ICI Mutual

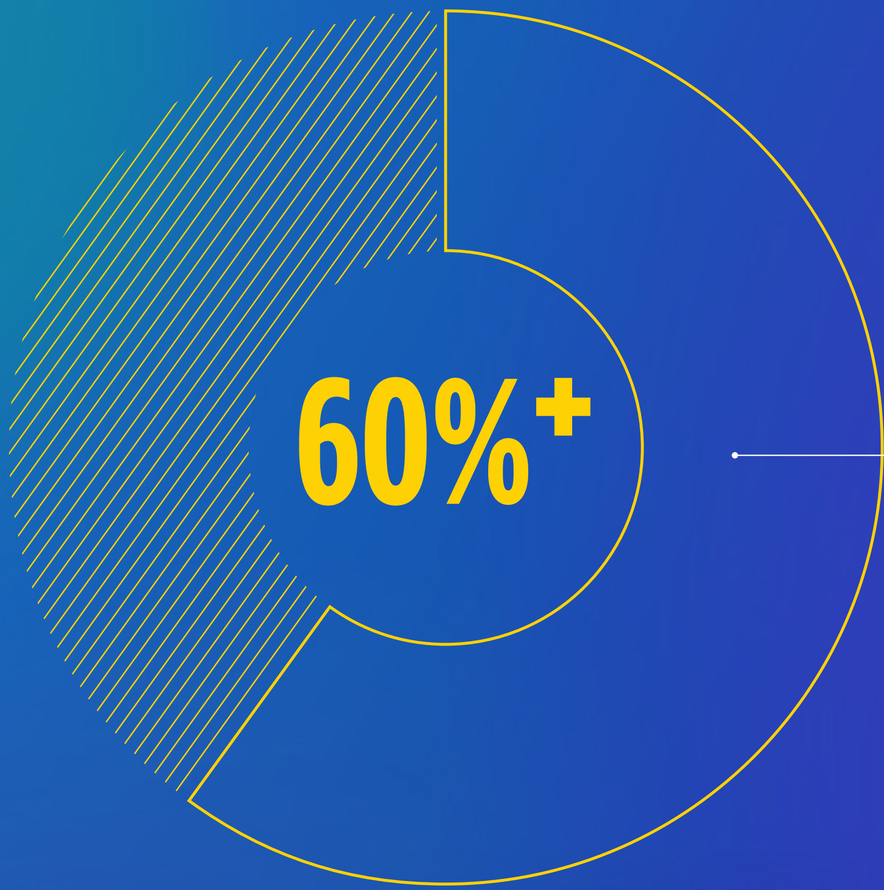
2020 ANNUAL REPORT

Data as of December 31, 2020

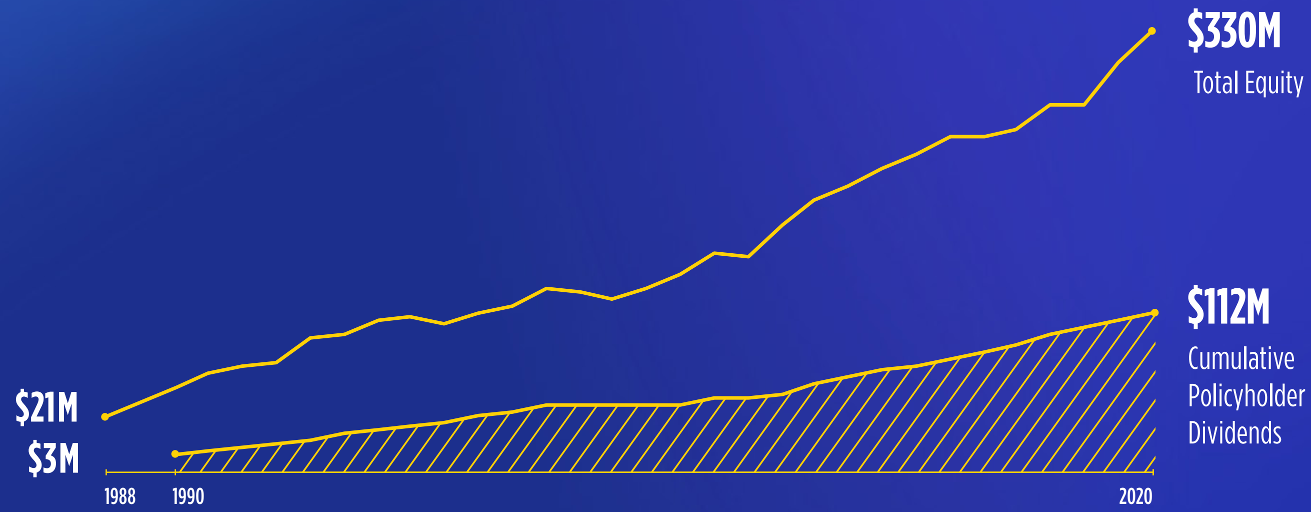
ICI Mutual
At A Glance

Financial Strength Rating A.M. BEST A Excellent

For the latest rating, access www.ambest.com



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



A Letter from the President and the Chair

The COVID-19 pandemic has generated formidable challenges for industries and businesses in the United States and across the globe. ICI Mutual adapted and responded effectively to these challenges in 2020, performing strongly on both a financial and operational basis. The Company earned an underwriting profit, declared a policyholder dividend, added to its overall surplus, and—in a remote environment—delivered to its 100+ member-insured fund groups the full array of fund industry-specific insurance coverages, claims handling, and risk management services for which ICI Mutual has long been valued.

The Company's performance evidences its ongoing commitment to the mission for which it was founded more than three decades ago—to provide the fund industry with an expert, reliable, long-term "industry mutual insurer" alternative to the uncertainties and cyclicality to which commercial insurance markets have historically been subject.

Daniel T. Steiner
President

Barry Fink
Chair

In this letter, we discuss developments in the mutual fund insurance market in 2020, report on the recent emergence of costs of correction severity risk for fund groups, and close with a short look ahead.

Developments in the Mutual Fund Insurance Market

The insurance market cycle is a long-standing phenomenon characterized by shifts over time between (1) "soft market" periods of lower insurance premium rates, increased insurance capacity (supply), and/or broader coverage terms, and (2) "hard market" periods of higher insurance premium rates, reduced insurance capacity, and/or narrower coverage terms. The property and casualty (P&C) insurance market continued to harden in 2020, fueled by pandemic-related economic and societal uncertainties and other factors. Among the business insurance lines affected was public company directors and officers (D&O) insurance, where insureds frequently experienced dramatic year-over-year rate increases on their 2020 policy renewals (measured as a percentage increase over premiums charged for their 2019 policies).

