 4,658,183 | $ 3,152,898 | $ 2,971,672 |
| Components of net periodic postretirement benefit cost: | | | | |
| Service cost | $ 38,671 | $ 51,903 | $ 35,677 | $ 53,648 |
| Interest cost | 187,161 | 191,342 | 106,519 | 89,956 |
| Recognized net actuarial loss | - | 28,162 | - | 17,704 |
| Total net periodic pension cost | $ 225,832 | $ 271,407 | $ 142,196 | $ 161,308 |

**Note 5 ~ Employee Benefit Plans** (Continued)

| | Health Insurance Plan 2019 | Health Insurance Plan 2018 | Deferred Compensation Plan 2019 | Deferred Compensation Plan 2018 |
|---|---|---|---|---|
| Amounts in surplus recognized as components of net periodic benefit cost: | | | | |
| Items not yet recognized as a component of net periodic cost – prior year | $ (273,199) | $ 703,880 | $ 252,664 | $ 406,138 |
| Net (gain) loss arising during the period | (392,066) | (948,917) | 115,089 | (135,770) |
| Net loss recognized as expense | - | (28,162) | - | (17,704) |
| Items not yet recognized as a component of net periodic cost – current year | $ (665,265) | $ (273,199) | $ 367,753 | $ 252,664 |
| Amounts in surplus that have not yet been recognized as components of net periodic benefit cost: | | | | |
| Net recognized (gains) losses | $ (665,265) | $ (273,199) | $ 367,753 | $ 252,664 |
| Weighted-average assumptions as of Dec 31: | | | | |
| Discount rate | 3.0% | 4.1% | 2.6% | 3.7% |

The accumulated benefit obligation from the Deferred Compensation Plan at December 31, 2019 and 2018, was $3,032,305 and $2,868,144, respectively.

The following estimated future payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

Expected Benefit Cash Flows

| Calendar Year | Health Insurance Plan | Deferred Compensation Plan |
|---|---|---|
| 2020 | $ 237,000 | $ 344,000 |
| 2021 | 222,000 | 344,000 |
| 2022 | 232,000 | 344,000 |
| 2023 | 196,000 | 344,000 |
| 2024 | 196,000 | 344,000 |
| 2025 – 2029 | 1,089,000 | 1,433,000 |

The Society's funding policy is to pay premium, benefits, and claims as they come due; therefore, expected contributions are equal to expected benefits of $237,000 for the health insurance plan and $344,000 for the deferred compensation plan for 2020.

The Society also provides severance pay benefits to eligible retired employees. The benefits are based on accrued and unused sick leave pay. The plan is unfunded. The liability recorded for this plan was $535,910 and $548,941 as of December 31, 2019 and 2018, respectively.

**Note 6 ~ Line of Credit**

The Society has a bank line of credit for up to $2,000,000 at one month LIBOR plus 2.5 percent. There were no amounts outstanding on the line of credit at December 31, 2019 and 2018.

**Note 7 ~ Surplus**

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

The Society's surplus was increased (reduced) by the following cumulative amounts at December 31, 2019 and 2018:

| | 2019 | 2018 |
|---|---|---|
| Unrealized capital gains | $ 3,780,544 | $ 1,809,350 |
| Nonadmitted assets | (2,346,091) | (2,159,396) |
| Asset valuation reserve | (2,935,905) | (3,192,050) |

Strohm Ballweg

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## INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

To the Board of Directors
National Mutual Benefit
Madison, Wisconsin

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

Strohm Ballweg, LLP

Madison, Wisconsin
April 29, 2020

**INVESTMENT INCOME EARNED**

| | |
|---|---|
| U.S. government bonds | $ 51,399 |
| Other bonds (unaffiliated) | 15,300,888 |
| Common stocks (unaffiliated) | 229,901 |
| Real estate | 350,004 |
| Contract loans | 234,691 |
| Cash and cash equivalents | 105,010 |
| Other invested assets | 96,859 |
| Aggregate write-ins for investment income | 3,939 |
| Gross investment income | $ 16,372,691 |

**INVESTMENTS**

| | |
|---|---|
| Real estate owned – book value less encumbrances | $ 706,361 |
| Other invested assets – statement value | $ 1,600,397 |

