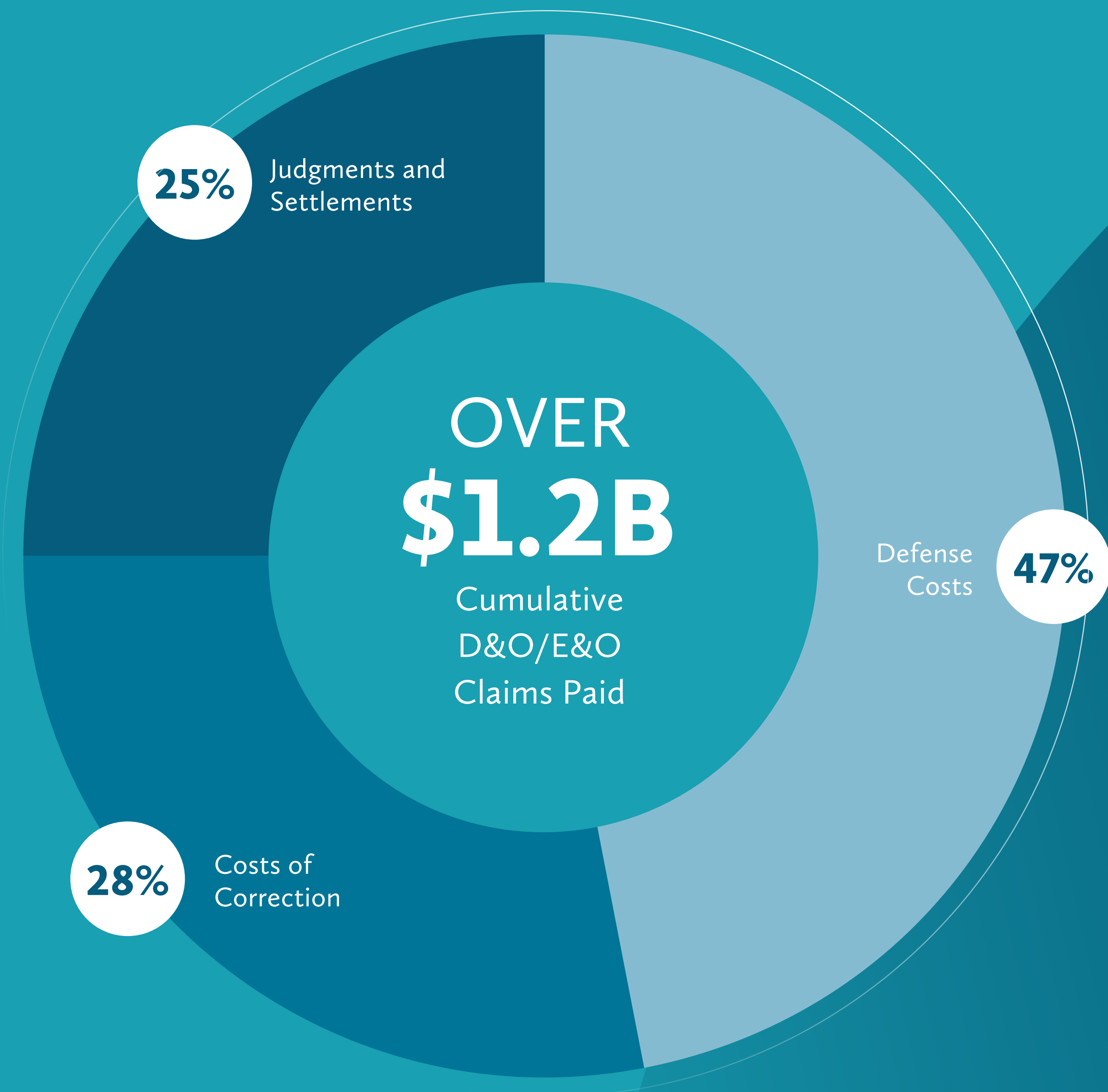
ICI Mutual

Annual Report

2021

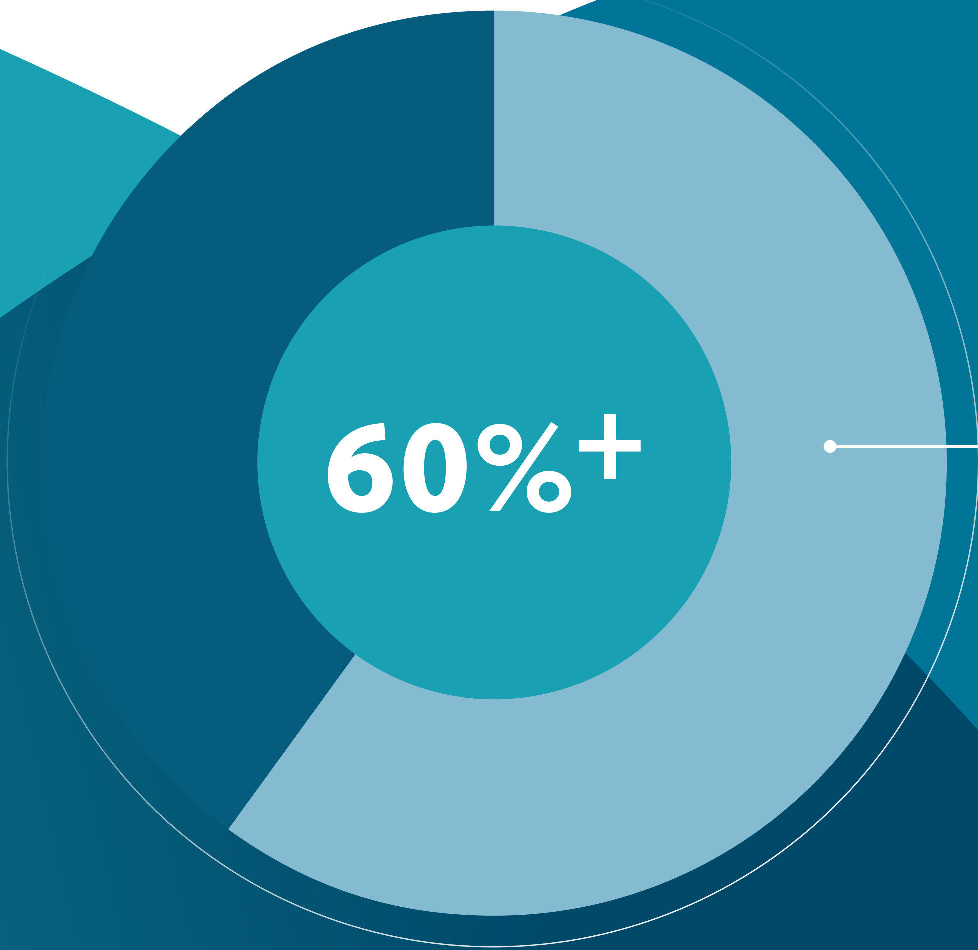
ICI Mutual
At A Glance

Data as of December 31, 2021

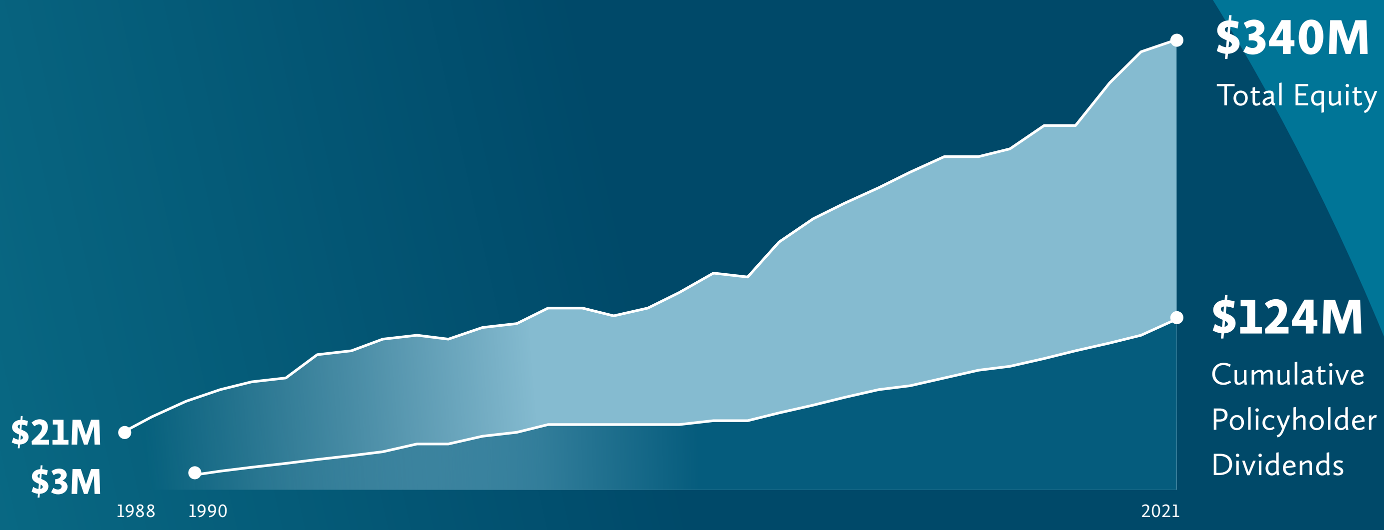


Financial Strength Rating A.M. BEST A Excellent

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

In 2021, as in the past, ICI Mutual demonstrated its commitment to the long-standing mission for which it was founded—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. We report below on recent developments in the fund industry insurance market and in the claims environment. We also discuss ICI Mutual's declaration of two dividends in 2021, before closing with a look ahead to 2022.

Barry Fink
Chair

Daniel T. Steiner
President

2021 was another 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 $18.3 million. The Company's Board of Directors declared two dividends—an "annual" dividend of $6.0 million and an additional "special" dividend of $6.0 million—payable to the Company's Participating Members who renew their coverage in 2022. The Company's year-end equity reached $340 million, and AM Best once again affirmed the Company's "A" (Excellent) rating.

Management's discussion of 2021's operating results is provided at pages 8–9.

The Fund Industry Insurance Market

The pandemic-fueled hardening of the fund industry insurance market in 2020 continued into 2021, with conditions easing to some extent towards the end of the year. Over the course of the pandemic period, most fund groups, regardless of insurer, experienced increased overall premiums for their directors and officers/errors and omissions (D&O/E&O) insurance (typically, high single to low-double digit percentage increases), with lesser overall increases for their independent directors liability (IDL) insurance and investment company blanket (fidelity) bonds. Despite the hard market, ample insurance capacity (supply) remained available for these core insurance products and coverage terms remained stable.

In contrast and by way of broader context, market conditions proved to be significantly more difficult for purchasers of certain other business insurance products, including, as particularly relevant for investment advisers, stand-alone cyber insurance and fiduciary liability insurance (neither of which is offered by ICI Mutual). ICI Mutual cannot, of course, fully insulate its member-insureds from hard market conditions. But over the course of the pandemic, as in the past, the Company has once again served as a strong, stabilizing presence in its market niche, thereby helping to temper the volatility (in insurance cost, capacity, and coverage terms) of the insurance market cycle for its member-insureds and for the fund industry.