In the specialized niche market for mutual fund insurance, the hardening had a more muted impact. Year-over-year rate increases on fund groups' renewals of directors and officers/errors and omissions liability (D&O/E&O) policies were typically far below those for public company D&O insurance policies. Rate increases on independent

2020 was a successful year for ICI Mutual. The Company's underwriting profit, in combination with the Company's investment results, resulted in net income, after dividends and income taxes, of $19.2 million. The Company's Board of Directors declared a $6 million dividend (payable to Participating Members as a credit against their 2021 renewal premiums), increasing the total dividends declared over the life of the Company to $112 million. The Company's year-end equity reached $330 million, and AM Best once again affirmed the Company's "A" (Excellent) rating.

Management's detailed discussion of 2020's operating results is provided at pages 8-9.

As in past periods of disruption, ICI Mutual in 2020 again served as a strong, stabilizing presence in the mutual fund insurance market.

director liability (IDL) policies and fidelity bonds were generally modest. Meanwhile, ample insurance capacity remained available for fund groups throughout 2020, and most fund groups (whether insuring with ICI Mutual or with commercial insurers) appeared to achieve their renewals with no significant new restrictions in coverage terms.

Like industry mutual insurers serving other industries, ICI Mutual cannot fully insulate its member-insureds from the insurance market cycle, nor from the impact that severe societal or economic events may have on the risk-transfer appetites of the broader insurance and reinsurance markets and thus on insurance and reinsurance pricing more generally. Yet, as in past periods of disruption, ICI Mutual in 2020 again served as a strong, stabilizing presence in the mutual fund insurance market, thus helping to temper the volatility (in insurance costs, capacity, and coverage terms) of the insurance market cycle for its member-insureds and for the fund industry.

Costs of Correction Severity Risk

"Costs of correction" insurance coverage, long a feature of ICI Mutual's D&O/E&O policies, is highly valued by insured advisers for its role in facilitating timely and efficient remediations of operational errors and other operational mishaps (see box on page 5). Over its history, ICI Mutual has received and paid scores of insurance claims under this coverage. The *frequency* of such costs of correction insurance claims has remained relatively stable over time. Until fairly recently, the *severity* of such claims had likewise remained relatively stable, with dollar amounts at issue in individual claims rarely exceeding the mid-seven figures. Over the past several years, however, in a marked break from past experience, ICI Mutual has received multiple *high severity* costs of correction insurance claims—i.e., claims that have involved (or that have had the clear potential to involve) dollar amounts of eight figures or more.

Of note, none of these recent high severity claims (with one possible exception) have resulted from pandemic-related mishaps. Indeed, these claims have had little in common apart from their high severity and the fact that the operational mishaps occurred at larger fund groups with highly regarded risk management programs.

Costs of Correction Insurance Coverage—An Overview

Trade errors, inadvertent violations of investment restrictions, corporate action processing mistakes, and other operational mishaps by advisers (and/or their affiliates) can and do occur in the fund industry, notwithstanding state-of-the-art compliance systems and protocols in place at fund groups. Where such mishaps adversely impact funds or other clients, issues of legal and financial responsibility for the mishaps are typically resolved directly by the parties involved, without resort to litigation and with little or no publicity. Given the complexity of fund industry operations and the sheer number of transactions that take place, it is not surprising that there are sometimes incidents serious enough to result in substantial “corrective” payments being made by advisers to affected funds or clients.

A specialized type of insurance coverage, commonly referred to as “costs of correction” coverage, permits advisers under designated circumstances to pursue insurance recovery under their D&O/E&O insurance policies for such corrective payments, even in the absence of litigation being initiated against them by their funds or clients. Costs of correction insurance coverage has been a standard feature of ICI Mutual’s D&O/E&O policies since the Company’s inception. In today’s mutual fund insurance market, the coverage is also generally available from commercial insurers, although the scope, terms, and conditions of the coverage can vary by insurer. Outside the asset management sector, the coverage remains uncommon.

ICI Mutual remains committed to costs of correction insurance coverage and has no current plans to restrict the scope or amount of costs of correction coverage provided under its D&O/E&O policies.

It is important to note that, as yet, no definitive statistical trend in costs of correction claims severity can be derived from the available claims data. This said, ICI Mutual's recent experience demonstrates that the risk of high severity costs of correction claims has moved beyond the theoretical to the real. Multiple high severity costs of correction claims have now happened. It is thus logical to expect that high severity costs of correction claims may happen in the future. Indeed, the risk of such high severity claims may now be inherent in modern fund industry operations, regardless of the strength of fund groups' operational risk management programs.

ICI Mutual recognizes the sensitivity of costs of correction claims and takes appropriate steps to protect the confidentiality of associated claims-related information. But fund industry operational mishaps are not limited to fund groups insured by ICI Mutual. And high severity costs of correction claims, when they occur, can impact multiple insurers and/or reinsurers. Commercial insurers, reinsurers, and insurance brokers are thus growing increasingly aware of the severity risk associated with costs of correction claims, and of the underwriting and pricing challenges associated with transferring this risk through insurance.

ICI Mutual remains committed to costs of correction insurance coverage and has no current plans to restrict the scope or amount of costs of correction coverage provided under its D&O/E&O policies. At the same time, ICI Mutual believes it is important to recognize the applicability in this context of a basic insurance principle—in order to ensure the continued availability of suitable breadth of coverage and insurance capacity for a new or emerging severity risk, the cost of insuring the risk must necessarily be pooled and apportioned equitably over time between and among insureds and their insurers.

Looking Ahead

As we write this letter in March, there is guarded optimism that 2021 could see significant progress towards a post-pandemic "new normal." It is not yet clear when this new normal will arrive or what shape it will take. But whenever the arrival date and whatever the shape, we can be certain that for the fund industry, new challenges will emerge.

At ICI Mutual, we are committed to assisting the fund industry in navigating towards a new normal and in addressing the challenges that lie ahead. We are confident that, as in the past, ICI Mutual will continue to demonstrate its enduring value—through its development of sustainable insurance coverages tailored to address the fund industry's specialized risks; through its fair-minded and collaborative approach to the claims handling and claims resolution process; through its provision of insurance capacity throughout the insurance market cycle at prices that are rationally related to the fund industry's own risks; and through its delivery of fund industry-focused risk management, loss prevention, and insurance-related services.

