

# **ALPS Property & Casualty Insurance Company**

## **Statutory Financial Statements**

*Years ended December 31, 2021 and 2020  
with Report of Independent Auditors*

ALPS Property & Casualty Insurance Company

Statutory Financial Statements

Years ended December 31, 2021 and 2020

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## Report of Independent Auditors

Board of Directors  
ALPS Property & Casualty Insurance Company

### **Opinions**

We have audited the statutory financial statements of ALPS Property & Casualty Insurance Company (the Company), which comprise the statutory statements of admitted assets, liabilities, capital and surplus as of December 31, 2021 and 2020, and the related statutory statements of operations and changes in capital and surplus, and cash flows for the years then ended, and the related notes to the financial statements.

#### *Unmodified Opinion on Regulatory Basis of Accounting*

In our opinion, the accompanying financial statements present fairly, in all material respects, the admitted assets, liabilities, and surplus of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended, in accordance with the basis of accounting described in Note B.

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

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles section of our report, the financial statements do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2021 and 2020, or the results of its operations or its cash flows for the years then ended.

### **Basis for Opinions**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

As described in Note B to the financial statements, the Company prepared these financial statements using accounting practices prescribed or permitted by the Montana Office of the 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 described in Note B and accounting principles generally accepted in the United States of America, are material and are described in Note B.

### ***Responsibilities of Management 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 Montana Office of the Commissioner of Securities and Insurance. 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.

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

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

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

In performing an audit in accordance with GAAS, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying summary investment schedule, supplemental investment risks interrogatories and supplemental reinsurance interrogatories of the Company as of December 31, 2021, are presented for purposes of additional analysis and are not a required part of the financial statements but are supplementary information required by the Montana Office of the Commissioner of Securities and Insurance. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, such schedules are fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Johnson Lambert LLP". The signature is written in a cursive, flowing style.

Burlington, Vermont

April 28, 2022

Vermont firm registration 092-0000267

# ALPS Property & Casualty Insurance Company

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

As of December 31, 2021 and 2020

|   | 2021           | 2020           |
|---|----------------|----------------|
| <b>Admitted Assets</b>  |                |                |
| Investments assets and cash:  |                |                |
| Bonds   | \$ 121,602,888 | \$ 112,739,768 |
| Common stocks   | 12,348,184     | 10,364,474     |
| Common stock of affiliate   | 839,021        | 686,029        |
| Other invested assets   | 4,018,884      | 3,810,477      |
| Cash and short-term investments   | 6,890,622      | 7,856,806      |
| Total invested assets and cash  | 145,699,599    | 135,457,554    |
| Other admitted assets:  |                |                |
| Premiums receivable   | 2,707,443      | 2,772,115      |
| Accrued investment income   | 1,089,806      | 1,121,406      |
| Reinsurance recoverable on paid losses                                    | 374,239        | 1,262,080      |
| Net deferred tax assets   | 1,309,624      | 1,097,762      |
| Deductible receivable   | 25,783         | 15,755         |
| Total other admitted assets   | 5,506,895      | 6,269,118      |
| Total admitted assets   | \$ 151,206,494 | \$ 141,726,672 |
| <b>Liabilities, Capital and Surplus</b>                                   |                |                |
| Liabilities:  |                |                |
| Reserve for losses and loss adjustment expenses, net                      | \$ 67,034,594  | \$ 63,139,318  |
| Unearned premiums, net  | 17,812,884     | 17,781,122     |
| Ceded reinsurance premium payable   | 4,744,627      | 4,100,758      |
| Funds held under reinsurance treaties                                     | 2,735,144      | 2,600,200      |
| Advanced premiums   | 3,492,914      | 3,029,497      |
| Accrued taxes and licenses payable  | 355,844        | 315,557        |
| Other expenses payable  | 188,246        | 224,073        |
| Remittances and items not allocated                                       | 100,118        | 542,565        |
| Payable for securities  | 325,000        | 250,000        |
| Due to parent, subsidiaries and affiliates                                | 1,246,400      | 1,207,888      |
| Amounts withheld or retained by Company for the account of others         | 692            | 5,998          |
| Total liabilities   | 98,036,463     | 93,196,976     |
| Capital and surplus:  |                |                |
| Common stock \$1 par: 5,000,000 shares authorized, issued and outstanding | 5,000,000      | 5,000,000      |
| Paid-in contributed surplus   | 5,500,652      | 5,500,652      |
| Surplus notes   | -              | 2,300,000      |
| Unassigned surplus  | 42,669,379     | 35,729,044     |
| Total capital and surplus   | 53,170,031     | 48,529,696     |
| Total liabilities, capital and surplus                                    | \$ 151,206,494 | \$ 141,726,672 |

*See accompanying notes to statutory financial statements.*

ALPS Property & Casualty Insurance Company

Statutory Statements of Operations

Years ended December 31, 2021 and 2020

|   | <u>2021</u>         | <u>2020</u>         |
|---|---------------------|---------------------|
| <b>Revenues</b>   |                     |                     |
| Gross premiums written  | \$ 54,358,071       | \$ 52,008,397       |
| Premiums ceded  | <u>(17,639,531)</u> | <u>(16,480,041)</u> |
| Net premiums written  | 36,718,540          | 35,528,356          |
| Change in unearned premiums   | <u>(31,762)</u>     | <u>(1,188,278)</u>  |
| Net premiums earned   | <u>36,686,778</u>   | <u>34,340,078</u>   |
| <b>Expenses</b>   |                     |                     |
| Losses incurred, net  | 9,186,833           | 10,944,110          |
| Loss adjustment expenses incurred, net  | 11,066,556          | 6,154,018           |
| Other underwriting and administrative expenses, net of<br>reinsurance ceding commission of \$379,977 and \$426,598,<br>respectively | <u>11,989,502</u>   | <u>12,087,343</u>   |
| Total losses and underwriting expenses  | <u>32,242,891</u>   | <u>29,185,471</u>   |
| Underwriting Income   | <u>4,443,887</u>    | <u>5,154,607</u>    |
| Realized gain (loss) on investments, net of income tax expense<br>(benefit) of \$33,124 and \$(178,168), respectively               | 124,608             | (670,255)           |
| Investment income, net of investment expense of \$526,354 and<br>\$545,773, respectively  | 4,144,265           | 4,303,907           |
| Other income  | <u>166,822</u>      | <u>188,840</u>      |
| Income after capital gains tax before all other federal<br>income taxes   | <u>8,879,582</u>    | <u>8,977,099</u>    |
| Provision for federal income taxes  | <u>(2,220,439)</u>  | <u>(1,879,030)</u>  |
| Net income  | <u>\$ 6,659,143</u> | <u>\$ 7,098,069</u> |

See accompanying notes to statutory financial statements.

ALPS Property & Casualty Insurance Company

Statutory Statements of Changes in Capital and Surplus

Years ended December 31, 2021 and 2020

|  | <u>Common Stock</u> |                     | <u>Paid-in and<br/>Contributed<br/>Surplus</u> | <u>Certificates of<br/>Contribution</u> | <u>Surplus<br/>Notes</u> | <u>Unassigned<br/>Surplus</u> | <u>Total</u>         |
|--|---------------------|---------------------|--|---|--------------------------|-------------------------------|----------------------|
|  | <u>Shares</u>       | <u>Amount</u>       |  |   |                          |                               |                      |
| Balance at December 31, 2019               | 5,000,000           | \$ 5,000,000        | \$ 5,500,652                                   | \$ 57,131                               | \$ 2,929,414             | \$ 29,611,889                 | \$ 43,099,086        |
| Net change in unrealized gains, net of tax | -                   | -                   | -  | -                                       | -                        | 986,521                       | 986,521              |
| Surplus refunds                            | -                   | -                   | -  | (57,131)                                | -                        | -                             | (57,131)             |
| Repayment of surplus notes                 | -                   | -                   | -  | -                                       | (629,414)                | -                             | (629,414)            |
| Net change in nonadmitted assets           | -                   | -                   | -  | -                                       | -                        | (24,274)                      | (24,274)             |
| Net change in deferred taxes               | -                   | -                   | -  | -                                       | -                        | 56,839                        | 56,839               |
| Dividends to stockholder                   | -                   | -                   | -  | -                                       | -                        | (2,000,000)                   | (2,000,000)          |
| Net income                                 | -                   | -                   | -  | -                                       | -                        | 7,098,069                     | 7,098,069            |
| Balance at December 31, 2020               | 5,000,000           | 5,000,000           | 5,500,652                                      | -                                       | 2,300,000                | 35,729,044                    | 48,529,696           |
| Net change in unrealized gains, net of tax | -                   | -                   | -  | -                                       | -                        | 1,635,242                     | 1,635,242            |
| Repayment of surplus notes                 | -                   | -                   | -  | -                                       | (2,300,000)              | -                             | (2,300,000)          |
| Net change in nonadmitted assets           | -                   | -                   | -  | -                                       | -                        | 108,899                       | 108,899              |
| Net change in deferred taxes               | -                   | -                   | -  | -                                       | -                        | 537,051                       | 537,051              |
| Dividends to stockholder                   | -                   | -                   | -  | -                                       | -                        | (2,000,000)                   | (2,000,000)          |
| Net income                                 | -                   | -                   | -  | -                                       | -                        | 6,659,143                     | 6,659,143            |
| Balance at December 31, 2021               | <u>5,000,000</u>    | <u>\$ 5,000,000</u> | <u>\$ 5,500,652</u>                            | <u>\$ -</u>                             | <u>\$ -</u>              | <u>\$ 42,669,379</u>          | <u>\$ 53,170,031</u> |

