2023

ANNUAL REPORT

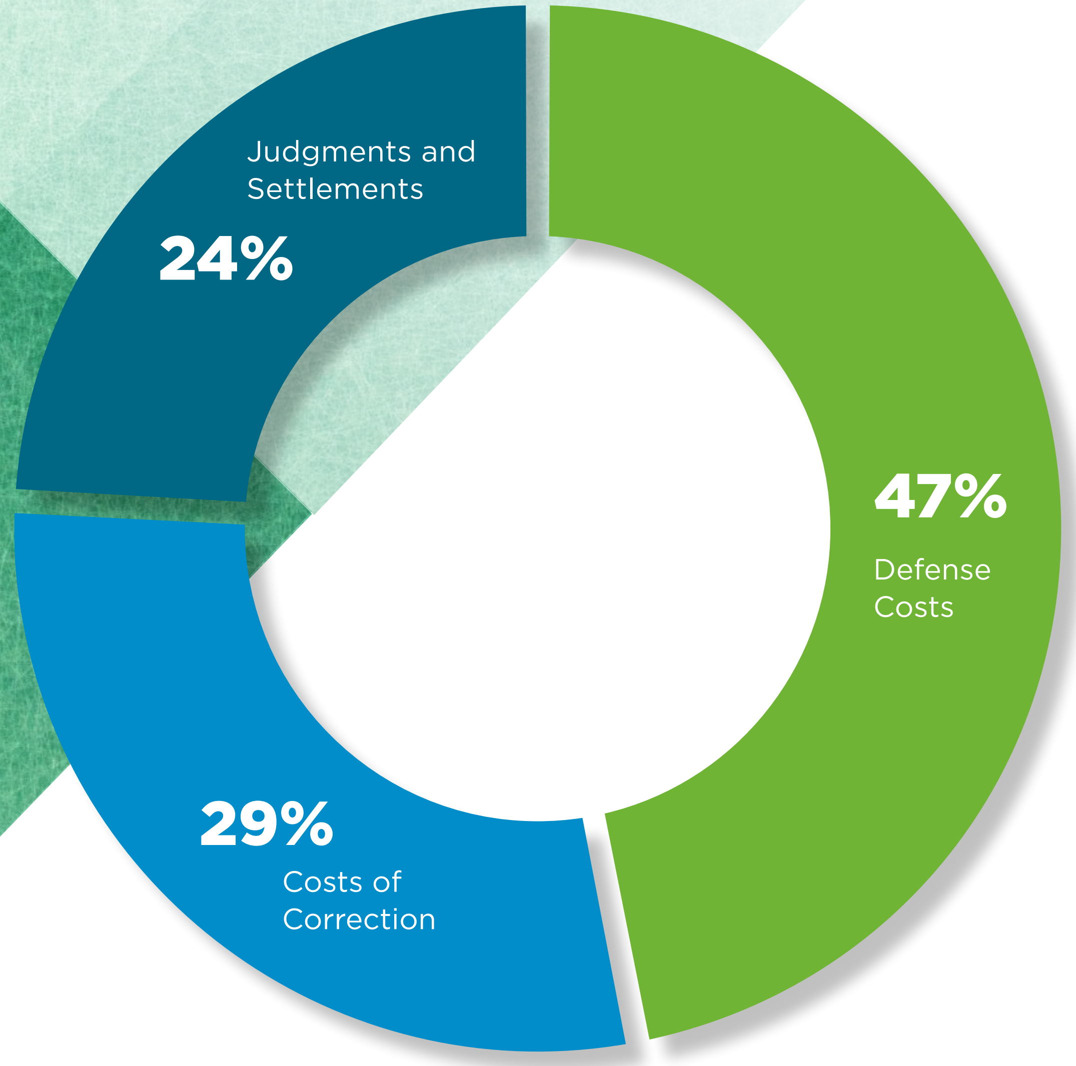
ICIMutual

ICI Mutual
At A Glance

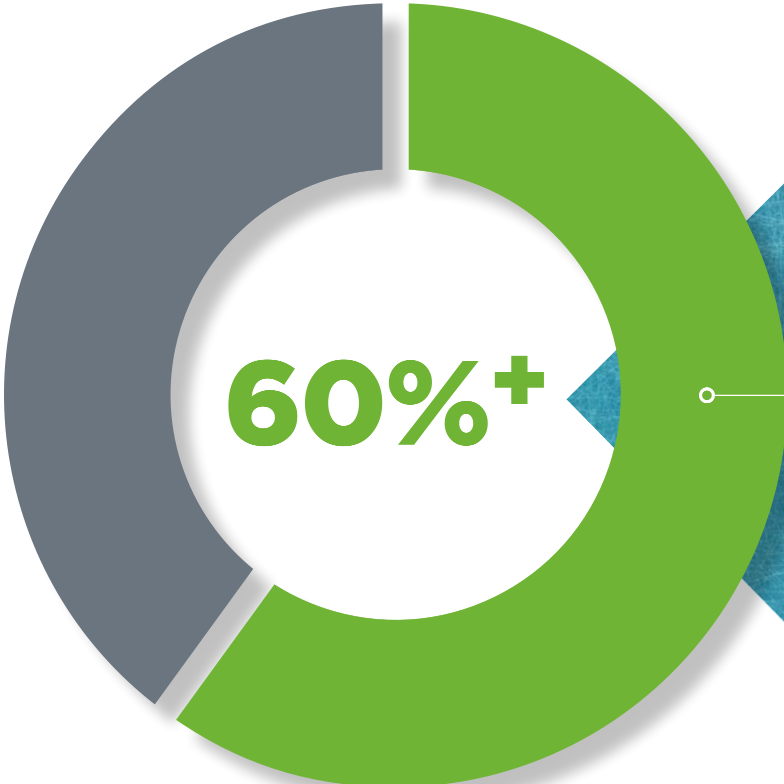
Data as of December 31, 2023

OVER $1.35B

Cumulative D&O/E&O Claims Paid



For the latest rating, access www.ambest.com



Assets Under Management

ICI Mutual Insureds Represent 60%+ of Industry Assets Under Management

Equity Growth and Dividends

Stefanie Chang Yu
Chair of the Board of Directors

John T. Mulligan
President

A Letter from the President and the Chair

Members of the fund industry created ICI Mutual— which we operate as *your* mutual—more than 35 years ago to address insurance-related challenges. Built with a purpose and guided by a mission, ICI Mutual (the "Company") continued in 2023 to stand apart in a crowded insurance marketplace by focusing exclusively on you and your fund industry peers. Our interests align with your interests, whether we are developing insurance coverages, evaluating emerging risks, or adjusting complex claims. In this year's letter, we highlight the Company's mission, discuss recent claims trends, emphasize reinsurance partnerships, and share plans for the year ahead.

Built with a purpose and guided by a mission, ICI Mutual continued in 2023 to stand apart in a crowded insurance marketplace by focusing exclusively on you and your fund industry peers.

ICI MUTUAL'S MISSION

Your mutual continues to adhere to its mission to: (1) develop and deliver sustainable insurance coverages tailored to address the fund industry's specialized risks; (2) offer prompt and fair-minded claims handling when these risks generate claims; (3) stand ready to provide insurance capacity to the fund industry through all stages of the insurance market cycle, at prices that are rationally related to the fund industry's own risks; and (4) provide fund industry-focused risk management, loss prevention, and insurance-related services to you, its member-insureds, and to the fund industry as a whole.

THE CLAIMS ENVIRONMENT

"High severity" claims remain a focus. In recent years, we have highlighted two clusters of such claims, noting that the claims comprising each cluster since 2018 have little in common apart from their proximity in time and their high severity (with the

2023 was again a solid year for ICI Mutual. The Company reported net income, after dividends and taxes, of $8.9 million. In December 2023, the Board of Directors declared a dividend in the amount of $6.0 million, which will be paid to the Company's Participating Members in 2024 as a credit against their renewal premiums. With this 2023 dividend, the Board of Directors has declared dividends in 15 consecutive years. The total dividends declared over the life of the Company increased to $136 million. The Company's year-end equity stood at $314 million, and AM Best once again affirmed the Company's "A" (Excellent) rating.

Management's detailed discussion of 2023's operating results is provided at pages 6-7.

We believe a mutual insurer model remains best-in-class for underwriting an industry's risks, addressing an industry's claims, educating an industry's members, and thinking long-term.

exposure in each claim ultimately totaling $10 million or more in settlements, defense costs, and/or corrective payments, prior to any insurance recovery). ICI Mutual has worked closely with impacted member-insureds to adjust specific claims and with reinsurers to ensure fair and equitable treatment over time.

While it is too early to call the recent severity clusters anomalous, we are seeing positive impacts from the Company's multi-year initiative to adjust premium rates and deductibles for specific cohorts of member-insureds, coupled with our industry-wide educational outreach and initiatives to raise awareness about this issue. We also view claims frequency as a positive factor, with the number of claims reported to ICI Mutual in 2023 relatively unchanged compared to 2022—and perhaps more importantly, remaining at the lower end of historical norms for the number of claims reported in a year.

REINSURANCE PARTNERSHIPS

We believe a mutual insurer model remains best-in-class for underwriting an industry's risks, addressing an industry's claims, educating an industry's members, and thinking long-term. Across the decades, a "mutual mindset" has mattered greatly, with member-insureds and key reinsurers sharing a vision for sustainable success. With more than $1 billion in claims payments to member-insureds thus far this century, and with significant portions fully reimbursed by reinsurers for their shares of these payments (with the exception of one pending reinsurance recoverable matter, discussed in the footnotes to the Company's 2023 financial statements), we take seriously our commitments to the several dozen highly rated reinsurers with whom ICI Mutual has forged long-standing partnerships.

Recognizing ICI Mutual's Outgoing Chair

This coming June, Stefanie Chang Yu will complete her term as Chair of ICI Mutual's Board of Directors. The Company's Board and officers extend their appreciation to Stefanie for her leadership as Chair. Stefanie's knowledge, experience, and thoughtful guidance have been invaluable to ICI Mutual and to its work on behalf of its member-insureds and the broader fund industry. We are pleased that she will continue to serve as a director of the Company going forward.

LOOKING AHEAD

Throughout 2024 and the years to come, we seek to increase the Company's value to you and to the reinsurers who support us. With generational change continuing across the industry, and given the pace of innovation and disruption, the Company is asking key stakeholders what matters most to them in a focused strategic review. With meaningful input and oversight from the Company's Board of Directors, this strategic review will guide future initiatives, focus Company resources, and keep member-insureds and other key stakeholders at the center of all we do. Your mutual is different by design and we look to build on the robust foundation entrusted to us, including sound financial health and a leadership position in the fund industry.

On behalf of the Company's Board of Directors and staff, we thank you, the Company's member-insureds, for your ongoing loyalty and support. As always, we invite and welcome any suggestions that you may have to ensure that your mutual continues to serve your individual interests as member-insureds, along with the broader interests of the fund industry.

