ALPS Property & Casualty Insurance Company

Statutory Financial Statements
and Supplementary Schedules
(With Independent Auditor's Report Thereon)
December 31, 2019 and 2018

Contents

RSM US LLP

Independent Auditor's Report

Board of Directors
ALPS Property & Casualty Insurance Company

Report on the Financial Statements

We have audited the accompanying statutory financial statements of ALPS Property & Casualty Insurance Company, which comprise the statutory statements of admitted assets, liabilities, and capital and surplus as of December 31, 2019 and 2018, the related statutory statements of operations, changes in capital and surplus, and cash flows for the years then ended; and the related notes to the statutory financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these statutory financial statements in accordance with the accounting practices prescribed or permitted by the Montana Commissioner of Securities and Insurance; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of statutory 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 statutory financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statutory financial statements are free from material misstatement.

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

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

Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America

As described in Note 2 to the statutory financial statements, ALPS Property & Casualty Insurance Company prepared these financial statements using accounting practices prescribed or permitted by the Montana Commissioner of Securities and Insurance, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these statutory accounting practices and accounting principles generally accepted in the United States of America are material and are described in Note 2.

Adverse Opinion on Accounting Principles Generally Accepted in the United States of America

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America 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 ALPS Property & Casualty Insurance Company as of December 31, 2019 and 2018, or the results of its operations or its cash flows for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the statutory financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, capital and surplus of ALPS Property & Casualty Insurance Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended on the basis of accounting described in Note 2.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic statutory financial statements taken as a whole. The accompanying summary investment schedule as of December 31, 2019, and investment risks and reinsurance interrogatories as of December 31, 2019, and for the year then ended (supplementary information) are presented for purposes of additional analysis and are not a required part of the basic statutory financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the statutory financial statements. The effects on the supplementary information of the variances between the statutory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. As a consequence, the supplementary information does not present fairly, in conformity with accounting principles generally accepted in the United States of America, such information of ALPS Property & Casualty Insurance Company as of December 31, 2019, and for the year then ended. The supplementary 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 statutory financial statements, or to the statutory financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the statutory financial statements taken as a whole.

RSM US LLP

Omaha, Nebraska
May 7, 2020

ALPS Property & Casualty Insurance Company

Statutory Statements of Admitted Assets, Liabilities, and Capital and Surplus
December 31, 2019 and 2018

	2019	2018
Admitted Assets		
Invested assets and cash:		
Bonds	$ 110,188,664	$ 101,182,831
Common stocks	7,553,920	6,625,661
Other invested assets	3,503,827	2,978,666
Cash and short-term investments	6,473,350	9,593,498
Total invested assets and cash	127,719,761	120,380,656
Other admitted assets:		
Premiums receivable	2,968,268	3,086,884
Accrued investment income	1,234,295	1,178,685
Reinsurance receivable	782,292	549,389
Deferred tax assets	1,373,394	1,584,776
Deductible receivable	42,786	19,435
Total other admitted assets	6,401,035	6,419,169
Total admitted assets	$ 134,120,796	$ 126,799,825
Liabilities and Capital and Surplus		
Liabilities:		
Reserve for losses and loss adjustment expense	$ 63,880,707	$ 58,855,568
Unearned premiums	16,592,844	15,684,573
Ceded reinsurance premium payable	4,402,162	3,789,892
Funds held under reinsurance treaties	1,938,770	1,496,958
Advanced premiums	2,873,418	2,150,314
Accrued taxes and licenses payable	324,444	238,379
Other expenses payable	153,364	319,776
Remittances and items not allocated	249,424	397,286
Due to broker	-	1,524,895
Due to parent, subsidiaries and affiliates	594,572	689,132
Amounts withheld or retained by Company for the account of others	12,005	11,425
Total liabilities	91,021,710	85,158,198
Capital and surplus:		
Certificates of contribution	57,131	124,261
Common stock, $1 par; 5,000,000 shares authorized, issued and outstanding	5,000,000	5,000,000
Paid-in and contributed surplus	5,500,652	5,500,652
Surplus notes	2,929,414	4,608,828
Unassigned surplus	29,611,889	26,407,886
Total capital and surplus	43,099,086	41,641,627
Total liabilities and capital and surplus	$ 134,120,796	$ 126,799,825

See notes to statutory financial statements.

ALPS Property & Casualty Insurance Company

Statutory Statements of Operations
Years Ended December 31, 2019 and 2018

	2019	2018
Underwriting income:		
Gross premiums written	$ 51,087,880	$ 48,852,801
Reinsurance ceded	(16,411,603)	(16,076,081)
Net premiums written	34,676,277	32,776,720
Change in unearned premiums	(908,270)	(455,513)
Net premiums earned	33,768,007	32,321,207
Underwriting expenses:		
Losses incurred	8,010,526	6,116,544
Loss adjustment expenses incurred	13,667,645	14,274,839
Other underwriting expenses, net of reinsurance ceding commission of $267,166 and $227,650, respectively	12,043,511	10,818,818
Total losses and underwriting expenses	33,721,682	31,210,201
Underwriting income	46,325	1,111,006
Realized loss on investments, net of income tax benefit of $51,755 and $180,393, respectively	(194,700)	(678,622)
Investment income, net of investment expense of $628,938 and $938,131, respectively	4,192,392	3,576,514
Other income	194,822	198,818
Income before provision for federal income taxes	4,238,839	4,207,716
Provision for federal income taxes	(1,017,586)	(141,276)
Net income	$ 3,221,253	$ 4,066,440

See notes to statutory financial statements.

ALPS Property & Casualty Insurance Company

Statutory Statements of Changes in Capital and Surplus
Years Ended December 31, 2019 and 2018

	Common Stock		Paid-In and Contributed Surplus	Certificates of Contribution	Surplus Notes	Unassigned Surplus	Total
	Shares	Amount					
Balance, December 31, 2017	5,000,000	$ 5,000,000	$ 700,652	$ 185,009	$ 10,166,787	$ 24,654,838	$ 40,707,286
Net change in unrealized gains	-	-	-	-	-	(506,987)	(506,987)
Surplus refunds	-	-	-	(60,748)	-	-	(60,748)
Paid-in surplus	-	-	4,800,000	-	-	-	4,800,000
Repayment of surplus notes	-	-	-	-	(5,557,959)	-	(5,557,959)
Net change in nonadmitted assets	-	-	-	-	-	30,326	30,326
Net change in deferred taxes	-	-	-	-	-	(836,731)	(836,731)
Dividends to stockholders	-	-	-	-	-	(1,000,000)	(1,000,000)
Net income	-	-	-	-	-	4,066,440	4,066,440
Balance, December 31, 2018	5,000,000	5,000,000	5,500,652	124,261	4,608,828	26,407,886	41,641,627
Net change in unrealized gains	-	-	-	-	-	1,332,161	1,332,161
Surplus refunds	-	-	-	(67,130)	-	-	(67,130)
Repayment of surplus notes	-	-	-	-	(1,679,414)	-	(1,679,414)
Net change in nonadmitted assets	-	-	-	-	-	68,589	68,589
Net change in deferred taxes	-	-	-	-	-	182,000	182,000
Dividends to stockholders	-	-	-	-	-	(1,600,000)	(1,600,000)
Net income	-	-	-	-	-	3,221,253	3,221,253
Balance, December 31, 2019	**5,000,000**	**$ 5,000,000**	**$ 5,500,652**	**$ 57,131**	**$ 2,929,414**	**$ 29,611,889**	**$ 43,099,086**

See notes to statutory financial statements.

ALPS Property & Casualty Insurance Company

Statutory Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Premiums collected, net of reinsurance	**$ 36,130,268**	$ 32,634,980
Benefits and loss-related payments	**(7,372,696)**	(9,623,877)
Commissions and expenses paid	**(21,552,779)**	(19,288,597)
Investment income, net	**4,515,643**	4,006,026
Miscellaneous income	**194,822**	198,818
Federal income taxes recovered (paid)	**(965,831)**	39,117
Net cash flows from operating activities	**10,949,427**	7,966,467
Cash flows from investing activities:		
Proceeds from sales, maturities and repayments of bonds	**12,807,882**	24,720,345
Proceeds from sale of stocks	**3,810,325**	7,951,029
Net losses on cash, cash equivalents and short-term investments	**-**	(299)
Purchase of bonds	**(23,727,445)**	(25,742,992)
Purchase of stocks	**(3,813,946)**	(7,965,458)
Net cash flows from investing activities	**(10,923,184)**	(1,037,375)
Cash flows from financing activities:		
Surplus notes, capital and surplus repaid	**(1,679,414)**	(5,557,959)
Paid-in surplus	**-**	4,800,000
Dividends to stockholders	**(1,600,000)**	(1,000,000)
Miscellaneous proceeds (applications)	**133,023**	(9,594,165)
Net cash flows from financing activities	**(3,146,391)**	(11,352,124)
Net change in cash and short-term investments	**(3,120,148)**	(4,423,032)
Cash and short-term investments at beginning of year	**9,593,498**	14,016,530
Cash and short-term investments at end of year	**$ 6,473,350**	$ 9,593,498
Supplemental disclosures of noncash transactions:		
Change in payables for securities	**$ 1,524,895**	$ 1,525,905

See notes to statutory financial statements.

