

CAMICO Mutual Insurance Company

Statutory Financial Statements and
Independent Auditor's Report

December 31, 2018 and 2017

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1
Statutory Financial Statements:	
Statutory Statements of Admitted Assets, Liabilities, and Policyholders' Surplus	3
Statutory Statements of Operations	4
Statutory Statements of Changes in Policyholders' Surplus	5
Statutory Statements of Cash Flow	6
Notes to Statutory Financial Statements	7
Supplementary Information:	
Summary Investment Schedule	31
Supplemental Investment Risk Interrogatories	32
Supplemental Reinsurance Interrogatories	35

Independent Auditor's Report

To the Board of Directors
CAMICO Mutual Insurance Company

We have audited the accompanying statutory financial statements of CAMICO Mutual Insurance Company (the Company), which comprise the statutory statements of admitted assets, liabilities, and policyholders' surplus as of December 31, 2018 and 2017, and the related statutory statements of operations, changes in policyholders' surplus, and cash flow for the years then ended, and the related notes to statutory financial statements.

Management's Responsibility for the Statutory Financial Statements

Management is responsible for the preparation and fair presentation of these statutory financial statements in accordance with accounting practices prescribed or permitted by the California Department of Insurance. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of statutory financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

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

As described in Note 1 of the statutory financial statements, the statutory financial statements are prepared by the Company on the basis of accounting practices prescribed or permitted by the California Department of Insurance, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the statutory financial statements of the variances between the statutory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the statutory financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2018 and 2017, or the results of its operations or its cash flows for the years then ended.

Opinion on Statutory Basis of Accounting

In our opinion, the statutory financial statements referred to above present fairly, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flow for the years then ended in accordance with accounting practices prescribed or permitted by the California Department of Insurance.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic statutory financial statements taken as a whole. The summary investment schedule, the supplemental investment risk interrogatories, and the supplemental reinsurance interrogatories on pages 31 to 35 are not a required part of the basic statutory financial statements but are supplementary information required by the National Association of Insurance Commissioners’ *Accounting Practices and Procedures Manual*. Such information has been subjected to the auditing procedures applied in the audits of the basic statutory financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory financial statements or to the statutory financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic statutory financial statements taken as a whole.

JLK Rosenberger, LLP

Glendale, California

March 26, 2019

CAMICO MUTUAL INSURANCE COMPANY

Statutory Statements of Admitted Assets, Liabilities, and Policyholders' Surplus As of December 31, 2018 and 2017

	2018	2017
	<i>(In Thousands)</i>	
Admitted Assets		
Investments:		
Bonds	\$ 76,937	\$ 75,293
Common stocks	2,475	2,110
Other invested assets	1,075	1,097
Receivable for securities	251	-
Cash, cash equivalents and short-term investments	4,161	2,573
Total cash and invested assets	84,899	81,073
Accrued investment income	506	494
Premiums receivable	4,110	4,756
Reinsurance recoverable	277	571
Deferred tax asset, net	2,989	3,494
Federal income tax recoverable	56	52
Other assets	1,272	1,474
Total admitted assets	\$ 94,109	\$ 91,914
Liabilities and Policyholders' Surplus		
Liabilities:		
Reserves for losses	\$ 19,074	\$ 18,248
Reserves for loss adjustment expenses	16,046	14,483
Unearned premiums	9,659	11,103
Advance premiums	3,530	4,005
Accounts payable and accrued expenses	2,161	1,794
Ceded reinsurance premiums payable	(3,926)	(3,318)
Other liabilities	4,921	4,606
Total liabilities	51,465	50,921
Policyholders' surplus:		
Surplus notes	10,000	10,000
Unassigned surplus	32,644	30,993
Total policyholders' surplus	42,644	40,993
Total liabilities and policyholders' surplus	\$ 94,109	\$ 91,914

See accompanying notes to statutory financial statements.

CAMICO MUTUAL INSURANCE COMPANY

Statutory Statements of Operations For the Years Ended December 31, 2018 and 2017

	2018	2017
	<i>(In Thousands)</i>	
Underwriting income:		
Net premiums earned	\$ 31,824	\$ 32,633
Losses incurred	8,311	8,540
Loss adjustment expenses incurred	11,118	10,118
Other underwriting expenses incurred	11,185	11,625
Net underwriting income	1,210	2,350
Net investment income	1,131	921
Net realized capital (losses) gains	(36)	101
Net investment gain	1,095	1,022
Other expense	(244)	(266)
Income before dividends to policyholders and federal income taxes	2,061	3,106
Federal income tax (benefit) expense	(60)	97
Net income	\$ 2,121	\$ 3,009

See accompanying notes to statutory financial statements.

CAMICO MUTUAL INSURANCE COMPANY

Statutory Statements of Changes in Policyholders' Surplus For the Years Ended December 31, 2018 and 2017

	Surplus Notes	Unassigned Surplus <i>(In Thousands)</i>	Total
Balance at January 1, 2017	\$ 10,000	\$ 30,182	\$ 40,182
Net income	-	3,009	3,009
Change in:			
Net unrealized capital loss	-	(977)	(977)
Nonadmitted assets	-	1,625	1,625
Net deferred taxes	-	(2,832)	(2,832)
Other surplus adjustments	-	(14)	(14)
Balance at December 31, 2017	10,000	30,993	40,993
Net income	-	2,121	2,121
Change in:			
Net unrealized capital gain	-	223	223
Net deferred taxes	-	(461)	(461)
Nonadmitted assets	-	(218)	(218)
Other surplus adjustments	-	(14)	(14)
Balance at December 31, 2018	\$ 10,000	\$ 32,644	\$ 42,644

See accompanying notes to statutory financial statements.