See accompanying notes to statutory financial statements

# ALPS Property & Casualty Insurance Company

## Statutory Statements of of Cash Flows

Years ended December 31, 2021 and 2020

|  | <u>2021</u>         | <u>2020</u>         |
|--|---------------------|---------------------|
| <b>Cash flows from operating activities:</b>             |                     |                     |
| Premiums collected, net of reinsurance                   | \$ 37,890,498       | \$ 35,579,184       |
| Benefits and loss-related payments                       | (6,249,873)         | (8,728,855)         |
| Commissions and expenses paid                            | (21,216,374)        | (21,569,761)        |
| Investment income, net                                   | 4,471,091           | 4,747,542           |
| Miscellaneous income                                     | 166,822             | 188,840             |
| Federal income taxes paid                                | <u>(2,253,565)</u>  | <u>(1,700,861)</u>  |
| Net cash flows from operating activities                 | <u>12,808,599</u>   | <u>8,516,089</u>    |
| <b>Cash flows from investing activities:</b>             |                     |                     |
| Proceeds from sales, maturities and repayments of bonds  | 16,878,041          | 23,365,994          |
| Proceeds from sale of stocks                             | 271,516             | 5,380,855           |
| Purchase of bonds  | (25,917,788)        | (25,921,690)        |
| Purchase of stocks                                       | <u>(432,567)</u>    | <u>(8,859,903)</u>  |
| Net cash flows from investing activities                 | <u>(9,200,798)</u>  | <u>(6,034,744)</u>  |
| <b>Cash flows from financing activities:</b>             |                     |                     |
| Surplus notes, capital and surplus repaid                | (2,300,000)         | (629,414)           |
| Dividend to stockholders                                 | (2,000,000)         | (2,000,000)         |
| Miscellaneous (expenses) proceeds                        | <u>(273,985)</u>    | <u>1,531,525</u>    |
| Net cash flows from financing activities                 | <u>(4,573,985)</u>  | <u>(1,097,889)</u>  |
| Net change in cash and short-term investments            | <u>(966,184)</u>    | <u>1,383,456</u>    |
| Cash and short-term investments at beginning of year     | <u>7,856,806</u>    | <u>6,473,350</u>    |
| Cash and short-term investments at end of year           | <u>\$ 6,890,622</u> | <u>\$ 7,856,806</u> |
| <b>Supplemental disclosures of noncash transactions:</b> |                     |                     |
| Change in payables for securities                        | <u>\$ 75,000</u>    | <u>\$ 250,000</u>   |

See accompanying notes to statutory financial statements.

# ALPS Property & Casualty Insurance Company

## Notes to Statutory Financial Statements

Years ended December 31, 2021 and 2020

### **Note A - Nature of Operations and Significant Accounting Policies**

#### *Organization and Nature of Business*

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.

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: investment management services, corporate officers, corporate services, financial and accounting, legal and regulatory, reinsurance, human resources, actuarial, policy form development and filing, information technology, 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.

## ALPS Property & Casualty Insurance Company

### Notes to Statutory Financial Statements (Continued)

#### **Note A - Nature of Operations and Significant Accounting Policies (Continued)**

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 (LRRRA).

As of December 31, 2021, the Company operates exclusively as a fully licensed and admitted insurance company in 47 states, the District of Columbia, and the U.S. Virgin Islands.

#### **Note B - 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 Office of the 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, 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 sheet, 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.

## ALPS Property & Casualty Insurance Company

### Notes to Statutory Financial Statements (Continued)

#### **Note B - Summary of Significant Accounting Policies (Continued)**

- 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.

- Equity investments- Under SAP, equity securities are recorded at fair value with unrealized gains and losses recorded as a direct charge to capital and surplus, net of adjustments for federal income taxes. Under GAAP, unrealized gains and losses on equity securities are reported directly in net income.
- 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. Additionally, cash flows are not classified consistently for GAAP and SAP.
- 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 and unearned premiums are reported net of ceded reinsurance. Under GAAP such reinsurance balances are reported as an asset.

## ALPS Property & Casualty Insurance Company

### Notes to Statutory Financial Statements (Continued)

#### **Note B - Summary of Significant Accounting Policies (Continued)**

- 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 directly in unassigned 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 collectability of premiums receivable, and any charge is reflected in net income.
- Comprehensive income is not reflected in accordance with the requirements of GAAP. Instead, changes in unrealized gains and losses on investments are charged directly to unassigned surplus.
- Realized gains (losses) - Under SAP, net realized gains (losses) on sales of investments are reported net of applicable income taxes, whereas they are reported gross of tax under GAAP.
- 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.

## ALPS Property & Casualty Insurance Company

### Notes to Statutory Financial Statements (Continued)

#### **Note B - 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 |               |
|--|--------------|--------------|---------------------|---------------|
|  | 2021         | 2020         | 2021                | 2020          |
| Amounts stated in conformity with GAAP | \$ 8,916,667 | \$ 8,277,825 | \$ 60,147,314       | \$ 55,522,707 |
| Other investment adjustments           | (2,058,346)  | (1,361,885)  | (6,332,725)         | (9,245,647)   |
| Deferred policy acquisition costs      | (97,360)     | (35,690)     | (2,016,342)         | (1,918,982)   |
| Nonadmitted assets                     | -            | -            | (74,123)            | (183,022)     |
| Deferred income taxes                  | (97,968)     | 220,986      | 1,445,907           | 2,050,790     |
| Surplus note interest                  | (3,850)      | (3,167)      | -                   | 3,850         |
| Surplus notes                          | -            | -            | -                   | 2,300,000     |
| Amounts stated in conformity with SAP  | \$ 6,659,143 | \$ 7,098,069 | \$ 53,170,031       | \$ 48,529,696 |

#### *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 methods for mitigating the risks, are presented below and throughout the notes to the statutory financial statements.

The ongoing COVID-19 coronavirus pandemic (COVID-19) continues to have a global impact creating uncertainty, volatility, and disruption across economies and financial markets. The Company's operational and financial performance will depend on certain developments, including the duration and spread of COVID-19 and its impact on the Company and its policyholders, owners, employees and vendors. As such, COVID-19 could have a material adverse effect on the Company's financial position in the future. The ultimate duration and impact of the COVID-19 outbreak on the Company's financial position cannot be reasonably estimated at this time.

The Company invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, liquidity, and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities may occur in the near term and those changes could materially affect the amounts reported on the statements of admitted assets, liabilities, and capital and surplus.

## ALPS Property & Casualty Insurance Company

### Notes to Statutory Financial Statements (Continued)

#### **Note B - Summary of Significant Accounting Policies (Continued)**

##### *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 loss adjustment expenses (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.

Ceded reinsurance premiums and commissions are netted against earned premium and related expense, respectively. Amounts recoverable from reinsurers on paid losses and LAE are reported as an asset, whereas amounts recoverable on unpaid losses and LAE and ceded unearned premiums are offset against the liability for losses and LAE and unearned premiums, respectively.

##### *Loss reserves*

The Company estimates losses and loss adjustment expenses 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. As adjustments to these estimates are determined, such adjustments are reflected in current operations.

##### *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.

## ALPS Property & Casualty Insurance Company

### Notes to Statutory Financial Statements (Continued)

#### **Note B - Summary of Significant Accounting Policies (Continued)**

##### *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 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 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 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 investment portfolio at December 31, 2021 and 2020, is presented in the following table:

|        |                    | 2021                |            | 2020                |            |
|--------|--------------------|---------------------|------------|---------------------|------------|
|        |                    | Statement<br>Amount | Percentage | Statement<br>Amount | Percentage |
| NAIC-1 | Highest quality    | \$ 110,161,921      | 90.6 %     | \$ 101,553,971      | 90.1 %     |
| NAIC-2 | High quality       | 10,701,216          | 8.8 %      | 10,633,155          | 9.4 %      |
| NAIC-3 | Medium quality     | 505,052             | 0.4 %      | 552,502             | 0.5 %      |
| NAIC-6 | In or near default | 234,699             | 0.2 %      | 140                 | - %        |
|        |                    | \$ 121,602,888      | 100 %      | \$ 112,739,768      | 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).

##### *Premiums Earned and Related Costs*

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. Expenses incurred in connection with new or renewal business, including acquisition costs such as commissions and premium taxes are charged to operations as incurred. Expenses incurred are reduced for ceding commission and allowances from ceded reinsurance.

## ALPS Property & Casualty Insurance Company

### Notes to Statutory Financial Statements (Continued)

#### **Note B - Summary of Significant Accounting Policies (Continued)**

The Company's claims-made lawyers professional liability policies include a provision for extended reporting coverage, whereby the costs related to the extended reporting period will be waived for the insured policyholder when termination of coverage relates to death, disability, or permanent or total retirement from professional practice within the definition of the policy. The liability for this extended reporting coverage is included as a component of unearned premiums and totaled \$1,800,000 and \$2,300,000 as of December 31, 2021 and 2020, respectively.

A premium deficiency reserve is recognized when the anticipated losses, loss adjustment expenses, commissions and other acquisition costs, and maintenance costs exceed the recorded unearned premium reserve, and any future installment premiums on existing policies. If a premium deficiency exists, a premium deficiency reserve is recognized by recording an additional liability for the deficiency, with a corresponding charge to operations. The Company does consider anticipated investment income when determining if a premium deficiency exists. During 2021 and 2020, the Company did not recognize a premium deficiency reserve.

#### *Losses and loss adjustment expenses*

Estimated liabilities for unpaid loss and LAE are based on individual case estimates of the ultimate cost of reported loss and LAE and estimates of incurred but not reported losses (IBNR). LAE include costs associated directly with specific claims and internal costs relating to claim settlement and administration. Such liabilities are necessarily based on assumptions and estimates. Reserves for IBNR losses and LAE are calculated based upon loss projections utilizing certain actuarial assumptions and the Company's historical experience, net of applicable reinsurance recoverable amounts. Methods utilized by the consulting actuary include the paid and incurred loss development methods, the modified expected loss method, the reported and paid Bornhuetter-Ferguson methods, the base limit times ILF method, and the average value method utilizing the Company's historical data. IBNR reserves are derived from the difference between the projected ultimate losses and loss expenses incurred and the sum of case-basis losses and loss expense reserves, and inception-to-date paid losses and loss expenses. An estimate of ultimate losses is projected at each reporting date. Management believes that its aggregate liability for unpaid loss and loss adjustment expenses at year end represents its best estimate of the amount necessary to cover the ultimate costs of losses based upon an analysis prepared by an independent consulting actuary.