The Fund Industry Claims Environment

The fund industry claims environment has long been characterized by "waves and one-offs"—a shorthand phrase reflecting the industry's experience over time with both one-off claims involving individual fund groups and waves of substantially similar insurance claims involving multiple fund groups.

2021 saw one-off claims activity involving individual fund groups across a range of areas, including litigation challenges to closed-end fund governance practices, regulatory investigations focused on potential conflicts of interest, and "costs of correction" claims arising from operational errors. As in the past, ICI Mutual provided strong support for insured funds, fund independent directors, fund officers, and fund advisers involved in such claims through the Company's provision of insurance coverage for defense and expert fees and costs, for insurable settlement payments, and for costs of correction payments made by advisers to remedy operational errors. Particularly notable was the Company's payment in 2021 of one of the largest single claims in its history, the resolution of which further evidenced and illustrated the Company's claims-handling expertise and its collaborative and cooperative approach to the claims handling and claims resolution process.

2021 also witnessed an end to one of this century's longest-running waves of fund industry litigation, with an appellate court's ruling in favor of a defendant adviser bringing to a close the last of more than two dozen "section 36(b)" lawsuits initiated against fund advisers in the years following the U.S. Supreme Court's 2010 decision in *Jones v. Harris.* For more than thirty years, ICI Mutual has consistently promoted the importance of mounting robust defense efforts in fee-based litigation brought under section 36(b) of the Investment Company Act of 1940 and has supported its member-insureds in doing so. Over the course of this latest wave, ICI Mutual once again strongly backed member-insureds involved in these lawsuits, by providing them with insurance coverage for their substantial defense and expert fees and costs (which often reached eight figures in individual cases).