CAMICO MUTUAL INSURANCE COMPANY

Statutory Statements of Cash Flow For the Years Ended December 31, 2018 and 2017

	2018	2017
	<i>(In Thousands)</i>	
Cash flow from operating activities:		
Underwriting activities:		
Premiums collected, net of reinsurance	\$ 29,950	\$ 31,712
Losses and loss adjustment expenses paid, net of reinsurance	(16,746)	(18,316)
Underwriting expenses paid	(10,421)	(10,753)
Net cash provided by underwriting activities	2,783	2,643
Investment income, net	1,514	1,341
Net cash provided by operating activities	4,297	3,984
Cash flow from investing activities:		
Purchase of bonds	(15,247)	(26,160)
Purchase of common stocks	(428)	(1,220)
Additional contribution to subsidiary	-	(1,000)
Sale and maturity of bonds	12,853	25,373
Sale of common stocks	406	300
Net cash used in investing activities	(2,416)	(2,707)
Cash flow from financing activities:		
Other	(293)	382
Net cash (used in) provided by financing activities	(293)	382
Net change in cash, cash equivalent and short-term investments	1,588	1,659
Cash, cash equivalents and short-term investments at beginning of year	2,573	914
Cash, cash equivalents and short-term investments at end of year	\$ 4,161	\$ 2,573

See accompanying notes to statutory financial statements.

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements
December 31, 2018 and 2017
(Dollars in Thousands)

1. Summary of Significant Accounting Policies

Nature of Operations and Organization

CAMICO Mutual Insurance Company (the Company or CAMICO) offers professional liability and employment practices liability insurance (EPLI) to certified public accountants on a claims-made basis. In addition, the Company offers first party cyber liability coverage as an endorsement to its professional liability policies. Claims for cyber liability coverage are managed by a third party administrator, Cyber Scout. Prior to May 2018, cyber losses were administered by NAS Insurance Services. CAMICO specializes in insuring certified public accounting (CPA) practices with limited or no Securities and Exchange Commission engagements, initial public offerings, or large company audit work. The Company is licensed to write professional liability insurance and EPLI in 45 states and Washington, D.C. The Company's California business represented 51% of its total premium written for the years ended December 31, 2018 and 2017.

The Company's wholly owned subsidiary, CAMICO Services, Inc. (CSI) operates under the dba CAMICO Insurance Services. CSI operates as an agent intermediary providing insurance products to CPA firms which are underwritten by other insurance companies. Additionally, CSI operates as managing general agent (MGA) under an agreement with Berkley Alliance Managers (BAM), an operating unit of Berkley Insurance Company. Under the MGA agreement, CSI places professional liability coverage where policy limits exceed \$2 million and provides administration and claims management under the program.

The Company did not make a capital contribution to CSI in 2018. The Company made a \$1,000 capital contribution in 2017, authorized by the CAMICO board of directors.

Basis of Presentation

The accompanying statutory financial statements of the Company have been prepared in conformity with accounting practices prescribed or permitted by the California Department of Insurance. California has adopted the National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures Manual* (Statutory Accounting Principles).

These financial statements are not intended to present financial position, results of operations, or cash flow in conformity with U.S. generally accepted accounting principles (GAAP). Statutory Accounting Principles vary in some respects from GAAP, the more significant of these differences being:

- Premium income is taken into earnings over the periods covered by the policies, whereas the related acquisition and commission costs are expensed when incurred.
- Assets must be included in the statutory statements of admitted assets, liabilities, and policyholders' surplus at "admitted asset value" and "nonadmitted assets" are excluded through a direct charge to policyholders' surplus.
- Investments in marketable securities are not designated as available for sale, held to maturity, or trading, and investments in bonds are carried at amortized cost, regardless of the Company's intent or ability to hold them to maturity.

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements (Continued)

December 31, 2018 and 2017

(Dollars in Thousands)

1. Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

- Majority-owned and controlled subsidiaries are not consolidated for individual entity statutory reporting. Investments in subsidiaries are accounted for under the statutory equity method and the Company's share of earnings and losses of the subsidiary are included in unrealized gains and losses credited or charged to policyholders' surplus.
- The criteria for realization of deferred tax assets are not consistent with GAAP and deferred tax assets are recognized through a direct charge or credit to surplus.
- Ceded reserves recoverable from reinsurers for losses and loss adjustment expenses are reflected as reductions to the related direct reserves rather than as assets.
- Policyholder dividends are recognized when declared.
- Surplus notes are reported as policyholders' surplus rather than as liabilities.
- A statement of comprehensive income is not provided.
- Cash flow presentation is not consistent with GAAP and a reconciliation of the net gain or loss from operations is not provided.

Investments

Investments in bonds, including loan-backed securities, are reported at amortized cost, adjusted for amortization of premiums or discounts and other-than-temporary declines in fair value. Amortization is calculated using the scientific interest method over the period to call or maturity. Loan-backed securities are valued using the retrospective adjustment method. Prepayment assumptions on loan-backed securities were determined based on information obtained from the investment custodian. Bonds with an NAIC designation of 3 or greater (less than investment grade) are reported at the lower of amortized cost or fair value.

Investments in equity securities are generally reported at fair value, adjusted for other-than-temporary declines in fair value, in accordance with the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (IAO), with unrealized gains and losses, net of tax, recorded as a direct credit or charge to surplus.

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements (Continued)
December 31, 2018 and 2017
(Dollars in Thousands)

1. Summary of Significant Accounting Policies (Continued)

Investments (Continued)

Investments in common stock of affiliates are valued according to the statutory equity method of accounting. The Company's initial investment is recorded at cost and adjusted for the Company's share of statutory basis earnings, losses, and other changes in surplus. The Company's share of earnings, losses, and other changes in surplus are included in unrealized gains and losses as a direct credit or charge to surplus.

Realized gains and losses on bonds and equity securities are reported in the accompanying statutory statements of operations, based on the specific identification method.

Fair Value Measurements

Statutory accounting principles establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). Accordingly, when market observable data is not readily available, the Company's own assumptions are set to reflect those that market participants would be presumed to use in pricing the asset or liability at the measurement date. Financial assets and financial liabilities recorded in the balance sheets at fair value are categorized based on the reliability of inputs to the valuation techniques as follows:

Level 1 - Financial assets and financial liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in active markets that the Company can access.