Note 1. Organization

ALPS Property & Casualty Insurance Company (the Company) is a wholly-owned subsidiary of ALPS Corporation, a stock corporation and parent holding company organized under Montana law. In addition to owning 100% of the outstanding shares of the Company, ALPS Corporation also owns 100% of the outstanding shares of ALPS Insurance Agency, Inc. (AIA), a Montana corporation that provides insurance underwriting, claims adjusting, insurance producer and other insurance-related services. ALPS Corporation formerly owned 100% of The Florence Missoula, LLC, a Montana limited liability company that owned and managed the Historic Florence Building, located in Missoula, Montana. During 2018, ALPS Corporation sold the Historic Florence Building and leased back office space. During 2019, ALPS Corporation dissolved and wound down The Florence Missoula, LLC.

The Company has entered into the following agreements with its affiliated entities: (i) Administrative Services and Cost Sharing Agreement, (ii) Insurance Services Agreement, (iii) Tax Allocation Agreement and (iv) Facilities Use Agreement.

Under the Administrative Services and Cost Sharing Agreement, ALPS Corporation provides the Company with the following services: corporate officers, corporate services, financial and accounting, legal and regulatory, reinsurance, human resources, actuarial, policy form development and filing, information technology, investment services, production, mailroom, strategic planning, executive management, and travel and transportation services. In addition, ALPS Corporation also provides equipment as the Company may request and determine to be reasonably necessary in the conduct of its insurance operations.

Under the Insurance Services Agreement, AIA provides the Company with underwriting, claims, sales, marketing and insurance producer services.

The Company is a party to a written Tax Allocation Agreement approved by the Company's Board of Directors, which sets forth the manner in which the total consolidated federal income tax for all entities is allocated to each entity that is a party to the consolidation. The written agreement provides that the consolidated tax liability shall be allocated pursuant to Reg. § 1.1502-33(d)(3) and 1.552-1(a)(1) to each member of the consolidated group, on a separate return basis, in accordance with a fraction, the numerator of which is the taxable income of each respective group member and the denominator of which is the aggregate taxable income of all members of the consolidated group. The estimated allocated tax liability of each group member is settled on a quarterly basis, with any final adjustments made within 90 days after the filing of the group's consolidated income tax return.

Under the Facilities Use Agreement, The Florence Missoula, LLC leased office space to the Company until October 14, 2018, at which time the Facilities Use Agreement was terminated due to a sale of the commercial office building within which the Company office space was located. Commencing October 15, 2018, ALPS Corporation began to provide newly constructed office space to the Company under a new Facilities Use Agreement entered into between the Company and ALPS Corporation.

The Company is a Montana corporation, admitted in and regulated by the state of Montana as a casualty insurance company. The Company issues policies of professional liability insurance, employment practices liability insurance and cyber risk liability insurance to attorneys and law firms. From the date it commenced business on March 1, 1988, until 2013, the Company was structured and operated exclusively as a risk retention group pursuant to the provisions of the federal Liability Risk Retention Act (LRRA).

Note 1. Organization (Continued)

As of December 31, 2019, the Company operates exclusively as a fully licensed and admitted insurance company in 46 states, the District of Columbia, and the U.S. Virgin Islands.

Note 2. Summary of Significant Accounting Policies

Basis of accounting: The Company prepares its statutory financial statements in conformity with accounting practices prescribed or permitted by the Montana Commissioner of Securities and Insurance, which requires insurance companies domiciled in the state of Montana to prepare their statutory financial statements in accordance with the National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures Manual*, subject to any deviations prescribed or permitted by the Montana Commissioner of Securities and Insurance. The Company does not employ any permitted practices in the preparation of its statutory financial statements.

These statutory accounting practices (SAP) comprise a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) and differ in some respects. The more significant of these differences are as follows:

- Certain assets designated as "nonadmitted" are excluded from the statutory statements of admitted assets, liabilities, and capital and surplus. The change in nonadmitted assets is credited directly to or charged directly against unassigned surplus. Under GAAP, these nonadmitted assets are included in the balance sheets, subject to realizability.

- Investments in bonds with an NAIC rating of 1 or 2 are carried at amortized cost, whereas bonds with an NAIC rating of 3 through 6 are written down to fair value (if less than amortized cost) by charging statutory surplus. Under GAAP, bonds are classified as held-to-maturity, available-for-sale or trading. Bonds classified as held-to-maturity are carried at amortized cost; bonds classified as available-for-sale are stated at fair value, with the resulting unrealized gains and losses, net of applicable income taxes, credited or charged to surplus; and bonds held for trading purposes are carried at fair value, with the resulting unrealized gains and losses reported in earnings.

  The fair value of investments on a statutory basis is determined by the Securities Valuation Office (SVO), whereas for GAAP, the fair value of investments is determined based on the exit price.

  For loan-backed and structured securities, if the Company determines that it intends to sell a security or no longer has the ability and intent to retain the investment for a period of time sufficient to recover the amortized cost, that security shall be written down to fair value. For statutory purposes, if the Company subsequently changes its assertion, and does not intend to sell the security and has the ability and intent to retain the investment for a period of time sufficient to recover the amortized cost, the Company will continue to carry that security at the lower of cost or market, with any future decreases in fair value charged through operations until the security is disposed. For GAAP purposes, once the Company alters its assertion, that security's amortized cost basis will not be decreased for future reductions in fair value unless a subsequent other-than-temporary impairment is determined to have occurred.

  Also, for GAAP purposes, other-than-temporary impairment losses related to non–loan-backed and structured securities are bifurcated between credit and noncredit, whereas for statutory purposes, the total other-than-temporary impairment loss is reported in earnings.

Note 2. Summary of Significant Accounting Policies (Continued)

- Cash and short-term investments in the statutory statements of cash flows represent cash balances and investments with initial maturities of one year or less. Under GAAP, the corresponding caption of cash and cash equivalents includes cash balances and investments with maturities of three months or less at the time of purchase. Further, GAAP requires the presentation of a reconciliation of net income to cash flows from operating activities.

- Commissions and other costs of acquiring and renewing business are expensed when incurred. Under GAAP, such costs, to the extent recoverable, are deferred and amortized to income as premiums are earned. Commissions allowed by reinsurers on business ceded are reported as income when received rather than being deferred and amortized with deferred policy acquisition costs, as required under GAAP.

- Reserves for losses and loss adjustment expenses (LAE) ceded to reinsurers have been reported as reductions of the related reserves rather than as assets, as would be required by GAAP.

- Deferred federal income taxes are provided for the tax effects of certain income and expense items recognized for income tax purposes in different years than for financial reporting purposes. The change in the deferred tax asset or liability is reflected in surplus. GAAP requires the change to be reported in income. Admittance testing may result in a charge to capital and surplus for nonadmitted portions of the deferred tax asset. State taxes are not considered for statutory purposes in calculating a deferred tax asset or liability; however, they are considered for GAAP purposes.

  Both statutory and GAAP guidance require a valuation allowance be established where the deferred tax asset is reduced to its realizable value if, based on the weight of available evidence, it is more likely than not that some portion or all of a gross deferred tax asset will not be realized. Changes in valuation allowance are reported in a manner similar to which changes in deferred tax assets and liabilities are reported, as noted above.

- Surplus notes are included in surplus for statutory purposes, but are considered liabilities for GAAP. Interest expense is not recognized for statutory purposes until it is approved by the state of domicile, whereas for GAAP, the interest is accrued monthly.

- Receivables over 90 days outstanding are not admitted in the statutory financial statements and are charged to surplus, whereas for GAAP, the Company assesses the collectibility of premiums receivable, and any charge is reflected in the statements of income.

- Comprehensive income is not reflected in accordance with the requirements of GAAP. Instead, changes in unrealized gains and losses on bond or fixed-income investments are charged directly to unassigned surplus.

- Common stocks are recorded at fair value with changes in values reflected in surplus as charges or credits to unrealized gains (losses), whereas under GAAP, changes in values are recorded in the statements of income.

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

Note 2. Summary of Significant Accounting Policies (Continued)

A reconciliation of net income and capital and surplus amounts presented in conformity with GAAP and amounts presented herein is as follows as of and for the years ended December 31:

	Net Income		Capital and Surplus	
	2019	2018	2019	2018
Amounts stated in conformity with GAAP	$ 4,939,327	$ 3,227,395	$ 46,855,090	$ 40,744,340
Other investment adjustments	(1,672,494)	-	(6,035,152)	(2,455,832)
Deferred policy acquisition costs	(189,770)	(15,424)	(1,883,292)	(1,693,521)
Nonadmitted assets	-	-	(158,748)	(227,337)
Deferred income taxes	149,991	864,261	1,384,758	652,332
Surplus note interest	(5,801)	(9,792)	7,016	12,817
Surplus notes	-	-	2,929,414	4,608,828
Amounts stated in conformity with SAP	$ 3,221,253	$ 4,066,440	$ 43,099,086	$ 41,641,627

Risk and uncertainties: Certain risks and uncertainties are inherent in the Company’s day-to-day operations and in the process of preparing its statutory financial statements. The more significant of those risks and uncertainties, as well as the Company’s method for mitigating the risks, are presented below and throughout the notes to the statutory financial statements.