**INVESTMENTS**

| | |
|---|---|
| Bonds and short-term investments by NAIC designation and maturity: | |
| Bonds by maturity - statement value: | |
| Due within 1 year or less | $ 6,505,865 |
| Over 1 year through 5 years | 70,702,494 |
| Over 5 years through 10 years | 112,322,880 |
| Over 10 years through 20 years | 74,283,838 |
| Over 20 years | 51,158,350 |
| Total by maturity | $ 314,973,427 |
| Bonds by NAIC designation – statement value: | |
| NAIC 1 | $ 233,670,567 |
| NAIC 2 | 80,812,773 |
| NAIC 3 | 490,087 |
| NAIC 4 | - |
| Total by NAIC designation | $ 314,973,427 |
| Total bonds publicly traded | $ 271,121,946 |
| Total bonds privately placed | $ 43,851,481 |
| Common stocks – market value | $ 13,104,551 |
| Short-term investments – book value | - |
| Cash on deposit | (253,444) |

## INSURANCE IN FORCE

| | |
|---|---|
| Life insurance in force: | |
| Ordinary | $ 1,091,518,481 |
| Amount of accidental death insurance in force under ordinary contracts | 25,158,000 |
| Supplementary contracts in force: | |
| Ordinary, not involving life contingencies: | |
| Amount on deposit | 2,143,838 |
| Income payable | 448,927 |
| Ordinary, involving life contingencies, income payable | 173,799 |
| Annuities: | |
| Ordinary: | |
| Immediate, amount of income payable | 245,770 |
| Deferred, fully paid account balance | 46,578,539 |
| Deferred, not fully paid, account balance | 106,806,178 |

## OTHER

| | |
|---|---|
| Deposit funds and dividend accumulations: | |
| Deposit funds, account balance | $ 22,276 |
| Dividend accumulations, account balance | 6,215,923 |
| Claim payments 2019: | |
| Accident and health, year ended December 31, 2019, incurred: | |
| 2019 | 18,015 |
| 2018 and prior years | 36,055 |

1. Reporting entity's total admitted assets as reported on page two of the annual statement. $ 344,960,028

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

| | Issuer | Description of Exposure | Amount | Percentage of Total Admitted Assets |
|---|---|---|---|---|
| 2.01 | FHMS | Bonds | $ 2,934,567 | 0.9% |
| 2.02 | New York HSG Fin Agy | Bonds | $ 2,592,646 | 0.8% |
| 2.03 | Denver Co City & Cnty Sch Dist | Bonds | $ 2,566,011 | 0.7% |
| 2.04 | Fedex Corp | Bonds | $ 2,530,753 | 0.7% |
| 2.05 | University CA | Bonds | $ 2,486,250 | 0.7% |
| 2.06 | WalMart Inc | Bonds | $ 2,318,380 | 0.7% |
| 2.07 | San Francisco Pub Wtr Utils | Bonds | $ 2,236,860 | 0.6% |
| 2.08 | Union Pacific Corp | Bonds | $ 2,227,046 | 0.6% |
| 2.09 | Morgan Stanley | Bonds | $ 2,225,914 | 0.6% |
| 2.10 | Conocophillips Hldg Co | Bonds | $ 2,211,652 | 0.6% |

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

| Bonds | | | Preferred Stocks | | |
|---|---|---|---|---|---|
| 3.01 NAIC – 1 | $ 233,670,567 | 67.7% | 3.07 P/RP – 1 | $ | % |
| 3.02 NAIC – 2 | $ 80,812,773 | 23.4% | 3.08 P/RP – 2 | $ | % |
| 3.03 NAIC – 3 | $ 490,087 | 0.1% | 3.09 P/RP – 3 | $ | % |
| 3.04 NAIC – 4 | $ | % | 3.10 P/RP – 4 | $ | % |
| 3.05 NAIC – 5 | $ | % | 3.11 P/RP – 5 | $ | % |
| 3.06 NAIC – 6 | $ | % | 3.12 P/RP – 6 | $ | % |

4. Assets held in foreign investments:

| | | | |
|---|---|---|---|
| 4.01 | Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets? | | Yes [ ] No [X] |
| 4.02 | Total admitted assets held in foreign investments | $ 25,855,053 | 7.5% |
| 4.03 | Foreign-currency-denominated investments | $ | % |
| 4.04 | Insurance liabilities denominated in that same foreign currency | $ | % |

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

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

| | | | |
|---|---|---|---|
| 5.01 | Countries rated NAIC – 1 | $ 25,855,053 | 7.5% |
| 5.02 | Countries rated NAIC – 2 | $ | % |
| 5.03 | Countries rated NAIC – 3 or below | $ | % |