Level 2 - Financial assets and financial liabilities whose values are based on (a) quoted prices for similar assets or liabilities in active markets, (b) quoted prices for identical or similar assets or liabilities in non-active markets, or (c) valuation models whose inputs are observable, directly or indirectly, for substantially the full term of the asset or liability.

Level 3 - Financial assets and financial liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect the Company's estimates of the assumptions that market participants would use in valuing the financial assets and financial liabilities.

The Company uses prices and inputs that are current as of the measurement date, including during periods of market disruption. In periods of market disruption, the ability to observe prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from Level 1 to Level 2 or from Level 2 to Level 3.

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements (Continued)
December 31, 2018 and 2017
(Dollars in Thousands)

1. Summary of Significant Accounting Policies (Continued)

Cash, Cash Equivalents, and Short-Term Investments

Included with cash and cash equivalents are demand deposits with maturity dates within one year or less from the acquisition dates and exempt money markets as defined in the *Purposes and Procedures Manual of the NAIC IAO*. Money market mutual funds (MMMF) registered under the Investment Company Act of 1940 and regulated under rule 2a-7 of the Act are accounted for and reported as cash equivalents. Investments in MMMF are valued at fair value or net asset value.

Short-term investments consist of investments with remaining maturities of one year or less at the time of acquisition. Short-term investments are accounted for in the same manner as similar long-term investments.

Premium Recognition

Premiums are recognized as earned on a daily pro-rata basis over the policy term. Unearned premiums are provided for the unexpired portion of the policy term.

A provision for “free” extended reporting endorsement coverage for certain policyholders due to death, disability, or retirement (DD&R) has also been recorded as unearned premiums. These premiums are earned as the estimate for required DD&R unearned premiums is revised. The Company recorded related estimated unearned premiums of \$317 and \$310 as of December 31, 2018 and 2017, respectively, for this coverage, and \$(7) and \$6 were recognized as earned premiums for the years ended December 31, 2018 and 2017, respectively. The unearned premiums reflect the Company’s best estimate of the future DD&R benefits.

For uncollected premiums receivable, after the calculation of nonadmitted amounts, an evaluation is made of the remaining admitted assets to determine if there is an impairment, and an allowance is established.

Premium Deficiency Reserves

Premium deficiency reserves are established for the amount of the anticipated losses, loss adjustment expenses, commissions, and other acquisition and maintenance costs that have not previously been expensed in excess of the recorded unearned premium reserve on existing policies. The Company utilizes anticipated investment income as a factor in determining whether a premium deficiency reserve is required. There were no premium deficiency reserves at December 31, 2018 and 2017.

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements (Continued)
December 31, 2018 and 2017
(Dollars in Thousands)

1. Summary of Significant Accounting Policies (Continued)

Reinsurance

Reinsurance premiums, commissions, and reserves related to reinsured business are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums ceded to other companies have been reported as a reduction of premiums earned. Amounts applicable to reinsurance ceded for unearned premiums and estimated reserves for losses and loss adjustment expenses have been reported as reductions of these items.

Reserves for Losses and Loss Adjustment Expenses (LAE)

Reserves for losses and LAE are based on case by case estimates for reported claims and on estimates that are actuarially determined for incurred but not yet reported losses and loss adjustment expenses based on experience, estimates of future rates of inflation, industry data, and other factors. Reinsurance assumed and ceded is considered in such estimates. Adjustments to loss and LAE reserves are charged or credited to expense in the period in which they become known. Salvage and subrogation recoverables are estimated using a case by case basis method.

Management believes that the liability for losses and LAE is adequate to cover the ultimate net cost of claims and the related adjustment expenses incurred to date. Amounts recorded for loss and LAE, however, are necessarily based on estimates, and accordingly, there can be no assurance that the ultimate liability will not exceed such estimates.

Electronic Data Processing Equipment, Furniture, and Other

The admitted value of the Company's electronic data processing (EDP) equipment and operating software is limited to 3% of capital and surplus and reported net of accumulated depreciation. EDP equipment, operating software, and nonoperating software are depreciated using the straight-line method over the lesser of their useful lives or three years. Other furniture and equipment are depreciated using the straight-line method over five to seven years.

Leasehold improvements are carried at cost less accumulated amortization. The Company provides for the amortization of leasehold improvements using the straight-line method over the lesser of the useful life of the asset or the remaining original lease term, excluding options or renewal periods.

Depreciation and amortization expenses charged to operations in 2018 and 2017 were \$184 and \$203, respectively.

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements (Continued) December 31, 2018 and 2017 (Dollars in Thousands)

1. Summary of Significant Accounting Policies (Continued)

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the statutory financial statements and consist of taxes currently due.

Deferred taxes are recognized, through a direct charge or credit to surplus, for temporary differences arising between the bases of certain assets and liabilities for tax reporting and their amounts reported in the accompanying statutory financial statements. Deferred taxes represent the future tax return consequences of those differences, which will be taxable when the assets and liabilities are recovered or settled. Deferred taxes are nonadmitted for the portion in excess of the amount that can be recovered from application of loss carrybacks and the lesser of (a) the amount of deferred tax assets expected to be realized in three years from the balance sheet date or (b) fifteen percent of policyholders' surplus as reported in the Company's statutory statements of assets, liabilities, and policyholders' surplus as of December 31, after certain adjustments and consideration of any deferred tax liabilities.

Estimates

The preparation of statutory financial statements in conformity with accounting practices prescribed or permitted by the California Department of Insurance requires management to make estimates and assumptions that affect the reported amounts of admitted assets and liabilities and disclosure of contingent assets and liabilities at the date of the statutory financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Reclassifications

Certain amounts from the prior year have been reclassified to conform to the current year presentation. Such reclassifications had no effect on surplus or the change in surplus previously reported.