ICI Mutual continues to work to keep its member-insureds and other interested constituencies apprised of ongoing developments in the fund industry claims environment.

The positive overall results for the fund industry provide grounds for cautious optimism that the plaintiffs' bar may in the future view section 36(b) to be a less attractive legal avenue for attacking the industry than it has in the past.

As part of its fund industry-focused risk management services, ICI Mutual continues to work to keep its member-insureds and other interested constituencies apprised of ongoing developments in the fund industry claims environment. In 2021, in conjunction with its year-long campaign to raise industry awareness of the potential for claims severity arising from operational errors, ICI Mutual published and broadly disseminated a new publication entitled *Operational Errors And Insurance: A Guide For Investment Advisers*. The publication provides general information on the frequency, severity, and characteristics of larger operational errors in the fund industry, outlines the various considerations that may come into play in assessing and resolving the issue of advisers' legal and financial responsibility for such errors, and describes the role of the costs of correction feature of D&O/E&O insurance in facilitating timely and efficient remediations by advisers of larger operational errors for which they bear legal responsibility.

The new publication adds to the Company's extensive library of risk management studies (see p. 15) and complements industry claims information provided in the Company's annual *Claims Trends* reports and on-line *Litigation Notebook*. All are available at **www.icimutual.com**.

Declaration of Dividends

The Company's managers and Board of Directors have long recognized that in order for ICI Mutual to fulfill its mission and purpose, a focus on "safety and soundness" is paramount. Thanks to the loyalty and support of its member-insureds, to its judicious transfer of significant portions of its own risk to a large and diversified set of reinsurance partners, and to its continued positive investment results, ICI Mutual recorded an all-time high surplus level at year-end 2021.

Even as ICI Mutual has focused over the decades on building and maintaining a strong surplus, it has remained committed to returning profits to its member-insureds in a prudent manner, consistent with supporting its financial position and maintaining its "A" (Excellent) financial strength rating from AM Best. In this regard, we are pleased to report that in 2021, the Company's Board of Directors declared two dividends payable to the Company's Participating Members of record as of December 31, 2021 who renew their coverage in 2022. In addition to a customary "annual" dividend (in an overall amount of $6.0 million), the Board declared a "special" dividend (also in an overall amount of $6.0 million). With these dividends, ICI Mutual will have paid dividends to its Participating Member insureds in 27 of its 34 years of operations.

The growth of the Company's surplus and the declaration of more than $120 million in dividends over the past three decades are significant achievements. They stand as a testament to the dedication of the Company's past and present directors and managers and to their prudent stewardship of the Company's operations.

Note from the President

In June 2022, Barry Fink will conclude his term as Chair of ICI Mutual's Board of Directors. As Chair, Barry was instrumental in guiding the Company and its Board through the challenges of the COVID-19 pandemic. The Company's Board and officers thank Barry for his leadership and for his many years of dedicated service on the Board and its committees. We are pleased that Barry will continue to serve as a director of the Company.

Looking Ahead to 2022

ICI Mutual enters 2022 in sound financial shape, as reflected in the Company's surplus level, its consistency in achieving annual underwriting profits, and its track record in declaring annual dividends payable to the Company's Participating Members. Competitively, the Company enjoys the continued commitment and support of its 100+ member-insured fund groups. And operationally, the Company has successfully navigated the COVID-19 pandemic without disruption to the broad array of products and services it provides to its member-insureds, reinsurance partners, and other constituencies.

Nearly thirty-five years have passed since the Company's formation as an industry mutual insurer—that is, as an insurer created, owned, and operated by the industry it serves. Looking ahead, ICI Mutual will remain dedicated to the mission for which it was founded. As always, new challenges will inevitably arise. But as in the past, ICI Mutual stands well positioned to meet them.

On behalf of the Company's directors and professional staff, we look forward to the contributions that ICI Mutual will make in 2022 and beyond to meet the specialized insurance and risk management interests and needs of funds, their directors and officers, and their investment advisers and affiliates. We thank you, the Company's member-insureds, for your loyalty and support. As always, we invite and welcome your suggestions as to how ICI Mutual can most effectively serve your interests and needs.

Daniel T. Steiner
President

Barry Fink
Chair of the Board of Directors

IN MEMORIAM

James H. Cheek III
(1942–2021)

Jim was a nationally recognized expert on corporate and securities law, whose career spanned more than half a century. Here at ICI Mutual, we are grateful for Jim's long-time service as counsel to the Company's Board of Directors and for his stalwart support of ICI Mutual, its directors, and staff. Those of us fortunate enough to have known and worked with Jim will remember him as a wise counselor, a gifted mentor, and a good friend.

Financial *Overview*

ICI Mutual recorded an underwriting profit of $7.6 million in 2021, the seventeenth 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 $34.6 million, including $16.4 million in net gains on investments.

Gross premiums written in 2021 totaled $84.6 million while net premiums earned totaled $28.3 million. Both gross and net premiums were higher than in 2020, due primarily to certain non-recurring premiums derived from tail coverages written and earned in 2021. On average, 2021 premium rates increased modestly for each of the insurance products underwritten by the Company, reflecting broader pricing trends across the property and casualty industry. The Company's year-over-year retention rate remained high, with approximately 95% of member-insureds renewing their coverages.

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 $7.4 million for the year, a decrease from the $8.7 million experienced in 2020, primarily due to lower current year claims activity. The Company's loss ratio for 2021 (net loss and loss adjustment expenses divided by net premiums earned) was 26%. The Company's combined ratio was 73% before dividends to Participating Members, and 114% after dividends to Participating Members.

Net investment income equaled $10.4 million in 2021 which was lower than the 2020 amount, due to market-driven lower average interest rates on debt securities.

In December 2021, two policyholder dividends were declared by the Company's Board of Directors: an "annual" dividend in the amount of $6.0 million and a "special" dividend in the amount of $6.0 million. The $12.0 million in total dividends is payable to Participating Members that renew eligible participating policies in 2022.

Income taxes were $4.9 million. Net income, after dividends and income taxes, was $18.3 million in 2021 as compared to $19.2 million in 2020.

Total equity increased by approximately $10.0 million to $340.0 million, as a result of the $18.3 million in net income offset by $8.7 million in net unrealized depreciation on investments and other comprehensive income. In 2021, 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.

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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.