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

| | | | |
|---|---|---|---|
| Countries rated NAIC – 1 | | | |
| 6.01 | Australia | $ 8,563,716 | 2.5% |
| 6.02 | Netherlands | $ 4,880,796 | 1.4% |
| Countries rated NAIC – 2 | | | |
| 6.03 | | $ | % |
| 6.04 | | $ | % |
| Countries rated NAIC – 3 or below | | | |
| 6.05 | | $ | % |
| 6.06 | | $ | % |

7. Aggregate unhedged foreign currency exposure $ %

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

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

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

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

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

| Issuer | NAIC Designation | Amount | Percent |
|---|---|---|---|
| 10.01 Transurban Fin | 1 | $ 2,061,594 | 0.6% |
| 10.02 Heathrow Fdg LTD | 1 | $ 2,009,700 | 0.6% |
| 10.03 Barilla FR 12Y | 1 | $ 2,000,000 | 0.6% |
| 10.04 Shell Intl Fin | 1 | $ 1,971,597 | 0.6% |
| 10.05 Koninklijke Philips Nv | 1 | $ 1,005,541 | 0.3% |
| 10.06 BP Cap Mkts Plc | 1 | $ 1,005,034 | 0.3% |
| 10.07 Sydney Arpt Fin | 1 | $ 1,002,121 | 0.3% |
| 10.08 Equinor Asa | 1 | $ 1,000,984 | 0.3% |
| 10.09 Barclays Bk Plc | 1 | $ 1,000,038 | 0.3% |
| 10.10 Air Liquide Fin | 1 | $ 1,000,000 | 0.3% |

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

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

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

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

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

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

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

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

Assets held in equity interests:

| | | | |
|---|---|---|---|
| 13.02 Berkshire Hathaway CL B Inc | $ | 877,688 | 0.3% |
| 13.03 UnitedHealth Group Incorporated | $ | 752,589 | 0.2% |
| 13.04 JPMorgan Chase & Co | $ | 685,848 | 0.2% |
| 13.05 Dollar General Corporation | $ | 644,197 | 0.2% |
| 13.06 Masco Corporation | $ | 601,555 | 0.2% |
| 13.07 Honeywell International Inc | $ | 595,605 | 0.2% |
| 13.08 Quest Diagnostics Inc | $ | 538,756 | 0.2% |
| 13.09 Chubb Limited | $ | 484,103 | 0.1% |
| 13.10 Omnicom Group Inc | $ | 478,423 | 0.1% |
| 13.11 Accenture CL A PLC | $ | 477,994 | 0.1% |

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

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

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

Largest 3 investments held in nonaffiliated, privately placed equities:

| | | |
|---|---|---|
| 14.03 | $ | % |
| 14.04 | $ | % |
| 14.05 | $ | % |

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

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

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

Largest 3 investments held in general partnership interests:

| | | | |
|---|---|---|---|
| 15.03 | | $ | % |
| 15.04 | | $ | % |
| 15.05 | | $ | % |

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

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

Total admitted assets held in Mortgage Loans:

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

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

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

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

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

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

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

Assets held in the 5 Largest Real Estate Holdings:

| | | | |
|---|---|---|---|
| 18.02 | | $ | % |
| 18.03 | | $ | % |
| 18.04 | | $ | % |
| 18.05 | | $ | % |
| 18.06 | | $ | % |

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

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

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

Largest three investments held in mezzanine real estate loans:

| | | | |
|---|---|---|---|
| 19.03 | | $ | % |
| 19.04 | | $ | % |
| 19.05 | | $ | % |