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements (Continued)
December 31, 2018 and 2017
(Dollars in Thousands)

2. Investments

Bonds

The following is the admitted value and the fair value of the Company's bonds as of December 31:

	<u>Admitted Value</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
2018				
U.S. Government and agency obligations	\$ 8,554	\$ 5	\$ (104)	\$ 8,455
States, territories, and possessions	7,598	27	(46)	7,579
Corporate securities	37,507	38	(607)	36,938
Mortgage and asset-backed securities	<u>23,278</u>	<u>57</u>	<u>(472)</u>	<u>22,863</u>
Total	<u>\$ 76,937</u>	<u>\$ 127</u>	<u>\$ (1,229)</u>	<u>\$ 75,835</u>
	<u>Admitted Value</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
2017				
U.S. Government and agency obligations	\$ 7,440	\$ -	\$ (47)	\$ 7,393
States, territories, and possessions	7,171	31	(37)	7,165
Corporate securities	38,932	202	(122)	39,012
Mortgage and asset-backed securities	<u>21,750</u>	<u>56</u>	<u>(258)</u>	<u>21,548</u>
Total	<u>\$ 75,293</u>	<u>\$ 289</u>	<u>\$ (464)</u>	<u>\$ 75,118</u>

The estimated fair value of bonds is derived from market prices published by the NAIC IAO. In the absence of IAO published market values, quoted market prices by other third party organizations are used as the basis for determining fair value.

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements (Continued)
December 31, 2018 and 2017
(Dollars in Thousands)

2. Investments (Continued)

Bonds (Continued)

The admitted value and fair value of bonds at December 31, 2018 by expected maturity are shown below. Expected maturities may differ from contractual maturities as borrowers may have the right to call or repay their obligations with or without call or prepayment penalties.

	Admitted Value	Estimated Fair Value
Due in one year or less	\$ 6,462	\$ 6,439
Due after one year through five years	46,304	45,653
Due after five years through ten years	8,693	8,613
Due after ten years	15,478	15,130
Total	\$ 76,937	\$ 75,835

At December 31, 2018, the Company held 11 securities with an NAIC rating of 3 or higher, less than investment grade, with an admitted value and fair value of \$1,513 and \$1,518, respectively.

Common Stocks

Unrealized investment gains (losses) for common stocks as of December 31 are as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
2018				
Mutual funds	\$ 1,099	\$ -	\$ (43)	\$ 1,056
Common stocks - affiliated	5,810	-	(4,391)	1,419
Total	\$ 6,909	\$ -	\$ (4,434)	\$ 2,475
2017				
Mutual funds	\$ 1,037	\$ 76	\$ -	\$ 1,113
Common stocks - affiliated	5,810	-	(4,813)	997
Total	\$ 6,847	\$ 76	\$ (4,813)	\$ 2,110

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements (Continued)

December 31, 2018 and 2017

(Dollars in Thousands)

2. Investments (Continued)

Other-than-Temporary Impairment Analysis

The gross unrealized losses and estimated fair values on investments, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31 are as follows:

	12 Months or Greater		Less than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2018				
Bonds:				
U.S. Government and agency obligations States, territories, and possessions	\$ 7,144	\$ (99)	\$ 997	\$ (5)
Corporate securities	3,133	(37)	1,540	(9)
Mortgage and asset-backed securities	12,573	(340)	19,122	(267)
Total bonds	13,746	(437)	4,964	(35)
Mutual funds	-	-	1,056	(43)
Total	\$ 36,596	\$ (913)	\$ 27,679	\$ (359)
2017				
Bonds:				
U.S. Government and agency obligations States, territories, and possessions	\$ 197	\$ (3)	\$ 7,196	\$ (44)
Corporate securities	950	(22)	3,288	(15)
Mortgage and asset-backed securities	3,583	(59)	15,251	(63)
Total	\$ 7,430	\$ (198)	\$ 8,722	\$ (60)
Total	\$ 12,160	\$ (282)	\$ 34,457	\$ (182)

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements (Continued)
December 31, 2018 and 2017
(Dollars in Thousands)

2. Investments (Continued)

Other-than-Temporary Impairment Analysis (Continued)

The Company reviews its investment portfolio at least quarterly for securities that may have an other-than-temporary impairment (OTTI) in value. For any investment security deemed to be other-than-temporarily impaired, the investment's amortized cost is written down to fair value with a realized loss recognized in operations. Unrealized losses are primarily due to interest rate fluctuations during the year and as such do not qualify for OTTI as the Company has the ability and intent to hold until maturity or recovery. Based on a review of the bonds included in the table above, the Company determined that the unrealized losses were primarily a result of the interest rate environment and not the credit quality of the issuers. There were no securities impaired in 2018 and 2017.

Other

At December 31, the Company had the following restricted assets:

	Carrying Value 2018	% of Total Admitted Assets	Carrying Value 2017	% of Total Admitted Assets
On deposit with state	\$ 2,407	2.6%	\$ 2,406	2.6%
On deposit with other regulatory agencies	2,083	2.2	2,106	2.3
Pledged as collateral not captured in other categories	14,154	15.0	14,723	16.0
Total	<u>\$ 18,644</u>	<u>19.8%</u>	<u>\$ 19,235</u>	<u>20.9%</u>

Net investment income earned for the years ended December 31 was derived as follows:

	2018	2017
Bonds	\$ 2,005	\$ 1,764
Mutual funds	22	20
Cash, cash equivalents, and short-term investments	15	8
Total investment income earned	<u>2,042</u>	<u>1,792</u>
Investment expense	(911)	(871)
Net investment income earned	<u>\$ 1,131</u>	<u>\$ 921</u>

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements (Continued) December 31, 2018 and 2017 (Dollars in Thousands)

2. Investments (Continued)

Other (Continued)

Proceeds from sale of bonds during 2018 and 2017 were \$5,373 and \$10,632, respectively. Proceeds from maturity of bonds during 2018 and 2017 were \$4,528 and \$15,041, respectively. Realized gains (losses) on sales of bonds and mutual funds for the year ended December 31 are as follows:

	2018	2017
Bonds:		
Gains	\$ 15	\$ 112
Losses	(91)	(25)
Totals	(76)	87
Mutual funds:		
Gains	40	14
Totals	40	14
Net realized capital (losses) gains	\$ (36)	\$ 101

The Company has minor ownership interests in a limited partnership (Archipelago Partners, L.P.). The Company carries this investment at an amount based on its interest in the underlying audited GAAP equity of the investee, with unrealized gains and losses reported in unassigned surplus. The Company did not recognize any OTTI write-down for its investment in the limited partnership during the years ended December 31, 2018 and 2017. The investment is reflected as other invested assets in the accompanying statutory statements of admitted assets, liabilities, and policyholders' surplus.