Estimates: The preparation of the statutory financial statements in conformity with SAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. For example, significant estimates and assumptions are utilized in the valuation of investments, valuation of allowances for deferred income tax assets and doubtful accounts, and calculation of loss and LAE. It is reasonably possible that actual experience could differ from the estimates and assumptions utilized, which could have a material impact on the statutory financial statements.

Reinsurance: Reinsurance contracts do not relieve the Company from its obligations to insureds. Failure of reinsurers to honor their obligation could result in losses to the Company; consequently, allowances are established for amounts deemed uncollectible. The Company evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. Management believes that any liability arising from this contingency would not be material to the Company’s financial position.

Investment risks: The Company is exposed to risks that issuers of securities owned by the Company will default or that interest rates will change and cause a decrease in the value of its investments. With mortgage-backed securities, the Company is also exposed to prepayment risk, default risks on the underlying mortgages and devaluation of the underlying collateral. If interest rates decline, the velocity at which these securities pay down the principal will increase. Management mitigates these risks by conservatively investing in high-grade securities and by matching maturities of its investments with the anticipated payouts of its liabilities.

Note 2. Summary of Significant Accounting Policies (Continued)

Loss reserves: The Company estimates losses and LAE based on the accumulation of case estimates for direct claims and incidents reported, net of applicable policy deductibles and deduction of amounts for reinsurance ceded on reported claims and incidents. The liability for LAE is provided by estimating future expenses to be incurred in settlement of the claims provided for in the reserves for losses, net of reinsurance ceded. Actual results could differ from these estimates.

External factors: The Company is regulated by the state of Montana, as well as states in which it does business. Such regulations, among other things, limit the amount of dividends and impose restrictions on the amount and type of investments. The Company may also be required to seek state approval for rates for policies written in each respective state. Certain states may impose requirements on the coverage provided and restrictions on the amount of rate increases the Company seeks on policies written in that state.

Risk-based capital: The NAIC has developed risk-based capital (RBC) standards for property and casualty insurers that relate an insurer's reported statutory surplus to the risks inherent in its overall operations. The RBC formula uses the statutory annual statement to calculate the minimum indicated capital level to protect the Company from various risks that it faces. The NAIC model law calls for various levels of regulatory action based on the magnitude of an indicated RBC deficiency, if any. The Company continues to monitor internal capital levels to ensure that they are in excess of the minimum capital requirements for all RBC action levels. Management believes that the Company's capital levels are sufficient to support the level of risk inherent in its operations.

Concentrations of credit risk: The credit quality of the bond and short-term investment portfolio at December 31, 2019 and 2018, is presented in the following table:

		2019		2018	
		Statement Amount	Percentage	Statement Amount	Percentage
NAIC—1	Highest quality	$ 104,157,904	95%	$ 96,849,943	94%
NAIC—2	High quality	6,030,615	5%	6,217,159	6%
NAIC—3	Medium quality	-	0%	96,145	0%
NAIC—4	Low quality	-	0%	-	0%
NAIC—5	Lower quality	-	0%	-	0%
NAIC—6	In or near default	145	0%	14,100	0%
		$ 110,188,664	100%	$ 103,177,347	100%

Bonds with ratings from AAA to BBB, as assigned by Standard & Poor's Corporation, are generally considered investment-grade securities. Some securities issued by the United States government or an agency thereof are not rated but are considered to be investment-grade. The NAIC regards United States Treasuries and agencies and all A ratings as Class 1 (highest quality), BBB ratings as Class 2 (high quality), BB ratings as Class 3 (medium quality), B ratings as Class 4 (low quality), C ratings as Class 5 (lower quality), and D ratings as Class 6 (in or near default).

Note 2. Summary of Significant Accounting Policies (Continued)

Revenue recognition: Premiums are recognized as revenue on a daily pro rata basis over the policy period. Unearned premiums are established to cover the unexpired portion of policies written and are computed on a pro rata basis. Advanced premiums are deferred until the effective date of the policy, at which time they are recognized as revenue on a pro rata basis over the term of the policy. The cost of reinsurance ceded is recognized ratably over the term of the underlying direct policies.

Losses and loss adjustment expenses: Unpaid losses and LAE include an amount determined from individual case estimates and loss reports and an amount, based on past experience, for losses incurred but not reported. Such liabilities are necessarily based on assumptions and estimates and, while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected in the period determined.

The Company has recorded a reserve credit against unpaid losses and LAE for unsecured high deductibles in the amount of $2,054,651 and 1,894,839 for the years ended December 31, 2019 and 2018, respectively.

Cash and short-term investments: The Company considers all highly liquid investments with a maturity of one year or less at the date of acquisition and all nonnegotiable certificates of deposit to be part of cash and short-term investments. From time to time, certain bank accounts that are subject to limited Federal Deposit Insurance Corporation (FDIC) coverage exceed their insured limits, sometimes by substantial amounts. The Company periodically reviews the risk this poses and has determined it to be minimal. The Company has not experienced any losses in such accounts as a result of this concentration and believes it is not exposed to any significant credit risk on cash balances.

Investments: Investments, excluding residential and commercial mortgage-backed securities not guaranteed by federal or federally sponsored agencies, are stated at carrying values prescribed by the NAIC's SVO. Accordingly, non–loan-backed bonds rated 1 and 2 by the NAIC are stated at amortized cost using the scientific-interest method, with bonds containing call provisions being amortized to the call or maturity date, whichever results in a lower asset value.

Loan-backed bonds rated 1 and 2 by the NAIC are stated at amortized cost using the scientific-interest method, including anticipated prepayments.

All bonds rated 3 through 6 are carried at the lower of amortized cost or fair value with the change run through capital and surplus, net of applicable taxes.

Short-term investments are stated at amortized value using the scientific-interest method. Non-investment-grade short-term investments are stated at the lower of amortized cost or fair value.

Prepayment assumptions for single-class and multiclass mortgage-backed/asset-backed securities were obtained from broker-dealer survey values or the SVO. The retrospective adjustment method is used to value all loan-backed securities.

Common stocks and mutual funds are stated at fair value, with unrealized gains and losses being reported in unassigned surplus, net of applicable taxes.

Investments in joint ventures, partnerships and limited liability companies are stated at the underlying audited GAAP equity value, with unrealized gains and losses being reported in unassigned surplus, net of applicable taxes.

Note 2. Summary of Significant Accounting Policies (Continued)

The assessment of other-than-temporary impairments is performed on a case-by-case basis. Factors considered by management in determining whether an other-than-temporary impairment exists (in other than loan-backed or structured investment securities) include the financial condition, business prospects and creditworthiness of the issuer, the length of time and extent to which fair value has been less than cost for equity securities or amortized cost for fixed-income securities, and the Company's intent and ability to retain such investments until the fair value recovers. If it is determined that the decline in fair market value is other than temporary, the carrying amount of the investment is written down to fair value as its new basis, and the amount of the write-down is recorded as a realized loss.

For loan-backed or structured securities, factors considered by management in determining whether an other-than-temporary impairment exists include the Company's stated intent to not sell, the Company's ability to hold such investments until the fair value recovers, and the discounted cash flows of the security based on the yield at the date of acquisition. If the Company intends to sell or if the Company does not have the ability and intent to hold the security for a period of time sufficient to recover its amortized cost basis, an other-than-temporary impairment exists, and the security is written down to fair value with the amount of the write-down recorded as a realized loss. If the Company does not intend to sell the security and has the ability and intent to hold the security for a period of time sufficient to recover the amortized cost basis, the Company calculates the cash flows expected to be collected. In this calculation, the Company compares the present value of cash flows expected to be collected, discounted at the security's effective interest rate at the date of purchase, to the amortized cost basis. If the present value of cash flows is less than the amortized cost basis, a realized loss is recorded for the difference. The present value of cash flows then becomes the new cost basis.

The Company may, from time to time, sell invested assets subsequent to the statutory statement of admitted assets, liabilities, and capital and surplus date that were considered temporarily impaired at the statutory statement of admitted assets, liabilities, and capital and surplus date for several reasons. For all subsequent sales of invested assets that were considered temporarily impaired at the statutory statement of admitted assets, liabilities, and capital and surplus date, the Company contemporaneously documents its rationale for its change in intent or ability to hold to recovery. The rationale for the change in the Company's ability and intent generally focuses on changes in the economic facts and circumstances related to the invested asset subsequent to the statutory statement of admitted assets, liabilities, and capital and surplus date, significant unforeseen changes in the Company's liquidity needs, or changes in tax laws or the regulatory environment.

Accrued investment income: Investment income is accrued when earned. The Company does not admit investment income due and accrued over 90 days past due.