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

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

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

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

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

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

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

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

| | Gross Investment Holdings | | Admitted Assets as Reported In the Annual Statement* | |
|---|---|---|---|---|
| | Amount | Percentage | Amount | Percentage |
| 1. Long-Term Bonds (Schedule D, Part 1): | | | | |
| 1.01 U.S. Governments | $ 28,741 | 0.0% | $ 28,741 | 0.0% |
| 1.02 All Other Governments | $ | % | $ | % |
| 1.03 U.S. States, Territories and Possessions, etc. Guaranteed | $ 3,353,047 | 1.0% | $ 3,353,047 | 1.0% |
| 1.04 U.S. Political Subdivisions of States, Territories and Possessions, Guaranteed | $ 18,817,398 | 5.5% | $ 18,817,398 | 5.5% |
| 1.05 U.S. Special Revenue and Special Assessment Obligations, etc. Non-Guaranteed | $ 83,830,700 | 24.7% | $ 83,830,700 | 24.7% |
| 1.06 Industrial and Miscellaneous | $ 208,198,564 | 61.2% | $ 208,198,564 | 61.2% |
| 1.07 Hybrid Securities | $ 744,977 | 0.2% | $ 744,977 | 0.2% |
| 1.08 Parent, Subsidiaries and Affiliates | $ | % | $ | % |
| 1.09 SVO Identified Funds | $ | % | $ | % |
| 1.10 Bank Loans | $ | % | $ | % |
| 1.11 Total Long-Term Bonds | $ 314,973,427 | 92.6% | $ 314,973,427 | 92.6% |
| 2. Preferred Stocks (Schedule D, Part 2, Section 1): | | | | |
| 2.01 Industrial and Miscellaneous (Unaffiliated) | $ | % | $ | % |
| 2.02 Parent, Subsidiaries and Affiliates | $ | % | $ | % |
| 2.03 Total Preferred Stocks | $ | % | $ | % |
| 3. Common Stocks (Schedule D, Part 2, Section 2): | | | | |
| 3.01 Industrial and Miscellaneous Publicly Traded (Unaffiliated) | $ 13,128,308 | 3.9% | $ 13,128,308 | 3.9% |
| 3.02 Industrial and Miscellaneous Other (Unaffiliated) | $ | % | $ | % |
| 3.03 Parent, Subsidiaries and Affiliates Publicly Traded | $ | % | $ | % |
| 3.04 Parent, Subsidiaries and Affiliates Other | $ (23,757) | 0.0% | $ (23,757) | 0.0% |
| 3.05 Mutual Funds | $ | % | $ | % |
| 3.06 Unit Investment Trusts | $ | % | $ | % |
| 3.07 Closed-end Funds | $ | % | $ | % |
| 3.08 Total Common Stocks | $ 13,104,551 | 3.9% | $ 13,104,551 | 3.9% |
| 4. Mortgage Loans (Schedule B): | | | | |
| 4.01 Farm Mortgages | $ | % | $ | % |
| 4.02 Residential Mortgages | $ | % | $ | % |
| 4.03 Commercial Mortgages | $ | % | $ | % |
| 4.04 Mezzanine Real Estate Loans | $ | % | $ | % |
| 4.05 Total Mortgage Loans | $ | % | $ | % |

| | Gross Investment Holdings | | Admitted Assets as Reported In the Annual Statement* | |
|---|---|---|---|---|
| | Amount | Percentage | Amount | Percentage |
| 5. Real Estate (Schedule A): | | | | |
| 5.01 Properties Occupied by Company | $ 706,361 | 0.2% | $ 706,361 | 0.2% |
| 5.02 Properties Held for Production of Income | $ | % | $ | % |
| 5.03 Properties Held for Sale | $ | % | $ | % |
| 5.04 Total Real Estate | $ 706,361 | 0.2% | $ 706,361 | 0.2% |
| 6. Cash, Cash Equivalents and Short-Term Investments: | | | | |
| 6.01 Cash (Schedule E, Part 1) | $ (253,444) | (0.1%) | $ (253,444) | (0.1%) |
| 6.02 Cash Equivalents (Schedule E, Part 2) | $ 6,722,026 | 2.0% | $ 6,722,026 | 2.0% |
| 6.03 Short-Term Investments (Schedule DA) | $ | % | $ | % |
| 6.04 Total Cash, Cash Equivalents and Short-Term Investments | $ 6,468,582 | 1.9% | $ 6,468,582 | 1.9% |
| 7. Contract Loans | $ 3,123,898 | 0.9% | $ 3,123,898 | 0.9% |
| 8. Derivatives (Schedule DB) | $ | % | $ | % |
| 9. Other Invested Assets (Schedule BA) | $ 1,600,397 | 0.5% | $ 1,600,397 | 0.5% |
| 10. Receivables for Securities | $ 54,760 | 0.0% | $ 54,760 | 0.0% |
| 11. Securities Lending (Schedule DL, Part 1) | $ | % | $ | % |
| 12. Other Invested Assets | $ | % | $ | % |
| 13. Total Invested Assets | $ 340,031,976 | 100.0% | $ 340,031,976 | 100.0% |

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