On behalf of the Board of Directors and staff, we thank you, the Company's member-insureds, for your loyalty and support. We invite any advice or suggestions you may have for how ICI Mutual can best continue to serve your interests and those of the fund industry.

Daniel T. Steiner

Daniel T. Steiner
President

Barry Fink
Chair of the Board of Directors

Financial Overview

ICI Mutual recorded an underwriting profit of $5.3 million in 2020, the sixteenth consecutive year that underwriting income (net premiums earned) exceeded underwriting expenses (net losses incurred and G&A expenses). Income before policyholder dividends and income taxes totaled $30.5 million, including $14.3 million in net gains on investments.

Gross premiums written in 2020 were $78.9 million while net premiums earned were $26.1 million. Both gross and net premiums were lower than in the prior year due to certain non-recurring premiums derived from tail coverages that were written and earned in 2019. On average, 2020 premium rates increased for each of the insurance products underwritten by the Company, reflecting broader pricing trends across the property and casualty insurance industry. The Company's year-over-year retention rate remained high, with approximately 95% of member-insureds renewing their coverages.

Net loss and loss adjustment expenses equaled $8.7 million for the year, an increase from the $7.0 million experienced in 2019, primarily due to higher current year claims activity. The Company's loss ratio for 2020 (net loss and loss adjustment expenses divided by net premiums earned) was 33%. The Company's combined ratio was 80% before policyholder dividends and 103% after policyholder dividends.

Net investment income equaled $10.6 million in 2020, which was lower than the 2019 amount due to market-driven lower average interest rates on debt securities.

The Company's year-over-year retention rate remained high, with approximately 95% of member-insureds renewing their coverages.

A policyholder dividend of $6.0 million was declared by the Company's Board of Directors in December 2020 and is payable to Participating Members that renew eligible participating policies in 2021. Income taxes were $5.3 million. Net income, after dividends and income taxes, was $19.2 million in 2020 as compared to $23.7 million in 2019.

Total equity increased by approximately $25 million to $330.4 million, as a result of the $19.2 million in net income and $6.0 million in net unrealized appreciation on investments and other comprehensive income. In 2020, 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 to 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.

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 ensures that ICI Mutual is operated to serve and benefit the Company's 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 to 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.

Detailed 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.

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.

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 15, 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 Conference was on hiatus in 2020 due to the COVID-19 pandemic and will be held virtually in 2021.

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

ICI Mutual Then and Now (2017)

Independent Directors Liability (IDL) Insurance (2013)

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

CLAIMS AND LITIGATION

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)

What to Expect in the Claims Process (2007)

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

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.

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.

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Executive (E), Audit (A), Investment (I), Underwriting (U), Risk Management (R), Nominating (N)

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Gwen M. Taylor
Legal Insurance Assistant

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Senior Associate Counsel & Director of Cyber Risk Issues

Selected Financial Highlights

2020

For the Years Ended	2020	2019
Gross Premiums Written	$ 78,885	$ 83,032
Net Premiums Earned	$ 26,100	$ 29,127
Net Loss and Loss Adjustment Expenses	$ 8,709	$ 6,959
Net Underwriting Profit	$ 5,262	$ 10,312
Net Investment Income	$ 10,590	$ 11,029
Dividends to Policyholders	$ 5,981	$ 6,000
Net Income	$ 19,198	$ 23,724
Total Equity	$ 330,393	$ 305,233

Combined Ratio		
Loss and General Expense Ratio	80%	65%
Policyholder Dividends	23%	21%
Combined Ratio including Policyholder Dividends	103%	86%

Dollar amounts in thousands

ICIMutual

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A Risk Retention Group

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ICI MUTUAL
Insurance Company
A Risk Retention Group

2020 Consolidated Financial Statements

ICI Mutual Insurance Company, a Risk Retention Group
Index
2020 and 2019 Consolidated Financial Statements

Report of Independent Auditors

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

We have audited the accompanying consolidated financial statements of ICI Mutual Insurance Company, a Risk Retention Group and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended.

Management's Responsibility 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; this includes 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.

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ICI Mutual Insurance Company, a Risk Retention Group and its subsidiaries as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Accounting principles generally accepted in the United States of America require that the incurred and paid claims development disclosure on pages 25 to 26 be presented to supplement the basic financial statements. Such information, 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.

PricewaterhouseCoopers LLP

Hartford, Connecticut
April 21, 2021

ICI Mutual Insurance Company, a Risk Retention Group
Consolidated Balance Sheets
December 31, 2020 and 2019 (in 000's)

	2020	2019
Assets		
Cash and cash equivalents	$ 7,226	$ 9,725
Investments		
Debt securities, at fair value (amortized cost of $304,892 and $295,227, respectively)	325,913	305,680
Equity securities, at fair value	69,484	59,258
Money market funds	6,947	2,558
Total cash and investments	409,570	377,221
Prepaid expenses	538	489
Prepaid federal and state income taxes	983	1,171
Deferred policy acquisition costs	2,423	2,452
Premiums receivable	8,235	7,697
Interest receivable	1,995	2,084
Investment securities receivable	287	-
Reinsurance recoverables	103,606	133,859
Prepaid reinsurance premiums	33,385	31,913
Other amounts receivable under reinsurance contracts	536	1,413
Furniture and fixtures, net	754	834
Total assets	$ 562,312	$ 559,133
Liabilities and Equity		
Reserve for losses and loss adjustment expenses	$ 146,380	$ 181,001
Unearned premiums	44,712	42,860
Reinsurance premiums payable	3,155	2,816
Premium taxes payable	722	906
Deferred income taxes	6,138	3,061
Accounts payable and other liabilities	6,372	3,611
Benefits payable	18,298	13,645
Dividends payable	6,142	6,000
Total liabilities	231,919	253,900
Contingencies (Note 10)		
Contributed surplus	18,161	18,190
Accumulated other comprehensive income	9,388	3,397
Accumulated earnings	302,844	283,646
Total equity	330,393	305,233
Total liabilities and equity	$ 562,312	$ 559,133

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, 2020 and 2019 (in 000's)