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

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

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

Services

Underwriting

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

Claims Handling

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

Risk Management

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

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

ICI Mutual's *Risk Management Publications*

INSURANCE

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

ICI Mutual Then and Now (2017)

Independent Directors Liability (IDL) Insurance (2013)

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

CLAIMS AND LITIGATION

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

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

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

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

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

Board of Directors

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

Stefanie Chang Yu, Vice Chair (E, I, N)
Morgan Stanley

Martin A. Burns (R)
Investment Company Institute

Joseph A. Carrier (R, N)
Franklin Templeton Investments

Kevin M. Carome*
Invesco Ltd.

Terrence J. Cullen (U)
Amundi US, Inc.

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

Ronald H. Fielding*
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Prudential Insurance Mutual Funds

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

Diana P. Herrmann*
Aquila Investment Management LLC

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

Lawrence H. Kaplan (E, A, I, N)
Immediate Past Chair, ICI Mutual Insurance Company

Paul S. Kulig (A)
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Eric J. Pan (E, U)
Investment Company Institute

Carmelo Spinella (U)
Capital Research and Management Company

Daniel T. Steiner (E, I, R)
ICI Mutual Insurance Company

Hepsen Uzcan (R)
DWS

Monica L. Verma (U)
The Vanguard Group, Inc.

Yie-Hsin Hung (Ex-Officio)
New York Life Investment Management

Board Committees:

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

*On Sabbatical

Officers and Staff

Officers

Daniel T. Steiner
President

John T. Mulligan
Senior Vice President and
Chief Underwriting Officer

Julia S. Ulstrup
Senior Vice President and
General Counsel

Charles G. Preseau
Vice President and
Chief Financial Officer

Paul S. Kulig
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Staff

William Y. Akishev
Director of Information
Technology

Virginia S. Barry
Associate Counsel

Catherine M. Dalton
Underwriting Manager

Briana R. Davis
Lead Broker

John D. Driggers
Director, Data Analytics

Prabhat S. Friedland
Underwriting Analyst

Michael A. Heiser
Controller

Lizabeth S. Hurst
Corporate Communications

Carolyn B. Julia
Executive Assistant

Meloney G. McKoy
Senior Accountant

Swenitha Nalli
Senior Underwriter

Shafat Rahman
Senior Accountant

Colin K. Rouse
Assistant Controller

Margaret M. Sullivan
Director, Underwriting Department

Gwen M. Taylor
Legal Insurance Assistant

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

Selected Financial Highlights

FOR THE YEARS ENDED	2021	2020
Gross Premiums Written	$ 84,608	$ 78,885
Net Premiums Earned	$ 28,251	$ 26,100
Net Loss and Loss Adjustment Expenses	$ 7,385	$ 8,709
Net Underwriting Profit	$ 7,557	$ 5,262
Net Investment Income	$ 10,446	$ 10,590
Dividends to Policyholders	$ 11,490	$ 5,981
Net Income	$ 18,288	$ 19,198
Total Equity	$ 339,973	$ 330,393

COMBINED RATIO	2021	2020
Loss and General Expense Ratio	73%	80%
Policyholder Dividends	41%	23%
Combined Ratio including Policyholder Dividends	114%	103%

Dollar amounts in thousands

ICIMutual

ICI Mutual Insurance Company,
A Risk Retention Group

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ICI MUTUAL
Insurance Company
A Risk Retention Group

Consolidated Financial Statements

2021

pwc

Report of Independent Auditors

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

Opinion

We have audited the accompanying consolidated financial statements of ICI Mutual Insurance Company, a Risk Retention Group and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the incurred and paid claims development net of reinsurance, information and the average percentage payout of incurred claims by age, net of reinsurance, information, as of December 31, 2021 on pages 23 to 24 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the 2021 Annual Report, but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

PricewaterhouseCoopers LLP

Hartford, Connecticut
April 21, 2022

ICI Mutual Insurance Company, a Risk Retention Group
Consolidated Balance Sheets
December 31, 2021 and 2020 (in 000's)

	2021	2020
Assets		
Cash and cash equivalents	$ 19,699	$ 7,226
Investments		
Debt securities, at fair value (amortized cost of $332,796 and $304,892, respectively)	341,400	325,913
Equity securities, at fair value	68,426	69,484
Money market funds	12,459	6,947
Total cash and investments	441,984	409,570
Prepaid expenses	453	538
Prepaid federal and state income taxes	1,543	983
Deferred policy acquisition costs	2,361	2,423
Premiums receivable	7,296	8,235
Interest receivable	2,001	1,995
Investment securities and other receivables	772	287
Reinsurance recoverables	141,066	103,606
Prepaid reinsurance premiums	32,907	33,385
Other amounts receivable under reinsurance contracts	1,869	536
Furniture and fixtures, net	617	754
Total assets	$ 632,869	$ 562,312
Liabilities and Equity		
Reserve for losses and loss adjustment expenses	$ 131,523	$ 146,380
Unearned premiums	43,635	44,712
Reinsurance premiums payable	3,372	3,155
Premium taxes payable	1,134	722
Deferred income taxes	2,771	6,138
Accounts payable and other liabilities	4,240	6,372
Short-term borrowing	75,000	-
Benefits payable	19,221	18,298
Dividends payable	12,000	6,142
Total liabilities	292,896	231,919
Contingencies (Note 10)		
Contributed surplus	18,161	18,161
Accumulated other comprehensive income	680	9,388
Accumulated earnings	321,132	302,844
Total equity	339,973	330,393
Total liabilities and equity	$ 632,869	$ 562,312

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, 2021 and 2020 (in 000's)

	2021	2020
Revenues		
Net premiums written	$ 27,652	$ 26,480
Change in net unearned premiums	599	(380)
Net premiums earned	28,251	26,100
Net investment income	10,446	10,590
Net realized gains on debt securities	4,204	4,446
Net unrealized gains on equity securities	12,189	9,894
Other income	248	288
Total revenues	55,338	51,318
Expenses		
Net loss and loss adjustment expenses	7,385	8,709
Underwriting, general and administrative expenses	13,309	12,129
Total expenses	20,694	20,838
Income before dividends to policyholders and provision for income taxes	34,644	30,480
Dividends to policyholders	11,490	5,981
Income before provision for income taxes	23,154	24,499
Provision for income taxes	4,866	5,301
Net income	18,288	19,198
Other Comprehensive Income		
Net unrealized gains on debt securities:		
Net unrealized (losses) gains arising during the period, net of tax	(6,489)	11,861
Reclassification adjustment for gains realized in net income, net of tax	(3,321)	(3,512)
Net actuarial unrealized losses on employee benefit plans:		
Net unrealized gains (losses) arising during the period, net of tax	74	(2,966)
Reclassification adjustment for losses realized in net income, net of tax	1,028	608
Other comprehensive (loss) income, net of tax, net of reclassification adjustments	(8,708)	5,991
Comprehensive income	$ 9,580	$ 25,189
Net realized gains on debt securities		
Other-than-temporary impairment losses	$ -	$ -
Other net realized investment gains	4,204	4,446
Net realized gains on securities	$ 4,204	$ 4,446