3. Fair Value Measurements

The following table sets forth by level within the fair value hierarchy all financial assets measured at fair value and their admitted value, in the aggregate, as of December 31:

	Level 1	Level 2	Level 3	Fair Value	Admitted Value
2018					
Bonds	\$ 8,455	\$ 67,380	\$ -	\$ 75,835	\$ 76,937
Cash equivalents	679	-	-	679	679
Total	9,134	67,380	-	76,514	77,616
Mutual funds	-	-	-	1,056	1,056
Total	\$ 9,134	\$ 67,380	\$ -	\$ 77,570	\$ 78,672

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements (Continued)
December 31, 2018 and 2017
(Dollars in Thousands)

3. Fair Value Measurements (Continued)

	Level 1	Level 2	Level 3	Fair Value	Admitted Value
2017					
Bonds	\$ 7,393	\$ 67,725	\$ -	\$ 75,118	\$ 75,293
Cash equivalents	1,731	-	-	1,731	1,731
Total	9,124	67,725	-	76,849	77,024
Mutual funds	-	-	-	1,113	1,113
Total	<u>\$ 9,124</u>	<u>\$ 67,725</u>	<u>\$ -</u>	<u>\$ 77,962</u>	<u>\$ 78,137</u>

The carrying value of mutual funds is reported at net asset value (NAV) as a practical expedient.

The carrying value of cash, accrued interest, agents' balances, reinsurance recoverable on paid losses, reserves for losses and loss adjustment expenses, unearned premiums, and other accrued expenses approximates fair value due to the short maturity, short duration, and low interest rate environment of these instruments.

4. Data Processing Equipment

Data processing equipment, included in other assets, consist of the following as of December 31:

	2018	2017
Data processing equipment and software	\$ 1,953	\$ 1,947
Accumulated depreciation	(1,873)	(1,740)
Data processing equipment, net	<u>\$ 80</u>	<u>\$ 207</u>

Depreciation expense related to data processing equipment and software was \$133 and \$145 for the years ended December 31, 2018 and 2017, respectively.

5. Other Assets

Other assets consist of the following as of December 31:

	2018	2017
Guaranty funds	\$ 9	\$ 17
Deductible billed to policyholders, net	58	105
Data processing equipment, net	80	207
Receivable from CSI	1,120	1,140
Other receivables	5	5
Total	<u>\$ 1,272</u>	<u>\$ 1,474</u>

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements (Continued)
December 31, 2018 and 2017
(Dollars in Thousands)

6. Reserves for Losses and Loss Adjustment Expenses

The following table summarizes the activity in the Company's reserves for losses and loss adjustment expenses (LAE), net of reinsurance, for the years ended December 31:

	2018	2017
Net reserves for losses and LAE at January 1	\$ 32,731	\$ 32,923
Incurred related to:		
Current year	19,501	18,820
Prior years	(72)	(162)
Total incurred	19,429	18,658
Paid related to:		
Current year	(4,946)	(5,904)
Prior years	(12,094)	(12,946)
Total paid	(17,040)	(18,850)
Net reserves for losses and LAE at December 31	\$ 35,120	\$ 32,731

Decreases in incurred losses and LAE during 2018 and 2017 pertaining to the previously reported amounts are the result of favorable development in estimates of insured events of previous years.

The Company paid direct losses related to extra contractual obligations in the amounts of \$0 and \$660, for the years ended December 31, 2018 and 2017, respectively.

7. Other Liabilities

Other liabilities consist of the following as of December 31:

	2018	2017
Accrued and deferred compensation	\$ 179	\$ 41
Accrued employee benefits	1,153	941
Deferred fees	1,933	1,825
Premium taxes, licenses, and fees payable	113	141
Provision for reinsurance	129	115
Other accrued expenses and liabilities	1,414	1,543
Total	\$ 4,921	\$ 4,606

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements (Continued)
December 31, 2018 and 2017
(Dollars in Thousands)

8. Reinsurance

In the ordinary course of business, the Company seeks to limit its exposure to losses on claims by entering into reinsurance contracts with other insurance companies. The Company utilizes its reinsurance program to cede severe/high-limit losses and to limit yearly aggregate losses in order to protect surplus and maintain conservative operating ratios. Reinsurance contracts do not relieve the Company from its obligations to policyholders. Certain reinsurance agreements contain provisions for premium adjustments based on loss experience with regards to such contracts. Such adjustments are recorded on an accrual basis and are initially settled with reinsurers after the contract period, with annual adjustments thereafter.

A summary of the current reinsurance contract terms is as follows:

Loss Ratio Protection

For the contract period from July 1, 2018 through June 30, 2019, the Company entered into a Loss Ratio Protection treaty. This treaty provides coverage up to 25% of subject premium if aggregate losses exceed 67% of subject premium. This treaty was placed at 92.5%.

For the contract period from July 1, 2017 through June 30, 2018, the Company entered into a Loss Ratio Protection treaty. This treaty provides coverage up to 25% of subject premium if aggregate losses exceed 68% of subject premium. This treaty was placed at 90%.

For the contract period from July 1, 2016 through June 30, 2017, the Company entered into a Loss Ratio Protection treaty. This treaty provides coverage up to 25% of subject premium if aggregate losses exceed 68% of subject premium. This treaty was placed at 80%.

Excess of Loss Treaties

For the contract period from July 1, 2016 through June 30, 2017, the Company entered into a reinsurance treaty that ceded losses in excess of \$250 to a maximum of \$1,750. This treaty was placed at 20%. Losses up to \$750 in excess of \$250 are subject to an annual aggregate deductible (AAD) 8% of the subject written premium on this treaty.

Casualty Contingency

For claims made and reported to the Company from July 1, 2018 through June 30, 2019 and from July 1, 2017 through June 30, 2018, the Company has reinsurance over and above the underlying limits of \$5,000 in excess of \$2,000 for each and every claim. These treaties include coverage for extra contractual obligations subject to a 10% co-pay.