	2020	2019
Revenues		
Net premiums written	$ 26,480	$ 28,092
Change in net unearned premiums	(380)	1,035
Net premiums earned	26,100	29,127
Net investment income	10,590	11,029
Net realized gains on securities	4,446	7,801
Net unrealized gains on equity securities	9,894	6,490
Other income	288	320
Total revenues	51,318	54,767
Expenses		
Net loss and loss adjustment expenses	8,709	6,959
Underwriting, general and administrative expenses	12,129	11,856
Total expenses	20,838	18,815
Income before dividends to policyholders and provision for income taxes	30,480	35,952
Dividends to policyholders	5,981	6,000
Income before provision for income taxes	24,499	29,952
Provision for income taxes	5,301	6,228
Net income	19,198	23,724
Other Comprehensive Income		
Net unrealized gains on securities:		
Net unrealized gains arising during the period, net of tax	19,678	22,375
Reclassification adjustment for gains realized in net income, net of tax	(11,329)	(11,290)
Net actuarial unrealized losses on employee benefit plans:		
Net unrealized losses arising during the period, net of tax	(2,966)	(1,924)
Reclassification adjustment for losses realized in net income, net of tax	608	191
Other comprehensive income, net of tax, net of reclassification adjustments	5,991	9,352
Comprehensive income	$ 25,189	$ 33,076
Net realized gains on securities		
Other-than-temporary impairment losses	$ -	$ (229)
Other net realized investment gains	4,446	8,030
Net realized gains on securities	$ 4,446	$ 7,801

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, 2020 and 2019 (in 000's)

	Contributed Surplus	Accumulated Other Comprehensive Income	Accumulated Earnings	Total Equity
Balance at December 31, 2018	$ 18,198	$ 14,831	$ 239,136	$ 272,165
Net income	-	-	23,724	23,724
Other comprehensive income, net of tax, net of reclassification adjustments	-	9,352	-	9,352
Cumulative effect reclassification of unrealized gains on equity securities, net of tax	-	(20,786)	20,786	-
Distributions of contributed surplus	(8)	-	-	(8)
Balance at December 31, 2019	$ 18,190	$ 3,397	$ 283,646	$ 305,233
Net income	-	-	19,198	19,198
Other comprehensive income, net of tax, net of reclassification adjustments	-	5,991	-	5,991
Distributions of contributed surplus	(29)	-	-	(29)
Balance at December 31, 2020	$ 18,161	$ 9,388	$ 302,844	$ 330,393

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, 2020 and 2019 (in 000's)

	2020	2019
Cash Flows from Operating Activities		
Net income	$ 19,198	$ 23,724
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization of premium	512	452
Deferred income taxes	1,485	1,222
Depreciation and amortization	136	147
Net realized gains on securities	(4,446)	(7,801)
Net unrealized gains on equity securities	(9,894)	(6,490)
Changes in operating assets and liabilities		
Prepaid expenses	(49)	35
Prepaid federal and state income taxes	188	436
Deferred policy acquisition costs	29	(2)
Premiums receivable	(538)	4,857
Interest receivable	89	(185)
Investment securities receivable	(287)	-
Reinsurance recoverables	30,253	(40,678)
Prepaid reinsurance premiums	(1,472)	2,318
Other amounts receivable under reinsurance contracts	877	1,554
Reserve for losses and loss adjustment expenses	(34,622)	43,069
Unearned premiums	1,852	(3,355)
Reinsurance premiums payable	339	(2,792)
Premium taxes payable	(184)	293
Accounts payable and other liabilities	2,762	(112)
Benefits payable	1,668	1,045
Dividends payable	142	(62)
Net cash provided by operating activities	8,038	17,675
Cash Flows from Investing Activities		
Proceeds from sales of investments	121,844	110,591
Proceeds from maturities of investments	2,300	7,462
Purchases of furniture and fixtures	(56)	(12)
Payments for purchases of investments	(130,208)	(135,241)
Change in money market funds	(4,388)	(2,472)
Net cash used in investing activities	(10,508)	(19,672)
Cash Flows from Financing Activities		
Distributions of contributed surplus	(29)	(8)
Borrowing from the FHLB	21,000	-
Repayment to the FHLB	(21,000)	-
Net cash used in financing activities	(29)	(8)
Net decrease in cash and cash equivalents	(2,499)	(2,005)
Cash and cash equivalents at beginning of year	9,725	11,730
Cash and cash equivalents at end of year	$ 7,226	$ 9,725

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 2020 and 2019 agree with the audited financial statements. In addition, at December 31, 2020 and 2019, 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 an other-than-temporary impairment has occurred. See Note 2 for a detailed explanation of the procedures utilized by the Company in calculating other-than-temporary 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. Effective January 1, 2019, changes in unrealized gains and losses for equity securities are recorded in net income (See Note 2). Realized gains and losses on the sale of the Company's securities are determined based on specific identification and are included as a separate component of operations.

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. Commissions on reinsurance premiums ceded are earned when due and are reflected as a reduction to ceded reinsurance premiums.

D. Deferred Policy Acquisition Costs

Acquisition costs consist primarily of underwriter compensation, 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.

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 method of making IBNR estimates and for establishing the resulting reserves is based on actuarial assumptions as to future contingencies and as to the applicability of other data sources which the Company's independent actuaries deem to be reasonable and appropriate in the circumstances. 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. Due to this uncertainty, the appropriateness of the current level of such estimated liability can only be determined with the passage of time. Any adjustments to these estimates, which could be significant, will be reflected in income in the period in which the estimates are changed or payments are made.

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 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, 2020 and 2019.

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 2020 or 2019.

During 2020, the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) and the Consolidated Appropriations Act of 2021 (the “CAA”) were signed into law. Among other things, the provisions of these laws relate to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, and technical corrections to tax depreciation methods for qualified improvement property. As of December 31, 2020, we have evaluated and determined no material impacts due to these provisions. We will continue to monitor the impacts on our business due to legislative developments related to the COVID-19 pandemic.

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. For the treaty year ending March 31, 2021, the Company retains 50% of the first $24 million in losses on cost of corrections coverage recoverable under the treaty. For the treaty years ending March 31, 2012 through 2016, the Company retains an additional $2.5 million in excess of the first $15 million recoverable.

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, 2020, 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 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 and only conducts business with reinsurers that are highly rated by reputable rating agencies. As of December 31, 2020, the Company had no reason to believe that any amounts currently due from reinsurers will prove uncollectible. Accordingly, the Company has not made a separate provision for any amounts that might ultimately prove to be uncollectible from reinsurers in the future.

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, 2020 and 2019, 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. As part of its liquidity strategy, the Company borrowed and repaid short-term loans of $21 million and $0 million from the FHLB in 2020 and 2019, respectively.

I. 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. Depreciation of leasehold improvements is offset by the amortization of a rent incentive allowance. Provisions for depreciation are computed using the straight-line method based on useful lives ranging from three to twelve years. Depreciation expense was $136 and $147 for 2020 and 2019, respectively. Accumulated depreciation totaled $997 and $861 at December 31, 2020 and 2019, respectively.