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, 2021 and 2020 (in 000's)

	Contributed Surplus	Accumulated Other Comprehensive Income	Accumulated Earnings	Total Equity
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
Net income	-	-	18,288	18,288
Other comprehensive loss, net of tax, net of reclassification adjustments	-	(8,708)	-	(8,708)
Distributions of contributed surplus	-	-	-	-
Balance at December 31, 2021	$ 18,161	$ 680	$ 321,132	$ 339,973

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, 2021 and 2020 (in 000's)

	2021	2020
Cash Flows from Operating Activities		
Net income	$ 18,288	$ 19,198
Adjustments to reconcile net income to net cash (used in) provided by operating activities		
Amortization of premium	689	512
Deferred income taxes	(1,052)	1,485
Depreciation and amortization	136	136
Net realized gains on debt securities	(4,204)	(4,446)
Net unrealized gains on equity securities	(12,189)	(9,894)
Changes in operating assets and liabilities		
Prepaid expenses	86	(49)
Prepaid federal and state income taxes	(561)	188
Deferred policy acquisition costs	62	29
Premiums receivable	939	(538)
Interest receivable	(6)	89
Investment securities receivable	(485)	(287)
Reinsurance recoverables	(37,460)	30,253
Prepaid reinsurance premiums	478	(1,472)
Other amounts receivable under reinsurance contracts	(1,332)	877
Reserve for losses and loss adjustment expenses	(14,857)	(34,622)
Unearned premiums	(1,078)	1,852
Reinsurance premiums payable	217	339
Premium taxes payable	412	(184)
Accounts payable and other liabilities	(2,131)	2,762
Benefits payable	2,317	1,668
Dividends payable	5,858	142
Net cash (used in) provided by operating activities	(45,873)	8,038
Cash Flows from Investing Activities		
Proceeds from sales of investments	145,006	121,844
Proceeds from maturities of investments	-	2,300
Purchases of furniture and fixtures	-	(56)
Payments for purchases of investments	(156,148)	(130,208)
Change in money market funds	(5,512)	(4,388)
Net cash used in investing activities	(16,654)	(10,508)
Cash Flows from Financing Activities		
Distributions of contributed surplus	-	(29)
Borrowing from the FHLB	75,000	21,000
Repayment to the FHLB	-	(21,000)
Net cash provided by (used in) financing activities	75,000	(29)
Net increase (decrease) in cash and cash equivalents	12,473	(2,499)
Cash and cash equivalents at beginning of year	7,226	9,725
Cash and cash equivalents at end of year	$ 19,699	$ 7,226

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 2021 and 2020 agree with the audited financial statements. In addition, at December 31, 2021 and 2020, 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 debt securities are determined based on specific identification and are included along with unrealized gains and losses on equity securities in net income.

C. Premiums

Net earned premiums have been computed on a semimonthly pro rata basis over the term of the underlying insurance policies with the exception of premiums on "tail" policies which are earned when written. Ceded reinsurance premiums are charged against premiums earned on the same basis. Unearned premiums represent the portion of the gross premium written which is applicable to the unexpired terms of policies in force. Prepaid reinsurance premiums represent the portion of unearned premiums ceded to reinsurers. 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 IBNR loss reserve is developed using a variety of actuarial methods to estimate the ultimate cost of losses and loss expenses by policy year. These methods include the reported loss development method, the reported Bornhuetter-Ferguson method, the loss ratio method, and the frequency-severity method. These represent standard actuarial methods that are based upon historical data for payment patterns, cost trends and other relevant factors specific to the Company. These methods produce a range of indications from which the best estimate is selected.

These estimates are continually reviewed and adjustments, if necessary, are reflected in the period known. In updating the Company's loss reserve estimates, inputs are considered and evaluated from many sources, including actual claims data, the performance of prior reserve estimates, observed industry trends, internal review processes, and the views of the Company's engaged third party actuary. However, given the nature of the Company's business, the ultimate amount of losses and loss adjustment expenses may vary significantly from the estimated amounts. There were no significant changes in methodologies and assumptions for the year ended December 31, 2021.

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, 2021 and 2020.

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 2021 or 2020.

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, 2021, the Company has evaluated and determined that there have been no material impacts due to these provisions. Management will continue to monitor any impacts on the Compnay's business operations 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.

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, 2021, 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, 2021, 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, 2021 and 2020, 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 FHLBank Boston ("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 $75 million and $21 million from the FHLB in 2021 and 2020, respectively. The amount borrowed in 2020 was repaid in full in 2020; the amount borrowed in 2021 was still outstanding as of December 31, 2021, and is due by December 2, 2022. Total investment assets pledged as collateral to the FHLB were $89,672 as of December 31, 2021. The Company paid interest to the FHLB in the amount of $17 and $31 in 2021 and 2020, 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 for both 2021 and 2020. Accumulated depreciation totaled $1,133 and $997 at December 31, 2021 and 2020, respectively.

J. Recent Accounting Pronouncements

Recently Adopted Accounting Standards

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 Company adopted this guidance effective January 1, 2021. 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.

K. Reclassifications

Certain amounts in prior year's Consolidated Financial Statements and Notes thereto have been reclassified to conform to the 2021 presentation.

L. 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, 2021 and through the date the financial statements were available to be issued, April 21, 2022. 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, 2021			
Debt securities available for sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government, agencies and authorities securities	$ 50,671	$ 1,968	$ (582)	$ 52,057
Mortgage-backed	52,687	1,202	(487)	53,402
All other corporate bonds	229,438	8,383	(1,880)	235,941
Total debt securities	$ 332,796	$ 11,553	$ (2,949)	$ 341,400

	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

The amortized cost and fair value of debt securities at December 31, 2021, 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	$ 7,672	$ 7,754
Due after one year through five years	77,270	78,561
Due after five years through ten years	106,165	107,054
Due after ten years	141,689	148,031
Total debt securities	$ 332,796	$ 341,400

Notes to Consolidated Financial Statements (in 000's)

At December 31, 2021 and 2020, the gross unrealized gains on investments in debt securities of $8,603 and $21,021 has been reflected in the Consolidated Balance Sheets as a component of accumulated other comprehensive income, net of deferred taxes of $1,807 and $4,414, respectively.