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements (Continued)
December 31, 2018 and 2017
(Dollars in Thousands)

8. Reinsurance (Continued)

Quota Share Employment Practices Liability Insurance

During 2018 and 2017, the Company had in place an EPLI quota share reinsurance agreement whereby 50% of the Company's EPLI business is ceded. For the years ended December 31, 2018 and 2017, the maximum retained loss for any Employment Practices Liability claim was \$500. The contract includes a 25% ceding commission.

Quota Share Cyber Liability

On May 1, 2018, the Company entered into a quota share reinsurance agreement whereby 50% of the Company's cyber liability endorsement premium is ceded with a 17% ceding commission.

From May 1, 2015 through April 30, 2018, the Company had a quota share reinsurance agreement in place whereby 100% of the Company's cyber liability endorsement premium was ceded with a 30% ceding commission.

Financial Impact of Reinsurance

The effect of reinsurance on premiums written and earned for the years ended December 31 is as follows:

	2018		2017	
	Written	Earned	Written	Earned
Direct premiums	\$ 33,568	\$ 35,167	\$ 35,982	\$ 35,669
Ceded premiums	(3,188)	(3,343)	(2,904)	(3,036)
Net premiums	\$ 30,380	\$ 31,824	\$ 33,078	\$ 32,633

Included in ceded premiums are adjustments for prior year loss sensitive and structured treaties of \$12 and \$(870) for 2018 and 2017, respectively. The Company's EPLI quota share, cyber quota share and prior year's excess of loss reinsurance agreements also contain a provision to reimburse acquisition costs through a ceding commission. Total ceding commission expense decreased other underwriting expenses by \$395 and \$386 for 2018 and 2017, respectively.

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements (Continued)
December 31, 2018 and 2017
(Dollars in Thousands)

8. Reinsurance (Continued)

Return commission that would have been due reinsurers if all reinsurance were cancelled with the return of unearned premium reserves at December 31 is as follows:

	2018		2017	
	Unearned Premium	Return Commission	Unearned Premium	Return Commission
Ceded	\$ 881	\$ 102	\$ 1,036	\$ 158

The effect of reinsurance on losses and LAE incurred and reserved as of and for the years ended December 31 is as follows:

	2018		2017	
	Reserves	Incurred	Reserves	Incurred
Direct	\$ 39,215	\$ 20,467	\$ 38,490	\$ 20,398
Ceded	(4,095)	(1,038)	(5,759)	(1,740)
Net	\$ 35,120	\$ 19,429	\$ 32,731	\$ 18,658

The Company recorded uncollectible reinsurance of \$15 and \$243 for the years ended December 31, 2018 and 2017, respectively.

9. Policyholders' Surplus

In June 2005, the Company issued surplus notes to Preferred Term Securities XVII, Ltd. and First Tennessee Bank, N.A. in return for \$10,000 in cash. The surplus notes call for the Company to pay quarterly interest at London Interbank Offered Rate (LIBOR) plus 3.15%. The effective variable interest rate at December 15, 2018, was 5.484%.

The accrual of interest and the payments of interest and principal can only be made from surplus and only upon gaining approval from the California Department of Insurance.

Claims under the surplus notes are subordinated and are paid out of any assets remaining after payment of all liabilities, including senior claims and any senior indebtedness of the Company. Unrecorded interest expense of approximately \$24 at December 31, 2018, was expensed and paid in March 2019 upon receipt of approval by the California Department of Insurance for such payment.

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements (Continued)
December 31, 2018 and 2017
(Dollars in Thousands)

9. Policyholders' Surplus (Continued)

The following summarizes principal provisions of the notes as of December 31, 2018:

	Par / Carrying Value	Unapproved Principal and Interest	Interest Paid	
			Current Year	From Inception
Issued June 3, 2005 bearing interest at LIBOR +3.15%, due June 3, 2035	\$10,000	\$ -	\$ 535	\$ 7,063

The following balances make up unassigned surplus as of December 31:

	2018	2017
Unrealized losses, net	\$ (4,423)	\$ (4,646)
Nonadmitted assets	(930)	(713)
Deferred tax asset	3,297	3,758
Provision for reinsurance	(129)	(114)
Retained surplus	34,829	32,708
Total unassigned surplus	<u>\$ 32,644</u>	<u>\$ 30,993</u>

10. Federal Income Taxes

The Company files a consolidated federal income tax return with its wholly owned subsidiary, CSI. The method of allocation between the companies has been formalized in a written tax allocation agreement. Allocation is based upon separate return calculations with current credit given for net losses and/or credits that result in an actual reduction in the tax liability of the consolidated group.

The provision for federal income taxes for the years ended December 31, 2018 and 2017 was \$(60) and \$97, respectively.

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements (Continued)
December 31, 2018 and 2017
(Dollars in Thousands)

10. Federal Income Taxes (Continued)

The components of the net deferred tax asset at December 31 are as follows:

	2018	2017	Change
Gross deferred tax asset:			
Operating	\$ 3,681	\$ 3,946	\$ (265)
Capital	28	20	8
Statutory valuation allowance:			
Operating	-	-	-
Capital	-	-	-
Adjusted gross deferred tax asset:			
Operating	3,681	3,946	(265)
Capital	28	20	8
Nonadmitted deferred tax asset:			
Operating	(308)	(264)	(44)
Capital	-	-	-
Subtotal net admitted deferred tax asset:			
Operating	3,373	3,682	(309)
Capital	28	20	8
Gross deferred tax liabilities:			
Operating	412	208	204
Capital	-	-	-
Net admitted deferred tax asset:			
Operating	2,961	3,474	(513)
Capital	28	20	8
Total net admitted deferred tax asset	\$ 2,989	\$ 3,494	\$ (505)
Increase in non-admitted tax asset	\$ 44		

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements (Continued)
December 31, 2018 and 2017
(Dollars in Thousands)

10. Federal Income Taxes (Continued)

The components of the admissibility calculation at December 31, 2018 by tax character are as follows:

	Operating	Capital
SSAP No. 101 paragraph 11.a:		
Recoverable taxes	\$ -	\$ -
Three year reversals	2,961	28
Admitted asset	-	-
SSAP No. 101 paragraph 11.b:		
Remaining three year reversals	2,961	28
Surplus limitation	5,920	28
Admitted asset	2,961	28
SSAP No. 101 paragraph 11.c:		
Remaining deferred tax assets	-	-
Deferred tax liabilities	412	-
Admitted asset	-	-

The components of the admissibility calculation at December 31, 2017 by tax character are as follows:

	Operating	Capital
SSAP No. 101 paragraph 11.a:		
Recoverable taxes	\$ -	\$ -
Three year reversals	3,474	20
Admitted asset	-	-
SSAP No. 101 paragraph 11.b:		
Remaining three year reversals	3,474	20
Surplus limitation	5,748	20
Admitted asset	3,474	20
SSAP No. 101 paragraph 11.c:		
Remaining deferred tax assets	473	-
Deferred tax liabilities	208	-
Admitted asset	208	-

The Authorized Control Level RBC computed without net deferred tax assets (ExDTA ACL RBC ratio) at December 31, 2018 is 554%. The adjusted capital and surplus used to determine recovery period and threshold limitations is \$39,655.

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements (Continued)
December 31, 2018 and 2017
(Dollars in Thousands)

10. Federal Income Taxes (Continued)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows:

	2018	2017
Deferred tax asset:		
Discounting of unpaid losses	\$ 654	\$ 339
Unearned premiums	406	466
Deferred compensation	906	788
Advance premiums	148	168
Nonadmitted assets	131	93
Impairments	28	20
Net operating loss carryforwards	1,212	1,816
Other	224	276
Total deferred tax asset	3,709	3,966
Deferred tax assets nonadmitted	(308)	(264)
Total admitted deferred tax asset	3,401	3,702
Deferred tax liability:		
Bond market discount	(35)	(34)
Depreciation	-	(3)
Premium acquisition expenses	(148)	(168)
Other	(229)	(3)
Total deferred tax liability	(412)	(208)
Net admitted deferred tax asset	\$ 2,989	\$ 3,494

The change in net deferred income taxes is comprised of the following:

	2018	2017	Change
Deferred tax assets	\$ 3,709	\$ 3,966	\$ (257)
Deferred tax liabilities	(412)	(208)	(204)
Net deferred tax asset	\$ 3,297	\$ 3,758	\$ (461)
Tax effect of unrealized gains			-
Change in deferred taxes			\$ (461)

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements (Continued) December 31, 2018 and 2017 (Dollars in Thousands)

10. Federal Income Taxes (Continued)

The Company's income tax provision differs from the amount obtained by applying the federal statutory rate of 21% to operating gain before federal income taxes as follows:

	2018	2017
Provision computed at statutory rate	\$ 433	\$ 1,056
Tax-exempt income, net	5	(3)
Change in nonadmitted assets	(37)	31
DTA revaluation – corporate tax rate change	-	2,255
Other	-	(411)
Total statutory income tax expense	\$ 401	\$ 2,928
Federal income tax (benefit) expense	\$ (60)	\$ 97
Change in deferred taxes	461	2,831
Total statutory income tax expense	\$ 401	\$ 2,928

During 2018 the Company recorded an increase to gross deferred tax assets of \$262, representing the additional discount on reserves as of January 1, 2018 based on the provisions of the Tax Cuts and Jobs Act (TCJA). The Company also recorded an increase to gross deferred tax liabilities of \$2 representing the additional discount on anticipated salvage and subrogation as of January 1, 2018 based on the provisions of the TCJA. The net increase to the discount on reserves, less the net increase to the discount on salvage and subrogation, or the “transition adjustment” of \$260 was recorded as an increase to deferred tax liabilities as January 1, 2018, representing the tax due over eight years beginning in 2018. These adjustments had no impact on the December 31, 2017 net deferred tax asset. During the year, one-eighth of the deferred tax liability associated with the transition adjustment was reduced due to one-eighth of the transition adjustment being currently taxable in 2018.

The Company does not have any income tax paid that would be available for recoupment in the event of future net losses. The Company's federal income tax returns are subject to an examination by the IRS within three years after the returns are filed.

As of December 31, 2018, and 2017, the Company has no uncertain tax positions and, therefore, has not recorded a contingent liability. There were no tax positions for which management believes it is reasonably possible that the total amount of tax contingencies will significantly increase or decrease within 12 months of the reporting date.

As of December 31, 2018, the only material jurisdiction in which the Company is subject to examination is the U.S. federal jurisdiction for the tax years 2015 through the present.

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements (Continued) December 31, 2018 and 2017 (Dollars in Thousands)

11. Employee Benefit Plans

The Company has a 401(k) defined contribution plan covering substantially all employees. Under the 401(k) plan, the Company matches 50% of employee contributions up to 6% of the employee's salary. Amounts expensed for this plan totaled \$209 and \$206 in 2018 and 2017, respectively.

The Company has a deferred compensation plan which allows senior management to defer all or part of their salary. In 2018 and 2017, \$135 and \$0, respectively, in salary was deferred under this plan. Additionally, the Company has a deferred compensation plan for directors that allows members to defer all or part of their fees. In 2018 and 2017, \$108 and \$42, respectively, was deferred under this plan.

On October 21, 2016, the Board of Directors approved a new supplemental executive retirement plan (SERP), 409A plan. The Company contributed \$98 and \$95 related to the SERP as of December 31, 2018 and 2017, respectively.

12. Line of Credit

The Company has a secured revolving line of credit of \$10,000 with Union Bank at a rate of 2.5% with a LIBOR option, expiring May 31, 2021. The effective rate at December 31, 2018 is 5.25%.

The Company maintains pledged bonds with a par value of \$9,892 at December 31, 2018, as security for the line of credit. The outstanding balance on the line of credit at December 31, 2018 and 2017 was \$0.