Income taxes: Current income taxes incurred are recognized in the statutory statements of operations based on tax returns for the current year and tax contingencies for the current and all prior years, to the extent not previously provided.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the statutory financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Gross deferred tax assets and liabilities are measured using enacted tax rates and are considered for admitted asset status according to the admissibility tests as set forth by the NAIC. Changes in deferred tax assets and deferred tax liabilities, including changes attributable to changes in tax rates, are recognized as a component of policyholders' surplus.

Note 2. Summary of Significant Accounting Policies (Continued)

Gross deferred income tax assets are reduced by a valuation allowance if the Company determines it is more likely than not that some portion or all of the gross deferred tax assets will not be realized. Adjusted deferred income tax assets are limited to (1) the amount of federal income taxes paid in prior years that can be recovered through loss carrybacks for existing temporary differences that reverse during a time frame corresponding with IRS tax loss carryback provisions, not to exceed three years, plus (2) the lesser of the remaining gross deferred income tax assets expected to be realized within three years of the statutory statement of admitted assets, liabilities, and capital and surplus date or 15% of capital and surplus (subject to certain limitations), excluding any net deferred income tax assets, electronic data processing equipment and operating software, and any net positive goodwill, plus (3) the amount of remaining gross deferred income tax assets that can be offset against existing deferred income tax liabilities. The remaining deferred income tax assets in excess of the above are nonadmitted. Deferred income taxes do not include amounts for state taxes.

Note 3. Investments

At December 31, 2019 and 2018, the amortized cost and the estimated fair value of the Company's investment securities are as follows:

	December 31, 2019			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Bonds:				
U.S. government agencies	$ 224,311	$ 1,990	$ -	$ 226,301
State, municipal and other governments	75,489,174	4,621,702	52,822	80,058,054
Corporate securities	15,753,754	673,856	32,233	16,395,377
Commercial mortgage-backed securities	8,693,516	550,219	1,222	9,242,513
Residential mortgage-backed securities	6,461,069	278,598	4,003	6,735,664
Other asset-backed securities	3,566,859	16,554	17,506	3,565,907
Total fixed maturities	110,188,683	$ 6,142,919	$ 107,786	$ 116,223,816
Adjustments for bonds carried at NAIC fair value:				
State, municipal and other governments	(19)			
	$ 110,188,664			
Equity securities	$ 6,185,249	$ 1,368,671	$ -	$ 7,553,920
Other invested assets	$ 3,000,000	$ 503,827	$ -	$ 3,503,827

Note 3. Investments (Continued)

	December 31, 2018			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Bonds:				
U.S. government agencies	$ 223,991	$ -	$ 2,999	$ 220,992
State, municipal and other governments	73,087,609	2,481,025	142,266	75,426,368
Corporate securities	10,096,886	38,853	112,109	10,023,630
Commercial mortgage-backed securities	6,809,916	60,934	20,444	6,850,406
Residential mortgage-backed securities	5,358,570	204,981	12,646	5,550,905
Other asset-backed securities	5,619,663	2,824	56,125	5,566,362
Total fixed maturities	101,196,635	$ 2,788,617	$ 346,589	$ 103,638,663
Adjustments for bonds carried at NAIC fair value:				
State, municipal and other governments	(13,804)			
	$ 101,182,831			
Equity securities	$ 6,404,323	$ 542,510	$ 321,172	$ 6,625,661
Other invested assets	$ 3,000,000	$ -	$ 21,334	$ 2,978,666

The following tables present the estimated fair value and the gross unrealized losses, aggregated by investment category and length of time that individual investment securities have been in an unrealized loss position, at December 31, 2019 and 2018:

	December 31, 2019					
	Less Than 12 Months		Greater Than or Equal to 12 Months		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Bonds:						
State, municipal and other governments	$ 4,301,277	$ 52,822	$ -	$ -	$ 4,301,277	$ 52,822
Corporate securities	1,904,367	32,233	-	-	1,904,367	32,233
Commercial mortgage-backed securities	506,217	1,222	-	-	506,217	1,222
Residential mortgage-backed securities	782,176	2,245	81,745	1,758	863,921	4,003
Other asset-backed securities	248,642	1,314	2,283,808	16,192	2,532,450	17,506
Total	$ 7,742,679	$ 89,836	$ 2,365,553	$ 17,950	$ 10,108,232	$ 107,786

Note 3. Investments (Continued)

	December 31, 2018					
	Less Than 12 Months		Greater Than or Equal to 12 Months		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Bonds:						
U.S. government agencies	$ -	$ -	$ 220,992	$ 2,999	$ 220,992	$ 2,999
State, municipal and other governments	5,877,308	79,172	5,312,287	63,094	11,189,595	142,266
Corporate securities	3,882,879	45,576	2,614,439	66,533	6,497,318	112,109
Commercial mortgage-backed securities	1,628,652	20,436	3,170	8	1,631,822	20,444
Residential mortgage-backed securities	232,930	5,000	357,549	7,646	590,479	12,646
Other asset-backed securities	3,194,443	36,011	1,654,745	20,114	4,849,188	56,125
	14,816,212	186,195	10,163,182	160,394	24,979,394	346,589
Equity securities	5,397,979	321,172	-	-	5,397,979	321,172
Other invested assets	3,000,000	21,334	-	-	3,000,000	21,334
Total	$ 23,214,191	$ 528,701	$ 10,163,182	$ 160,394	$ 33,377,373	$ 689,095

The majority of the unrealized losses on fixed-income securities are due to interest rate changes and market segments that are experiencing temporary declines. The Company periodically examines its investment portfolio to determine if any investments are other-than-temporarily impaired. The Company asserts that it has the intent and ability to hold securities in an unrealized loss position long enough to allow the cost basis of these securities to be recovered. These conclusions are supported by a detailed analysis of each security by the Company's asset managers. It is possible that the Company could recognize other-than-temporary impairments in the future on some securities if future events, information and the passage of time cause it to conclude that declines in the value are other than temporary.

The amortized cost and estimated fair value of bonds at December 31, 2019, are shown below. The bond maturities are calculated based on the scheduled repayment date, with the final installment adjusted for any discount or premium. Mortgage-backed, loan-backed and structured securities are subject to the guidance in Statement of Statutory Accounting Principles (SSAP) No. 43R, *Loan-Backed and Structured Securities*, which requires distribution based on the anticipated future prepayment cash flows used to value the security.

	Book Value	Fair Value
Due in one year or less	$ 15,459,739	$ 15,650,328
Due after one year through five years	38,479,764	40,124,044
Due after five years through 10 years	46,691,783	50,002,352
Due after 10 years through 20 years	6,251,480	6,894,714
Due after 20 years	3,305,898	3,552,378
Total	$ 110,188,664	$ 116,223,816

Note 3. Investments (Continued)

Major categories of net investment income are summarized as follows:

	Years Ended December 31	
	2019	2018
Fixed-income securities	$ 4,539,139	$ 4,268,212
Equity securities	184,083	171,821
Short-term investments	98,108	74,612
	4,821,330	4,514,645
Less investment expenses:		
Surplus note interest	222,583	556,261
Other investment expense	406,355	381,870
	628,938	938,131
Net investment income	$ 4,192,392	$ 3,576,514

Proceeds from the sales of investment securities during 2019 and 2018 were $16,595,136 and $32,671,378, respectively. The Company had 41 and 32 securities that were called in 2019 and 2018, respectively. No prepayment or acceleration fees were generated as a result of the bonds being called. Realized gains (losses) on investments recognized in the statutory statements of operations during the years presented are summarized as follows:

	Years Ended December 31	
	2019	2018
Gross realized gains:		
Fixed-income securities	$ 65,819	$ 52,487
Equity securities	-	14,555
Total	65,819	67,042
Gross realized losses:		
Fixed-income securities, including other-than-temporary impairments	(89,578)	(782,047)
Equity securities, including other-than-temporary impairments	(222,696)	(144,010)
Total	(312,274)	(926,057)
Tax on net realized capital losses	51,755	180,393
Net realized capital losses, net of tax	$ (194,700)	$ (678,622)

In 2019, certain fixed-income securities became other-than-temporarily impaired and were written down to their fair value, which resulted in realized losses of $23,070 and are included in the table above. In 2018, certain fixed-income securities became other-than-temporarily impaired and were written down to their fair value, which resulted in realized losses of $47,000 and are included in the table above.

Note 3. Investments (Continued)

The Company has placed in trust with the Montana Commissioner of Securities and Insurance investments with a carrying value of $2,974,827 and $2,934,247 at December 31, 2019 and 2018, respectively. Deposits with various other states at December 31, 2019 and 2018, had a carrying value of $2,223,446 and $2,062,070, respectively.