John T. Mulligan
President

Stefanie Chang Yu
Chair of the Board of Directors

FINANCIAL OVERVIEW

ICI Mutual recorded an underwriting loss of $0.5 million in 2023, the first year underwriting expenses (net losses incurred and G&A expenses) exceeded underwriting income (net premiums earned) since 2004. Unlike in 2004, when the driver for the underwriting loss was net losses incurred, the primary reason for the underwriting loss in 2023 was the accrual of $3.5 million for future legal expenses related to the Company's collection of an outstanding reinsurance recoverable. Management, in consultation with counsel, firmly believes that the reinsurance amounts are due under the relevant reinsurance contracts, and the Company will vigorously pursue recovery of amounts due. Notwithstanding such legal expense accrual, the Company's net earned premiums and net incurred losses were favorable relative to prior year and expectations, a result which more accurately reflects the Company's year-over-year performance and financial health. Including net investment income and net gains on investment securities, net income before policyholder dividends and income taxes totaled $17.1 million.

Both gross premiums written of $80.5 million and net premiums earned of $20.2 million were higher in 2023 than in 2022. On average, premium rates increased for the directors and officers/errors and omissions liability insurance products underwritten by the Company (reflecting loss experience) and remained stable for independent directors liability and bond insurance products. The Company's year-over-year retention rate remained high, with over 95% of member-insureds renewing their coverages.

Net loss and loss adjustment expenses equaled $9.9 million for the year, a decrease from the $11.4 million experienced in 2022, primarily as a result of favorable developments in certain prior year loss reserves. The Company's loss ratio for 2023 (net loss and loss adjustment expenses divided by net premiums earned) was 49%. The Company's combined ratio was 102% before dividends to Participating Members, and 132% after dividends to Participating Members.

Net investment income equaled $10.9 million in 2023, slightly higher than the 2022 amount.

A policyholder dividend of $6.0 million was declared by the Company's Board of Directors in December 2023 and is payable to Participating Members that renew eligible participating policies in 2024.

Both gross premiums written of $80.5 million and net premiums earned of $20.2 million were higher in 2023 than in 2022.

The provision for income taxes was $2.3 million.

Net income, after dividends and income taxes, was $8.9 million in 2023 as compared to net loss, after dividends and income taxes, of $8.3 million in 2022. This difference is primarily the result of an approximately $20 million difference between the unrealized gains in 2023 and unrealized losses in 2022 on equity securities held in the Company's investment portfolio, partially offset by an approximately $1.5 million decline in underwriting income between years and $1.5 million increase in net losses realized in 2023 on debt securities sold by the Company.

Total equity increased in 2023 by approximately $18.7 million to $314.1 million, as a result of the $8.9 million net income, and a $9.8 million increase in other comprehensive income primarily due to market-driven net unrealized gains on debt securities. In 2023, the Company maintained an "A" (Excellent) rating from AM Best.

ALIGNED INTERESTS

A nationwide liability insurance crisis in the mid-1980s left the mutual fund industry at risk. The industry had insurance needs that commercial insurers were unable or unwilling to meet: the need for a stable, long-term source of substantial insurance capacity, and the need for insurance pricing that could be counted upon to be reliably and rationally related to the fund industry's own risks. In 1987, fund industry leaders, working with the Investment Company Institute (the industry's trade association), formed ICI Mutual.

As an industry mutual insurer, ICI Mutual is dedicated solely to serving the insurance and risk management needs of funds, fund directors and officers, and fund advisers, providing them with an expert and reliable long-term alternative to the uncertainties and cyclicality to which commercial insurance markets have historically been subject.

More than three decades on, ICI Mutual continues to be an established, trusted presence, and the top provider of professional liability insurance for the fund industry.
ICI Mutual seeks to provide insurance capacity and ensure relative stability of premium rates and policy terms through all stages of the insurance market cycle; to craft sustainable insurance coverages tailored to address existing, new, and emerging risks faced by fund groups; to address and resolve insurance claims promptly and fairly; and to provide the fund industry with focused risk management, loss prevention, and insurance-related services and assistance. As an insurance company owned and governed by its member-insured fund groups, ICI Mutual's interests are fully aligned with the interests of its member-insureds.

The Company's Board of Directors includes fund industry executives and fund independent directors from among the Company's member-insured fund groups. Each director brings demonstrated leadership and expertise to the Board, which plays a significant role in helping to shape Company policies and initiatives. The involvement and oversight of the Board ensure that ICI Mutual is operated to serve and benefit the Company's member-insureds.

As an insurance company owned and governed by its member-insured fund groups, ICI Mutual's interests are fully aligned with the interests of its member-insureds.

KNOWLEDGE & EXPERTISE

Since its formation, ICI Mutual has continuously provided fund groups with core insurance coverages that respond to the key "real world" risks long faced by funds, fund directors and officers, and fund advisers. Over the years, the Company has also developed and introduced numerous additional coverages to address the industry's new and emerging risks. ICI Mutual's professional staff has significant expertise and experience with mutual fund and investment adviser issues and consults with industry experts (including industry representatives who serve on the Company's Board of Directors) during the process of developing insurance coverages.

By reason of its detailed and comprehensive knowledge of fund industry operations and claims, ICI Mutual is uniquely positioned to analyze and understand the industry's risks, and to craft insurance coverages that are tailored to address these risks and remain sustainable over time.

COVERAGES

ICI Mutual's core insurance products are designed to address the specialized insurance needs of funds, fund directors and officers, and fund advisers.

The Directors and Officers/Errors and Omissions (D&O/E&O) Liability Policy protects individual directors and officers and insured companies against the financial impact of judgments, settlements, and legal defense costs incurred in shareholder lawsuits and regulatory investigations and proceedings, and the costs of correcting certain operational errors.

The Investment Company Blanket (Fidelity) Bond protects insured entities against specified losses caused by employee theft, third-party fraud, and certain other types of events, and meets the basic fidelity bonding requirement for funds under the Investment Company Act of 1940.

The Independent Directors Liability (IDL) Policy provides comprehensive coverage tailored to address the concerns and distinct insurance needs of fund independent directors.

Descriptions of ICI Mutual's core coverages may be found online at: www.icimutual.com/coverages. ICI Mutual also has the ability to craft custom coverages in response to particular needs of member-insureds.

SERVICES

Underwriting

ICI Mutual's underwriters focus solely on the mutual fund industry and are attuned to its specialized risks and challenges. Each member-insured fund group is assigned an underwriter who develops a thorough understanding of that fund group's business, processes, and procedures. This approach enables ICI Mutual to structure coverage and secure limits that appropriately reflect a fund group's individual needs and interests.

Claims Handling

ICI Mutual is highly regarded for its prompt and fair-minded claims handling. Each submitted claim undergoes a careful analysis of the facts, circumstances, and applicable coverage language. ICI Mutual representatives work closely with affected member-insureds throughout the claims process.

Risk Management

ICI Mutual's expertise and knowledge of the fund industry are unrivaled among professional liability insurers. The Company has long provided member-insureds and the fund industry with a wide variety of risk management, loss prevention, and insurance-related services.

ICI Mutual's Risk Management Publications, listed on page 13, provide in-depth research and analysis on the fund industry's liability exposures and other topics of interest and are designed to help member-insured fund groups improve their risk management programs and risk profiles. Claims Trends and the Company's online Litigation Notebook address existing, new, and evolving areas of regulatory and litigation exposure and their implications for insurance claims and coverage. These publications and other materials can be accessed on the Company's website **(www.icimutual.com)**.

ICI Mutual sponsors an annual Risk Management Conference, at which industry experts and guest speakers present information on an array of risk management topics and facilitate discussion among risk managers, legal personnel, and other representatives of the Company's member-insureds.

The Company's professional staff regularly provides individualized assistance to fund groups in structuring insurance programs, selecting among insurance options, and establishing appropriate insurance limits. The staff also responds to requests from fund boards, outside counsel, and in-house personnel for presentations, written materials, and informal advice on insurance and claims-related issues and developments.

ICI MUTUAL'S RISK MANAGEMENT PUBLICATIONS

Insurance

Operational Errors and Insurance: A Guide for Investment Advisers (2021)

ICI Mutual Then and Now (2017)

Independent Directors Liability (IDL) Insurance (2013)

Mutual Fund D&O/E&O Insurance (2009)

Claims and Litigation

What to Expect in the Claims Process (2023)

Shareholder Litigation in the Fund Industry (2019)

Section 36(b) Litigation Since *Jones v. Harris (2016)*

Trends in Fee Litigation (2014)

ERISA Liability (2010)

Mutual Fund Prospectus Liability (2010)

Independent Director Litigation Risk (2006)

Managing Defense Costs (2004)

Industry Risks and Risk Management

Managing Operational Risks of Private Accounts (2011)

Outsourcing by Advisers and Affiliated Service Providers (2008)

Managing Risks in Trade Allocation (2008)

Preparing for a Pandemic (2007)

Fair Valuation Study—The Role of the Board (with ICI and IDC) (2006)

Fair Valuation Study—An Introduction (with ICI and IDC) (2005)

Understanding Bond Fund Risks (2002)

Investment Management Compliance Risks (2002)

Managing Risk in Processing Corporate Actions (2001)

Technology-Related Risks

Shareholder Authentication (2015)

Risk Management in the Digital Age (2012)

The Two Faces of Identity Theft (2006)

Computer Security Lite (2003)

FINANCIAL STABILITY

ICI Mutual's financial success can be attributed to its philosophy of conservative management in every aspect of its business. From underwriting to portfolio management to administration, the Company strives to use resources wisely, to invest prudently, and to manage risk effectively. Through adherence to this philosophy, ICI Mutual has developed and maintained the financial strength and stability necessary to meet the needs of its member-insureds.

For over three decades, ICI Mutual has stood behind its member-insureds through significant financial market and fund industry-wide events and through various stages of the economic and insurance cycles. The Company utilizes its strong network of reinsurance partners to manage and diversify its own risk, enabling it to provide robust limits of coverage to member-insureds and to promote relative stability of premium rates and coverage terms.

As an integral part of the fund industry, ICI Mutual provides a consistent source of insurance capacity at premiums rationally related to the fund industry's own risks.

For over three decades, ICI Mutual has stood behind its member-insureds through significant financial market and fund industry-wide events and through various stages of the economic and insurance cycles.

BOARD OF DIRECTORS

Stefanie Chang Yu (Chair) (E, N)
Morgan Stanley Investment Management

David Oestreicher (Vice Chair) (E, I, N)
T. Rowe Price Associates, Inc.

Mark E. Carver (A, R)
UBS Asset Management Americas

Suzanne E. Christensen (R)
Franklin Templeton Investments

Caroline Cosby (R)
The Vanguard Group, Inc.

Kenneth C. Eich (E, A)
Davis Selected Advisers, L.P.

Ronald H. Fielding (I)
Saturna Investment Trust

Barry Fink (E, A, N)
American Century Funds

Robert F. Gunia*
Prudential Insurance Mutual Funds

Heidi W. Hardin (E, A, U, N)
MFS Investment Management

Diana P. Herrmann (E, A, R)
Aquila Investment Management LLC

Steven M. Joenk (I)
Equitable Financial Life Insurance Company

Christopher J. Kelley (U)
Amundi US

Jeffrey H. Kupor (U)
Invesco Ltd.