The liability for unpaid loss and LAE is recorded net of applicable reinsurance receivable amounts. Reinsurance receivable amounts are comprised of estimated amounts of unpaid losses and LAE, which are expected to be recoverable from the Company's reinsurers pursuant to certain reinsurance agreements. Such amounts have been estimated using actuarial assumptions consistent with those used to estimate the related liability for unpaid loss and LAE. Management believes that reinsurance receivables represent its best estimate of such amounts; however, as changes in the estimated ultimate liability for loss and LAE are determined, the estimated ultimate amount receivable from the reinsurance companies will also change.

## ALPS Property & Casualty Insurance Company

### Notes to Statutory Financial Statements (Continued)

#### **Note B - Summary of Significant Accounting Policies (Continued)**

The Company has recorded a reserve credit against unpaid losses and LAE for unsecured high deductibles in the amount of \$1,768,838 and \$1,840,102 for the years ended December 31, 2021 and 2020, 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 non-negotiable 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 other than common stock of affiliate are stated at fair value, with unrealized gains and losses being reported in unassigned surplus, net of applicable taxes.

## ALPS Property & Casualty Insurance Company

### Notes to Statutory Financial Statements (Continued)

#### **Note B - Summary of Significant Accounting Policies (Continued)**

Common stock of affiliate represents the Company's 33.33% ownership in Lawyers Reinsurance Company (Lawyers Re) which is considered to be a subsidiary, controlled and affiliated entity (SCA) under Statement of Statutory Accounting Principles (SSAP) No. 97. The SCA completes its financial statements in accordance with GAAP, which differs from NAIC SAP. The monetary effect of the differences between GAAP and NAIC SAP is a (decrease) increase in the Company's prorata share of SCA's surplus of \$(26,758) and \$13,299 as of December 31, 2021 and 2020, respectively and a (decrease) increase in the Company's prorata share of the SCA's net income of \$(165,230) and \$(148,553), for the years then ended. Lawyers Re is 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 \$839,021 and \$686,029 at December 31, 2021 and 2020, respectively. Any redemption requests by the Company are subject to the approval of Lawyers Re's Board of Directors and the Vermont Department of Financial Regulation.

Investments in joint ventures, partnerships and limited liability companies reported as other invested assets and are stated at the underlying audited GAAP equity value, with unrealized gains and losses being reported in unassigned surplus, net of applicable taxes. Other invested assets are valued using the net asset value (NAV) as practical expedient.

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.

## ALPS Property & Casualty Insurance Company

### Notes to Statutory Financial Statements (Continued)

#### **Note B - Summary of Significant Accounting Policies (Continued)**

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, capital and surplus date that were considered temporarily impaired at the statutory statement of admitted assets, liabilities, 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, 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, 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. Investment income is reported net of investment expenses including investment advisory fees, interest expense and other allocated cost related to investment management and administration.

#### *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.

## ALPS Property & Casualty Insurance Company

### Notes to Statutory Financial Statements (Continued)

#### **Note B - Summary of Significant Accounting Policies (Continued)**

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 surplus.

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 pursuant to SSAP No. 101 - Income Taxes (SSAP 101) 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, 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.

The Company would recognize interest and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2021 and 2020, the Company did not recognize any interest and penalties.

# ALPS Property & Casualty Insurance Company

## Notes to Statutory Financial Statements (Continued)

### Note C - Investments

The cost or amortized cost and estimated NAIC fair value of bonds and equity securities as of December 31, 2021 and 2020 are as follows:

|   | December 31, 2021         |                           |                            |                       |
|---|---------------------------|---------------------------|----------------------------|-----------------------|
|   | Cost or Amortized<br>Cost | Gross Unrealized<br>Gains | Gross Unrealized<br>Losses | NAIC<br>Fair Value    |
| Bonds:  |                           |                           |                            |                       |
| U. S. Government agencies                         | \$ 455,392                | \$ 309                    | \$ (1,622)                 | \$ 454,079            |
| State, municipal and other governments            | 83,859,824                | 4,869,158                 | (153,800)                  | 88,575,182            |
| Corporate securities                              | 16,200,019                | 817,716                   | (93,544)                   | 16,924,191            |
| Commercial mortgage-backed securities             | 8,595,155                 | 674,291                   | (1,811)                    | 9,267,635             |
| Residential mortgage-backed securities            | 6,272,313                 | 185,043                   | (57,952)                   | 6,399,404             |
| Other asset-backed securities                     | <u>6,321,748</u>          | <u>26,697</u>             | <u>(33,324)</u>            | <u>6,315,121</u>      |
| Total bonds                                       | <u>121,704,451</u>        | <u>\$ 6,573,214</u>       | <u>\$ (342,053)</u>        | <u>\$ 127,935,612</u> |
| Adjustments for bonds carried at NAIC fair value: |                           |                           |                            |                       |
| Corporate Securities                              | <u>(101,563)</u>          |                           |                            |                       |
|   | <u>\$ 121,602,888</u>     |                           |                            |                       |
| Common stocks                                     | <u>\$ 8,407,223</u>       | <u>\$ 4,080,368</u>       | <u>\$ (139,407)</u>        | <u>\$ 12,348,184</u>  |
| Other invested assets                             | <u>\$ 3,000,000</u>       | <u>\$ 1,018,884</u>       | <u>\$ -</u>                | <u>\$ 4,018,884</u>   |
| December 31, 2020                                 |                           |                           |                            |                       |
|   | Cost or Amortized<br>Cost | Gross Unrealized<br>Gains | Gross Unrealized<br>Losses | NAIC<br>Fair Value    |
| Bonds:  |                           |                           |                            |                       |
| U. S. Government agencies                         | \$ 224,638                | \$ 4,616                  | \$ -                       | \$ 229,254            |
| State, municipal and other governments            | 78,715,721                | 6,205,344                 | (27,231)                   | 84,893,834            |
| Corporate securities                              | 15,720,189                | 1,562,131                 | (113,144)                  | 17,169,176            |
| Commercial mortgage-backed securities             | 8,677,394                 | 1,150,503                 | (7,491)                    | 9,820,406             |
| Residential mortgage-backed securities            | 5,298,065                 | 314,196                   | (1,608)                    | 5,610,653             |
| Other asset-backed securities                     | <u>4,216,905</u>          | <u>58,833</u>             | <u>(13,646)</u>            | <u>4,262,092</u>      |
| Total bonds                                       | <u>\$ 112,852,912</u>     | <u>\$ 9,295,623</u>       | <u>\$ (163,120)</u>        | <u>\$ 121,985,415</u> |
| Adjustments for bonds carried at NAIC fair value: |                           |                           |                            |                       |
| Corporate securities                              | <u>(113,144)</u>          |                           |                            |                       |
|   | <u>\$ 112,739,768</u>     |                           |                            |                       |
| Common stocks                                     | <u>\$ 8,120,458</u>       | <u>\$ 2,354,763</u>       | <u>\$ (110,747)</u>        | <u>\$ 10,364,474</u>  |
| Other invested assets                             | <u>\$ 3,000,000</u>       | <u>\$ 810,477</u>         | <u>\$ -</u>                | <u>\$ 3,810,477</u>   |

# ALPS Property & Casualty Insurance Company

## Notes to Statutory Financial Statements (Continued)

### Note C - Investments (Continued)

The following tables present the estimated NAIC 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, 2021 and 2020:

|  | December 31, 2021    |                         |                                    |                         |                      |                         |
|--|----------------------|-------------------------|------------------------------------|-------------------------|----------------------|-------------------------|
|  | 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              | \$ 228,797           | \$ (1,622)              | \$ -                               | \$ -                    | \$ 228,797           | \$ (1,622)              |
| State, municipal and other governments | 7,298,959            | (144,552)               | 411,887                            | (9,248)                 | 7,710,846            | (153,800)               |
| Corporate securities                   | 2,613,162            | (54,118)                | 476,406                            | (39,426)                | 3,089,568            | (93,544)                |
| Commercial mortgage-backed securities  | 393,330              | (1,811)                 | -                                  | -                       | 393,330              | (1,811)                 |
| Residential mortgage-backed securities | 3,470,513            | (56,812)                | 68,048                             | (1,140)                 | 3,538,561            | (57,952)                |
| Other asset-backed securities          | 4,951,314            | (33,324)                | -                                  | -                       | 4,951,314            | (33,324)                |
| Total bonds                            | <u>18,956,075</u>    | <u>(292,239)</u>        | <u>956,341</u>                     | <u>(49,814)</u>         | <u>19,912,416</u>    | <u>(342,053)</u>        |
| Common stocks                          | <u>367,992</u>       | <u>(31,501)</u>         | <u>2,406,254</u>                   | <u>(107,906)</u>        | <u>2,774,246</u>     | <u>(139,407)</u>        |
| Total                                  | <u>\$ 19,324,067</u> | <u>\$ (323,740)</u>     | <u>\$ 3,362,595</u>                | <u>\$ (157,720)</u>     | <u>\$ 22,686,662</u> | <u>\$ (481,460)</u>     |

|  | December 31, 2020    |                         |                                    |                         |                      |                         |
|--|----------------------|-------------------------|------------------------------------|-------------------------|----------------------|-------------------------|
|  | 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 | \$ 2,351,836         | \$ (27,231)             | \$ -                               | \$ -                    | \$ 2,351,836         | \$ (27,231)             |
| Corporate securities                   | 552,502              | (113,144)               | -                                  | -                       | 552,502              | (113,144)               |
| Commercial mortgage-backed securities  | 498,366              | (7,491)                 | -                                  | -                       | 498,366              | (7,491)                 |
| Residential mortgage-backed securities | 170,146              | (1,297)                 | 34,534                             | (311)                   | 204,680              | (1,608)                 |
| Other asset-backed securities          | 149,993              | (7)                     | 2,284,639                          | (13,639)                | 2,434,632            | (13,646)                |
| Total bonds                            | <u>3,722,843</u>     | <u>(149,170)</u>        | <u>2,319,173</u>                   | <u>(13,950)</u>         | <u>6,042,016</u>     | <u>(163,120)</u>        |
| Common stocks                          | <u>2,403,414</u>     | <u>(110,747)</u>        | <u>-</u>                           | <u>-</u>                | <u>2,403,414</u>     | <u>(110,747)</u>        |
| Total                                  | <u>\$ 6,126,257</u>  | <u>\$ (259,917)</u>     | <u>\$ 2,319,173</u>                | <u>\$ (13,950)</u>      | <u>\$ 8,445,430</u>  | <u>\$ (273,867)</u>     |