Note 4. Losses and Loss Adjustment Expense Reserves

The following table provides a reconciliation of the beginning and ending reserve balances for losses and LAE, net of reinsurance recoverable, for the years ended December 31, 2019 and 2018:

	2019	2018
Reserve for losses and LAE, beginning of year (net of reinsurance recoverable of $39,177,948 and $60,036,139 in 2019 and 2018, respectively)	$ 58,855,568	$ 56,566,142
Add provision (reduction) for losses and LAE, net of reinsurance, applicable to claims reported in:		
Current year	25,710,084	22,950,436
Prior years	(4,031,913)	(2,559,053)
Total incurred losses during the current year	21,678,171	20,391,383
Payments for losses and LAE, net of reinsurance, reported in:		
Current year	5,262,614	4,677,508
Prior years	11,390,418	13,424,449
Net claim payments during the year	16,653,032	18,101,957
Reserve for losses and LAE, end of year (net of reinsurance recoverable of $40,601,349 and $39,177,948 in 2019 and 2018, respectively)	$ 63,880,707	$ 58,855,568

Reserves for incurred losses and LAE attributable to claims reported to the Company in prior years have decreased by approximately $4,032,000 and $2,559,000 during 2019 and 2018, respectively. These changes are generally the result of ongoing analysis of claim files. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

The Company paid extra-contractual obligations of $92,275 and $8,596,597 in 2019 and 2018, respectively. The Company received no reinsurance recoverable payments in 2019, and reinsurance recoverable payments in the amount of $7,751,841 in 2018.

Note 5. Reinsurance

The Company utilizes reinsurance contracts to reduce its exposure to losses in all aspects of its insurance business. Such reinsurance permits recovery of a portion of losses from reinsurers, although it does not relieve the Company from its primary liability to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company evaluates the financial strength of potential reinsurers and continually monitors the financial condition of reinsurers.

Note 5. Reinsurance (Continued)

Amounts recoverable from reinsurers are estimated based upon assumptions consistent with those used in establishing the liabilities related to the underlying reinsured contracts. Management believes the recoverables are appropriately established. The Company generally strives to diversify its credit risks related to reinsurance ceded. There were no disputes with reinsurers at December 31, 2019 or 2018.

The Company holds letters of credit in the amount of approximately $5,602,000 and $7,771,000 at December 31, 2019 and 2018, respectively, to secure recoverable balances from unauthorized reinsurers.

The Company has no uncollectible reinsurance recoverables that were written off during the year.

The Company has unsecured aggregate recoverables for losses, paid and unpaid, LAE, and unearned premium with the following individual reinsurers, authorized or unauthorized, exceeding 3% of policyholders' surplus at December 31:

	AM Best Rating	2019	2018
Aspen Insurance	A	$ 1,594,000	$ 1,616,000
AXIS Reinsurance Co.	A+	9,616,000	8,055,000
China Re	A	1,407,000	837,000
Endurance Reinsurance	A+	2,181,000	2,067,000
Everest Reinsurance Co.	A+	1,205,000	1,701,000
JRG Reinsurance Co.	A	2,466,000	3,780,000
Lawyer's Reinsurance Co.	NR	1,601,000	1,781,000
Lloyd's Syndicate Number 2623	A	1,633,000	1,678,000
Lloyd's Syndicate Number 4472	A	2,332,000	2,006,000
Munich Reinsurance America, Inc.	A+	1,586,000	1,057,000
Navigators Ins. Co.	A+	1,837,000	2,021,000
Peak Re	A-	1,360,000	807,000
Safety National Casualty Corporation	A+	1,451,000	799,000
SCOR Reinsurance Co.	A+	1,937,000	874,000
Transatlantic Reinsurance Co.	A+	6,607,000	8,970,000
		$ 38,813,000	$ 38,049,000

Note 5. Reinsurance (Continued)

A summary of the impact of ceded reinsurance on written, earned and unearned premiums, and losses and LAE incurred for the years ended December 31, 2019 and 2018, is as follows:

	2019	2018
Premiums written:		
Direct	$ 51,087,880	$ 48,852,801
Ceded	(16,411,603)	(16,076,081)
Net premiums written	$ 34,676,277	$ 32,776,720
Premiums earned:		
Direct	$ 50,028,367	$ 48,195,730
Ceded	(16,260,360)	(15,874,523)
Net premiums earned	$ 33,768,007	$ 32,321,207
Unearned premiums:		
Direct	$ 23,742,215	$ 22,682,701
Ceded	(7,149,371)	(6,998,128)
Net unearned premiums	$ 16,592,844	$ 15,684,573
Losses and LAE incurred:		
Direct	$ 29,376,750	$ 32,046,693
Ceded	(7,698,579)	(11,655,310)
Net losses and LAE incurred	$ 21,678,171	$ 20,391,383

Note 6. Equity

The Company was originally organized as a mutual insurer and obtained its operating surplus through surplus contributions from its insured policyholders. The original surplus contributions were evidenced by Certificates of Surplus Contribution (Certificates). Effective January 1, 2001, the Company demutualized and converted to a stock insurer. Under the Plan of Demutualization approved by the Company's Board of Directors and the Montana Commissioner of Securities and Insurance, each holder of a Certificate elected to either (1) convert the Certificate to shares of Class A common stock; (2) donate the Certificate to a bar foundation designated by the holder; or (3) receive annual cash payments until the amount of the Certificate was repaid, without interest, with payments made only in years following a year in which the Company had positive net income. An exception to this, where payments may be made in years following a year in which the Company had a net loss, is in the event of death of the Certificate holder or the Certificate holder's retirement from the practice of law. The amount of surplus contributions returned as cash refunds during 2019 and 2018 was $67,130 and $60,748, respectively.

Dividends on common stock are declared by the Company's Board of Directors. Under the insurance regulations of the state of Montana, dividends are classified into two types: ordinary and extraordinary. Ordinary dividends require 15-day advance notice to the Montana Commissioner of Securities and Insurance prior to payment. Extraordinary dividends, those that in total exceed 10% of the current year-end policyholders' surplus, require approval from the Montana Commissioner of Securities and Insurance 30 days prior to payment. For the year ended December 31, 2019, dividends in excess of $4,309,909 would be considered extraordinary.

Note 6. Equity (Continued)

Ordinary dividends in the amount of $1,600,000 were declared and paid by the Company during the year ended December 31, 2019. Ordinary dividends in the amount of $1,000,000 were declared and paid by the Company during the year ended December 31, 2018.

A summary of changes in unassigned surplus represented by unrealized gains and losses is as follows:

	Cumulative Increase (Decrease) in Surplus	Current-Year Increase (Decrease) in Surplus
Unrealized gains (losses)—bonds	$ (19)	$ 13,785
Unrealized gains—stock	1,368,671	1,147,334
Unrealized gains—other invested assets	503,827	525,161
Total increase	$ 1,872,479	$ 1,686,280

Note 7. Surplus Notes

The Company has issued the following surplus debentures or similar obligations as of December 31, 2019:

Date Issued	Interest Rate	Par Value	Carrying Value	Principal and/or Interest Paid Current Year	Total Principal and/or Interest Paid	Unapproved Principal and/or Interest	Date of Maturity
10/14/2005	LIBOR + 3.55%	$ 2,900,000	$ 2,900,000	$ 1,871,083	$ 14,226,166	$ 7,016	12/15/2035
12/23/2005	Fed fund rate	29,414	29,414	29,414	10,994,438	-	None
			$ 2,929,414				

The Company has issued the following surplus debentures or similar obligations as of December 31, 2018:

Date Issued	Interest Rate	Par Value	Carrying Value	Principal and/or Interest Paid Current Year	Total Principal and/or Interest Paid	Unapproved Principal and/or Interest	Date of Maturity
10/14/2005	LIBOR + 3.55%	$ 4,550,000	$ 4,550,000	$ 5,906,261	$ 12,355,083	$ 12,817	12/15/2035
12/23/2005	Fed fund rate	58,828	58,828	207,959	10,965,024	-	None
			$ 4,608,828				

Note 7. Surplus Notes (Continued)

The Company received cash in exchange for a surplus note in the amount of $10,000,000 issued to Merrill Lynch International on October 14, 2005. This note is administered by US Bank, National Association, as trustee, and has the following repayment conditions and restrictions: payment of interest to be made quarterly in arrears on the 15th of March, June, September and December and only with the prior approval of the Montana Commissioner of Securities and Insurance. Principal payments in the amount of $1,650,000 and $5,350,000 were paid by the Company during the years ended December 31, 2019 and 2018, respectively.

The Company's parent, ALPS Corporation, transferred a liability on December 23, 2005, to the Company as a result of ALPS Corporation's redemption of its Class A common stock. This liability was then simultaneously converted to a surplus note under the approval of the Montana Commissioner of Securities and Insurance. Payment to stockholders of redeemed shares of ALPS Corporation common stock (transferred liability) is based upon the amount of the total value of the shares on the redemption date and is subject to a repayment schedule of between one and seven years. Payments to stockholders are issued on a quarterly basis in the months January, April, July and October and are issued only upon prior approval of the Montana Commissioner of Securities and Insurance. Obligation under this note is subordinated in payment to other indebtedness due to creditors and policyholders of the Company. The Company's parent has not transferred any new stock redemption liabilities to the company since 2016.