Karrie McMillan (I, U, N)
Principal Funds

James J. McMonagle (R)
Selected Funds

John T. Mulligan (E, I, R)
ICI Mutual Insurance Company

Jeffrey A. Naylor (R)
Investment Company Institute

Eric J. Pan (E, U)
Investment Company Institute

Michelle R. Rosenberg (U)
Janus Henderson Investors

Carmelo "Mel" Spinella (U)
Capital Research and Management Company

Hepsen Uzcan (A, R)
DWS

Derick A. White (U)
Strategic Risk Solutions

George H. Walker (Ex-Officio)
Neuberger Berman

Board Committees: Executive (E), Audit (A), Investment (I), Underwriting (U), Risk Management (R), Nominating (N).
*Board of Directors as of December 31, 2023. *On Sabbatical*

Board of Directors pictured from left

Diana P. Herrmann
John T. Mulligan
Robert F. Gunia
Ronald H. Fielding (seated)
Michelle R. Rosenberg
Derick A. White
Jeffrey A. Naylor
Caroline Cosby
Steven M. Joenk
Kenneth C. Eich

Christopher J. Kelley
Stefanie Chang Yu
Eric J. Pan
James J. McMonagle
Mark E. Carver
Suzanne E. Christensen
Barry Fink (seated)
Heidi W. Hardin
Mel Spinella
Jeffrey H. Kupor (seated)

Not pictured: Karrie McMillan, David Oestreicher, Hepsen Uzcan.

OFFICERS AND STAFF

OFFICERS

John T. Mulligan
President

Julia S. Ulstrup
Executive Vice President, General Counsel & Secretary

Charles G. Preseau
Senior Vice President, Chief Financial Officer & Treasurer

Margaret M. Sullivan
Vice President, Chief Underwriting Officer & Assistant Secretary

STAFF

William Y. Akishev
Director of Information Technology

Virginia S. Barry
Associate Counsel

Nadia Bustillo
Senior Accountant

Catherine M. Dalton
Underwriting Manager

Briana R. Davis
Lead Broker

John D. Driggers
Director, Data Analytics

Prabhat S. Friedland
Underwriting Analyst

Michael A. Heiser
Controller

Lizabeth S. Hurst
Corporate Communications

Carolyn B. Julia
Executive Assistant

Matthew D. MacKenzie
Underwriter

Meloney G. McKoy
Senior Accountant

Swenitha Nalli
Senior Underwriter

Colin K. Rouse
Assistant Controller

Gwen M. Taylor
Legal Insurance Assistant

David U. Thomas
Senior Associate Counsel & Director of Cyber Risk Issues

SELECTED FINANCIAL HIGHLIGHTS

FOR THE YEARS ENDED	2023	2022
Gross Premiums Written	$ 80,529	$ 78,586
Net Premiums Earned	$ 20,208	$ 19,369
Net Loss and Loss Adjustment Expenses	$ 9,918	$ 11,398
Net Underwriting (Loss) Income	$ (473)	$ 1,331
Net Investment Income	$ 10,926	$ 10,383
Dividends to Policyholders	$ 5,977	$ 6,000
Net Income (Loss)	$ 8,885	$ (8,254)
Total Equity	$ 314,056	$ 295,407

COMBINED RATIO	2023	2022
Loss and General Expense Ratio	102%	93%
Policyholder Dividends	30%	31%
Combined Ratio including Policyholder Dividends	132%	124%

Dollar amounts in thousands

ICIMutual

ICI Mutual Insurance Company,
A Risk Retention Group

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ICI MUTUAL Insurance Company
A Risk Retention Group

2023

CONSOLIDATED FINANCIAL STATEMENTS

ICIMutual

ICI Mutual Insurance Company, a Risk Retention Group
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2023 and 2022 Consolidated Financial Statements

Report of Independent Auditors

To the Board of Directors of ICI Mutual Insurance Company, a Risk Retention Group

Opinion

We have audited the accompanying consolidated financial statements of ICI Mutual Insurance Company, a Risk Retention Group and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated 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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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 the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US 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 consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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.

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the incurred and paid claims development net of reinsurance, information and the average percentage payout of incurred claims by age, net of reinsurance, information, as of December 31, 2023 on pages 25 to 26 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the 2023 Annual Report, but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

PricewaterhouseCoopers LLP

New York, New York
April 23, 2024

ICI Mutual Insurance Company, a Risk Retention Group
Consolidated Balance Sheets
December 31, 2023 and 2022 (in 000's)

	2023	2022
Assets		
Cash and cash equivalents	$ 29,080	$ 27,571
Investments		
Debt securities, at fair value (amortized cost of $319,433 and $320,981, respectively)	290,619	279,228
Equity securities, at fair value	67,669	56,382
Money market funds	4,000	11,961
Total cash and investments	391,368	375,142
Prepaid expenses	376	407
Prepaid federal and state income taxes	2,483	3,165
Deferred policy acquisition costs	1,400	1,351
Premiums receivable	6,171	6,864
Interest receivable	2,477	2,245
Investment securities and other receivables	691	1,358
Reinsurance recoverables	244,341	200,056
Prepaid reinsurance premiums	35,040	33,195
Other amounts receivable under reinsurance contracts	1,503	1,658
Deferred income taxes	4,843	8,957
Right-of-use asset	4,628	4,905
Furniture and fixtures, net	1,064	490
Total assets	$ 696,385	$ 639,793
Liabilities and Equity		
Reserve for losses and loss adjustment expenses	$ 246,613	$ 188,399
Unearned premiums	46,449	45,095
Reinsurance premiums payable	3,151	3,333
Premium taxes payable	495	472
Accounts payable and other liabilities	8,051	4,737
Short-term borrowing	50,000	75,000
Benefits payable	12,320	12,851
Lease liability	6,074	5,511
Deferred commission income	2,719	2,715
Dividends payable	6,457	6,273
Total liabilities	382,329	344,386
Contingencies (Note 10)		
Contributed surplus	18,040	18,040
Accumulated other comprehensive loss	(22,811)	(32,575)
Accumulated earnings	318,827	309,942
Total equity	314,056	295,407
Total liabilities and equity	$ 696,385	$ 639,793

The accompanying notes are an integral part of these consolidated financial statements.

ICI Mutual Insurance Company, a Risk Retention Group
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2023 and 2022 (in 000's)

	2023	2022
Revenues		
Net premiums written	$ 19,717	$ 20,541
Change in net unearned premiums	491	(1,172)
Net premiums earned	20,208	19,369
Net investment income	10,926	10,383
Net realized losses on debt securities	(4,721)	(2,956)
Net unrealized gains (losses) on equity securities	11,109	(13,343)
Other income	281	268
Total revenues	37,803	13,721
Expenses		
Net loss and loss adjustment expenses	9,918	11,398
Underwriting, general and administrative expenses	10,763	6,640
Total expenses	20,681	18,038
Income (loss) before dividends to policyholders and provision (benefit) for income taxes	17,122	(4,317)
Dividends to policyholders	5,977	6,000
Income (loss) before provision (benefit) for income taxes	11,145	(10,317)
Provision (benefit) for income taxes	2,260	(2,063)
Net income (loss)	8,885	(8,254)
Other Comprehensive Income (Loss)		
Net unrealized gains (losses) on debt securities:		
Net unrealized gains (losses) arising during the period, net of tax	6,492	(42,117)
Reclassification adjustment for losses realized in net income (loss), net of tax	3,730	2,335
Net actuarial unrealized (losses) gains on employee benefit plans:		
Net unrealized (losses) gains arising during the period, net of tax	(404)	5,967
Reclassification adjustment for (gains) losses realized in net income (loss), net of tax	(54)	560
Other comprehensive income (loss), net of tax, net of reclassification adjustments	9,764	(33,255)
Comprehensive income (loss)	$ 18,649	$ (41,509)
Net realized losses on debt securities		
Allowance for credit losses	$ -	$ -
Other net realized investment losses	(4,721)	(2,956)
Net realized losses on securities	$ (4,721)	$ (2,956)

The accompanying notes are an integral part of these consolidated financial statements.

ICI Mutual Insurance Company, a Risk Retention Group
Consolidated Statements of Changes in Equity
December 31, 2023 and 2022 (in 000's)

	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Accumulated Earnings	Total Equity
Balance at December 31, 2021	$ 18,161	$ 680	$ 321,132	$ 339,973
Cumulative adjustment as of January 1, 2022	-	-	(2,936)	(2,936)
Net loss	-	-	(8,254)	(8,254)
Other comprehensive loss, net of tax, net of reclassification adjustments	-	(33,255)	-	(33,255)
Distributions of contributed surplus	(121)	-	-	(121)
Balance at December 31, 2022	$ 18,040	$ (32,575)	$ 309,942	$ 295,407
Net Income	-	-	8,885	8,885
Other comprehensive income, net of tax, net of reclassification adjustments	-	9,764	-	9,764
Balance at December 31, 2023	$ 18,040	$ (22,811)	$ 318,827	$ 314,056

The accompanying notes are an integral part of these consolidated financial statements.

ICI Mutual Insurance Company, a Risk Retention Group
Consolidated Statements of Cash Flows
Years Ended December 31, 2023 and 2022 (in 000's)

	2023	2022
Cash Flows from Operating Activities		
Net income (loss)	$ 8,885	$ (8,254)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Amortization of premium	142	259
Deferred income taxes	1,518	(2,108)
Depreciation and amortization	490	1,007
Net realized losses on debt securities	4,721	2,956
Net unrealized (gains) losses on equity securities	(11,109)	13,343
Changes in operating assets and liabilities		
Prepaid expenses	31	46
Prepaid federal and state income taxes	682	(1,622)
Deferred policy acquisition costs	(49)	95
Premiums receivable	693	432
Interest receivable	(232)	(245)
Other receivables	26	363
Reinsurance recoverables	(44,285)	(58,990)
Prepaid reinsurance premiums	(1,845)	(289)
Other amounts receivable under reinsurance contracts	155	210
Right-of-use asset	277	344
Reserve for losses and loss adjustment expenses	58,214	56,877
Unearned premiums	1,354	1,460
Reinsurance premiums payable	(183)	(38)
Premium taxes payable	23	(662)
Accounts payable and other liabilities	1,832	1,314
Benefits payable	(1,111)	1,893
Lease liability	563	(618)
Deferred commission income	4	(88)
Dividends payable	184	(5,727)
Net cash provided by operating activities	20,980	1,958
Cash Flows from Investing Activities		
Proceeds from sales of investments	77,054	64,112
Proceeds from maturities of investments	1,480	2,960
Purchases of furniture and fixtures, net	(1,064)	-
Payments for purchases of investments	(79,903)	(61,534)
Change in money market funds	7,962	497
Net cash provided by investing activities	5,529	6,035
Cash Flows from Financing Activities		
Distributions of contributed surplus	-	(121)
Repayments to the FHLB	(25,000)	-
Net cash used in financing activities	(25,000)	(121)
Net increase in cash and cash equivalents	1,509	7,872
Cash and cash equivalents at beginning of year	27,571	19,699
Cash and cash equivalents at end of year	$ 29,080	$ 27,571

The accompanying notes are an integral part of these consolidated financial statements.

1. Significant Accounting Policies

A. Basis of Presentation

ICI Mutual Insurance Company ("Mutual") was incorporated on August 26, 1987 as an association captive insurance company domiciled in the State of Vermont and commenced accepting insurance risks on March 1, 1988. Mutual, together with its wholly owned subsidiaries described below, are collectively referred to as "the Company." The Company primarily writes fidelity bonds and directors and officers and errors and omissions insurance for Members and Associate Members of the Investment Company Institute ("ICI") and their affiliated companies on a claims-made basis. These Members primarily provide services to the regulated investment company industry. On January 1, 2009, the Company converted from a Vermont association captive insurance company to a Vermont risk retention group ("RRG"), under the Federal Liability Risk Retention Act.

ICI Mutual Insurance Brokers, Inc. ("Brokers") is a wholly-owned subsidiary of Mutual. Brokers provides insurance brokerage services to insureds of Mutual.