## ALPS Property & Casualty Insurance Company

### Notes to Statutory Financial Statements (Continued)

#### **Note C - Investments (Continued)**

The majority of the unrealized losses on bonds 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 NAIC fair value of bonds by contractual maturity at December 31, 2021, 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     | NAIC<br>Fair Value |
|---|----------------|--------------------|
| Due in one year or less                   | \$ 9,939,557   | \$ 10,311,744      |
| Due after one year through five years     | 25,133,076     | 26,971,840         |
| Due after five years through ten years    | 44,879,746     | 47,180,449         |
| Due after five years through twenty years | 41,650,509     | 43,471,579         |
| Total                                     | \$ 121,602,888 | \$ 127,935,612     |

Major categories of net investment income are summarized as follows:

|                           | Years Ended<br>2021 | December 31<br>2020 |
|---------------------------|---------------------|---------------------|
| Bonds                     | \$ 4,300,853        | \$ 4,489,954        |
| Common stocks             | 358,859             | 330,176             |
| Short-term investments    | 10,907              | 29,550              |
|                           | 4,670,619           | 4,849,680           |
| Less investment expenses: |                     |                     |
| Surplus note interest     | 77,216              | 113,796             |
| Other investment expense  | 449,138             | 431,977             |
| Net investment income     | \$ 4,144,265        | \$ 4,303,907        |

## ALPS Property & Casualty Insurance Company

### Notes to Statutory Financial Statements (Continued)

#### Note C - Investments (Continued)

Proceeds from the sales of investment securities during 2021 and 2020 were \$17,149,557 and \$28,746,849, respectively. The Company had 69 and 21 securities that were called in 2021 and 2020, 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 |              |
|--|-------------------------|--------------|
|  | 2021                    | 2020         |
| Gross realized gains:  |                         |              |
| Bonds  | \$ 89,658               | \$ 235,828   |
| Equity securities  | 125,714                 | -            |
| Total  | 215,372                 | 235,828      |
| Gross realized losses:   |                         |              |
| Fixed-income securities, including other-than-temporary impairment | (57,640)                | (46,550)     |
| Equity securities, including other-than-temporary-impairments      | -                       | (1,037,701)  |
| Total  | (57,640)                | (1,084,251)  |
| Tax on net realized capital gains (losses)                         | (33,124)                | 178,168      |
| Net realized capital gains (losses), net of tax                    | \$ 124,608              | \$ (670,255) |

In 2021 and 2020, no securities became other-than-temporarily impaired.

The following table discloses quantitative information about the Company's restricted asset by category as of December 31, 2021 and 2020.

| Restricted Asset Category           | Gross Restricted        |                       |                      | Total Current Year Admitted Restricted | Percentage                       |  |
|-------------------------------------|-------------------------|-----------------------|----------------------|--|----------------------------------|--|
|                                     | Total from Current Year | Total from Prior Year | Increase/ (Decrease) |  | Gross Restricted to Total Assets | Admitted Restricted to Total Admitted Assets |
| Funds on deposit - State of Montana | \$ 3,007,813            | \$ 2,999,560          | \$ 8,253             | \$ 3,007,813                           | 2.0 %                            | 2.0 %  |
| Funds on deposit - other states     | 2,212,551               | 2,213,397             | (846)                | 2,212,551                              | 1.5                              | 1.5  |
| FHLB Capital Stock                  | 170,300                 | 161,200               | 9,100                | 170,300                                | 0.1                              | 0.1  |
| Total restricted assets             | \$ 5,390,664            | \$ 5,374,157          | \$ 16,507            | \$ 5,390,664                           | 3.6 %                            | 3.6 %  |

## ALPS Property & Casualty Insurance Company

### Notes to Statutory Financial Statements (Continued)

#### **Note D - Losses and Loss Adjustment Expenses Reserves**

The components of the liability for losses and LAE and related reinsurance balances recoverable, are as follows:

|                | December 31, 2021     |                           |                      | December 31, 2020     |                           |                      |
|----------------|-----------------------|---------------------------|----------------------|-----------------------|---------------------------|----------------------|
|                | Gross<br>Liability    | Reinsurance<br>Receivable | Net<br>Liability     | Gross<br>Liability    | Reinsurance<br>Receivable | Net<br>Liability     |
| Case-basis     | \$ 38,795,770         | \$ (13,291,250)           | \$ 25,504,520        | \$ 62,188,018         | \$ (34,759,571)           | \$ 27,428,447        |
| IBNR           | <u>81,431,520</u>     | <u>(39,901,446)</u>       | <u>41,530,074</u>    | <u>63,769,413</u>     | <u>(28,058,542)</u>       | <u>35,710,871</u>    |
| Total reserves | <u>\$ 120,227,290</u> | <u>\$ (53,192,696)</u>    | <u>\$ 67,034,594</u> | <u>\$ 125,957,431</u> | <u>\$ (62,818,113)</u>    | <u>\$ 63,139,318</u> |

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, 2021 and 2020:

|   | Years Ended December 31 |                      |
|---|-------------------------|----------------------|
|   | 2021                    | 2020                 |
| Reserve for losses and LAE, beginning of year, (net of reinsurance recoverable of \$62,818,113 and \$40,601,347 in 2021 and 2020, respectively) | \$ 63,139,318           | \$ 63,880,707        |
| Add provision (reduction) for losses and LAE, net of reinsurance, applicable to claims reported in:   |                         |                      |
| Current year  | 24,947,009              | 23,348,000           |
| Prior years   | <u>(4,693,620)</u>      | <u>(6,249,872)</u>   |
| Total incurred during the current year  | <u>20,253,389</u>       | <u>17,098,128</u>    |
| Payments for losses and LAE, net of reinsurance, reported in:   |                         |                      |
| Current year  | 3,545,016               | 3,965,268            |
| Prior years   | <u>12,813,097</u>       | <u>13,874,249</u>    |
| Net claim payments, during the year   | <u>16,358,113</u>       | <u>17,839,517</u>    |
| Reserve for losses and LAE, end of year (net of reinsurance recoverable of \$53,192,696 and \$62,818,113 in 2021 and 2020, respectively)        | <u>\$ 67,034,594</u>    | <u>\$ 63,139,318</u> |

Reserves for incurred losses and LAE attributable to claims reported to the Company in prior years have decreased by approximately \$4,693,620 and \$6,249,872 during 2021 and 2020, 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 \$40,000 and \$0 in 2021 and 2020, respectively.

## ALPS Property & Casualty Insurance Company

### Notes to Statutory Financial Statements (Continued)

#### **Note E - 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.

The Company uses a combination of excess of loss treaties to generally limit their retention to \$350,000 per claim.

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, 2021 or 2020.

The Company holds letters of credit in the amount of approximately \$3,875,145 and \$5,315,302 at December 31, 2021 and 2020, respectively, to secure recoverable balances from unauthorized reinsurers.

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

## ALPS Property & Casualty Insurance Company

### Notes to Statutory Financial Statements (Continued)

#### **Note E - Reinsurance (Continued)**

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 either December 31, 2021 or 2020:

|                                      | <u>AM Best Rating</u> | <u>2021</u>  | <u>2020</u>  |
|--------------------------------------|-----------------------|--------------|--------------|
| Allied World                         | A                     | \$ 1,867,000 | \$ 1,572,000 |
| Aspen Insurance                      | A                     | 1,214,000    | 2,207,000    |
| Axis Reinsurance Co.                 | A+                    | 15,378,000   | 14,829,000   |
| China Re                             | A                     | 2,199,000    | 1,949,000    |
| Endurance Reinsurance                | A                     | 3,200,000    | 3,202,000    |
| JRG Reinsurance Co.                  | A                     | 1,054,000    | 2,057,000    |
| Lawyer's Reinsurance Co.             | NR                    | 792,000      | 2,007,000    |
| Lloyd's Syndicate Number 2623        | A                     | 2,438,000    | 3,261,000    |
| Lloyd's Syndicate Number 4020        | A                     | 1,414,000    | 1,927,000    |
| Lloyd's Syndicate Number 4472        | A                     | 4,153,000    | 4,495,000    |
| Munich Reinsurance America, Inc.     | A+                    | 3,370,000    | 2,840,000    |
| Navigators Ins Co                    | A                     | 894,000      | 1,877,000    |
| Peak Re                              | A-                    | 3,022,000    | 2,527,000    |
| Partners Re, Europe                  | NR                    | 1,614,000    | -            |
| Safety National Casualty Corporation | A+                    | 2,662,000    | 2,364,000    |
| SCOR Reinsurance Co.                 | A                     | 3,638,000    | 3,629,000    |
| Transatlantic Reinsurance Co.        | A+                    | 5,562,000    | 7,679,000    |

ALPS Property & Casualty Insurance Company

Notes to Statutory Financial Statements (Continued)