Note 8. Affiliated Companies and Related-Party Transactions

The Company rents office space from related parties under a Facilities Use Agreement, as described in Note 1. The Company purchases administrative and support services from ALPS Corporation. The Company retains AIA to provide claims, underwriting, sales, marketing and insurance producer services for and on behalf of the Company. The amounts charged to the Company for administrative and support, rent, claims, underwriting, sales, marketing, insurance producer services and investment management services were as follows:

	Years Ended December 31	
	2019	2018
Administrative services	$ 4,955,549	$ 4,014,439
Investment management services	120,634	111,413
Rent	145,044	236,661
Claims	1,143,067	1,043,065
Underwriting	954,724	1,002,951
Commissions	3,427,448	2,931,789
	$ 10,746,466	$ 9,340,318

The Company reported net amounts due to affiliates of $594,572 and $689,132 at December 31, 2019 and 2018, respectively. For the years ended December 31, 2019 and 2018, the Company has expensed $1,450,000 and $454,000, respectively, related to its participation in the ALPS Corporation Long-Term Surrogate Equity Incentive Plan.

Note 9. Federal Income Tax

At December 31, 2019 and 2018, the income tax expense represents amounts paid to ALPS Corporation under the Tax Allocation Agreement. The Company is not subject to state income taxes.

At December 31, the components of the net adjusted admitted deferred income tax asset were as follows:

	2019		
	Ordinary	Capital	Total
Gross deferred tax assets	$ 1,939,295	$ 119,610	$ 2,058,905
Statutory valuation allowance	-	-	-
Adjusted gross deferred tax assets	1,939,295	119,610	2,058,905
Deferred tax assets nonadmitted	(39,264)	-	(39,264)
Net admitted deferred tax assets	1,900,031	119,610	2,019,641
Deferred tax liabilities	253,026	393,221	646,247
Net adjusted deferred tax asset	$ 1,647,005	$ (273,611)	$ 1,373,394

	2018		
	Ordinary	Capital	Total
Gross deferred tax assets	$ 1,850,493	$ 114,765	$ 1,965,258
Statutory valuation allowance	-	-	-
Adjusted gross deferred tax assets	1,850,493	114,765	1,965,258
Deferred tax assets nonadmitted	-	-	-
Net admitted deferred tax assets	1,850,493	114,765	1,965,258
Deferred tax liabilities	341,381	39,101	380,482
Net adjusted deferred tax asset	$ 1,509,112	$ 75,664	$ 1,584,776

	Change		
	Ordinary	Capital	Total
Gross deferred tax assets	$ 88,802	$ 4,845	$ 93,647
Statutory valuation allowance	-	-	-
Adjusted gross deferred tax assets	88,802	4,845	93,647
Deferred tax assets nonadmitted	(39,264)	-	(39,264)
Net admitted deferred tax asset	49,538	4,845	54,383
Deferred tax liabilities	(88,355)	354,120	265,765
Net adjusted deferred tax asset	$ 137,893	$ (349,275)	$ (211,382)

Note 9. Federal Income Tax (Continued)

For 2019 and 2018, the Company determined a valuation allowance was not necessary.

A summary of the Company's adjusted admitted gross deferred tax asset calculation by component and character for the years ended December 31, 2019 and 2018, is as follows:

	2019		
	Ordinary	Capital	Total
Federal income taxes paid in prior years recoverable through loss carrybacks	$ -	$ -	$ -
Adjusted gross deferred tax assets expected to be realized after application of the threshold limitation	1,647,005	119,610	1,766,615
Adjusted gross deferred tax assets expected to be realized following the balance sheet date	1,647,005	119,610	1,766,615
Adjusted gross deferred tax assets allowed per limitation threshold	6,258,584	-	6,258,584
Adjusted gross deferred tax assets offset by gross deferred tax liabilities	253,026	-	253,026
Net adjusted admitted deferred tax assets	$ 1,900,031	$ 119,610	$ 2,019,641

	2018		
	Ordinary	Capital	Total
Federal income taxes paid in prior years recoverable through loss carrybacks	$ -	$ -	$ -
Adjusted gross deferred tax assets expected to be realized after application of the threshold limitation	1,569,646	114,765	1,684,411
Adjusted gross deferred tax assets expected to be realized following the balance sheet date	1,569,646	114,765	1,684,411
Adjusted gross deferred tax assets allowed per limitation threshold	6,008,528	-	6,008,528
Adjusted gross deferred tax assets offset by gross deferred tax liabilities	280,847	-	280,847
Net adjusted admitted deferred tax assets	$ 1,850,493	$ 114,765	$ 1,965,258

Under SSAP No. 101, *Income Taxes*, the following thresholds were used in the calculations of admissibility:

	Years Ended December 31	
	2019	2018
Percentage used to determine recovery period and threshold limitation amount	366%	361%
Adjusted capital and surplus used to determine recovery period and threshold limitation	$ 41,725,692	$ 40,056,851

Note 9. Federal Income Tax (Continued)

The components of net deferred federal income tax assets were as follows:

	December 31		
	2019	2018	Change
Gross deferred federal income tax assets:			
Ordinary:			
Discounting unpaid losses	$ 1,096,620	$ 1,053,689	$ 42,931
Unearned premium reserve	817,583	749,064	68,519
Other	25,092	47,740	(22,648)
Capital:			
Investments	119,610	114,765	4,845
Total deferred federal income tax assets	2,058,905	1,965,258	93,647
Gross deferred federal income tax liabilities:			
Ordinary:			
Policyholder reserves	(250,883)	(339,368)	88,485
Investments	(2,143)	(2,013)	(130)
Capital:			
Investments	(393,221)	(39,101)	(354,120)
Total deferred federal income tax liabilities	(646,247)	(380,482)	(265,765)
Net deferred federal income tax asset	1,412,658	1,584,776	(172,118)
Deferred federal income tax assets nonadmitted	(39,264)	-	(39,264)
Net admitted deferred federal income tax asset	$ 1,373,394	$ 1,584,776	$ (211,382)
Increase (decrease) in deferred federal income tax assets nonadmitted	$ 39,264	$ (183,950)	

The Company’s current income tax differs from the amount obtained by applying the federal statutory rate of 21% to income before income taxes due primarily to dividend received deductions, tax-exempt interest and nondeductible impairments of securities.

At December 31, 2019, the Company did not have an operating loss carryforward available to offset against future taxable income.

Income taxes incurred in 2019 and 2018 that will be available for recoupment in the event of future net losses are $965,831 and $0, respectively.

Note 10. Nonadmitted Assets

A summary of assets nonadmitted is as follows:

	Years Ended December 31	
	2019	2018
Balance of nonadmitted assets—beginning of the year	$ 227,337	$ 257,663
Increase (decrease) in nonadmitted assets:		
Deductible receivables	17,446	6,858
Reinsurance recoverables	(125,114)	123,713
Prepaid expenses	(185)	23,053
Deferred tax assets	39,264	(183,950)
Net decrease	(68,589)	(30,326)
Balance of nonadmitted assets—end of the year	$ 158,748	$ 227,337

Note 11. Fair Value of Financial Instruments and Fair Value Measurements

The fair values of investment securities, including short-term investments and cash, are estimated based on prices received from third-party securities dealers. Cash and short-term investments' carried values approximate their fair values.

The Company's financial assets and liabilities carried at fair value have been classified, for disclosure purposes, based on a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The hierarchy gives the highest priority to fair values determined using unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to fair values determined using unobservable inputs (Level 3). An asset's or liability's classification is determined based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3). The levels of the fair value hierarchy are as follows:

Level 1: Valuations are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2: Valuations are derived from inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in markets that are not active
- Inputs other than quoted prices that are observable for the asset or liability
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means

Level 3: Valuations are derived from techniques that require significant unobservable inputs. The unobservable inputs reflect the Company's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

Note 11. Fair Value of Financial Instruments and Fair Value Measurements (Continued)

Cash, short-term investments, uncollected premiums, reinsurance recoverable, and accounts payable and accrued expenses: The carrying amounts reported are at cost for these financial instruments, which approximates their fair value due to the short duration to maturity.

Investment securities: The fair values of bonds are based on market values prescribed by the NAIC's SVO. The Company uses amortized cost as a substitute for fair value in accordance with prescribed guidance for certain investments for which the NAIC did not provide a value. The fair values for common stocks are based on market values prescribed by the SVO.

All other financial instruments are specifically exempted from fair value disclosure requirements because they qualify as insurance-related products.