J. Recent Accounting Pronouncements

Recently Adopted Accounting Standards

In January 2016, the FASB issued ASU 2016-01, Financial Instruments-Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this ASC update address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01: (1) requires equity investments (except those accounted for under the equity method or those that result in the consolidation of the investee) to be measured at fair value with changes in the fair value recognized in net income; (2) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (3) requires the use of the exit price notion when measuring the fair value of financial instruments for disclosure purposes; and (4) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the notes to the financial statements. These amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2018. The Company adopted this guidance effective January 1, 2019, and as a result, the unrealized gains on equity securities in accumulated other comprehensive income (AOCI) of $20,786, net of tax, as of December 31, 2018, was recorded as a cumulative effect adjustment from AOCI to Accumulated Earnings as of January 1, 2019. There was no total impact on Equity as a result of this cumulative effect adjustment (See Note 2).

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 reduces diversity in practice in how certain transactions are classified in the statement of cash flows. The amendments in ASU 2016-15 provide guidance on specific cash flow issues including debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, and distributions received from equity method investees. ASU 2016-15 is effective for annual and interim periods beginning after December 15, 2018. The Company adopted this guidance effective January 1, 2019. There was no material impact to its Consolidated Statements of Cash Flows as a result of this adoption.

In March 2017, FASB issued ASU 2017-07, Compensation Retirement Benefits. ASU 2017-07 requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. ASU 2017-07 is effective for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2018. The Company adopted this guidance effective January 1, 2019. There was no material impact to its financial statements as a result of this adoption.

Recently Issued Accounting Standards Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 requires the recognition of lease assets and lease liablities by lessees for those leases classified as operating leases under previous GAAP. Under existing guidance, recognition of lease assets and liabilities is not required for operating leases. The lease assets and liabilities to be recognized are both measured initially based on the present value of the lease payments. For non-public entities, the amendments for ASU 2016-02 are effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. The Company is evaluating the impact of ASU 2016-02 on its financial statements.

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. For non-public entities, the amendments in ASU

2016-13 are effective for annual and interim periods beginning after December 15, 2022. The Company is evaluating the impact of ASU 2016-13 on its financial statements.

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. The amendments in this ASU simplify the accounting for income taxes by removing certain exceptions and clarifying certain requirements regarding franchise taxes, goodwill, consolidated tax expenses and annual effective tax rate calculations.The ASU is effective for interim and annual periods beginning after December 15, 2020, with early adoption permitted. The Company is currently assessing the impact of this standard on its financial statements.

K. 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 of December 31, 2020 and through the date the financial statements were available to be issued, April 21, 2021. 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, 2020			
Debt securities available for sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government, agencies and authorities securities	$ 45,048	$ 3,579	$ (42)	$ 48,585
Mortgage-backed	53,242	2,132	(180)	55,194
All other corporate bonds	206,602	16,100	(568)	222,134
Total debt securities	$ 304,892	$ 21,811	$ (790)	$ 325,913

	December 31, 2019			
Debt securities available for sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government, agencies and authorities securities	$ 42,131	$ 2,151	$ (76)	$ 44,206
Mortgage-backed	62,051	1,414	(97)	63,368
All other corporate bonds	191,045	7,819	(758)	198,106
Total debt securities	$ 295,227	$ 11,384	$ (931)	$ 305,680

The amortized cost and fair value of debt securities at December 31, 2020, 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	$ 2,125	$ 2,153
Due after one year through five years	60,323	63,360
Due after five years through ten years	99,578	104,756
Due after ten years	142,866	155,644
Total debt securities	$ 304,892	$ 325,913

At December 31, 2020 and 2019, the gross unrealized gains on investments in debt securities of \$21,021 and \$10,453 has been reflected in the Consolidated Balance Sheets as a component of accumulated other comprehensive income, net of deferred taxes of \$4,414 and \$2,195, respectively.

The change in gross unrealized gains on equity securities in 2020 and 2019 of \$9,894 and \$6,490, respectively, has been reflected in the Consolidated Statements of Comprehensive Income.

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, a relatively short 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 high quality fixed income securities. The portfolio is also closely monitored for downgrades on corporate bonds and 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.

Notes to Consolidated Financial Statements (in 000's)

Unrealized loss position securities:

Debt securities available for sale	December 31, 2020				
	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	$ 8,432	$ (43)	$ (0)	$ (43)	7
Mortgage-backed	14,330	(174)	(6)	(180)	24
All other corporate bonds	22,871	(432)	(135)	(567)	79
Total debt securities	$ 45,633	$ (649)	$ (141)	$ (790)	110

Debt securities available for sale	December 31, 2019				
	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	$ 7,640	$ (34)	$ (42)	$ (76)	10
Mortgage-backed	13,396	(81)	(16)	(97)	23
All other corporate bonds	23,333	(390)	(368)	(758)	72
Total debt securities	$ 44,369	$ (505)	$ (426)	$ (931)	105

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 that are not other-than-temporarily impaired, before recovery.

Other-Than-Temporary Impairment Evaluations

The Company reviews its investment securities regularly and determines whether other-than-temporary impairments have occurred. For fixed maturities, if a decline in fair value is judged by management to be other-than-temporary, and 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 the credit loss, and (b) the amount of the total impairment related to interest and all other factors. The amount of the other-than-temporary impairment related to the credit loss is recognized by a charge to total other-than-temporary impairment losses in the Consolidated Statements of Comprehensive Income, establishing a new cost basis for the security. The amount of the other-than-temporary 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 length of time and extent to which the fair value has been less than amortized cost; 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 other-than-temporary 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 a mortgage-backed security is other-than-temporarily 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 other-than-temporary 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 other-than-temporary 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 security 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 an other-than-temporary 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 other-than-temporary impairments in the near term, which could be significant.

In addition, the Company evaluates other asset-backed securities for other-than-temporary impairment (OTTI) 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 other-than-temporary impairment by examining similar characteristics referenced above for corporate debt securities.

Other-than-temporary impairments on debt securities included in net realized gains on securities in the Consolidated Statements of Comprehensive Income were $0 and $229 in 2020 and 2019, respectively.

Notes to Consolidated Financial Statements (in 000's)

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 other-than-temporary in future periods and the Company may incur additional write-downs.