**Note E - 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, 2021 and 2020, is as follows:

|                             | <u>2021</u>          | <u>2020</u>          |
|-----------------------------|----------------------|----------------------|
| Premiums written:           |                      |                      |
| Direct                      | \$ 54,358,071        | \$ 52,008,397        |
| Ceded                       | <u>(17,639,531)</u>  | <u>(16,480,041)</u>  |
| Net premiums written        | <u>\$ 36,718,540</u> | <u>\$ 35,528,356</u> |
| Premiums earned:            |                      |                      |
| Direct                      | \$ 53,781,544        | \$ 50,793,483        |
| Ceded                       | <u>(17,094,766)</u>  | <u>(16,453,405)</u>  |
| Net premiums earned         | <u>\$ 36,686,778</u> | <u>\$ 34,340,078</u> |
| Unearned premiums:          |                      |                      |
| Direct                      | \$ 25,533,657        | \$ 24,957,129        |
| Ceded                       | <u>(7,720,773)</u>   | <u>(7,176,007)</u>   |
| Net unearned premiums       | <u>\$ 17,812,884</u> | <u>\$ 17,781,122</u> |
| Losses and LAE incurred:    |                      |                      |
| Direct                      | \$ 33,914,778        | \$ 46,774,690        |
| Ceded                       | <u>(13,661,389)</u>  | <u>(29,676,562)</u>  |
| Net losses and LAE incurred | <u>\$ 20,253,389</u> | <u>\$ 17,098,128</u> |

The unearned premium reserve is reported net of ceded reinsurance premiums of \$7,720,773 and \$7,176,007 at December 31, 2021 and 2020, respectively. Ceding commissions relative to these unearned amounts ("commission equity") amounted to \$13,111 and \$185,756 at December 31, 2021 and 2020, respectively, and have been fully earned.

## ALPS Property & Casualty Insurance Company

### Notes to Statutory Financial Statements (Continued)

#### **Note F - 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 2021 and 2020 was \$0 and \$57,131, respectively. The certificates have all been redeemed as of December 31, 2020.

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, 2021, dividends in excess of \$5,317,003 would be considered extraordinary.

Ordinary dividends in the amount of \$2,000,000 were declared and paid by the Company during the year ended December 31, 2021. Ordinary dividends in the amount of \$2,000,000 were declared and paid by the Company during the year ended December 31, 2020.

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

|  | Cumulative<br>Increase<br>(Decrease) in<br>Surplus | Current-Year<br>Increase<br>(Decrease) in<br>Surplus |
|--|--|--|
|  | <u>                    </u>                        | <u>                    </u>                          |
| Unrealized losses-bonds                    | \$ (101,563)                                       | \$ 11,581  |
| Unrealized gains-common stock              | 3,940,961  | 1,696,945  |
| Unrealized gains-common stock of affiliate | 332,883  | 152,992  |
| Unrealized gains-other invested assets     | <u>1,018,884</u>                                   | <u>208,407</u>                                       |
| Total increase (decrease)                  | <u>\$ 5,191,165</u>                                | <u>\$ 2,069,925</u>                                  |

## ALPS Property & Casualty Insurance Company

### Notes to Statutory Financial Statements (Continued)

#### Note G - Surplus Notes

The Company has issued the following surplus debentures or similar obligations as of December 31, 2021:

| <u>Date Issued</u> | <u>Interest Rate</u> | <u>Par Value</u> | <u>Carrying Value</u> | <u>Principal and/or Interest Paid Current Year</u> | <u>Total Principal and/or Interest Paid</u> | <u>Unapproved Principal and/or Interest</u> | <u>Date of Maturity</u> |
|--------------------|----------------------|------------------|-----------------------|--|---|---|-------------------------|
| 10/14/2005         | LIBOR + 3.55%        | \$ -             | \$ -                  | \$ 2,377,216                                       | \$ 17,317,178                               | \$ -  | 12/15/2035              |

The Company has issued the following surplus debentures or similar obligations as of December 31, 2020:

| <u>Date Issued</u> | <u>Interest Rate</u> | <u>Par Value</u> | <u>Carrying Value</u> | <u>Principal and/or Interest Paid Current Year</u> | <u>Total Principal and/or Interest Paid</u> | <u>Unapproved Principal and/or Interest</u> | <u>Date of Maturity</u> |
|--------------------|----------------------|------------------|-----------------------|--|---|---|-------------------------|
| 10/14/2005         | LIBOR + 3.55%        | \$ 2,300,000     | \$ 2,300,000          | \$ 713,796   | \$ 14,939,962                               | \$ 3,850                                    | 12/15/2035              |

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 \$2,300,000 and \$629,414 were paid by the Company during the years ended December 31, 2021 and 2020, 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. The Company does not have an outstanding redemption liability as of December 31, 2021.

## ALPS Property & Casualty Insurance Company

### Notes to Statutory Financial Statements (Continued)

#### **Note H - Affiliated Companies and Related-Party Transactions**

The Company rents office space from related parties under a Facilities Use Agreement, as described in Note A. 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 |                      |
|--------------------------------|-------------------------|----------------------|
|                                | <u>2021</u>             | <u>2020</u>          |
| Administrative services        | \$ 4,526,707            | \$ 5,049,068         |
| Investment management services | 138,844                 | 129,864              |
| Rent                           | 132,034                 | 145,044              |
| Claims                         | 1,347,221               | 1,325,105            |
| Underwriting                   | 1,038,552               | 968,570              |
| Commissions                    | <u>3,572,219</u>        | <u>3,381,385</u>     |
|                                | <u>\$ 10,755,577</u>    | <u>\$ 10,999,036</u> |

At December 31, 2021 and 2020, the Company reported net amounts due to affiliates of \$1,246,400 and \$1,207,888, respectively. For the years ended December 31, 2021 and 2020, the Company has expensed \$920,000 and \$1,486,500 respectively, related to its participation in the ALPS Corporation Long-Term Cash Incentive Plan.

An affiliate of one of the Company's reinsurers also owns 18.10% of the common stock in ALPS Corporation. During 2016, the Company entered into an agreement providing the entity a right of first refusal on up to 33% of any reinsurance placed by the Company.

#### **Note I - Federal Income Taxes**

At December 31, 2021 and 2020, the income tax expense represents amounts paid to ALPS Corporation under the Tax Allocation Agreement. The Company is not subject to state income taxes.

ALPS Property & Casualty Insurance Company

Notes to Statutory Financial Statements (Continued)

**Note I - Federal Income Taxes (Continued)**

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

|                                      | 2021                |                     |                     |
|--------------------------------------|---------------------|---------------------|---------------------|
|                                      | Ordinary            | Capital             | Total               |
| Gross deferred tax assets            | \$ 2,644,205        | \$ 21,000           | \$ 2,665,205        |
| Adjustment gross deferred tax assets | 2,644,205           | 21,000              | 2,665,205           |
| Deferred tax assets nonadmitted      | -                   | -                   | -                   |
| Net admitted deferred tax assets     | 2,644,205           | 21,000              | 2,665,205           |
| Deferred tax liabilities             | 376,255             | 979,326             | 1,355,581           |
| Net adjusted deferred tax asset      | <u>\$ 2,267,950</u> | <u>\$ (958,326)</u> | <u>\$ 1,309,624</u> |
|                                      | 2020                |                     |                     |
|                                      | Ordinary            | Capital             | Total               |
| Gross deferred tax assets            | \$ 1,987,998        | \$ 21,000           | \$ 2,008,998        |
| Adjustment gross deferred tax assets | 1,987,998           | 21,000              | 2,008,998           |
| Deferred tax assets nonadmitted      | (109,495)           | -                   | (109,495)           |
| Net admitted deferred tax assets     | 1,878,503           | 21,000              | 1,899,503           |
| Deferred tax liabilities             | 209,107             | 592,634             | 801,741             |
| Net adjusted deferred tax asset      | <u>\$ 1,669,396</u> | <u>\$ (571,634)</u> | <u>\$ 1,097,762</u> |
|                                      | Change              |                     |                     |
|                                      | Ordinary            | Capital             | Total               |
| Gross deferred tax assets            | \$ 656,207          | \$ -                | \$ 656,207          |
| Adjustment gross deferred tax assets | 656,207             | -                   | 656,207             |
| Deferred tax assets nonadmitted      | 109,495             | -                   | 109,495             |
| Net admitted deferred tax assets     | 765,702             | -                   | 765,702             |
| Deferred tax liabilities             | 167,148             | 386,692             | 553,840             |
| Net adjusted deferred tax asset      | <u>\$ 598,554</u>   | <u>\$ (386,692)</u> | <u>\$ 211,862</u>   |

For 2021 and 2020, the Company determined a valuation allowance was not necessary.

ALPS Property & Casualty Insurance Company

Notes to Statutory Financial Statements (Continued)

**Note I - Federal Income Taxes (Continued)**

A summary of the Company's adjusted admitted gross deferred tax asset calculation by component and character pursuant to SSAP 101 for the years ended December 31, 2021 and 2020, is as follows:

|  | 2021                |                  |                     |
|--|---------------------|------------------|---------------------|
|  | 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 | <u>2,267,950</u>    | <u>21,000</u>    | <u>2,288,950</u>    |
| Adjusted gross deferred tax assets expected to be realized following the balance sheet date              | 2,267,950           | 21,000           | 2,288,950           |
| Adjusted gross deferred tax assets allowed per limitation threshold                                      | -                   | -                | 7,779,061           |
| Adjusted gross deferred tax assets offset by gross deferred tax liabilities                              | <u>376,255</u>      | <u>-</u>         | <u>376,255</u>      |
| Net admitted deferred tax assets   | <u>\$ 2,644,205</u> | <u>\$ 21,000</u> | <u>\$ 2,665,205</u> |
|  | 2020                |                  |                     |
|  | 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 | <u>1,669,396</u>    | <u>21,000</u>    | <u>1,690,396</u>    |
| Adjusted gross deferred tax assets expected to be realized following the balance sheet date              | 1,669,396           | 21,000           | 1,690,396           |
| Adjusted gross deferred tax assets allowed per limitation threshold                                      | -                   | -                | 7,114,790           |
| Adjusted gross deferred tax assets offset by gross deferred tax liabilities                              | <u>209,107</u>      | <u>-</u>         | <u>209,107</u>      |
| Net admitted deferred tax assets   | <u>\$ 1,878,503</u> | <u>\$ 21,000</u> | <u>\$ 1,899,503</u> |

ALPS Property & Casualty Insurance Company

Notes to Statutory Financial Statements (Continued)

**Note I - Federal Income Taxes (Continued)**

The ratio and adjusted capital and surplus used to determine recovery period and threshold limitation used to determine admissibility of the deferred tax assets under SSAP 101 for each year, are as follows:

|   | Years Ended December 31 |               |
|---|-------------------------|---------------|
|   | <u>2021</u>             | <u>2020</u>   |
| Percentage used to determine recovery period and threshold limitation amount            | 434 %                   | 416 %         |
| Adjusted capital and surplus used to determine recovery period and threshold limitation | \$ 51,860,407           | \$ 47,431,935 |

The Company has not implemented any tax sharing strategies to admit additional deferred tax assets.