The change in gross unrealized gains on equity securities in 2021 and 2020 of $12,189 and $9,894, 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.

Unrealized loss position securities:

	December 31, 2021				
Debt securities available for sale	Fair Value	Gross Unrealized Losses < 12 months	Gross Unrealized Losses > 12 months	Total Gross Unrealized Losses	Numbers of Investment Positions
U.S. Government, agencies and authorities securities	$ 23,338	$ (256)	$ (326)	$ (582)	22
Mortgage-backed	22,500	(296)	(192)	(488)	40
All other corporate bonds	86,033	(1,539)	(340)	(1,879)	274
Total debt securities	$ 131,871	$ (2,091)	$ (858)	$ (2,949)	336

	December 31, 2020				
Debt securities available for sale	Fair Value	Gross Unrealized Losses < 12 months	Gross Unrealized Losses > 12 months	Total Gross Unrealized Losses	Numbers of Investment Positions
U.S. Government, agencies and authorities securities	$ 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

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 securities held by the Company.

To the extent that the present value of the cash flows generated by a debt security is less than the amortized cost, a credit loss exists, and 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 in both 2021 and 2020.

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.

Notes to Consolidated Financial Statements (in 000's)

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

	Proceeds from Sales	Gross Realized Gains	Gross Realized Losses
For the year ended December 31, 2021	$ 127,576	$ 4,719	$ (515)
For the year ended December 31, 2020	$ 121,844	$ 4,684	$ (238)

Net investment income is calculated as follows:

	2021		
Debt securities available for sale	Gross Investment Income	Investment Expenses	Net Investment Income
U.S. Government, agencies and authorities securities	$ 755	$ (54)	$ 701
Mortgage-backed	1,438	(103)	1,335
All other corporate bonds	7,839	(562)	7,277
Equity securities	1,221	(88)	1,133
Total	$ 11,253	$ (807)	$ 10,446

	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

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, 2021 and 2020.

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, 2021	Quoted Prices (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment in debt securities	$ 341,400	$ 31,078	$ 310,322	$ -
Investment in equity securities	68,427	65,378	3,049	-
Investment in money market funds	12,459	12,459	-	-
Total	$ 422,286	$ 108,915	$ 313,371	$ -

	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	$ -

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, 2021 and 2020, 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 2021 and 2020. 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, 2021 and 2020 are comprised of the following:

	2021	2020
Beginning balance	$ 2,423	$ 2,452
Additional costs capitalized		
Underwriting expenses	1,566	1,562
Royalty fees (Note 7)	846	789
Premium taxes	2,240	1,999
	4,652	4,350
Less current year amortization		
Underwriting expenses	1,643	1,549
Royalty fees (Note 7)	854	804
Premium taxes	2,217	2,026
	4,714	4,379
Ending balance	$ 2,361	$ 2,423

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, 2021 and 2020, $1,112 and $179, respectively, related to reserve premium for all such terminated policies that was included in contributed surplus. The Company recorded distributions of $0 and $29 in reserve premium to non-renewing Participating Members during the years ended December 31, 2021 and 2020, 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, 43.1% and 32.0% were attributable to Non-Participating policies during the years ended December 31, 2021 and 2020, respectively.

Notes to Consolidated Financial Statements (in 000's)

6. Provision for Income Taxes

The provision for income taxes consists of the following:

	2021	2020
Current provision	$ 5,918	$ 3,816
Deferred (benefit) provision	(1,052)	1,485
Provision for income taxes	$ 4,866	$ 5,301

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

	2021	2020
Expected tax provision at 21%	$ 4,862	$ 5,144
State income taxes, net of federal benefit	96	223
Dividend received deduction	(57)	(58)
Foreign tax credits	(36)	(30)
Provision to return adjustments	(10)	15
Other	11	7
Actual provision for income taxes	$ 4,866	$ 5,301

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 $6,200 and $3,300 in 2021 and 2020, respectively.

The deferred income tax amounts reflected in the Consolidated Balance Sheets at December 31, 2021 and 2020 are comprised of the following items:

	2021	2020
Net unearned premiums	$ 451	$ 476
Discounting of loss reserves	707	652
Post-retirement employee benefits	4,284	4,037
Other than temporarily impaired securities	197	870
Policyholder dividend	2,520	1,290
Other	547	550
Gross deferred tax assets	8,706	7,875
Deferred policy acquisition costs	(496)	(507)
Net unrealized gains on debt securities	(1,807)	(4,414)
Net unrealized gains on equity securities	(8,920)	(8,967)
Bond discount accretion	(254)	(125)
Gross deferred tax liabilities	(11,477)	(14,013)
Valuation allowance	-	-
Net deferred tax (liabilities) assets	$ (2,771)	$ (6,138)

Notes to Consolidated Financial Statements (in 000's)

The Company believes that as of December 31, 2021, there were no material uncertain tax positions that would require disclosure under GAAP. As of December 31, 2021, the Company's tax years from 2018 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 2021 and 2020 were $843 and $780, 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 $927 and $929 for 2021 and 2020, respectively. Amounts payable at December 31, 2021 and 2020 under this agreement were approximately $79 and $76, 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.

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

	2021	2020
Reserve for losses and loss adjustment expenses	$ 79,178	$ 95,737
Unearned premiums	$ 32,907	$ 33,385

B. Reinsurance Recoverables: Reinsurance recoverables were mostly concentrated with Endurance Specialty Ins. Ltd. (approximately 14%) and National Liability & Fire Ins. Co. (approximately 13%) at December 31, 2021, and St. Paul Fire & Marine Insurance Company (approximately 17%) and Lloyd's of London (approximately 13%) at December 31, 2020. Insurance risks ceded to reinsurance companies would become a liability in the event the reinsurers are unable to meet their obligations assumed under reinsurance contracts.