Proceeds from sales of debt 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, 2020	$ 121,844	$ 4,684	$ (238)
For the year ended December 31, 2019	$ 100,270	$ 2,670	$ (784)

Proceeds from sales of equity 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, 2020	$ -	$ -	$ -
For the year ended December 31, 2019	$ 10,321	$ 5,915	$ -

The Company had $0 in proceeds from sales of equity securities (FHLB stock) and no associated gross realized gains or gross realized losses for the year ended December 31, 2020. There were $101 in proceeds from sales of equity securities (FHLB stock) and no associated gross realized gains or gross realized losses for the year ended December 31, 2019.

Notes to Consolidated Financial Statements (in 000's)

Net investment income is calculated as follows:

	2020		
Debt securities available for sale	Gross Investment Income	Investment Expenses	Net Investment Income
U.S. Government, agencies and authorities securities	$ 1,010	$ (73)	$ 937
Mortgage-backed	1,746	(127)	1,619
All other corporate bonds	7,583	(549)	7,034
Equity securities	1,078	(78)	1,000
Total	$ 11,417	$ (827)	$ 10,590

	2019		
Debt securities available for sale	Gross Investment Income	Investment Expenses	Net Investment Income
U.S. Government, agencies and authorities securities	$ 1,437	$ (78)	$ 1,359
Mortgage-backed	2,341	(127)	2,214
All other corporate bonds	6,631	(361)	6,270
Equity securities	1,254	(68)	1,186
Total	$ 11,663	$ (634)	$ 11,029

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 securities and exchange traded mutual 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.

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, 2020 and 2019.

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, 2020	Quoted Prices (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment in debt securities	$ 325,913	$ 22,946	$ 302,967	$ -
Investment in equity securities	69,484	69,400	84	-
Investment in money market funds	6,947	6,947	-	-
Total	$ 402,344	$ 99,293	$ 303,051	$ -

	December 31, 2019	Quoted Prices (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment in debt securities	$ 305,680	$ 25,547	$ 280,133	$ -
Investment in equity securities	59,258	59,174	84	-
Investment in money market funds	2,558	2,558	-	-
Total	$ 367,496	$ 87,279	$ 280,217	$ -

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, 2020 and 2019, 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 2020 and 2019. 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, 2020 and 2019 are comprised of the following:

	2020	2019
Beginning balance	$ 2,452	$ 2,450
Additional costs capitalized		
Underwriting expenses	1,562	1,565
Royalty fees (Note 7)	789	830
Premium taxes	1,999	2,085
	4,350	4,480
Less current year amortization		
Underwriting expenses	1,549	1,549
Royalty fees (Note 7)	804	830
Premium taxes	2,026	2,099
	4,379	4,478
Ending balance	$ 2,423	$ 2,452

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, 2020 and 2019, $179 and $140, respectively, related to reserve premium for all such terminated policies that was included in contributed surplus. The Company recorded distributions of $29 and $8 in reserve premium to non-renewing Participating Members during the years ended December 31, 2020 and 2019, 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, 32.0% and 41.0% were attributable to Non-Participating policies during the years ended December 31, 2020 and 2019, respectively.

Notes to Consolidated Financial Statements (in 000's)

6 Provision for Income Taxes

The provision for income taxes consists of the following:

	2020	2019
Current provision	$ 3,816	$ 5,006
Deferred provision	1,485	1,222
Provision for income taxes	$ 5,301	$ 6,228

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

	2020	2019
Expected tax provision at 21%	$ 5,144	$ 6,289
Tax exempt income from municipal bonds	-	(9)
State income taxes, net of federal benefit	223	34
Dividend received deduction	(58)	(62)
Foreign tax credits	(30)	(34)
Provision to return adjustments	15	3
Other	7	7
Actual provision for income taxes	$ 5,301	$ 6,228

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 $3,300 and $5,000 in 2020 and 2019, respectively.

The deferred income tax amounts reflected in the Consolidated Balance Sheets at December 31, 2020 and 2019 are comprised of the following items:

	2020	2019
Net unearned premiums	$ 476	$ 460
Discounting of loss reserves	652	512
Post-retirement employee benefits	4,037	3,012
Other than temporarily impaired securities	870	870
Policyholder dividend	1,290	1,260
Other	550	548
Gross deferred tax assets	7,875	6,662
Deferred policy acquisition costs	(507)	(515)
Net unrealized gains on investments	(4,414)	(2,195)
Net unrealized gains on equity securities	(8,967)	(6,888)
Bond discount accretion	(125)	(125)
Gross deferred tax liabilities	(14,013)	(9,723)
Valuation allowance	-	-
Net deferred tax (liabilities) assets	$ (6,138)	$ (3,061)

Notes to Consolidated Financial Statements (in 000's)

The Company believes that as of December 31, 2020, there were no material uncertain tax positions that would require disclosure under GAAP. As of December 31, 2020, the Company's tax years from 2017 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 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 2020 and 2019 were $780 and $882, 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 $929 and $939 for 2020 and 2019, respectively. Amounts payable at December 31, 2020 and 2019 under this agreement were approximately $76 and $79, respectively.

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.

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

	2020	2019
Reserve for losses and loss adjustment expenses	$ 95,737	$ 132,255
Unearned premiums	$ 33,385	$ 31,913

Reinsurance recoverable was mostly concentrated with St. Paul Fire & Marine Insurance Company (approximately 17%) and Lloyd's of London (approximately 13%) at December 31, 2020, and St. Paul Fire & Marine Insurance Company (approximately 30%) and Endurance Specialty Insurance Ltd. (approximately 14%) at December 31, 2019. 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.

Premiums and losses and loss adjustment expenses in 2020 and 2019 have been adjusted as follows as a result of voluntary reinsurance:

	2020		2019	
Premiums	Written	Earned	Written	Earned
Direct and assumed	$ 78,885	$ 77,032	$ 83,032	$ 86,386
Ceded	(52,405)	(50,932)	(54,940)	(57,259)
Net	$ 26,480	$ 26,100	$ 28,092	$ 29,127

Notes to Consolidated Financial Statements (in 000's)

	2020	2019
Losses and loss adjustment expenses		
Direct	$ 33,597	$ 65,202
Ceded	(24,888)	(58,243)
Net	$ 8,709	$ 6,959

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, as shown, in the Company's consolidated financial statements for the years indicated:

	2020	2019
Balance at January 1	$ 181,001	$ 137,932
Less reinsurance recoverable, unpaid losses	(132,255)	(83,485)
Net balance at January 1	48,746	54,447
Incurred related to:		
Current year	23,100	19,869
Prior years	(14,391)	(12,910)
Total incurred	8,709	6,959
Paid related to:		
Current year	3,740	2,811
Prior years	3,072	9,849
Total paid	6,812	12,660
Net balance at December 31	50,643	48,746
Plus reinsurance recoverable, unpaid losses	95,737	132,255
Balance at December 31	$ 146,380	$ 181,001

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 $14,391 and $12,910 in 2020 and 2019, respectively. The decrease in 2020 was primarily the result of changes in estimates of incurred losses on D&O/E&O policies of $3,900, $3,250, $3,700, and $1,650 related to insured events of 2019, 2018, 2017, and 2014, respectively. The decrease in 2019 was primarily the result of changes in estimates of incurred losses on D&O/E&O policies of $3,705, $3,603, and $3,002 related to insured events of 2018, 2017, and 2016, 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, 2020, 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, 2011, to 2019, 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, 2020	
	For Years Ended December 31, Prior Years Unaudited										IBNR (Expected Development of Reported Claims) ($000)	Cumulative Number of Reported Claims
Report Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020		
2011	21,200	18,950	17,241	15,641	14,841	14,541	14,541	14,491	14,141	$13,791	$ 422	53
2012		23,625	19,325	13,790	10,525	7,925	7,805	7,605	7,155	7,055	281	34
2013			17,250	14,100	11,416	9,614	6,481	3,331	2,559	2,559	0	24
2014				15,350	16,501	12,292	11,540	11,220	10,770	9,115	748	26
2015					24,715	27,950	26,600	26,540	27,000	27,000	984	56
2016						23,300	18,350	13,836	10,836	10,336	1,592	42
2017							22,970	19,700	15,849	12,149	3,025	32
2018								19,675	15,350	11,875	6,043	26
2019									19,850	15,508	8,203	35
2020										23,100	14,451	63
									Total	$132,488		

	Cumulative paid claims and allocated claims adjustment expenses, net of reinsurance and subrogation ($000)									
	For Years Ended December 31, Prior Years Unaudited									
Report Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
2011	244	6,232	10,798	12,692	12,991	13,037	13,085	13,114	13,143	13,180
2012		2,015	2,512	3,558	6,510	6,533	6,565	6,569	6,570	6,573
2013			120	1,331	1,377	1,960	1,978	1,986	2,559	2,559
2014				598	1,298	2,559	5,663	8,265	8,276	8,290
2015					4,921	9,570	18,171	22,195	22,259	22,283
2016						198	4,191	5,999	6,011	5,980
2017							2,328	3,847	7,918	7,839
2018								396	5,549	5,595
2019									2,811	5,933
2020										3,740
									Total	$ 81,973

All outstanding liabilities before 2011, net of reinsurance	91
Liabilities for unpaid claims and claims adjustment expenses, net of reinsurance	$ 50,606

Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance - Unaudited											
Years	1	2	3	4	5	6	7	8	9	10	11
Incremental Payout %	3.7%	33.9%	28.9%	19.2%	4.9%	3.9%	2.3%	1.7%	1.4%	0.1%	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, 2020
Net Outstanding Liabilities	
Liabilities for Unpaid Claims and Claims Adjustment Expenses, Net of Reinsurance	$ 50,606
Unallocated Claims Adjustment Expenses	37
Total Net Liability for Unpaid Claims and Claims Adjustment Expenses	50,643
Total Reinsurance Recoverable on Unpaid Claims	95,737
Total Gross Liability for Unpaid Claims and Claims Adjustment Expenses	$ 146,380

Notes to Consolidated Financial Statements (in 000's)

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 is not aware of any events that would give rise to a claim at December 31, 2020.

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 a dividend of $6.0 million in both 2020 and 2019. $5.8 million of the total dividends declared in 2019 were paid in 2020.

The 2020 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, 2020, before payment of the dividend, and the proportion of 2020 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, 2021, 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 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, 2020 and 2019:

	2020	2019
Discount rate for benefit obligation	2.75%	3.45%
Discount rate for pension cost	3.45%	4.25%
Expected return on plan assets	5.75%	6.25%
Rate of compensation increase	4.00%	4.00%

Notes to Consolidated Financial Statements (in 000's)

Plan amounts recognized in the Consolidated Balance Sheets consist of:

	2020	2019
Noncurrent assets	$ -	$ -
Current liabilities	-	-
Noncurrent liabilities	7,768	5,003
Total	$ 7,768	$ 5,003

Plan amounts recognized in accumulated other comprehensive income, net of tax for the years ended December 31, 2020 and 2019 ($1,166 and $737, respectively), consist of:

	2020	2019
Net loss	$ 4,386	$ 2,772
Prior service cost	-	-
Total	$ 4,386	$ 2,772

Other components of the Plan for the years ended December 31, 2020 and 2019, were as follows:

	2020	2019
Projected benefit obligation	$ 20,218	$ 16,045
Fair value of plan assets	12,450	11,042
Funded status of the plan	$ (7,768)	$ (5,003)
Employer contributions	$ -	$ -
Lump sum payments	$ -	$ 152
Benefits paid	$ 51	$ 51

The Plan's accumulated benefit obligation is $16,069 as of December 31, 2020 and was $12,775 as of December 31, 2019. Net periodic pension cost for the Plan, including service cost of $610 and $534 and components other than service cost of $112 and $68, totaled $722 and $602 for the years ended December 31, 2020 and 2019, respectively, and is included in "Underwriting, general and administrative expenses" in the Consolidated Statements of Comprehensive Income.

The Plan net loss that was recognized in other comprehensive income was $2,245 and $1,324 in 2020 and 2019, 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 $202 and $0 in 2020 and $108 and $0 in 2019, 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:

	2020	2019
Asset Category:		
Equities	62%	62%
Fixed income securities	38%	38%
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	7.85%	60%	4.71%
Fixed income securities	2.60%	40%	1.04%
Total		100%	5.75%

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 $0 to the Plan for both years ended December 31, 2020 and 2019, 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 2021.

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 $202 and $0, respectively.