ICIM Services, Inc. ("Services") is a wholly-owned subsidiary of Mutual. Services provides the underwriting function for Mutual under a written agreement. This agreement provides that Mutual will reimburse Services for all reasonable expenses associated with performing the underwriting function plus a 5% fee.

The Consolidated Financial Statements include the consolidated accounts of Mutual, Brokers, and Services, with all significant intercompany amounts eliminated in consolidation. The Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), which are also in accordance with practices prescribed for RRGs by the Vermont Department of Financial Regulation ("VDFR").

GAAP requires management to make certain estimates and assumptions in the preparation of the financial statements. Actual results could differ from those estimates and assumptions.

The Company's annual statements filed with the VDFR for 2023 and 2022 agree with the audited financial statements. In addition, at December 31, 2023 and 2022, the Company is in compliance with VDFR's minimum surplus requirement of $1 million.

B. Investments

The Company's debt securities are classified as available-for-sale and, along with its equity securities, reported at fair value as defined in Note 3. Short-term securities and money market funds are stated at amortized cost which approximates fair value.

For securities where the fair value is less than the amortized cost basis for debt securities the Company must determine whether or not a credit loss impairment has occurred. See Note 2 for a detailed explanation of the procedures utilized by the Company in calculating impairment losses.

All debt investment transactions have credit exposure to the extent that a counterparty may default on an obligation to the Company. Credit risk is a consequence of carrying trading and investing positions. To manage credit risk, the Company focuses on higher quality fixed income securities, limits its exposure in any one investment, and monitors the portfolio quality, taking into account credit ratings assigned by recognized statistical rating organizations.

Interest income on debt securities is recorded on the accrual basis. Dividend income on equity securities is recorded on the ex-dividend date. Unrealized gains and losses from changes in the fair value of the Company's debt holdings, net of applicable federal income taxes, are reported as a separate component of equity. Realized gains and losses on the sale of the Company's debt securities are determined based on specific identification and are included along with unrealized gains and losses on equity securities in net income.

C. Premiums

Net earned premiums have been computed on a semimonthly pro rata basis over the term of the underlying insurance policies with the exception of premiums on "tail" policies which are earned when written. Ceded reinsurance premiums are charged against premiums earned on the same basis. Unearned premiums represent the portion of the gross premium written which is applicable to the unexpired terms of policies in force. Prepaid reinsurance premiums represent the portion of unearned premiums ceded to reinsurers.

D. Deferred Policy Acquisition Costs

Acquisition costs consist primarily of underwriter compensation, royalty fees and premium taxes associated with the successful acquisition and underwriting of new and renewal insurance business. These acquisition costs are being amortized over the expected policy period of related policies in proportion to the ratio of the annual earned premiums to the total premium revenue anticipated. Anticipated premium revenue was estimated using the same assumptions as those used for computing the reserve for losses and loss adjustment expenses. Expected losses, related expenses, and investment income are considered in measuring the recoverability of this asset. Commissions on reinsurance premiums ceded represent recovery of certain acquisition costs and are capitalized as a reduction to underwriter compensation and royalty fees at the ratio of reinsurance premiums ceded to gross written premiums and amortized at the same rate as the acquisition costs. Commissions in excess of the reduction to acquisition costs are capitalized as a deferred commission income liability and amortized at the same rate as the acquisition costs as a reduction to underwriting, general and administrative expenses.

E. Reserve for Losses and Loss Adjustment Expenses

The reserve for losses and loss adjustment expenses is based on management's individual case estimates of the ultimate cost of reported losses and estimates for incurred but not reported losses ("IBNR") determined in consultation with independent professional actuaries. The IBNR loss reserve is developed using a variety of actuarial methods to estimate the ultimate cost of losses and loss expenses by policy year. These methods include the reported loss development method, the reported Bornhuetter-Ferguson method, the loss ratio method, and the frequency-severity method. These represent standard actuarial methods that are based upon historical data for payment patterns, cost trends and other relevant factors specific to the Company. These methods produce a range of indications from which the best estimate is selected.

These estimates are continually reviewed and adjustments, if necessary, are reflected in the period known. In updating the Company's loss reserve estimates, inputs are considered and evaluated from many sources, including actual claims data, the performance of prior reserve estimates, observed industry trends, internal review processes, and the views of the Company's engaged third party actuary. However, given the nature of the Company's business, the ultimate amount of losses and loss adjustment expenses may vary significantly from the estimated amounts. There were no significant changes in methodologies and assumptions for the year ended December 31, 2023.

F. Provision for Income Taxes

The Company accounts for income taxes in accordance with Accounting Standards Codification (ASC) 740, "Accounting for Income Taxes." The codification requires that deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Valuation allowances are established when necessary to reduce deferred tax assets to an amount that, in the opinion of management, is more likely than not to be realized. No valuation allowance was deemed necessary at December 31, 2023 and 2022.

The guidance on accounting for uncertainty in income taxes describes how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. This guidance requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company's financial statements to determine whether the tax positions are "more-likely-than-not" to be sustained by the applicable tax authority. Tax positions not deemed to meet the "more-likely-than-not" threshold would be recorded as a tax benefit or expense in the current year. If applicable, interest and penalties are classified as other interest expense and are included in underwriting, general and administrative expenses in the Consolidated Statements of Comprehensive Income. There were no interest or penalties incurred in 2023 or 2022.

On August 16, 2022, the Inflation Reduction Act ("IRA") was signed into law and includes several tax changes, such as a new 15% minimum income tax on large corporations and a 1% excise tax on most stock buybacks. The IRA does not have a material impact on the Company's financial statements.

G. Reinsurance

The Company utilizes both treaty and facultative reinsurance to provide protection for claims in excess of the Company's normal retention limits ($3 million). Under the Company's annual treaty reinsurance program (which runs from April 1 to March 31), limits up to $15 million, less the Company's normal retention, are automatically assumed by the treaty participants.

Maximum recoveries under the reinsurance treaties are capped at $100 million for all treaty years subsequent to the treaty year ending March 31, 2005. A treaty year remains open until all noticed claims are paid or otherwise closed. As of December 31, 2023, ceded losses under all of the open treaty years were well below the respective treaty caps. Future adverse development on any of the treaty years could result in the respective caps for such treaty years being exceeded and such excess amounts, if any, would have to be paid out of the Company's accumulated earnings and surplus. While management believes that the Company is adequately capitalized to meet its ongoing claims obligations, there can be no assurance that in the event a cap on a reinsurance treaty is exceeded, the Company's resources would be sufficient to meet all of its claims liabilities.

For those insureds that require limits in excess of $15 million on Fidelity Bonds, the Company issues additional limits of up to $5 million. For limits above $20 million on Fidelity Bonds or $15 million on D&O/E&O Policies, the Company purchases facultative (case by case) reinsurance from various other reinsurers. There is no cap on facultative reinsurance except for the actual limits reinsured. In addition, the Company can elect to retain additional limits in the excess layers, generally not more than $5 million per policy.

Although reinsurance agreements contractually obligate the Company's reinsurers to reimburse it for their proportionate shares of losses, they do not discharge the primary responsibility of the Company. Thus, in the event a reinsurer did not meet its obligation under its agreement with the Company, the Company would be responsible for such amount.

The Company monitors the credit worthiness of its reinsurers to determine the probability of default under the current expected credit loss ("CECL") model and only conducts business with reinsurers that are highly rated by reputable rating agencies. Based on its CECL analysis of current expectations and historical experience, the Company does not believe that any credit loss exists on amounts currently due from reinsurers. At December 31, 2023, no valuation reserve against reinsurance recoverables was recorded. The Company has accrued for legal expenses associated with the reinsurance recoverable matter disclosed in Note 8B.

H. Cash and Liquidity

The Company considers all cash on hand and deposits in banks as cash and cash equivalents for purposes of the Consolidated Statements of Cash Flows. As of December 31, 2023 and 2022, the Company held $0 in cash equivalents.

The Company maintains liquid investments in amounts considered sufficient to pay claims and other operating expenses. It is also part of the Company's strategy to utilize its membership in the FHLB as a backup liquidity facility. The maximum amount the Company borrows fluctuates based on the amount of eligible collateral the Company holds at any given time, as well as on the amount of its investment in FHLB capital stock. In 2023, the Company repaid $45,000 of the $75,000 it had borrowed from the FHLB in December 2021 as part of its liquidity strategy. The Company borrowed an additional $20,000 in December 2023. The amount outstanding as of December 31, 2023 is $50,000, with $20,000 due by May 20, 2024 and $30,000 due by December 20, 2024. Total investment assets pledged as collateral to the FHLB were $57,585 and $5,000 in cash and $87,862 and $14,200 in cash as of December 31, 2023 and 2022, respectively. The Company paid interest to the FHLB in the amount of $2,886 and $1,274 in 2023 and 2022, respectively. These amounts are included as investment expenses in net investment income in the Company's Consolidated Statements of Comprehensive Income.

Non-cash investing activity consisted of receivables from investments sold, not yet settled, of $691 and $1,332, and payables from investments purchased, not yet settled, of $2,433 and $951, at December 31, 2023 and 2022, respectively.

I. Leases

Effective January 1, 2022, the Company modified its sublease with the ICI for office space at 1401 H Street in Washington, DC that extended the term for 15 years to 2036 and, starting in 2023, reduced the square footage. Effective July 11, 2022, the Company exercised an option to terminate its sublease with the ICI for office space in Reston, VA as of December 31, 2023. These leases continued to be classified and accounted for as operating leases under ASC 842.

As per ASC 842, the right-of-use asset and lease liability in the Company's Consolidated Balance Sheets are calculated as the present value of the future minimum lease payments. Because the implicit rate is not readily determinable for its leases, the Company elected to use the risk-free rate as a discount rate for all asset classes. The risk-free rates used in this calculation were 1.84% and 3.01% for the Washington DC sublease and Reston VA sublease, respectively. The remaining cost of the leases are amortized as lease expense in the Consolidated Statements of Comprehensive Income on a straight line basis over the remaining term of the leases. Annual cash payments made to the ICI for the leased office space are disclosed in Note 7.

J. Furniture and Fixtures

Furniture and fixtures are stated at cost net of accumulated depreciation. The costs of significant additions and improvements, including leasehold improvements, are capitalized while expenditures for maintenance, repairs, and minor renewals are charged to expense as incurred. When assets are retired or otherwise disposed of, the assets and related accumulated depreciation and amortization are eliminated from the accounts and any resulting gain or loss is reflected in income. Provisions for depreciation are computed using the straight-line method based on useful lives ranging from three to twelve years. Depreciation expense was $533 and $127 for 2023 and 2022, respectively. Accumulated depreciation totaled $0 and $1,260 at December 31, 2023 and 2022, respectively. In 2023, as part of the modified sublease with the ICI for office space at 1401 H Street in Washington, DC (see Note 1I), the Company expensed the remaining net balance of the fixed assets associated with its former office space on the 10th floor ($490) and capitalized a leasehold improvement asset in the amount of $1,064 associated with its new office space on the 11th floor.

K. Recent Accounting Pronouncements

Recently Adopted Accounting Standards

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. Under the previous guidance, recognition of lease assets and liabilities was not required for operating leases. The Company adopted this guidance effective January 1, 2022, using the modified retrospective method, which applied the transition provisions through a cumulative adjustment as of this effective date of adoption rather than at the beginning of the earliest comparative period presented.