ALPS Property & Casualty Insurance Company

Notes to Statutory Financial Statements (Continued)

**Note I - Federal Income Taxes (Continued)**

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

|  | <u>December 31</u>  |                     |                   |
|--|---------------------|---------------------|-------------------|
|  | <u>2021</u>         | <u>2020</u>         | <u>Change</u>     |
| Gross deferred federal income tax assets:                                |                     |                     |                   |
| Ordinary:  |                     |                     |                   |
| Discounting unpaid losses  | \$ 1,155,210        | \$ 1,098,510        | \$ 56,700         |
| Unearned premium reserve   | 899,048             | 874,046             | 25,002            |
| Profit commission  | 574,380             | -                   | 574,380           |
| Other  | 15,567              | 15,440              | 127               |
| Capital:   |                     |                     |                   |
| Investments  | <u>21,000</u>       | <u>21,000</u>       | <u>-</u>          |
| Total deferred federal income tax assets                                 | <u>2,665,205</u>    | <u>2,008,996</u>    | <u>656,209</u>    |
| Gross deferred federal income tax liabilities:                           |                     |                     |                   |
| Ordinary:  |                     |                     |                   |
| Policyholder reserves  | (167,446)           | (209,107)           | 41,661            |
| Profit commission  | (203,571)           | -                   | (203,571)         |
| Other  | (5,238)             | -                   | (5,238)           |
| Capital:   |                     |                     |                   |
| Investments  | <u>(979,326)</u>    | <u>(592,632)</u>    | <u>(386,694)</u>  |
| Total deferred federal income tax liabilities                            | <u>(1,355,581)</u>  | <u>(801,739)</u>    | <u>(553,842)</u>  |
| Net deferred federal income tax asset                                    | 1,309,624           | 1,207,257           | 102,367           |
| Deferred federal income tax assets<br>nonadmitted                        | <u>-</u>            | <u>(109,495)</u>    | <u>109,495</u>    |
| Net admitted deferred federal income tax asset                           | <u>\$ 1,309,624</u> | <u>\$ 1,097,762</u> | <u>\$ 211,862</u> |
| (Decrease) Increase in deferred federal income<br>tax assets nonadmitted | <u>\$ (109,495)</u> | <u>\$ 70,231</u>    |                   |

## ALPS Property & Casualty Insurance Company

### Notes to Statutory Financial Statements (Continued)

#### Note I - Federal Income Taxes (Continued)

The Company's change in net deferred income taxes, exclusive of nonadmitted amounts, is comprised of the following:

|                                   | <u>2021</u>         | <u>2020</u>         | <u>Change</u>     |
|-----------------------------------|---------------------|---------------------|-------------------|
| Total deferred tax assets         | \$ 2,665,205        | \$ 2,008,996        | \$ 656,209        |
| Total deferred tax liabilities    | <u>(1,355,581)</u>  | <u>(801,739)</u>    | <u>(553,842)</u>  |
| Net deferred tax assets           | <u>\$ 1,309,624</u> | <u>\$ 1,207,257</u> | <u>102,367</u>    |
| Tax effect of unrealized gains    |                     |                     | <u>(434,684)</u>  |
| Change in net deferred income tax |                     |                     | <u>\$ 537,051</u> |

The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate to income before income taxes. The significant items causing the difference at December 31, 2021 are summarized as follows:

|   | <u>Amount</u>       | <u>Tax at<br/>Statutory<br/>Rate</u> | <u>Effective<br/>Tax Rate</u> |
|---|---------------------|--------------------------------------|-------------------------------|
| Income before taxes (including all realized capital gains/(losses)) | \$ 8,912,706        | \$ 1,871,668                         | 21.00 %                       |
| Tax-Exempt interest   | (1,070,593)         | (224,825)                            | (2.52)                        |
| Dividends received deduction  | (98,636)            | (20,714)                             | (0.23)                        |
| Proration adjustment  | 292,307             | 61,384                               | 0.69                          |
| SIT Bond Fund differences   | (527,705)           | (110,818)                            | (1.24)                        |
| Profit commission change in method                                  | (969,385)           | (203,571)                            | (2.28)                        |
| Change in profit commissions  | 134,944             | 28,338                               | 0.32                          |
| Change in unearned AIA commissions                                  | 65,441              | 13,743                               | 0.15                          |
| Change in non-admitted  | 596                 | 125                                  | -                             |
| Change in estimate from prior years                                 | 1,487,989           | 312,478                              | 3.51                          |
| Other   | <u>(53,790)</u>     | <u>(11,296)</u>                      | <u>(0.13)</u>                 |
| Total   | <u>\$ 8,173,874</u> | 1,716,512                            | 19.26                         |
| Federal income taxes incurred                                       |                     | 2,220,439                            | 24.91                         |
| Tax on net realized capital gains (losses)                          |                     | 33,124                               | 0.37                          |
| Change in deferred income tax reflected in surplus                  |                     | <u>(537,051)</u>                     | <u>(6.03)</u>                 |
| Total statutory income taxes  |                     | <u>\$ 1,716,512</u>                  | <u>19.26 %</u>                |

At December 31, 2021 and 2020, the Company did not have an operating loss carryforward available to offset against future taxable income.

## ALPS Property & Casualty Insurance Company

### Notes to Statutory Financial Statements (Continued)

#### **Note I - Federal Income Taxes (Continued)**

The Company follows the net operating loss rules proscribed by the IRS at the consolidated group level in accordance with the Tax Allocation Agreement. Accordingly there are no income taxes incurred in 2021 and 2020, that will be available for recoupment in the event of future net losses.

#### **Note J - Nonadmitted Assets**

Assets designated as nonadmitted are reflected as a reduction in surplus in the accompanying statement of admitted assets, liabilities and policyholders' surplus. Changes in nonadmitted assets are reflected as adjustments to capital and surplus. A summary of assets nonadmitted is as follows:

|   | Years Ended December 31 |            |
|---|-------------------------|------------|
|   | 2021                    | 2020       |
| Balance of nonadmitted assets-beginning of the year | \$ 183,022              | \$ 158,748 |
| Increase (decrease) in nonadmitted assets:          |                         |            |
| Deductible receivables                              | 10,426                  | (28,552)   |
| Reinsurance recoverables                            | (309)                   | (26,778)   |
| Prepaid expenses                                    | (9,521)                 | 9,373      |
| Deferred tax assets                                 | (109,495)               | 70,231     |
| Net (decrease) increase                             | (108,899)               | 24,274     |
| Balance of nonadmitted assets-end of year           | \$ 74,123               | \$ 183,022 |

#### **Note K - 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.

## ALPS Property & Casualty Insurance Company

### Notes to Statutory Financial Statements (Continued)

#### **Note K - Fair Value of Financial Instruments and Fair Value Measurements (Continued)**

The Company's financial assets and liabilities carried at NAIC 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.

##### *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, mutual funds and exchange traded funds are generally based on market values prescribed by the SVO.

## ALPS Property & Casualty Insurance Company

### Notes to Statutory Financial Statements (Continued)

#### **Note K - Fair Value of Financial Instruments and Fair Value Measurements (Continued)**

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

The estimated carrying amounts and NAIC fair values of the Company's financial instruments classified by the fair value hierarchy as of December 31, 2021 and 2020, are as follows:

| December 31, 2021               |                             |                              |                    |                              |                              |
|---------------------------------|-----------------------------|------------------------------|--------------------|------------------------------|------------------------------|
| Assets                          | Level 1                     | Level 2                      | Level 3            | Fair Value                   | Carrying Value               |
| Bonds                           | \$ 454,079                  | \$ 127,481,535               | \$ -               | \$ 127,935,614               | \$ 121,602,888               |
| Common stocks                   | 12,177,884                  | 170,300                      | -                  | 12,348,184                   | 12,348,184                   |
| Cash and short-term investments | <u>6,890,622</u>            | <u>-</u>                     | <u>-</u>           | <u>6,890,622</u>             | <u>6,890,622</u>             |
| <b>Total</b>                    | <b><u>\$ 19,522,585</u></b> | <b><u>\$ 127,651,835</u></b> | <b><u>\$ -</u></b> | <b><u>\$ 147,174,420</u></b> | <b><u>\$ 140,841,694</u></b> |
| December 31, 2020               |                             |                              |                    |                              |                              |
| Assets                          | Level 1                     | Level 2                      | Level 3            | Fair Value                   | Carrying Value               |
| Bonds                           | \$ 229,254                  | \$ 121,756,161               | \$ -               | \$ 121,985,415               | \$ 112,739,768               |
| Common stocks                   | 10,203,274                  | 161,200                      | -                  | 10,364,474                   | 10,364,474                   |
| Cash and short-term investments | <u>7,856,806</u>            | <u>-</u>                     | <u>-</u>           | <u>7,856,806</u>             | <u>7,856,806</u>             |
| <b>Total</b>                    | <b><u>\$ 18,289,334</u></b> | <b><u>\$ 121,917,361</u></b> | <b><u>\$ -</u></b> | <b><u>\$ 140,206,695</u></b> | <b><u>\$ 130,961,048</u></b> |

The Company's common stock of affiliate represents its investment in Lawyers Re which is carried using the GAAP equity method as further described in Note B, and accordingly the carrying value of \$839,021 and \$686,029 as of December 31, 2021 and 2020, respectively have been excluded above.