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

Approximately $60,500 of the reinsurance recoverables included on the Consolidated Balance Sheet at December 31, 2021, reflects reinsurance amounts due from certain higher-level facultative reinsurers who are questioning (and who have issued related reservation of rights letters regarding) coverage on a single claim paid by the Company in December 2021. Management, in consultation with counsel, believes the reinsurance amounts to be due under the relevant reinsurance contracts. Communications between the Company and these higher-level facultative reinsurers are ongoing. Should these communications ultimately fail to lead to reimbursement of the reinsurance amounts due, the matter could proceed to arbitration. Management believes that a valuation reserve against reinsurance recoverables is not necessary and that amounts accrued in the Consolidated Balance Sheet are sufficient to cover whatever costs the Company may incur in pursuing the reinsurance amounts due from the higher-level facultative reinsurers.

Notes to Consolidated Financial Statements (in 000's)

Premiums and losses and loss adjustment expenses in 2021 and 2020 have been adjusted as follows as a result of reinsurance:

	2021		2020	
Premiums	Written	Earned	Written	Earned
Direct	$ 84,608	$ 85,686	$ 78,885	$ 77,032
Ceded	(56,956)	(57,435)	(52,405)	(50,932)
Net	$ 27,652	$ 28,251	$ 26,480	$ 26,100

Losses and loss adjustment expenses	2021	2020
Direct	$ 91,575	$ 33,597
Ceded	(84,190)	(24,888)
Net	$ 7,385	$ 8,709

9. Reserve for Losses and Loss Adjustment Expenses

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

	2021	2020
Balance at January 1	$ 146,380	$ 181,001
Less reinsurance recoverable, unpaid losses	(95,737)	(132,255)
Net balance at January 1	50,643	48,746
Incurred related to:		
Current year	19,367	23,100
Prior years	(11,982)	(14,391)
Total incurred	7,385	8,709
Paid related to:		
Current year	353	3,740
Prior years	5,330	3,072
Total paid	5,683	6,812
Net balance at December 31	52,345	50,643
Plus reinsurance recoverable, unpaid losses	79,178	95,737
Balance at December 31	$ 131,523	$ 146,380

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 $11,982 and $14,391 in 2021 and 2020, respectively. The decrease in 2021 was primarily the result of changes in estimates of incurred losses on D&O/E&O policies of $2,875, $2,750, $2,200, and $2,713 related to insured events of 2019, 2018, 2017, and 2016, 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. 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, 2021, 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, 2012, to 2020, 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, 2021	
	For Years Ended December 31, Prior Years Unaudited										IBNR (Expected Develop-ment of Reported Claims) ($000)	Cumulative Number of Reported Claims
Report Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021		
2012	23,625	19,325	13,790	10,525	7,925	7,805	7,605	7,155	7,055	7,055	$ 276	34
2013		17,250	14,100	11,416	9,614	6,481	3,331	2,559	2,559	2,559	-	24
2014			15,350	16,501	12,292	11,540	11,220	10,770	9,115	8,665	298	26
2015				24,715	27,950	26,600	26,540	27,000	27,000	27,000	672	56
2016					23,300	18,350	13,836	10,836	10,336	7,623	-	42
2017						22,970	19,700	15,849	12,149	9,949	2,100	32
2018							19,675	15,350	11,875	9,050	3,431	24
2019								19,850	15,508	12,633	5,311	35
2020									23,100	22,200	8,798	58
2021										19,367	$ 15,931	52
									Total	$126,101		

	Cumulative paid claims and allocated claims adjustment expenses, net of reinsurance and subrogation ($000)									
	For Years Ended December 31, Prior Years Unaudited									
Report Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
2012	2,015	2,512	3,558	6,510	6,533	6,565	6,569	6,570	6,573	6,576
2013		120	1,331	1,377	1,960	1,978	1,986	2,559	2,559	2,559
2014			598	1,298	2,559	5,663	8,265	8,276	8,290	8,293
2015				4,921	9,570	18,171	22,195	22,259	22,283	22,296
2016					198	4,191	5,999	6,011	5,980	7,623
2017						2,328	3,847	7,918	7,839	7,842
2018							396	5,549	5,595	5,609
2019								2,811	5,933	5,956
2020									3,740	7,357
2021										353
									Total	$ 74,464

All outstanding liabilities before 2012, net of reinsurance	671
Liabilities for unpaid claims and claims adjustment expenses, net of reinsurance	$ 52,308

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 %	3.8%	34.9%	28.8%	18.2%	4.9%	4.3%	2.3%	1.4%	1.1%	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, 2021
Net Outstanding Liabilities	
Liabilities for Unpaid Claims and Claims Adjustment Expenses, Net of Reinsurance	$ 52,308
Unallocated Claims Adjustment Expenses	37
Total Net Liability for Unpaid Claims and Claims Adjustment Expenses	52,345
Total Reinsurance Recoverable on Unpaid Claims	79,178
Total Gross Liability for Unpaid Claims and Claims Adjustment Expenses	$ 131,523

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, 2021 and 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 total dividends of $12.0 million and $6.0 million in 2021 and 2020 respectively. $5.5 million of the total dividends declared in 2020 were paid in 2021.

The 2021 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, 2021, before payment of the dividend, and the proportion of 2021 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, 2022, whichever is later.

As per Title 8, Chapter 141, Section 6005 of the Vermont Statutes, the Company sought and received the approval of the Commissioner of the VDFR on December 17, 2021, 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, 2021 and 2020:

	2021	2020
Discount rate for benefit obligation	2.95%	2.75%
Discount rate for pension cost	2.75%	3.45%
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:

	2021	2020
Noncurrent assets	$ -	$ -
Current liabilities	-	-
Noncurrent liabilities	7,421	7,768
Total	$ 7,421	$ 7,768

Plan amounts recognized in accumulated other comprehensive income, net of tax, for the years ended December 31, 2021 and 2020 ($873 and $1,166, respectively), consist of:

	2021	2020
Net loss	$ 3,285	$ 4,386
Prior service cost	-	-
Total	$ 3,285	$ 4,386

Other components of the Plan for the years ended December 31, 2021 and 2020, were as follows:

	2021	2020
Projected benefit obligation	$ 21,267	$ 20,218
Fair value of plan assets	13,846	12,450
Funded status of the plan	$ (7,421)	$ (7,768)
Employer contributions	$ -	$ -
Lump sum payments	$ -	$ -
Benefits paid	$ 51	$ 51

The Plan's accumulated benefit obligation is $17,196 as of December 31, 2021 and was $16,069 as of December 31, 2020. Net periodic pension cost for the Plan, including service cost of $758 and $610 and components other than service cost of $289 and $112, totaled $1,047 and $722 for the years ended December 31, 2021 and 2020, 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 $1,006 and ($2,245) in 2021 and 2020, 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 $388 and $0 in 2021 and $202 and $0 in 2020, 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:

	2021	2020
Asset Category:		
Equities	61%	62%
Fixed income securities	39%	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, 2021 and 2020, 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 2022.