At adoption, the Company elected the package of practical expedients allowed under the transition provisions, including to: (1) not reassess current and expiring contracts for lease existence, lease classification, or initial direct costs; (2) not apply the new guidance to leases with terms of 12 months or less; (3) consider lease and non-lease components as a single component and asset class; and (4) use a risk-free rate in estimated the present value of future lease payments. Accordingly, the Company recognized a right-of-use asset of $5,249 (net of prior year end deferred rent of $590 and rent incentive of $290) and a lease liability of $6,129 in the Consolidated Balance Sheets as of January 1, 2022. See Note 1.I. for additional information on the Company's leases.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 replaces the existing incurred losses methodology for estimating allowances with a current expected credit losses methodology with respect to most financial assets measured at amortized cost and certain other instruments, including trade and other receivables, loans, held to maturity investment securities and off-balance sheet commitments. In addition, ASU 2016-13 requires credit losses relating to available for sale ("AFS") debt securities to be recorded through an allowance for credit losses rather than a reduction of the carrying amount. The Company adopted this guidance as of January 1, 2023.

Notes to Consolidated Financial Statements (in 000's)

L. Reclassifications

Certain amounts in prior year's Consolidated Financial Statements and Notes thereto have been reclassified to conform to the 2023 presentation.

M. Revisions to the December 31, 2022 Consolidated Financial Statements

In previous years, the Company had accounted for commissions on reinsurance premiums ceded as fully earned in the year the related insurance contracts were written, which is not consistent with GAAP. Pursuant to ASC Topic 250, Accounting Changes and Error Corrections, the Company corrected its accounting policy to conform to GAAP as described in Note 1D in 2023 and revised its consolidated financial statements as of and for the year ended December 31, 2022 for comparative purposes. In connection with this revision, the Company recorded a cumulative adjustment of $(2,936) to reduce accumulated earnings as of January 1, 2022. The following table summarizes the effect of the revision on each consolidated financial statement line item as of and for the year ended December 31, 2022:

Consolidated Balance Sheet as of December 31, 2022	As Previously Reported	Increase (Decrease)	As Revised
Deferred policy acquisition costs	$ 2,371	$ (1,020)	$ 1,351
Deferred income taxes	$ 8,172	$ 785	$ 8,957
Total assets	$ 640,028	$ (235)	$ 639,793
Deferred commission income	$ -	$ 2,715	$ 2,715
Total liabilities	$ 341,671	$ 2,715	$ 344,386
Accumulated earnings	$ 312,892	$ (2,950)	$ 309,942
Total equity	$ 298,357	$ (2,950)	$ 295,407
Consolidated Statement of Comprehensive Income for the year ended December 31, 2022	As Previously Reported	Increase (Decrease)	As Revised
Net premiums written	$ 27,049	$ (6,508)	$ 20,541
Net premiums earned	$ 25,877	$ (6,508)	$ 19,369
Underwriting, general and administration expenses	$ 13,130	$ (6,490)	$ 6,640

Notes to Consolidated Financial Statements (in 000's)

Income before income taxes	$ (10,299)	$ (18)	$ (10,317)
Net income	$ (8,240)	$ (14)	$ (8,254)
Consolidated Statement of Cash Flows for the year ended December 31, 2022	As Previously Reported	Increase (Decrease)	As Revised
Deferred income taxes	$ (2,104)	$ (4)	$ (2,108)
Deferred policy acquisition costs	$ (11)	$ 106	$ 95
Deferred commission income	$ -	$ (88)	$ (88)

In addition, the Company revised the Consolidated Statement of Cash Flows for the year ended December 31, 2022, for non-cash investing activities pertaining to receivables from investments sold, not yet settled of $945 and payables from investment purchases, not yet settled of $819. As a result, net cash provided by operating activities increased by $1,764 and net cash provided by investing activities decreased by a corresponding amount.

N. Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are available to be issued. The Company has evaluated all such events occurring subsequent to the balance sheet date herein as of December 31, 2023 and through the date the financial statements were available to be issued, April 23, 2024. The Company did not identify any subsequent events that require adjustment to and/or disclosure in the financial statements.

Notes to Consolidated Financial Statements (in 000's)

2. Investments

A summary comparison of amortized cost and fair value of debt securities is as follows:

	December 31, 2023			
Debt securities available for sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government, agencies and authorities securities	$ 47,759	$ 94	$ (5,050)	$ 42,803
Mortgage-backed	42,596	-	(5,332)	37,264
All other corporate bonds	229,078	1,539	(20,065)	210,552
Total debt securities	$ 319,433	$ 1,633	$ (30,447)	$ 290,619

	December 31, 2022			
Debt securities available for sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government, agencies and authorities securities	$ 49,241	$ 40	$ (6,245)	$ 43,036
Mortgage-backed	47,677	-	(6,157)	41,520
All other corporate bonds	224,063	107	(29,498)	194,672
Total debt securities	$ 320,981	$ 147	$ (41,900)	$ 279,228

The amortized cost and fair value of debt securities at December 31, 2023, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due in one year or less	$ 2,888	$ 2,848
Due after one year through five years	83,347	79,606
Due after five years through ten years	93,061	85,775
Due after ten years	140,137	122,390
Total debt securities	$ 319,433	$ 290,619

At December 31, 2023 and 2022, the gross unrealized gains and (losses) on investments in debt securities of $1,633 and $(30,447) and $147 and $(41,900) have been reflected in the Consolidated Balance Sheets as a component of accumulated other comprehensive income, net of deferred taxes of $6,051 and $8,768, respectively.

The change in gross unrealized (loss) and gains on equity securities in 2023 and 2022 of $11,109 and ($13,343), respectively, has been reflected in the Consolidated Statements of Comprehensive Income.

Notes to Consolidated Financial Statements (in 000's)

There are three key investment risks that can impact the Company's investment portfolio: Liquidity Risk, Credit Risk and Market Risk.

1. **Liquidity Risk:** Market conditions create a situation where liquid assets become illiquid. To offset this risk, the Company maintains significant holdings in U.S. Treasury securities and other relatively liquid securities, an intermediate investment portfolio duration, and membership in the FHLB.

2. **Credit Risk:** An issuer (or counterparty) is unable to pay their claim and defaults. To offset this risk, the Company maintains a well-diversified portfolio containing primarily investment grade fixed income securities. The portfolio is also closely monitored for downgrades on corporate bonds and changes to projected cash flows on structured securities.

3. **Market Risk:** Falling market value due to changing risks in a sector or interest rate risks. The Company monitors actual concentrations against both its investment guidelines and market conditions. Intermediate duration profile on the bond portfolio limits the fair value impact from interest rate changes.

Unrealized loss position securities:

	December 31, 2023				
Debt securities available for sale	Fair Value	Gross Unrealized Losses < 12 months	Gross Unrealized Losses > 12 months	Total Gross Unrealized Losses	Numbers of Investment Positions
U.S. Government, agencies and authorities securities	$ 38,701	$ (144)	$ (4,906)	$ (5,050)	63
Mortgage-backed	36,994	(173)	(5,159)	(5,332)	83
All other corporate bonds	159,962	(628)	(19,437)	(20,065)	485
Total debt securities	$ 235,657	$ (945)	$ (29,502)	$ (30,447)	631

	December 31, 2022				
Debt securities available for sale	Fair Value	Gross Unrealized Losses < 12 months	Gross Unrealized Losses > 12 months	Total Gross Unrealized Losses	Numbers of Investment Positions
U.S. Government, agencies and authorities securities	$ 41,965	$ (3,216)	$ (3,029)	$ (6,245)	66
Mortgage-backed	41,520	(2,309)	(3,848)	(6,157)	90
All other corporate bonds	188,678	(17,313)	(12,185)	(29,498)	710
Total debt securities	$ 272,163	$ (22,838)	$ (19,062)	$ (41,900)	866

The Company does not have the intent to sell, nor is it more likely than not that the Company will be required to sell, securities in unrealized loss positions before recovery.

Credit Loss Impairment Evaluations

The Company reviews its investment securities regularly and determines whether credit loss impairments have occurred. For fixed maturities, the company employs specific quantitative tests for those securities where the fair value is less than amortized cost to determine which securities require additional impairment review. If the Company does not intend to sell the security and it is not more likely than not that it will be required to sell the security prior to recovery of the security's amortized cost, the impairment is bifurcated into (a) the amount of the total impairment related to a credit loss, and (b) the amount of the total impairment related to interest and all other factors. The amount of the impairment related to the credit loss is recognized through an allowance for credit losses. The amount of the impairment related to all other factors is recognized in other comprehensive income in the Consolidated Statements of Comprehensive Income. The factors considered by management in its regular review include, but are not limited to: the financial condition and near-term prospects of the issuer; adverse changes in ratings announced by one or more rating agencies; subordinated credit support; whether the issuer of a debt security has remained current on principal and interest payments; current expected cash flows; whether the decline in fair value appears to be issuer specific or, alternatively, a reflection of general market or industry conditions (including, in the case of fixed maturities, the effect of changes in market interest rates); and the Company's intent to sell, or requirement to sell, the debt security before the anticipated recovery of its remaining amortized cost basis.

In assessing corporate debt securities for credit loss impairment, the Company evaluates the ability of the issuer to meet its debt obligations and the value of the company or specific collateral securing the debt position. When evaluating whether an asset-backed (including mortgage-backed) security is impaired, the Company examines characteristics of the underlying collateral, such as delinquency and default rates, the quality of the underlying borrower, the type of collateral in the pool, the vintage year of the collateral, subordination levels within the structure of the collateral pool, the Company's intent to sell the security and whether it more likely than not will be required to sell the security before the recovery of its amortized cost basis. For all debt securities evaluated for credit loss impairment (for which the Company does not have the intent to sell and it is not more likely than not that it will be required to sell the security before the recovery of its amortized cost basis), the Company considers the timing and amount of the cash flows.

The Company evaluates its mortgage-backed securities for credit loss impairment using multiple inputs. Loan level defaults are estimated using appropriate modeling techniques. All bonds are modeled individually and each bond is assigned a custom default assumption based on projections for the mortgage pool, historical underlying collateral performance, and borrower characteristics.

Basic inputs to the model include data on:

- voluntary prepayments,
- defaults and,
- expected severity of losses in a liquidation scenario, taking into account loan size, geographic concentration, and loan to value percentages.

Additional variables are applied to each mortgage pool specific to structural elements such as triggers and financial guarantees to the extent that they exist. The cash flows generated by the collateral securing these securities are then determined with these default, loss severity and prepayment assumptions. These collateral cash flows are then utilized, along with consideration for the issuer's position in the overall structure, to determine the cash flows associated with the mortgage-backed securities held by the Company.

To the extent that the present value of the cash flows generated by a debt security is less than the amortized cost, a credit loss exists, and a credit loss impairment is recognized through earnings. It is reasonably possible that further declines in estimated fair values of such investments, or changes in assumptions or estimates of anticipated recoveries and/or cash flows, may cause further adjustments to the credit loss allowance in the near term, which could be significant.

In addition, the Company evaluates other asset-backed securities for impairment by examining similar characteristics referenced above for mortgage-backed securities. The Company evaluates U.S. Treasury securities and obligations of U.S. Government corporations, U.S. Government agencies, and obligations of states and political subdivisions for credit loss impairment by examining similar characteristics referenced above for corporate debt securities.