The Company holds an investment in Federal Home Loan Bank (FHLB) of Des Moines associated with its FHLB membership. The stock is putable by the Company at its fixed par value of \$100 per share. There is no active market for the FHLB stock, rather FHLB redeems all shares at the stated par value. The Company did not redeem any FHLB stock, receive any advances, or pledge any investments to the FHLB in 2021 or 2020. In evaluating the fair value of FHLB stock the Company considers the credit rating of the FHLB and ability to repurchase shares at par value. Based upon that assessment the Company concluded there is no other than temporary impairment. As such, the fair value and carrying value of FHLB stock continue to be equal to the \$100 par value per share. Fair value and carrying value of the FHLB stock totaled \$170,300 and \$161,200 as of December 31, 2021 and 2020, respectively and have been reflected as a Level 2 estimate in the fair value hierarchy.

ALPS Property & Casualty Insurance Company

Notes to Statutory Financial Statements (Continued)

**Note K - Fair Value of Financial Instruments and Fair Value Measurements (Continued)**

The Company holds an other invested asset in the SIT Opportunity Bond Fund, LLC (SIT Fund), which is a private investment fund that invests in closed-end registered investment companies that have underlying investments in fixed-income securities. The SIT Fund is carried at net asset value as a practical expedient, and has a carrying value of \$4,018,884 and \$3,810,477 at December 31, 2021 and 2020, respectively. The Company is required to provide 30 days of advance notice to the SIT Fund manager for all redemption requests. The Company's investment represents approximately 4.8% and 2.8% ownership interest of the SIT Fund as of December 31, 2021 and 2020, respectively. Pursuant to NAIC SAP fair value estimates derived by using the NAV practical expedient are excluded from the fair value hierarchy and as such are not reflected in the previous disclosure.

The following summarizes financial instruments measured at fair value as of December 31, 2021 and 2020, segregated by the level of valuation inputs within the fair value hierarchy utilized to measure fair value:

| Assets                                    | December 31, 2021    |                   |             | Total<br>Fair Value  |
|---|----------------------|-------------------|-------------|----------------------|
|   | Level 1              | Level 2           | Level 3     |                      |
| Bonds:                                    |                      |                   |             |                      |
| Corporate                                 | \$ -                 | \$ 476,406        | \$ -        | \$ 476,406           |
| State, municipal and other<br>governments | -                    | 234,699           | -           | 234,699              |
| Total bonds                               | <u>\$ -</u>          | <u>\$ 711,105</u> | <u>\$ -</u> | <u>\$ 711,105</u>    |
| Common stocks                             | <u>\$ 12,177,884</u> | <u>\$ 170,300</u> | <u>\$ -</u> | <u>\$ 12,348,184</u> |
|   |                      |                   |             |                      |
| Assets                                    | December 31, 2020    |                   |             | Total<br>Fair Value  |
|   | Level 1              | Level 2           | Level 3     |                      |
| Bonds:                                    |                      |                   |             |                      |
| Corporate                                 | \$ -                 | \$ 552,502        | \$ -        | \$ 552,502           |
| Residential mortgage backed<br>securities | -                    | 141               | -           | 141                  |
| Total bonds                               | <u>\$ -</u>          | <u>\$ 552,643</u> | <u>\$ -</u> | <u>\$ 552,643</u>    |
| Common stocks                             | <u>\$ 10,203,274</u> | <u>\$ 161,200</u> | <u>\$ -</u> | <u>\$ 10,364,474</u> |
| Cash equivalents - exempt MMMF            | <u>\$ 5,671</u>      | <u>\$ -</u>       | <u>\$ -</u> | <u>\$ 5,671</u>      |

## ALPS Property & Casualty Insurance Company

### Notes to Statutory Financial Statements (Continued)

#### **Note L - 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.

On September 17, 2021, the Company entered into a subscription agreement with Trident Capital IX, L.P., a Cayman Islands exempted Limited Partnership (Trident), wherein the Company agreed to a \$2 million capital commitment to invest in Trident. As of December 31, 2021, the Company has received no drawdown notice from Trident and the Company's full \$2 million capital commitment remains outstanding.

#### **Note M - 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.

On January 21, 2022, the Company has submitted a redemption request to SIT Investments Associates to partially divest its holdings in the SIT Fund referred to in Note K. This request is a partial redemption of the Company's interest in the SIT Fund in the amount of \$1.5 million dollars and is effective February 28, 2022.

On January 1, 2022, The Company renewed its excess of loss treaties and increased its retention to \$500,000 dollars per claim.

Subsequent events have been evaluated through April 28, 2022, which is the date the statutory financial statements were available to be issued.

## Other Financial Information

**SUMMARY INVESTMENT SCHEDULE**

| Investment Categories   | Gross Investment Holdings |   | Admitted Assets as Reported in the Annual Statement |  |                                    |   |
|---|---------------------------|---|---|--|------------------------------------|---|
|   | 1<br>Amount               | 2<br>Percentage of<br>Column 1<br>Line 13 | 3<br>Amount   | 4<br>Securities<br>Lending<br>Reinvested<br>Collateral<br>Amount | 5<br>Total<br>(Col. 3+4)<br>Amount | 6<br>Percentage of<br>Column 5<br>Line 13 |
| 1. Long-term bonds (Schedule D, Part 1):  |                           |   |   |  |                                    |   |
| 1.01 U.S. governments   | 1,033,882                 | 0.7                                       | 1,033,881   |  | 1,033,881                          | 0.7                                       |
| 1.02 All other governments  |                           |   |   |  |                                    |   |
| 1.03 U.S. states, territories and possessions, etc.<br>guaranteed                       | 1,052,975                 | 0.7                                       | 1,052,975   |  | 1,052,975                          | 0.7                                       |
| 1.04 U.S. political subdivisions of states, territories, and<br>possessions, guaranteed | 11,095,022                | 7.6                                       | 11,095,021  |  | 11,095,021                         | 7.6                                       |
| 1.05 U.S. special revenue and special assessment<br>obligations, etc. non-guaranteed    | 73,663,277                | 50.6                                      | 73,663,276  |  | 73,663,276                         | 50.6                                      |
| 1.06 Industrial and miscellaneous   | 34,757,732                | 23.9                                      | 34,757,735  |  | 34,757,735                         | 23.9                                      |
| 1.07 Hybrid securities  |                           |   |   |  |                                    |   |
| 1.08 Parent, subsidiaries and affiliates  |                           |   |   |  |                                    |   |
| 1.09 SVO identified funds   |                           |   |   |  |                                    |   |
| 1.10 Unaffiliated bank loans  |                           |   |   |  |                                    |   |
| 1.11 Total long-term bonds  | 121,602,888               | 83.5                                      | 121,602,888   |  | 121,602,888                        | 83.5                                      |
| 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<br>(Unaffiliated)                     |                           |   |   |  |                                    |   |
| 3.02 Industrial and miscellaneous Other (Unaffiliated)                                  | 170,300                   | 0.1                                       | 170,300   |  | 170,300                            | 0.1                                       |
| 3.03 Parent, subsidiaries and affiliates Publicly traded                                |                           |   |   |  |                                    |   |
| 3.04 Parent, subsidiaries and affiliates Other  | 839,020                   | 0.6                                       | 839,020   |  | 839,020                            | 0.6                                       |
| 3.05 Mutual funds   | 12,177,885                | 8.4                                       | 12,177,885  |  | 12,177,885                         | 8.4                                       |
| 3.06 Unit investment trusts   |                           |   |   |  |                                    |   |
| 3.07 Closed-end funds   |                           |   |   |  |                                    |   |
| 3.08 Total common stocks  | 13,187,205                | 9.1                                       | 13,187,205  |  | 13,187,205                         | 9.1                                       |
| 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 valuation allowance  |                           |   |   |  |                                    |   |
| 4.06 Total mortgage loans   |                           |   |   |  |                                    |   |
| 5. Real estate (Schedule A):  |                           |   |   |  |                                    |   |
| 5.01 Properties occupied by company   |                           |   |   |  |                                    |   |
| 5.02 Properties held for production of income   |                           |   |   |  |                                    |   |
| 5.03 Properties held for sale   |                           |   |   |  |                                    |   |
| 5.04 Total real estate  |                           |   |   |  |                                    |   |
| 6. Cash, cash equivalents and short-term investments:                                   |                           |   |   |  |                                    |   |
| 6.01 Cash (Schedule E, Part 1)  | 5,668,034                 | 3.9                                       | 5,668,034   |  | 5,668,034                          | 3.9                                       |
| 6.02 Cash equivalents (Schedule E, Part 2)  | 1,222,588                 | 0.8                                       | 1,222,588   |  | 1,222,588                          | 0.8                                       |
| 6.03 Short-term investments (Schedule DA)   |                           |   |   |  |                                    |   |
| 6.04 Total cash, cash equivalents and short-term<br>investments                         | 6,890,622                 | 4.7                                       | 6,890,622   |  | 6,890,622                          | 4.7                                       |
| 7. Contract loans   |                           |   |   |  |                                    |   |
| 8. Derivatives (Schedule DB)  |                           |   |   |  |                                    |   |
| 9. Other invested assets (Schedule BA)  | 4,018,884                 | 2.8                                       | 4,018,884   |  | 4,018,884                          | 2.8                                       |
| 10. Receivables for securities  |                           |   |   |  |                                    |   |
| 11. Securities lending (Schedule DL, Part 1)  |                           |   |   | XXX  | XXX                                | XXX                                       |
| 12. Other invested assets (Page 2, Line 11)   |                           |   |   |  |                                    |   |
| 13. Total invested assets   | 145,699,599               | 100.0                                     | 145,699,599   |  | 145,699,599                        | 100.0                                     |



**SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES**

For The Year Ended December 31, 2021  
(To Be Filed by April 1)

Of The: ALPS Property & Casualty Insurance Company

Address (City, State and Zip Code): Missoula, MT, US 59807

NAIC Group Code: 00000

NAIC Company Code: 32450

Employer's ID Number: 26-0023979

The Investment Risks Interrogatories are to be filed by April 1. They are also to be included with the Audited Statutory Financial Statements.