Notes to Consolidated Financial Statements (in 000's)

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
2021	$ 2,460
2022	$ 440
2023	$ 460
2024	$ 470
2025	$ 1.580
2026-2030	$ 7,420

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 $20. The Company contributed approximately $164 and $153 to this plan in 2020 and 2019, 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, 2020 and 2019:

	2020	2019
Discount rate for benefit obligation	2.20%	3.05%
Discount rate for pension cost	3.05%	4.05%
Rate of compensation increase	4.00%	4.00%

Notes to Consolidated Financial Statements (in 000's)

SERP amounts recognized in the Consolidated Balance Sheets consist of:

	2020	2019
Noncurrent assets	$ -	$ -
Current liabilities	-	-
Noncurrent liabilities	3,557	3,095
Total	$ 3,557	$ 3,095

SERP amounts recognized in accumulated other comprehensive income, net of tax for the years ended December 31, 2020 and 2019 ($225 and $264, respectively), consist of:

	2020	2019
Net loss	$ 846	$ 994
Prior service cost	-	-
Total	$ 846	$ 994

Other components of the SERP for the years ended December 31, 2020 and 2019 were as follows:

	2020	2019
Projected benefit obligation	$ 3,557	$ 3,095
Fair value of plan assets	-	-
Funded status of the plan	$ (3,557)	$ (3,095)
Employer contributions	$ -	$ -
Lump sum payments	$ -	$ -
Benefits paid	$ -	$ -

The SERP's accumulated benefit obligation is $3,317 as of December 31, 2020 and was $2,678 as of December 31, 2019. Net periodic pension cost for the plan, including service cost of $81 and $48, and components other than service cost of $569 and $119, totaled $650 and $167 for the years ended December 31, 2020 and 2019, respectively, and is included in "Underwriting, general and administrative expenses" in the Consolidated Statements of Comprehensive Income.

The SERP net (gain)/loss that was recognized in other comprehensive income was $287 and $1,040 in 2020 and 2019, 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 $474 and $0 in 2020 and $45 and $0 in 2019, respectively.

Notes to Consolidated Financial Statements (in 000's)

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

The estimated net loss 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 $715 and $0, respectively.

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
2021	$ -
2022	$ 3,720
2023	$ -
2024	$ -
2025	$ -
2026-2030	$ -

The accrued liability included in the Consolidated Balance Sheet for the defined contribution component of the SERP was $195 at December 31, 2020 and $176 at December 31, 2019. Amounts recognized in the Consolidated Statements of Comprehensive Income for the defined contribution component of the SERP were $19 at both December 31, 2020 and December 31, 2019.

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:

	2020	2019
Noncurrent assets	$ -	$ -
Current liabilities	94	77
Noncurrent liabilities	5,369	4,010
Total	$ 5,463	$ 4,087

Notes to Consolidated Financial Statements (in 000's)

Plan amounts recognized in accumulated other comprehensive income, net of tax for the years ended December 31, 2020 and 2019 ($528 and $291, respectively), consist of:

	2020	2019
Net loss	$ 1,987	$ 1,096

Other components of the plan for the years ended December 31, 2020 and 2019, were as follows:

	2020	2019
Benefit obligation	$ 5,463	$ 4,087
Fair value of plan assets	-	-
Funded status of the plan	$ (5,463)	$ (4,087)
Employer contributions	$ 115	$ 117
Participant contributions	$ 7	$ 7
Benefits paid	$ 122	$ 124

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

	2020	2019
Retirees	$ (1,800)	$ (1,601)
Other active participants	(3,663)	(2,486)
Accumulated postretirement benefit obligation	$ (5,463)	$ (4,087)
Weighted average assumed discount rate to determine:		
The benefit obligation	2.75%	3.40%
The net benefit cost	3.40%	4.25%

Net periodic benefit cost for the plan, including service cost of $131 and $135, and components other than service cost of $231 and $250, totaled $362 and $385 for the years ended December 31, 2020 and 2019, respectively, and is included in "Underwriting, general and administrative expenses" in the Consolidated Statements of Comprehensive Income. The plan net (gain)/loss that was recognized in other comprehensive income was $1,223 and $72 in 2020 and 2019, 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 $94 and $0 in 2020 and $89 and $0 in 2019, 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 2021 is $94.

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 $198 and $0, respectively.

Notes to Consolidated Financial Statements (in 000's)

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
2021	$ 94
2022	$ 100
2023	$ 110
2024	$ 120
2025	$ 150
2026-2030	$ 950

For measurement purposes, a 7.5% increase in healthcare costs was assumed for fiscal year 2020, trending down to 5% in 2030 and thereafter. A 1% increase in this rate would increase the postretirement benefit obligation by $1,231 and the service and interest cost by $83. A 1% decrease in this rate would decrease the postretirement benefit obligation by $946 and the service cost and interest cost by $63.

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 $9 and $19 for the years ended December 31, 2020 and 2019, respectively. Total deferred compensation plan liabilities were $618 and $676 at December 31, 2020 and 2019, 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, 2018	$ 17,958	$ (3,127)	$ 14,831
Net unrealized gains (losses) arising during the period	22,375	(1,924)	20,451
Reclassification adjustment for (gains) losses realized in net income	(11,290)	191	(11,099)
Other comprehensive income (loss)	$ 11,085	$ (1,733)	$ 9,352
Reclassification of deferred tax effects	(20,786)	-	(20,786)
Balance at December 31, 2019	$ 8,257	$ (4,860)	$ 3,397
Net unrealized gains (losses) arising during the period	19,678	(2,966)	16,712
Reclassification adjustment for (gains) losses realized in net income	(11,329)	608	(10,721)
Other comprehensive income (loss)	$ 8,349	$ (2,358)	$ 5,991
Balance at December 31, 2020	$ 16,606	$ (7,218)	$ 9,388

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

For the Year Ended December 31, 2020	Pretax Amount	Tax Expense or Benefit	Net of Tax Amount
Net unrealized gains on investments			
Net unrealized gains arising during the period	$ 24,909	$ 5,231	$ 19,678
Reclassification adjustment for gains realized in net income	(14,341)	(3,012)	(11,329)
Net actuarial unrealized losses on employee benefit plans			
Net unrealized losses arising during the period	(3,754)	(788)	(2,966)
Reclassification adjustment for losses realized in net income	770	162	608
Other comprehensive income	$ 7,584	$ 1,593	$ 5,991

For the Year Ended December 31, 2019	Pretax Amount	Tax Expense or Benefit	Net of Tax Amount
Net unrealized gains on investments			
Net unrealized gains arising during the period	$ 28,323	$ 5,948	$ 22,375
Reclassification adjustment for gains realized in net income	(14,291)	(3,001)	(11,290)
Net actuarial unrealized losses on employee benefit plans			
Net unrealized losses arising during the period	(2,435)	(511)	(1,924)
Reclassification adjustment for losses realized in net income	242	51	191
Other comprehensive income	$ 11,839	$ 2,487	$ 9,352

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