There were no credit loss impairments on debt securities included in the Consolidated Statements of Comprehensive Income in 2023 and 2022.

Further deterioration in credit quality of the companies backing the securities, deterioration in the condition of the financial services industry, imbalance in liquidity in the marketplace, a worsening of the current economic environment, or additional declines in real estate values could affect the fair value of these securities and increase the potential that certain unrealized losses be designated as credit losses in future periods.

Notes to Consolidated Financial Statements (in 000's)

Proceeds from sales of debt securities and the associated gross realized gains and gross realized losses are as follows:

	Proceeds From Sales	Gross Realized Gains	Gross Realized Losses
For the year ended December 31, 2023	$ 75,257	$ 500	$ (5,221)
For the year ended December 31, 2022	$ 68,017	$ 394	$ (3,350)

Net investment income is calculated as follows:

	2023		
Debt securities available for sale	Gross Investment Income	Investment Expenses	Net Investment Income
U.S. Government, agencies and authorities securities	$ 1,327	$ (317)	$ 1,010
Mortgage-backed	1,234	(295)	939
All other corporate bonds	10,369	(2,477)	7,892
Equity securities	1,426	(341)	1,085
Total	$ 14,356	$ (3,430)	$ 10,926

	2022		
Debt securities available for sale	Gross Investment Income	Investment Expenses	Net Investment Income
U.S. Government, agencies and authorities securities	$ 1,141	$ (180)	$ 961
Mortgage-backed	1,446	(229)	1,217
All other corporate bonds	8,563	(1,355)	7,208
Equity securities	1,184	(187)	997
Total	$ 12,334	$ (1,951)	$ 10,383

3. Fair Value

The valuation techniques required by the authoritative accounting guidance on fair value measurements are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market expectations. These two types of inputs create the following fair value hierarchy:

Level 1 - Quoted prices for identical instruments in active markets.

Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 - Instruments where significant value drivers are unobservable.

When available, the Company utilizes quoted market prices to determine fair value and classify such items in Level 1. In some cases, quoted market prices are used for similar instruments in active markets and/or model-derived valuations where inputs are observable in active markets and classify such items in Level 2. When there are limited or inactive trading markets, the Company utilizes industry–standard pricing methodologies, including discounted cash flow models, whose inputs are based on management assumptions and available current market information. These items are classified in Level 3. Further, the Company relies upon independent pricing vendors to assist in valuing certain instruments.

The following section describes the valuation methodologies used by management to measure different financial instruments at fair value.

Investments in fixed maturities and equity securities:

Pricing Level 1: Values are unadjusted quoted prices for identical securities in active markets accessible at the measurement date. Holdings consist of government debt securities, exchange traded mutual funds, and money market funds.

Pricing Level 2: Valuation is based on quoted prices for similar securities in active markets, quoted prices from those willing to trade in markets that are not active, or other observable inputs. This would include any bonds priced by Reuters and FHLB stock.

Pricing Level 3: Valuation is derived from unobservable inputs using techniques such as broker quotes, pricing matrices and internal calculations. The Company did not hold any Level 3 securities for the years ended December 31, 2023 and 2022.

Priority of market value methodology:

1. Price from an independent pricing service, such as Reuters.
2. Market price from a broker-dealer
3. Matrix pricing

Notes to Consolidated Financial Statements (in 000's)

All of the prices are monitored month-over-month to highlight any significant price change. Any security with a significant price change is verified using a secondary pricing source and/or verification from a broker-dealer.

The following is a summary of the inputs used in valuing the Company's assets at fair value:

	December 31, 2023	Quoted Prices (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment in debt securities	$ 290,619	$ 23,480	$ 267,139	$ -
Investment in equity securities	67,669	65,436	2,233	-
Investment in money market funds	4,000	4,000	-	-
Total	$ 362,288	$ 92,916	$ 269,372	$ -

	December 31, 2022	Quoted Prices (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment in debt securities	$ 279,228	$ 29,403	$ 249,825	$ -
Investment in equity securities	56,382	53,126	3,256	-
Investment in money market funds	11,961	11,961	-	-
Total	$ 347,571	$ 94,490	$ 253,081	$ -

It is the Company's policy to recognize transfers of assets between levels of the fair value hierarchy at the end of a reporting period. For the year ending December 31, 2023 and 2022, there were no transfers of assets between Level 1 and Level 2 of the fair value hierarchy. No securities were transferred out of Level 2 and into the Level 3 category as a result of limited or inactive markets during 2023 and 2022. The Company does not transfer out of Level 3 and into Level 2 until such time as observable inputs become available and reliable or the range of available independent prices narrow.

Notes to Consolidated Financial Statements (in 000's)

4. Deferred Policy Acquisition Costs

The deferred policy acquisition costs at December 31, 2023 and 2022 are comprised of the following:

	2023	2022
Beginning balance	$ 1,351	$ 1,446
Additional costs capitalized		
Underwriting expenses	1,440	1,702
Royalty fees (Note 7)	805	786
Premium taxes	1,895	1,726
	4,140	4,214
Less ceding commissions		
Underwriting expenses	608	697
Royalty fees (Note 7)	340	323
	948	1,020
Less current year amortization		
Underwriting expenses	899	908
Royalty fees (Note 7)	452	489
Premium taxes	1,792	1,892
	3,143	3,289
Ending balance	$ 1,400	$ 1,351

5. Contributed Surplus

The Company has two classes of Members: Participating and Non-Participating. Participating Members are required to make a capital contribution ("reserve premium") equal to 100% of initial annual premium on Participating policies.

The reserve premium with respect to a Participating policy is required to be repaid to the Participating Member within 60 days if the Company terminates or fails to renew the policy; in all other cases, the reserve premium generally is not required to be repaid for five years after the insured cancels, terminates, or fails to renew the policy. At December 31, 2023 and 2022, $1,045 and $991, respectively, related to reserve premium for all such terminated policies that was included in contributed surplus. The Company recorded distributions of $0 and $121 in reserve premium to non-renewing Participating Members during the years ended December 31, 2023 and 2022, respectively.

Non-Participating Members are not required to contribute capital. Participating Members receive dividends, share in the Company's net worth, and receive a higher proportion of votes on corporate governance matters than Non-Participating Members. Of the premiums written, 34.5% and 33.8% were attributable to Non-Participating policies during the years ended December 31, 2023 and 2022, respectively.

Notes to Consolidated Financial Statements (in 000's)

6. Provision for Income Taxes

The provision for income taxes consists of the following:

	2023	2022
Current provision	$ 742	$ 45
Deferred provision (benefit)	1,518	(2,108)
Provision for income taxes	$ 2,260	$ (2,063)

Set forth below is a reconciliation of the expected and actual income tax provision:

	2023	2022
Expected tax provision at 21%	$ 2,340	$ (2,167)
State income taxes, net of federal benefit	31	199
Dividend received deduction	(61)	(54)
Foreign tax credits	(35)	(33)
Provision to return adjustments	(24)	(9)
Other	9	1
Actual provision for income taxes	$ 2,260	$ (2,063)

The Company files a consolidated federal income tax return. Income tax provisions are allocated to the Company's wholly-owned subsidiaries as if they had been calculated on a separate company basis. State income taxes are paid by Mutual, Brokers and Services on a separate company basis. Net payments for federal income taxes were $0 and $1,400 in 2023 and 2022, respectively.

The deferred income tax amounts reflected in the Consolidated Balance Sheets at December 31, 2023 and 2022 are comprised of the following items:

	2023	2022
Net unearned premiums	$ 479	$ 583
Discounting of loss reserves	625	782
Post-retirement employee benefits	3,362	3,028
Other than temporarily impaired securities	197	197
Policyholder dividend	1,356	1,317
Lease liability	1,276	1,157
Net unrealized losses on debt securities	6,014	8,731
Deferred commission income	571	571
Legal expense accrual	735	-
Other	470	387
Gross deferred tax assets	15,085	16,753
Deferred policy acquisition costs	(294)	(284)
Net unrealized gains on equity securities	(8,451)	(6,118)
Right-of-use asset	(972)	(1,030)
Lease amortization	(128)	(67)
Bond discount accretion	(397)	(297)
Gross deferred tax liabilities	(10,242)	(7,796)
Valuation allowance	-	-
Net deferred tax assets (liabilities)	$ 4,843	$ 8,957

Notes to Consolidated Financial Statements (in 000's)

The Company believes that as of December 31, 2023, there were no material uncertain tax positions that would require disclosure under GAAP. As of December 31, 2023, the Company's tax years from 2020 forward were open under current Internal Revenue Service regulations and applicable state tax law and as such, potentially subject to examination.

7. Related Party Transactions

The Company is party to a royalty agreement and a services and facilities agreement with the lessor ICI. Under the royalty agreement, Mutual is required to pay 1% of gross written premium as a royalty fee to the ICI, limited to a total maximum of $1,000 in any calendar year. Royalty fees incurred and paid in 2023 and 2022 were $809 and $781, respectively.

The services and facilities agreement requires the Company to reimburse the ICI for actual direct and indirect expenses incurred on behalf of the Company. Service and facility fees amounted to approximately $731 and $754 for 2023 and 2022, respectively. Amounts payable at December 31, 2023 and 2022 under this agreement were approximately $185 and $193, respectively.

The Company subleases office space from the ICI at 1401 H Street in Washington DC, and in Reston, VA, under the terms of operating leases as described in Note 1.I. Cash payments for these leases in 2023 and 2022 were $630 and $710, respectively. The following is a maturity analysis of the annual cash payments for these leases and a reconciliation to the total lease liability accrued in the Company's Consolidated Balance Sheets:

Year	Lease Payments
2024	$ 454
2025	465
2026	477
2027	488
Thereafter	4,984
Total remaining lease payments	$ 6,868
Less amount representing interest	(794)
Total lease liability	$ 6,074

8. Reinsurance Agreements

The Company utilizes reinsurance agreements to provide protection for claims in excess of the Company's normal retention limits. In addition, the Company may utilize reinsurance agreements to provide increased limits of liability on a case-by-case basis.

A. Reinsurance Balances: The Company reports ceded reinsurance balances on a gross basis. Accordingly, the following balance sheet accounts are grossed up by the amounts noted below:

	2023	2022
Reserve for losses and loss adjustment expenses	$ 202,314	$ 131,693
Unearned premiums	$ 35,040	$ 33,195

Notes to Consolidated Financial Statements (in 000's)

B. Reinsurance Recoverables: Reinsurance recoverables were mostly concentrated with St. Paul Fire and Marine Ins. Co. (approximately 19%) and Lloyd's. (approximately 11%) at December 31, 2023, and St. Paul Fire and Marine Ins. Co. (approximately 14%) and Endurance Specialty Ins. Ltd. (approximately 13%) at December 31, 2022. Insurance risks ceded to reinsurance companies would become a liability in the event the reinsurers are unable to meet their obligations assumed under reinsurance contracts.

The establishment of a valuation reserve against reinsurance recoverables (1) would be required in the event that management determines, under the CECL model described in Note 1G, that one or more reinsurers are financially unable to meet their contractual obligations on a claim or claims paid or reserved by the Company, and (2) could be required in the event that one or more reinsurers contest the validity of (or are otherwise unwilling to pay reinsurance amounts due on) a claim or claims paid or reserved by the Company.