Answer the following interrogatories by reporting the applicable U.S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement..... \$..... 151,206,494

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

|      | 1   | 2                       | 3            | 4                                   |
|------|---|-------------------------|--------------|-------------------------------------|
|      | Issuer  | Description of Exposure | Amount       | Percentage of Total Admitted Assets |
| 2.01 | VANGUARD HIGH DIVIDEND YIELD ETF              | COMMON STK              | \$ 5,314,014 | 3.514 %                             |
| 2.02 | SIT INVESTMENT ASSOCIATES INC                 | COMMON STK              | \$ 4,018,884 | 2.658 %                             |
| 2.03 | ISHARES CORE S&P 500 ETF                      | COMMON STK              | \$ 3,906,548 | 2.584 %                             |
| 2.04 | MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY  | BONDS                   | \$ 3,189,756 | 2.110 %                             |
| 2.05 | MASSACHUSETTS HOUSING FINANCE AGENCY          | BONDS                   | \$ 3,046,239 | 2.015 %                             |
| 2.06 | DDJ CAPITAL OPPORTUNISTIC HIGH YIELD FUND     | COMMON STK              | \$ 2,720,880 | 1.799 %                             |
| 2.07 | VIRGINIA HOUSING DEVELOPMENT AUTHORITY        | BONDS                   | \$ 2,209,515 | 1.461 %                             |
| 2.08 | NEW JERSEY HOUSING & MORTGAGE FINANCE AGENCY  | BONDS                   | \$ 1,850,721 | 1.224 %                             |
| 2.09 | TENNESSEE HOUSING DEVELOPMENT AGENCY          | BONDS                   | \$ 1,727,251 | 1.142 %                             |
| 2.10 | MASSACHUSETTS EDUCATIONAL FINANCING AUTHORITY | BONDS                   | \$ 1,690,709 | 1.118 %                             |

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

|                         | 1              | 2        |
|-------------------------|----------------|----------|
| <b>Bonds</b>            |                |          |
| 3.01 NAIC 1             | \$ 110,991,914 | 73.404 % |
| 3.02 NAIC 2             | \$ 10,701,216  | 7.077 %  |
| 3.03 NAIC 3             | \$ 505,052     | 0.334 %  |
| 3.04 NAIC 4             | \$ -           | - %      |
| 3.05 NAIC 5             | \$ -           | - %      |
| 3.06 NAIC 6             | \$ 234,699     | 0.155 %  |
| <b>Preferred Stocks</b> |                |          |
| 3.07 P/RP-1             | \$ -           | - %      |
| 3.08 P/RP-2             | \$ -           | - %      |
| 3.09 P/RP-3             | \$ -           | - %      |
| 3.10 P/RP-4             | \$ -           | - %      |
| 3.11 P/RP-5             | \$ -           | - %      |
| 3.12 P/RP-6             | \$ -           | - %      |

4. 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?..... NO.....

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

|  |            |         |
|--|------------|---------|
| 4.02 Total admitted assets held in foreign investments               | \$ 846,035 | 0.560 % |
| 4.03 Foreign-currency-denominated investments                        | \$ -       | - %     |
| 4.04 Insurance liabilities denominated in that same foreign currency | \$ -       | - %     |



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 .....

If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11.

|  | 1        | 2 |
|--|----------|---|
| 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 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 .....

If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.

|  | 1        | 2 | 3 |
|--|----------|---|---|
| 12.02 Aggregate statement value of investments with contractual sales restrictions ..... | \$ ..... | % |   |
| Largest three investments with contractual sales restrictions:                           |          |   |   |
| 12.03 .....  | \$ ..... | % |   |
| 12.04 .....  | \$ ..... | % |   |
| 12.05 .....  | \$ ..... | % |   |

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

13.01 Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets? ..... NO .....

If response to 13.01 is yes, responses are not required for the remainder of Interrogatory 13.

|   | 1        | 2               | 3       |
|---|----------|-----------------|---------|
| Issuer  |          |                 |         |
| 13.02 ... VANGUARD HIGH DIVIDEND YIELD ETF .....          | \$ ..... | 5,314,014 ..... | 3.514 % |
| 13.03 ... ISHARES CORE S&P 500 ETF .....                  | \$ ..... | 3,906,548 ..... | 2.584 % |
| 13.04 ... DDJ CAPITAL OPPORTUNISTIC HIGH YIELD FUND ..... | \$ ..... | 2,720,880 ..... | 1.799 % |
| 13.05 ... LAWYERS REINSURANCE COMPANY .....               | \$ ..... | 839,020 .....   | 0.555 % |
| 13.06 ... SPDR S&P CHINA ETF .....                        | \$ ..... | 236,443 .....   | 0.156 % |
| 13.07 ... FEDERAL HOME LOAN BANKS .....                   | \$ ..... | 170,300 .....   | 0.113 % |
| 13.08 .....   | \$ ..... |                 | %       |
| 13.09 .....   | \$ ..... |                 | %       |
| 13.10 .....   | \$ ..... |                 | %       |
| 13.11 .....   | \$ ..... |                 | %       |

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.....

If response to 14.01 above is yes, responses are not required 14.02 through 14.05

|  |    |   |   |
|--|----|---|---|
|  | 1  | 2 | 3 |
| 14.02 Aggregate statement value of investments held in nonaffiliated, privately placed equities..... | \$ | % |   |

Largest three investments held in nonaffiliated, privately placed equities:

|             |    |   |  |
|-------------|----|---|--|
| 14.03 ..... | \$ | % |  |
| 14.04 ..... | \$ | % |  |
| 14.05 ..... | \$ | % |  |

Ten largest fund managers:

|             | 1            | 2              | 3           | 4              |
|-------------|--------------|----------------|-------------|----------------|
|             | Fund Manager | Total Invested | Diversified | Nondiversified |
| 14.06 ..... | \$           | \$             | \$          | \$             |
| 14.07 ..... | \$           | \$             | \$          | \$             |
| 14.08 ..... | \$           | \$             | \$          | \$             |
| 14.09 ..... | \$           | \$             | \$          | \$             |
| 14.10 ..... | \$           | \$             | \$          | \$             |
| 14.11 ..... | \$           | \$             | \$          | \$             |
| 14.12 ..... | \$           | \$             | \$          | \$             |
| 14.13 ..... | \$           | \$             | \$          | \$             |
| 14.14 ..... | \$           | \$             | \$          | \$             |
| 14.15 ..... | \$           | \$             | \$          | \$             |

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?.....NO.....

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

|   |    |           |         |
|---|----|-----------|---------|
|   | 1  | 2         | 3       |
| 15.02 Aggregate statement value of investments held in general partnership interests..... | \$ | 4,018,884 | 2.658 % |

Largest three investments in general partnership interests:

|  |    |           |         |
|--|----|-----------|---------|
| 15.03 SIT OPPORTUNITY BOND FD LLC..... | \$ | 4,018,884 | 2.658 % |
| 15.04 .....                            | \$ |           | %       |
| 15.05 .....                            | \$ |           | %       |

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 .....

If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

1 2 3

| Type (Residential, Commercial, Agricultural) |    |   |
|--|----|---|
| 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:

|  | 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 |   |
|------------------|-------------|---|------------|---|--------------|---|
|                  | 1           | 2 | 3          | 4 | 5            | 6 |
| 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 less than 2.5% of the reporting entity's total admitted assets? ..... YES .....

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.

1 2 3

| Description |    |   |
|-------------|----|---|
| 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.....

If response to 19.01 is yes, responses are not required for the remainder of Interrogatory 19.

|  | 1 | 2        | 3       |
|--|---|----------|---------|
| 19.02 Aggregate statement value of investments held in mezzanine real estate 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 |          |          |
|---|-------------|------------|------------------------|----------|----------|
|   | 1           | 2          | 3                      | 4        | 5        |
|   |             |            | 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  |         |
|------------------------------|----------|------------|----------|---------|
|                              | 1        | 2          | 3        | 4       |
| 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 |          |          |
|------------------------------|-------------|------------|------------------------|----------|----------|
|                              | 1           | 2          | 3                      | 4        | 5        |
|                              |             |            | 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 |          |          |
|-------------------------------|-------------|------------|------------------------|----------|----------|
|                               | 1           | 2          | 3                      | 4        | 5        |
|                               |             |            | 1st Qtr                | 2nd Qtr  | 3rd Qtr  |
| 23.01 Hedging .....           | \$ .....    | % \$ ..... | \$ .....               | \$ ..... | \$ ..... |
| 23.02 Income generation ..... | \$ .....    | % \$ ..... | \$ .....               | \$ ..... | \$ ..... |
| 23.03 Replications .....      | \$ .....    | % \$ ..... | \$ .....               | \$ ..... | \$ ..... |
| 23.04 Other .....             | \$ .....    | % \$ ..... | \$ .....               | \$ ..... | \$ ..... |

ALPS Property & Casualty Insurance Company

Reinsurance Interrogatories

December 31, 2021

7. The Company is not party to a quota share reinsurance agreement whereby the Company receives a fixed ceding commission.

8. Not applicable to The Company.

9. The Company has performed an analysis of its reinsurance contracts and has concluded that substantial risk has been transferred to the reinsurers and the contracts do not contain provisions that would require disclosure in accordance with General Interrogatory 9, as more fully described in SSAP No. 62R: Property and Casualty Reinsurance.