The estimated carrying amounts and fair values of the Company's financial instruments classified by the fair value hierarchy as of December 31, 2019 and 2018, are as follows:

	December 31, 2019				
Assets	Level 1	Level 2	Level 3	Fair Value	Carrying Value
Bonds	$ 226,301	$ 115,997,515	$ -	$ 116,223,816	$ 110,188,664
Common stocks	6,587,587	-	-	6,587,587	6,587,587
Cash and short-term investments	6,473,350	-	-	6,473,350	6,473,350
Total	$ 13,287,238	$ 115,997,515	$ -	$ 129,284,753	$ 123,249,601

	December 31, 2018				
Assets	Level 1	Level 2	Level 3	Fair Value	Carrying Value
Bonds	$ 220,990	$ 103,417,673	$ -	$ 103,638,663	$ 101,182,831
Common stocks	5,419,313	-	-	5,419,313	5,419,313
Cash and short-term investments	9,593,498	-	-	9,593,498	9,593,498
Total	$ 15,233,801	$ 103,417,673	$ -	$ 118,651,474	$ 116,195,642

The Company holds a 33.33% and 31.27% ownership in Lawyers Reinsurance Company, at the end of 2019 and 2018, respectively, which is considered to be an insurance subsidiary, controlled and affiliated entity (SCA) under SSAP No. 97. The insurance SCA completes its financial statements in accordance with GAAP, which differs from NAIC Statutory Accounting Principles (NAIC SAP). The monetary effect of the differences between GAAP and NAIC SAP is a $7,662 decrease in the insurance SCA's net income and a decrease in the insurance SCA's surplus of $150,707. Lawyers Reinsurance Company is only audited on a GAAP basis. The insurance SCA is valued based on the underlying audited GAAP equity of the investee and has a carrying value of $813,833 and $1,048,648 at December 31, 2019 and 2018, respectively.

The Company holds an investment in Federal Home Loan Bank stock. It is not practicable to determine the fair value of the investment as there is no marketplace to sell and buy the stock. It is bought and sold at par and has a carrying value of $152,500 and $157,700 at December 31, 2019 and 2018, respectively. The Company did not purchase any activity stock, receive any advances, or pledge any investments to the Federal Home Loan Bank in 2019 or 2018.

Note 11. Fair Value of Financial Instruments and Fair Value Measurements (Continued)

The Company holds an other invested asset in the SIT Opportunity Bond Fund, LLC, which is a private investment fund that invests in closed-end registered investment companies that have underlying investments in fixed-income securities. The fund is carried at net asset value, and has a carrying value of $3,503,827 and $2,978,666 at December 31, 2019 and 2018, respectively. The Company is required to provide 30 days of advanced notice to the fund manager for all redemption requests.

The following summarizes financial instruments measured at fair value as of December 31, 2019 and 2018, segregated by the level of valuation inputs within the fair value hierarchy utilized to measure fair value:

	December 31, 2019			
Assets	Level 1	Level 2	Level 3	Total Fair Value
Bonds:				
State, municipal and other governments	$ -	$ 145	$ -	$ 145
Cash equivalents—exempt MMMF	$ 43,207	$ -	$ -	$ 43,207
Common stocks	$ 6,587,587	$ -	$ -	$ 6,587,587

	December 31, 2018			
Assets	Level 1	Level 2	Level 3	Total Fair Value
Bonds:				
State, municipal and other governments	$ -	$ 96,145	$ -	$ 96,145
Cash equivalents—exempt MMMF	$ 2,723,549	$ -	$ -	$ 2,723,549
Common stocks	$ 5,419,313	$ -	$ -	$ 5,419,313

Note 12. Commitments and Contingencies

The Company is not aware of any pending or threatened litigation or any unasserted claims or assessments that management considers to be probable of assertion and that, if asserted, would have at least a reasonable possibility of an unfavorable outcome, the risk of which has not been adequately insured against or provision for which has not been adequately reserved.

Note 13. Subsequent Events

All of the effects of subsequent events that provide additional evidence about conditions that existed at the statutory financial statement date, including the estimates inherent in the process of preparing the statutory financial statements, are recognized in the statutory financial statements. The Company does not recognize subsequent events that provide evidence about conditions that did not exist at the statutory financial statement date but arose after, but before the statutory financial statements are available to be issued. In some cases, nonrecognized subsequent events are disclosed to keep the statutory financial statements from being misleading.

Note 13. Subsequent Events (Continued)

On January 8, 2020, the Company became licensed as an authorized insurer in the state of Florida.

On January 13, 2020, the Company made a request to the October 14, 2015, surplus note administrator to make a principal payment totaling $400,000. The payment was also approved by the Montana Commissioner of Securities and Insurance and occurred in March 2019.

The spread of COVID-19, a novel strain of coronavirus, is altering the behavior of businesses and people throughout the United States. Further, financial markets have recently experienced a significant decline attributed to COVID-19 concerns. The continued spread of COVID-19 may adversely impact the local, regional and national economies. The extent to which COVID-19 impacts the Company's results will depend on future developments, which are highly uncertain and cannot be predicted. The impact is highly dependent on the breadth and duration of the outbreak, and could be affected by other factors that cannot currently be predicted. Accordingly, management cannot presently estimate the overall operational and financial impact to the Company, but such an impact could have a material adverse effect on the financial condition of the Company.

Subsequent events have been evaluated through May 7, 2020, which is the date the statutory financial statements were available to be issued.

Supplementary Information

ALPS Property & Casualty Insurance Company

Summary Investment Schedule
December 31, 2019

Investment Categories	Gross Investment Holdings Amount	Gross Investment Holdings Percentage	Admitted Assets as Reported in the Annual Statement Amount	Admitted Assets as Reported in the Annual Statement Percentage
Long-term bonds:				
U.S. governments	$ 1,678,505	1%	$ 1,678,505	1%
U.S. states, territories and possessions, guaranteed	811,666	1%	811,666	1%
U.S. political subdivisions of states, territories, and possessions, guaranteed	14,277,775	11%	14,277,775	11%
U.S. special revenue and special assessment obligations, not guaranteed	63,606,715	50%	63,606,715	50%
Industrial and miscellaneous	29,814,003	23%	29,814,003	23%
Total long-term bonds	110,188,664	86%	$ 110,188,664	86%
Common stocks:				
Industrial and miscellaneous other (unaffiliated)	152,500	0%	152,500	0%
Parent, subsidiaries and affiliates other	813,833	1%	813,833	1%
Mutual funds	6,587,587	5%	6,587,587	5%
Total common stocks	7,553,920	6%	7,553,920	6%
Cash, cash equivalents and short-term investments:				
Cash	5,591,046	4%	5,591,046	4%
Cash equivalents	882,304	1%	882,304	1%
Total cash, cash equivalents and short-term investments	6,473,350	5%	6,473,350	5%
Other invested assets	3,503,827	3%	3,503,827	3%
Total invested assets	$ 127,719,761	100%	$ 127,719,761	100%

See accompanying independent auditor’s report.

ALPS Property & Casualty Insurance Company

Investment Risks Interrogatories
December 31, 2019

1. Reporting entity's total admitted assets as reported: $134,120,796

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

	Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
2.01	Ishares Core High Dividend ETF	Mutual fund	$ 3,824,892	2.9%
2.02	Massachusetts Housing Finance Agency	Municipal	2,854,580	2.1%
2.03	SPDR S&P 500 ETF Trust	Mutual fund	2,092,090	1.6%
2.04	New Jersey Housing & Mortgage Finance Agency	Municipal tax	1,852,360	1.4%
2.05	Virginia Housing Development Authority	Municipal tax	1,759,528	1.3%
2.06	Wells Fargo Commercial Mortgage Trust 20	CMBS	1,513,446	1.1%
2.07	Tennessee Housing Development Agency	Municipal	1,484,842	1.1%
2.08	Michigan State Housing Development Authority	Municipal	1,455,852	1.1%
2.09	Illinois Housing Development Authority	Municipal	1,295,000	1.0%
2.10	Freddie Mac Pool	FHLMC	1,222,922	0.9%

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds, short-term investments, and preferred stocks by NAIC designation:

	Bonds	Amount	Percentage of Total Admitted Assets		Preferred Stock	Amount	Percentage of Total Admitted Assets
3.01	NAIC—1	$104,157,904	77.7%	3.07	P/RP—1	$ -	0.0%
3.02	NAIC—2	6,030,615	4.5%	3.08	P/RP—2	-	0.0%
3.03	NAIC—3	-	0.0%	3.09	P/RP—3	-	0.0%
3.04	NAIC—4	-	0.0%	3.10	P/RP—4	-	0.0%
3.05	NAIC—5	-	0.0%	3.11	P/RP—5	-	0.0%
3.06	NAIC—6	145	0.0%	3.12	P/RP—6	-	0.0%

(Continued)

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 [X] No [ ]

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

		Amount	Percentage of Total Admitted Assets
4.02	Total admitted assets held in foreign investments	$ 1,199,571	0.9%
4.03	Foreign currency–denominated investments	-	0.0%
4.04	Insurance liabilities denominated in that same foreign currency	-	0.0%

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

		Amount	Percentage of Total Admitted Assets
5.01	Countries designated NAIC—1	$ -	0.0%
5.02	Countries designated NAIC—2	-	0.0%
5.03	Countries designated NAIC—3 or below	-	0.0%

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

		Amount	Percentage of Total Admitted Assets
		1	2
	Countries designated NAIC—1:		
6.01	Country 1:	$ -	0.0%
6.02	Country 2:	-	0.0%
	Countries designated NAIC—2:		
6.03	Country 1:	-	0.0%
6.04	Country 2:	-	0.0%
	Countries designated NAIC—3 or below:		
6.05	Country 1:	-	0.0%

(Continued)

7. Aggregate unhedged foreign currency exposure:

Amount	Percentage of Total Admitted Assets
$ -	-

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

		Amount	Percentage of Total Admitted Assets
8.01	Countries designated NAIC—1	$ -	0.0%
8.02	Countries designated NAIC—2	-	0.0%
8.03	Countries designated NAIC—3 or below	-	0.0%

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

		Amount	Percentage of Total Admitted Assets
		1	2
	Countries designated NAIC—1:		
9.01	Country 1:	$ -	0.0%
9.02	Country 2:	-	0.0%
	Countries designated NAIC—2:		
9.03	Country 1:	-	0.0%
9.04	Country 2:	-	0.0%
	Countries designated NAIC—3 or below:		
9.05	Country 1:	-	0.0%
9.06	Country 2:	-	0.0%

(Continued)

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

	Issuer	NAIC Designation	Amount	Percentage of Total Admitted Assets
10.01			$ -	0.0%
10.02			-	0.0%
10.03			-	0.0%
10.04			-	0.0%
10.05			-	0.0%
10.06			-	0.0%
10.07			-	0.0%
10.08			-	0.0%
10.09			-	0.0%
10.10			-	0.0%

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 foreign 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.