Approximately $30.3 million and $60.5 million of the amounts recoverable included on the Consolidated Balance Sheets at December 31, 2023 and 2022 respectively, reflect reinsurance amounts due from certain higher-level facultative reinsurers who are disputing (and who have issued related letters regarding) coverage on a single claim paid by the Company in December 2021. During 2023, certain of the facultative reinsurers with amounts due to the Company paid their full reinsurance limits, representing $30.0 million of the approximately $60.5 million outstanding as of year-end 2022. The Company has commenced formal dispute resolution proceedings (i.e., arbitration, as called for under the relevant reinsurance contract) against certain other reinsurers owing outstanding amounts and expects to similarly proceed to formal dispute resolution(s) with certain other reinsurers owing outstanding amounts. Since formal dispute resolution proceedings have commenced (and others are expected), the Company has accrued an additional $3.5 million in legal expenses as of December 31, 2023, which represents estimated future costs of the formal dispute resolution(s). This accrual is included in Accounts payable and other liabilities on the Consolidated Balance Sheet and in Underwriting, general, and administrative expenses on the Consolidated Statement of Comprehensive Income at December 31, 2023, and for the year then ended, respectively. Management, in consultation with counsel, continues to believe that the reinsurance amounts are due under the relevant reinsurance contracts. As at December 31, 2023, no valuation reserve against reinsurance recoverables was recorded.

Premiums and losses and loss adjustment expenses in 2023 and 2022 have been adjusted as follows as a result of reinsurance:

	2023		2022	
Premiums	Written	Earned	Written	Earned
Direct	$ 80,529	$ 79,175	$ 78,586	$ 77,126
Ceded	(60,812)	(58,967)	(58,045)	(57,757)
Net	$ 19,717	$ 20,208	$ 20,541	$ 19,369

Losses and loss adjustment expenses	**2023**	**2022**
Direct	$ 126,241	$ 79,422
Ceded	(116,323)	(68,024)
Net	$ 9,918	$ 11,398

9. Reserve for Losses and Loss Adjustment Expenses

The following table sets forth a reconciliation of beginning and ending reserve for losses and loss adjustment expenses in the Company's consolidated financial statements for the years indicated:

	2023	2022
Balance at January 1	$ 188,399	$ 131,523
Less reinsurance recoverable, unpaid losses	(131,693)	(79,178)
Net balance at January 1	56,706	52,345
Incurred related to:		
Current year	22,750	22,600
Prior years	(12,832)	(11,202)
Total incurred	9,918	11,398
Paid related to:		
Current year	3,182	1,317
Prior years	19,143	5,720
Total paid	22,325	7,037
Net balance at December 31	44,299	56,706
Plus reinsurance recoverable, unpaid losses	202,314	131,693
Balance at December 31	$ 246,613	$ 188,399

As a result of changes in estimates of incurred losses related to insured events of prior years, the reserve for losses and loss adjustment expenses decreased $12,832 and $11,202 in 2023 and 2022, respectively. The decrease in 2023 was primarily the result of changes in estimates of incurred losses on D&O/E&O policies of $4,600, $2,200, $1,500, and $2,417 related to insured events of 2022, 2021, 2020, and 2019, respectively. The decrease in 2022 was primarily the result of changes in estimates of incurred losses on D&O/E&O policies of $3,967, $2,575, $2,750, and $1,750 related to insured events of 2021, 2019, 2018, and 2017, respectively. No additional premiums or return premiums have been accrued as a result of the effects of insured events of prior years.

The following is information about incurred and paid claims development as of December 31, 2023, net of reinsurance, as well as cumulative claim frequency, and the total of incurred-but-not-reported plus expected development on reported claims included within the reserve for net losses and loss adjustment expenses. The information about incurred and paid claims development for the years ended December 31, 2014, to 2022, is presented as unaudited supplementary information. The cumulative number of reported claims are reported as the actual individual count, not in thousands.

This information is provided on a report year basis, consistent with the nature of the policies underwritten by the Company. Specifically, the Company writes claims-made policies that cover claims reported over the policy term rather than the date of the incident giving rise to the claim. Accordingly, the cumulative number of reported claims reflect all claims received by the Company and recorded on the Company's claims bordereau by date reported.

The following development data by report year is not disaggregated by line of business or any other measure as over 90% of the Company's incurred and paid losses over the development period is derived solely from domestic D&O/E&O coverage that shares the same characteristics.

Average annual percentage payout of incurred claims by age, net of reinsurance, is also presented as unaudited supplementary information below.

	Incurred claims and allocated claim adjustment expenses. net of reinsurance and subrogation ($000)										As of December 31,2023	
	For Years Ended December 31,											
Report Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	IBNR (Expected Development of Reported Claims) ($000)	Reported Non-Zero Claims Count
2014	15,350	16,501	12,292	11,540	11,220	10,770	9,115	8,665	8,515	8,391	138	26
2015		24,715	27,950	26,600	26,540	27,000	27,000	27,000	27,000	27,714	0	56
2016			23,300	18,350	13,836	10,836	10,336	7,623	7,623	7,623	0	42
2017				22,970	19,700	15,849	12,149	9,946	8,196	7,845	0	32
2018					19,675	15,350	11,875	9,050	6,295	6,040	391	24
2019						19,850	15,508	12,633	10,058	7,641	0	28
2020							23,100	22,200	23,450	20,075	1,175	54
2021								19,367	15,020	12,820	8,578	47
2022									22,600	17,825	6,481	40
2023										22,750	10,468	50
									Total	138,724		

	Cumulative paid claims and allocated claims adjustment expenses, net of reinsurance and subrogation ($000)									
	For Years Ended December 31,									
Report Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
2014	598	1,298	2,559	5,663	8,265	8,276	8,290	8,293	8,294	8,227
2015		4,921	9,570	18,171	22,195	22,259	22,283	22,296	22,327	27,714
2016			198	4,191	5,999	6,011	5,980	7,623	7,623	7,623
2017				2,328	3,847	7,918	7,839	7,839	7,849	7,845
2018					396	5,549	5,595	5,609	5,609	5,646
2019						2,811	5,933	5,956	5,971	7,641
2020							3,740	7,357	12,816	18,426
2021								353	419	469
2022									1,317	7,785
2023										3,182
									Total	94,558
All outstanding liabilities before 2014, net of reinsurance ($000)										103
Liabilities for claims and claims adjustment expenses, net of reinsurance ($000)										44,269

Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance, as of December 31, 2023										
Years	1	2	3	4	5	6	7	8	9	10
Incremental Payout %	3.7%	35.6%	28.1%	17.9%	5.4%	4.4%	2.3%	1.4%	1.0%	0.1%

Reconciliation of the Disclosure of Incurred and Paid Claims Development to the Liability for Unpaid Claims and Claims Adjustment Expense:

	As of December 31, 2023
Net Outstanding Liabilities	
Liabilities for Unpaid Claims and Claims Adjustment Expenses, Net of Reinsurance	$ 44,269
Unallocated Claims Adjustment Expenses	30
Total Net Liability for Unpaid Claims and Claims Adjustment Expenses	44,299
Total Reinsurance Recoverable on Unpaid Claims	202,314
Total Gross Liability for Unpaid Claims and Claims Adjustment Expenses	$ 246,613

10. Contingencies

In the normal course of its business activities, the Company may be subject to various asserted and unasserted claims and lawsuits covering a wide range of matters. The Company establishes accrual for litigation when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. For litigation matters where a loss may be remote, reasonably possible, or is probable but not reasonably estimable, no accrual is established. The Company's policy is to accrue for associated legal expenses estimated to be incurred for litigation and/or formal dispute resolution. The Company has accrued for legal expenses associated with the reinsurance recoverable matter disclosed in Note 8B. The Company is not aware of any events that would give rise to a claim at December 31, 2023 and 2022.

11. Policyholders' Dividend

In determining the level of dividend to declare, the Board of Directors ("Board") reviews the financial results of the Company as well as the anticipated capital levels needed to fund the Company's future operations and to maintain the Company's sound financial condition. After a review of all these factors, the Board declared total dividends of $6.0 million in both 2023 and 2022. $5.9 million of the total dividends declared in 2022 were paid in 2023.

The 2023 dividend will be allocated to Participating Members based equally on each Participating Member's share of the Company's net worth determined at December 31, 2023, before payment of the dividend, and the proportion of 2023 eligible gross earned premium of the Company attributable to each Participating Member. In accordance with the by-laws of the Company, dividends will only be paid to those eligible Participating Members that renew a participating policy in the year after the dividend declaration. Dividends are accounted for on the accrual basis and will be paid on or around the policy renewal date or May 15, 2024, whichever is later.

As per Title 8, Chapter 141, Section 6005 of the Vermont Statutes, the Company sought and received the approval of the Commissioner of the VDFR on February 23, 2024, prior to the payment of these dividends.

12. Employee Benefit Plans

A. Retirement Plans

The Company has three retirement plans for its employees: a noncontributory defined benefit plan, a 401(k) defined contribution plan, and a supplemental employee retirement plan.

The noncontributory defined benefit plan ("the Plan") covers substantially all regular full-time employees. The Company uses a December 31st measurement date for the Plan. Plan assets consist of equity and fixed income mutual funds.

The Plan uses the Projected Unit Credit Method as the actuarial cost method and the following weighted-average assumptions to determine the benefit obligation and net periodic pension cost for the years ended December 31, 2023 and 2022:

Notes to Consolidated Financial Statements (in 000's)

	2023	2022
Discount rate for benefit obligation	5.00%	5.20%
Discount rate for pension cost	5.20%	2.95%
Expected return on plan assets	6.00%	5.50%
Rate of compensation increase	4.00%	4.00%

Plan amounts recognized in the Consolidated Balance Sheets consist of:

	2023	2022
Noncurrent assets	$ -	$ -
Current liabilities	-	-
Noncurrent liabilities	2,006	3,585
Total	$ 2,006	$ 3,585

Plan amounts recognized in accumulated other comprehensive income, net of tax, for the years ended December 31, 2023 and 2022 ($149 and $123, respectively), consist of:

	2023	2022
Net gain (loss)	$ 559	$ 461
Prior service cost	-	-
Total	$ 559	$ 461

Other components of the Plan for the years ended December 31, 2023 and 2022, were as follows:

	2023	2022
Projected benefit obligation	$ 17,360	$ 15,288
Fair value of plan assets	15,354	11,703
Funded status of the plan	$ (2,006)	$ (3,585)
Employer contributions	$ 2,000	$ -
Lump sum payments	$ -	$ -
Benefits paid	$ 51	$ 51

The Plan's accumulated benefit obligation is $14,390 as of December 31, 2023 and was $12,565 as of December 31, 2022. Net periodic pension cost for the Plan, including service cost of $436 and $765 and components other than service cost of $109 and $141, totaled $545 and $906 for the years ended December 31, 2023 and 2022, respectively, and is included in "Underwriting, general and administrative expenses" in the Consolidated Statements of Comprehensive Income.

The Plan net gain that was recognized in other comprehensive income was $124 and $4,507 in 2023 and 2022, respectively. The net loss and prior service cost for the Plan that was amortized from accumulated other comprehensive income into net periodic pension cost was $0 and $0 in 2023 and $235 and $0 in 2022, respectively.

Notes to Consolidated Financial Statements (in 000's)

The Company determines the long-term expected rate of return on Plan assets by examining historical returns and the Plan's asset allocation. Factors such as inflation and current interest rates are also evaluated. The result is reviewed against benchmarking data to ensure that the return is a reasonable and appropriate assumption.