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 $235 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
2022	$ 2,730
2023	$ 470
2024	$ 480
2025	$ 1,610
2026	$ 780
2027-2031	$ 7,030

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 $165 and $164 to this plan in 2021 and 2020, 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, 2021 and 2020:

	2021	2020
Discount rate for benefit obligation	2.60%	2.20%
Discount rate for pension cost	2.20%	3.05%
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:

	2021	2020
Noncurrent assets	$ -	$ -
Current liabilities	-	-
Noncurrent liabilities	4,306	3,557
Total	$ 4,306	$ 3,557

SERP amounts recognized in accumulated other comprehensive income, net of tax for the years ended December 31, 2021 and 2020 ($196 and $225, respectively), consist of:

	2021	2020
Net loss	$ 740	$ 846
Prior service cost	-	-
Total	$ 740	$ 846

Other components of the SERP for the years ended December 31, 2021 and 2020 were as follows:

	2021	2020
Projected benefit obligation	$ 4,306	$ 3,557
Fair value of plan assets	-	-
Funded status of the plan	$ (4,306)	$ (3,557)
Employer contributions	$ -	$ -
Lump sum payments	$ -	$ -
Benefits paid	$ -	$ -

The SERP's accumulated benefit obligation is $3,832 as of December 31, 2021 and was $3,317 as of December 31, 2020. Net periodic pension cost for the plan, including service cost of $90 and $81, and components other than service cost of $793 and $569, totaled $883 and $650 for the years ended December 31, 2021 and 2020, 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 $581 and $287 in 2021 and 2020, 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 $715 and $0 in 2021 and $474 and $0 in 2020, 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 $253 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
2022	$ -
2023	$ -
2024	$ 4,750
2025	$ -
2026	$ -
2027-2031	$ -

The accrued liability included in the Consolidated Balance Sheet for the defined contribution component of the SERP was $215 at December 31, 2021 and $195 at December 31, 2020. Amounts recognized in the Consolidated Statements of Comprehensive Income for the defined contribution component of the SERP were $20 and $19 for 2021 and 2020, respectively.

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:

	2021	2020
Noncurrent assets	$ -	$ -
Current liabilities	97	94
Noncurrent liabilities	5,890	5,369
Total	$ 5,987	$ 5,463

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, 2021 and 2020 ($556 and $528, respectively), consist of:

	2021	2020
Net loss	$ 2,092	$ 1,987

Other components of the plan for the years ended December 31, 2021 and 2020, were as follows:

	2021	2020
Benefit obligation	$ 5,987	$ 5,463
Fair value of plan assets	-	-
Funded status of the plan	$ (5,987)	$ (5,463)
Employer contributions	$ 123	$ 115
Participant contributions	$ 7	$ 7
Benefits paid	$ 130	$ 122

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

	2021	2020
Retirees	$ (1,603)	$ (1,800)
Other active participants	(4,384)	(3,663)
Accumulated postretirement benefit obligation	$ (5,987)	$ (5,463)
Weighted average assumed discount rate to determine:		
The benefit obligation	2.95%	2.75%
The net benefit cost	2.75%	3.40%

Net periodic benefit cost for the plan, including service cost of $166 and $131, and components other than service cost of $347 and $231, totaled $513 and $362 for the years ended December 31, 2021 and 2020, 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 $332 and $1,223 in 2021 and 2020, 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 $198 and $0 in 2021 and $94 and $0 in 2020, 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 2022 is $97.

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 $220 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
2022	$ 97
2023	$ 100
2024	$ 110
2025	$ 140
2026	$ 150
2027-2031	$ 1,010

For measurement purposes, a 7.0% increase in healthcare costs was assumed for fiscal year 2022, trending down to 4.5% in 2032 and thereafter.

C. Deferred Compensation Plan

During 2010, the Company adopted a deferred compensation plan for certain key employees. The amount and timing of awards to participants is at the sole discretion of the Company and amounts remain unfunded and unvested until the employee meets all of the criteria established by the Company for payment of the awarded amounts. Included in "Underwriting, general and administrative expenses" in the accompanying Consolidated Statements of Comprehensive Income are amounts attributable to this plan of approximately $2 and $9 for the years ended December 31, 2021 and 2020, respectively. Total deferred compensation plan liabilities were $554 and $618 at December 31, 2021 and 2020, 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, 2019	$ 8,257	$ (4,860)	$ 3,397
Net unrealized gains (losses) arising during the period	11,861	(2,966)	8,895
Reclassification adjustment for (gains) losses realized in net income	(3,512)	608	(2,904)
Other comprehensive income (loss)	$ 8,349	$ (2,358)	$ 5,991
Balance at December 31, 2020	$ 16,606	$ (7,218)	$ 9,388
Net unrealized (losses) gains arising during the period	(6,489)	74	(6,415)
Reclassification adjustment for (gains) losses realized in net income	(3,321)	1,028	(2,293)
Other comprehensive income (loss)	$ (9,810)	$ 1,102	$ (8,708)
Balance at December 31, 2021	$ 6,796	$ (6,116)	$ 680

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

For the Year Ended December 31, 2021	Pretax (Loss) or Income	Tax Expense or (Benefit)	Net of Tax Amount
Net unrealized losses on investments			
Net unrealized losses arising during the period	$ (8,214)	$ (1,725)	$ (6,489)
Reclassification adjustment for gains realized in net income	(4,204)	(883)	(3,321)
Net actuarial unrealized gains on employee benefit plans			
Net unrealized gains arising during the period	94	20	74
Reclassification adjustment for losses realized in net income	1,300	272	1,028
Other comprehensive loss	$ (11,024)	$ (2,316)	$ (8,708)

For the Year Ended December 31, 2020	Pretax Income or (Loss)	Tax Expense or (Benefit)	Net of Tax Amount
Net unrealized gains on investments			
Net unrealized gains arising during the period	$ 15,014	$ 3,153	$ 11,861
Reclassification adjustment for gains realized in net income	(4,446)	(934)	(3,512)
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

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