		Amount	Percentage of Total Admitted Assets
11.02	Total admitted assets held in Canadian investments	$ -	0.0%
11.03	Canadian currency–denominated investments	-	0.0%
11.04	Canadian-denominated insurance liabilities	-	0.0%
11.05	Unhedged Canadian currency exposure	-	0.0%

(Continued)

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

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.

		Amount	Percentage of Total Admitted Assets
		2	3
12.02	Aggregate statement value of investments with contractual restrictions	$ -	0.0%
	Largest three investments with contractual sales restrictions:		
12.03		-	0.0%
12.04		-	0.0%
12.05		-	0.0%

13. Amounts and percentages of admitted assets held in the 10 largest 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 is yes, responses are not required for the remainder of Interrogatory 13.

	Issuer	Amount	Percentage of Total Admitted Assets
13.02	Ishares Select Dividend EFT	$ 3,824,892	2.9%
13.03	SPDR S&P 500 EFT Trust	2,092,090	1.6%
13.04	Lawyers Reinsurance Company	813,833	0.6%
13.05	Wisdomtree Europe Hedged Equity Fund	670,605	0.5%
13.06	Federal Home Loan Bank of Des Moines	152,500	0.1%

(Continued)

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.

		Amount	Percentage of Total Admitted Assets
14.02	Aggregate statement value of investments with contractual restrictions	$ -	0.0%
	Largest three investments with contractual sales restrictions:		
14.03		-	0.0%
14.04		-	0.0%
14.05		-	0.0%

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

15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets? Yes [ ] No [X]

If response to 15.01 above is yes, responses are not required for the remainder of Interrogatory 15.

		Amount	Percentage of Total Admitted Assets
	1	2	3
15.02	Aggregate statement value of investments held in general partnership interests:	$ 3,503,827	2.6%
	Largest three investments in general partnership interests restrictions:		
15.03	Sit Opportunity Bond Fund LLC	3,503,827	2.6%
15.04		-	0.0%
15.05		-	0.0%

(Continued)

16. Amounts and percentages of the reporting entity's total admitted assets held in 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.

	Type (Residential, Commercial, Agricultural)	Amount	Percentage of Total Admitted Assets
16.02		$ -	0.0%
16.03		-	0.0%
16.04		-	0.0%
16.05		-	0.0%
16.06		-	0.0%
16.07		-	0.0%
16.08		-	0.0%
16.09		-	0.0%
16.10		-	0.0%
16.11		-	0.0%

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

		Amount	Percentage of Total Admitted Assets
		Loans	
16.12	Construction loans	$ -	0.0%
16.13	Mortgage loans over 90 days past due	-	0.0%
16.14	Mortgage loans in the process of foreclosure	-	0.0%
16.15	Mortgage loans foreclosed	-	0.0%
16.16	Restructured mortgage loans	-	0.0%

(Continued)

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

		Residential		Commercial		Agricultural	
	Loan-to-Value	Amount	Percentage of Total Admitted Assets	Amount	Percentage of Total Admitted Assets	Amount	Percentage of Total Admitted Assets
17.01	Above 95%	$ -	0.0%	$ -	0.0%	$ -	0.0%
17.02	91 to 95%	-	0.0%	-	0.0%	-	0.0%
17.03	81 to 90%	-	0.0%	-	0.0%	-	0.0%
17.04	71 to 80%	-	0.0%	-	0.0%	-	0.0%
17.05	Below 70%	-	0.0%	-	0.0%	-	0.0%

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

18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

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

Largest five investments in any one parcel or group of contiguous parcels of real estate:

	Description	Amount	Percentage of Total Admitted Assets
18.02		$ -	0.0%
18.03		-	0.0%
18.04		-	0.0%
18.05		-	0.0%
18.06		-	0.0%

(Continued)

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.

		Amount	Percentage of Total Admitted Assets
19.02	Aggregate statement value of investments held in mezzanine real estate loans	$ -	0.0%
	Largest three investments held in mezzanine real estate loans:		
19.03		-	0.0%
19.04		-	0.0%
19.05		-	0.0%

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		
		Amount	Percentage of Total Admitted Assets	1st Quarter	2nd Quarter	3rd Quarter
20.01	Securities lending agreements (do not include assets held as collateral for such transactions)	$ -	0.0%	$ -	$ -	$ -
20.02	Repurchase agreements	-	0.0%	-	-	-
20.03	Reverse repurchase agreements	-	0.0%	-	-	-
20.04	Dollar repurchase agreements	-	0.0%	-	-	-
20.05	Dollar reverse repurchase agreements	-	0.0%	-	-	-

(Continued)

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	
		Amount	Percentage of Total Admitted Assets	Amount	Percentage of Total Admitted Assets
21.01	Hedging	$ -	0.0%	$ -	0.0%
21.02	Income generation	-	0.0%	-	0.0%
21.03	Other	-	0.0%	-	0.0%

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		
		Amount	Percentage of Total Admitted Assets	1st Quarter	2nd Quarter	3rd Quarter
22.01	Hedging	$ -	0.0%	$ -	$ -	$ -
22.02	Income generation	-	0.0%	-	-	-
22.03	Replications	-	0.0%	-	-	-
22.04	Other	-	0.0%	-	-	-

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

		At Year-End		At End of Each Quarter		
		Amount	Percentage of Total Admitted Assets	1st Quarter	2nd Quarter	3rd Quarter
23.01	Hedging	$ -	0.0%	$ -	$ -	$ -
23.02	Income generation	-	0.0%	-	-	-
23.03	Replications	-	0.0%	-	-	-
23.04	Other	-	0.0%	-	-	-

See accompanying independent auditor's report.

7.1. Has the reporting entity reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit, or any similar provisions)?

Yes [ ] No [X]

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

Not applicable.

7.3. If yes, does the amount of reinsurance credit taken reflect the reduction in quota share coverage caused by any applicable limiting provision(s)?

Not applicable.

8.1. Has this reporting entity reinsured any risk with any other entity and agreed to release such entity from liability, in whole or in part, from any loss that may occur on the risk, or portion thereof, reinsured?

Yes [X] No [ ]

8.2. If yes, give full information.

Effective April 13, 2015, the Company entered into a Commutation and Release Agreement with Catalina Safety Reinsurance Ltd., formerly known as American Safety Reinsurance Limited (American Safety). Under the terms of the Commutation and Release Agreement, the Company received a commutation payment from American Safety in the total sum of $4,501,469 in full and final settlement of all sums due from American Safety under nine separate reinsurance agreements to which American Safety was a subscribing reinsurer in varying percentages of participation and covering various treaty years from 2007 through 2011.

9.1 Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:

a. A contract term longer than two years and the contract is noncancelable by the reporting entity during the contract term;

b. A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;

c. Aggregate stop-loss reinsurance coverage;

(Continued)

d. A unilateral right by either party (or both parties) to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party;

e. A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or

f. Payment schedule, accumulating retentions from multiple years, or any features inherently designed to delay timing of the reimbursement to the ceding entity?

Yes [ ] No [X]

9.2. Has the reporting entity, during the period covered by the statement, ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), for which it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; excluding cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member where:

a. The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty% (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or

b. Twenty-five% (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates in a separate reinsurance contract?

Yes [ ] No [X]

9.3. If yes to 9.1 or 9.2, please provide the following information:

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

Not applicable.

b. A summary of the reinsurance contract terms, and indicate whether it applies to the contracts meeting the criteria in 9.1 or 9.2; and

Not applicable.

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

Not applicable.

(Continued)

9.4. Except for transactions meeting the requirements of paragraph 30 of SSAP No. 62, *Property and Casualty Reinsurance*, has the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:

a. Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles (SAP) and as a deposit under generally accepted accounting principles (GAAP); or

b. Accounted for that contract as reinsurance under GAAP and as a deposit under SAP?

Yes [ ] No [X]

9.5. If yes to 9.4, explain why the contract(s) is treated differently for GAAP and SAP.

Not applicable.

See accompanying independent auditor's report.

RSM