The Plan's asset allocation at December 31, by asset category, is as follows:

	2023	2022
Asset Category:		
Equities	60%	61%
Fixed income securities	40%	39%
Total	100%	100%

The Company's expected long-term rate of return and projected asset allocation are as follows:

	Expected Rate of Return	Guideline Asset Allocation	Expected Net Rate of Return
Asset Category:			
Equities	7.50%	60%	4.50%
Fixed income securities	4.00%	40%	1.50%
Total		100%	6.00%

The Plan's assets will be invested in a prudent manner for the exclusive purpose of providing benefits to Plan participants. The Company's objective is to maximize the return on assets, over the long term, by investing a majority of assets in equities. The inclusion of additional asset classes with differing rates of return, volatility, and correlation are utilized to reduce the risk by providing diversification relative to equities. The Company's investment policy states that equities will comprise 60% of assets, and fixed income securities 40% of assets. The actual allocation will be compared to the target allocation and the Plan's assets rebalanced as determined by the Company.

The Company made contributions of $2,000 and $0 to the Plan for the years ended December 31, 2023 and 2022, respectively. The Company's funding policy is to make annual contributions, if required, at least equal to normal costs determined to meet benefit payments, including lump sum distributions, and comply with funding requirements of ERISA. The Company does not expect to make contributions to the Plan in 2024.

The estimated net loss and prior service cost for the Plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are both $0.

Benefit payments expected to be paid from the Plan over the next five years and accumulated over the five years thereafter are as follows as of December 31:

Year	Benefits
2024	$ 3,140
2025	$ 910
2026	$ 860
2027	$ 1,550
2028	$ 1,220
2029-2033	$ 5,160

Notes to Consolidated Financial Statements (in 000's)

The 401(k) defined contribution plan covers substantially all employees. Effective January 1, 2007, the Company contributes amounts to the plan sufficient to credit each participant's account with an amount equal to 3% of the participant's eligible compensation, subject to IRS limitations, during the plan year. In addition, the Company matches 100% of the first 1% and 50% of the next 1% of employee voluntary contributions of the participant's eligible compensation. Participants are not required to contribute to the plan. Participants may voluntarily contribute up to 50% of eligible compensation paid to the participant during the plan year up to a maximum of $23. The Company contributed approximately $166 and $165 to this plan in 2023 and 2022, respectively.

The Company maintains a supplemental employee retirement plan ("SERP") which was established for certain key employees. The SERP provides benefits equal to what would be available under both the qualified non-contributory defined benefit plan and the 401(k) defined contribution plan, if there were no statutory limitations on the amount of compensation that could be covered by the qualified plans.

Defined Benefit Component:

The SERP uses the Projected Unit Credit Method as the actuarial cost method and the following weighted-average assumptions to determine the benefit obligation and net periodic pension cost for the years ended December 31, 2023 and 2022:

	2023	**2022**
Discount rate for benefit obligation	4.80%	5.00%
Discount rate for pension cost	5.00%	2.60%
Rate of compensation increase	0.00%	4.00%

SERP amounts recognized in the Consolidated Balance Sheets consist of:

	2023	**2022**
Noncurrent assets	$ -	$ -
Current liabilities	3,768	-
Noncurrent liabilities	-	3,423
Total	$ 3,768	$ 3,423

SERP amounts recognized in accumulated other comprehensive income, net of tax for the years ended December 31, 2023 and 2022 ($53 and $87, respectively), consist of:

	2023	**2022**
Net gain (loss)	$ 198	$ 328
Prior service cost	-	-
Total	$ 198	$ 328

Notes to Consolidated Financial Statements (in 000's)

Other components of the SERP for the years ended December 31, 2023 and 2022 were as follows:

	2023		2022	
Projected benefit obligation	$	3,768	$	3,423
Fair value of plan assets		-		-
Funded status of the plan	$	(3,768)	$	(3,423)
Employer contributions	$	-	$	-
Lump sum payments	$	-	$	-
Benefits paid	$	-	$	-

The SERP's accumulated benefit obligation is $3,768 as of December 31, 2023, and was $3,346 as of December 31, 2022. Net periodic pension cost for the plan, including service cost of $83 and $104, and components other than service cost of $98 and $365, totaled $181 and $469 for the years ended December 31, 2023 and 2022, respectively, and is included in "Underwriting, general and administrative expenses" in the Consolidated Statements of Comprehensive Income.

The SERP net (loss)/gain that was recognized in other comprehensive income was $(91) and $1,099 in 2023 and 2022, respectively. The net gain/(loss) and prior service cost for this plan that was amortized from accumulated other comprehensive income into net periodic benefit cost was $73 and $0 in 2023 and $(253) and $0 in 2022, respectively.

The Company anticipates contributing amounts equal to the benefits payable in future plan years.

The estimated net gain and prior service cost for the SERP that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are both $0.

Benefit payments expected to be paid from the SERP over the next five years and accumulated over the five years thereafter are as follows as of December 31:

Year	Benefits	
2024	$	3,768
2025	$	-
2026	$	-
2027	$	-
2028	$	-
2029-2033	$	-

The accrued liability included in the Consolidated Balance Sheet for the defined contribution component of the SERP was $236 at December 31, 2023 and $234 at December 31, 2022. Amounts recognized in the Consolidated Statements of Comprehensive Income for the defined contribution component of the SERP were $2 and $19 for 2023 and 2022, respectively.

Notes to Consolidated Financial Statements (in 000's)

B. Postretirement Benefit Plan

The Company provides health benefits to qualifying employees and retirees. The Company recognizes the expected cost of these benefits during the years in which employees render service. No assets are set aside for postretirement health benefits. The Company has not applied for benefits under the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the "2003 Act") and any measures of the accumulated postretirement benefit obligation or net periodic postretirement benefit cost in the financial statements or accompanying notes do not reflect the effects of the 2003 Act on the Company's postretirement benefit plan.

As of December 31, 2010, the Company has included a 1% load in the plan's amounts to account for the anticipated impact of the excise tax on high-cost plans as a result of the Patient Protection and Affordable Care Act of 2010 (the "2010 Act"). The other provisions of the 2010 Act are not expected to have a material impact on the Company's postretirement benefit plan obligation.

Plan amounts recognized in the Consolidated Balance Sheets consist of:

	2023	2022
Noncurrent assets	$ -	$ -
Current liabilities	120	110
Noncurrent liabilities	4,928	4,187
Total	$ 5,048	$ 4,297

Plan amounts recognized in accumulated other comprehensive income, net of tax, for the years ended December 31, 2023 and 2022 ($214 and $101, respectively), consist of:

	2023	2022
Net loss	$ 806	$ 380

Other components of the plan for the years ended December 31, 2023 and 2022, were as follows:

	2023	2022
Benefit obligation	$ 5,048	$ 4,297
Fair value of plan assets	-	-
Funded status of the plan	$ (5,048)	$ (4,297)
Employer contributions	$ 139	$ 121
Participant contributions	$ 8	$ 7
Benefits paid	$ 147	$ 129

The following table shows the plan's obligation by participant as well as assumed discount rates:

	2023	2022
Retirees	$ (1,667)	$ (1,306)
Other active participants	(3,381)	(2,991)
Accumulated postretirement benefit obligation	$ (5,048)	$ (4,297)

Notes to Consolidated Financial Statements (in 000's)

Weighted average assumed discount rate to determine:		
The benefit obligation	5.05%	5.20%
The net benefit cost	5.20%	2.95%

Net periodic benefit cost for the plan, including service cost of $124 and $205, and components other than service cost of $226 and $395, totaled $350 and $600 for the years ended December 31, 2023 and 2022, respectively, and is included in "Underwriting, general and administrative expenses" in the Consolidated Statements of Comprehensive Income.

The plan net (loss) gain that was recognized in other comprehensive income was $(545) and $1,948 in 2023 and 2022, respectively. The net loss and prior service cost for this plan that was amortized from accumulated other comprehensive income into net periodic benefit cost was $6 and $0 in 2023 and $220 and $0 in 2022, respectively.

The Company's policy is to contribute the amount required to fund postretirement benefits as they become due to retirees. The amount expected to be required in contributions to the plan during 2024 is $120.

The estimated net loss and prior service cost for the plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are $55 and $0, respectively.

Benefit payments expected to be paid from the plan over the next five years and accumulated over the five years thereafter are as follows as of December 31:

Year	Benefits
2024	$ 120
2025	$ 140
2026	$ 160
2027	$ 180
2028	$ 200
2029-2033	$ 1,210

For measurement purposes, a 7.5% increase in healthcare costs was assumed for fiscal year 2023, trending down to 4.5% in 2034 and thereafter.

C. Deferred Compensation Plan

During 2010, the Company adopted a deferred compensation plan for certain key employees. The amount and timing of awards to participants is at the sole discretion of the Company and amounts remain unfunded and unvested until the employee meets all of the criteria established by the Company for payment of the awarded amounts. Included in "Underwriting, general and administrative expenses" in the accompanying Consolidated Statements of Comprehensive Income are amounts attributable to this plan of approximately $26 and $8 for the years ended December 31, 2023 and 2022, respectively. Total deferred compensation plan liabilities were $587 and $562 at December 31, 2023 and 2022, respectively.

Notes to Consolidated Financial Statements (in 000's)

13. Accumulated Other Comprehensive Income

Changes in the Company's accumulated other comprehensive income by component, net of tax, are as follows:

	Unrealized Gains and (Losses) on Investments	Actuarial Unrealized Gains and (Losses) on Benefit Plans	Total
Balance at December 31, 2021	$ 6,796	$ (6,116)	$ 680
Net unrealized (losses) gains arising during the period	(42,117)	5,967	(36,150)
Reclassification adjustment for losses realized in net income	2,335	560	2,895
Other comprehensive (loss) income	$ (39,782)	$ 6,527	$ (33,255)
Balance at December 31, 2022	$ (32,986)	$ 411	$ (32,575)
Net unrealized gains (losses) arising during the period	6,492	(404)	6,088
Reclassification adjustment for losses (gains) realized in net income	3,730	(54)	3,676
Other comprehensive income (loss)	$ 10,222	$ (458)	$ 9,764
Balance at December 31, 2023	$ (22,764)	$ (47)	$ (22,811)

The Company's other comprehensive income is calculated as follows:

For the Year Ended December 31, 2023	Pretax Income (Loss)	Tax Expense or (Benefit)	Net of Tax Amount
Net unrealized gains on investments			
Net unrealized gains arising during the period	$ 8,218	$ 1,726	$ 6,492
Reclassification adjustment for losses realized in net income	4,721	991	3,730
Net actuarial unrealized losses on employee benefit plans			
Net unrealized losses arising during the period	(511)	(107)	(404)
Reclassification adjustment for gains realized in net income	(68)	(14)	(54)
Other comprehensive income	$ 12,360	$ 2,596	$ 9,764

For the Year Ended December 31, 2022	Pretax (Loss) Income	Tax Expense or (Benefit)	Net of Tax Amount
Net unrealized losses on investments			
Net unrealized losses arising during the period	$ (53,313)	$ (11,196)	$ (42,117)
Reclassification adjustment for losses realized in net income	2,956	621	2,335
Net actuarial unrealized gains on employee benefit plans			
Net unrealized gains arising during the period	7,553	1,586	5,967
Reclassification adjustment for losses realized in net income	709	149	560
Other comprehensive loss	$ (42,095)	$ (8,840)	$ (33,255)

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