13. Regulation, Dividend Restrictions, and Risk Based Capital

Regulation

All insurance companies are subject to insurance laws and regulations established by the states in which they transact business. The laws of the various states establish supervisory agencies with broad administrative and supervisory powers related to granting and revoking licenses to transact business, regulating trade practices, establishing guaranty associations, licensing agents, approving policy forms, filing premium rates and setting reserve requirements for certain lines of business, determining the form and content of required regulatory financial statements, conducting periodic examinations of insurers' records, determining the reasonableness and adequacy of capital and surplus, and prescribing the maximum concentrations of certain classes of investments. Most states have also enacted legislation that regulates insurance holding company systems, including acquisitions, extraordinary dividends, the terms of affiliate transactions, and other related matters. The Company and its insurance subsidiary have registered as a holding company system pursuant to such legislation in California and routinely report to other jurisdictions. It is not possible to predict the future impact of changing state and federal regulation on the operations of the Company and its insurance subsidiary.

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements (Continued)
December 31, 2018 and 2017
(Dollars in Thousands)

13. Regulation, Dividend Restrictions, and Risk Based Capital (Continued)

Dividend Restrictions

Laws and minimum capitalization requirements generally restrict dividends from the Company. The California Insurance Code does not permit the payment of dividends that exceed the greater of net income or 10% of statutory surplus and can only be paid out of accumulated earned surplus without prior approval from the Insurance Commissioner. The Company may pay dividends in 2018 of \$3,099 (10% of the preceding year's surplus) or \$3,009 (preceding year's net income) without prior regulatory approval.

Risk Based Capital

A model for determining the risk based capital (RBC) requirements for property and casualty insurance companies was adopted in December 1993. Insurance companies are required to report their RBC ratios based on their most recent annual statement. The Company has calculated its RBC requirement based on its most recently filed annual statement and has \$31,915 of capital and surplus in excess of any regulatory action or reporting level.

14. Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash, cash equivalents and short-term investments, bonds, premiums receivable, and reinsurance recoverables on paid and unpaid losses.

The Company places its cash, cash equivalents, and short-term investments with high credit quality financial institutions. Concentrations of credit risk with respect to bonds are limited, due to the large number of such investments and their distribution across many different industries and geographic regions. The outstanding premiums receivable balance is generally diversified due to the large number of entities comprising the Company's customer base. To minimize its exposure to significant losses from reinsurance insolvencies, the Company evaluates the financial condition of its reinsurers and reinsures its business with highly rated reinsurers.

15. Related-Party Transactions

The Company provides certain administrative services related to professional liability policies brokered through CSI under the terms of a cost sharing agreement. As of December 31, 2018 and 2017, \$1,114 and \$1,184, respectively, were due from CSI to the Company. Net costs allocated from the Company to CSI for the years ended December 31, 2018 and 2017, were \$4,301 and \$4,372, respectively.

16. Commitments and Contingencies

The Company is subject to guaranty and other assessments by the states in which it writes business. The Company does not have an accrued liability for a guaranty fund or other assessments, as fees are prepaid by the Company and surcharged to policyholders in subsequent years.

The Company is subject to various claims and lawsuits arising in the normal course of business. The Company is not aware of any outstanding and/or unresolved extra contractual obligations and bad faith losses stemming from lawsuits that could have a material impact on its operations.

CAMICO MUTUAL INSURANCE COMPANY

Notes to Statutory Financial Statements (Continued)
December 31, 2018 and 2017
(Dollars in Thousands)

16. Commitments and Contingencies (Continued)

The Company has a lease agreement for its home office in San Mateo, California. The lease extends through 2020 and may be extended an additional five years, to 2025. The Company extended the lease to March 31, 2021. The Company also has a remote office in Atlanta, Georgia. The lease extends through 2019 and may be extended for an additional five years to 2024. Effective May 16, 2016, the Company entered into a subleasing arrangement for the office in Atlanta, Georgia.

Rent expense for all leased properties for the years ended December 31, 2018 and 2017, was \$935 and \$912, respectively. Rent expense in 2018 was reduced by \$61 collected from the Atlanta office sublease.

Future minimum lease payments at December 31, 2018, under agreements classified as operating leases with noncancelable terms in excess of one year, are as follows:

	<u>Home Office</u>	<u>Atlanta Office</u>	<u>Total Obligations</u>
2019	\$ 935	\$ 21	\$ 956
2020	963	-	963
2021	248	-	248
Total	<u>\$ 2,146</u>	<u>\$ 21</u>	<u>\$ 2,167</u>

The Company is named as a defendant in various legal actions arising principally from claims made under insurance policies and contracts. Those actions are considered by the Company in estimating the loss and LAE reserves. Management believes the resolution of those actions will not have a material effect on the Company's financial position or results of operations.

17. Subsequent Events

Management has evaluated subsequent events through March 26, 2019, which is the date the statutory financial statements were available to be issued. No event has occurred subsequent to December 31, 2018 requiring recording or disclosure in the statutory financial statements.

SUPPLEMENTARY INFORMATION

CAMICO MUTUAL INSURANCE COMPANY

Summary Investment Schedule December 31, 2018

	<u>Gross Investment Holdings</u>	<u>%</u>	<u>Admitted Assets as Reported (*)</u>	<u>%</u>
	<i>(In Thousands)</i>			
Bonds:				
U.S. treasury securities	\$ 8,554	10.1	\$ 8,554	10.1
Non-U.S. government(including Canada, mortgage-backed securities)				
Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
States, territories, and possessions				
general obligations	2,008	2.4	2,008	2.4
Political subdivisions of states, territories, and possessions and political subdivisions	1,127	1.3	1,127	1.3
Revenue and assessment obligations	4,462	5.3	4,462	5.3
Mortgage-backed securities (includes residential and commercial MBS):				
Pass-through securities:				
Issued or guaranteed by GNMA	49	0.1	49	0.1
Issued or guaranteed by FNMA and FHLMC	6,242	7.4	6,242	7.4
CMOs and REMICs:				
Issued or guaranteed by GNMA, FNMA, FHLMC, or VA	5,043	5.9	5,043	5.9
All other	4,800	5.6	4,800	5.6
Other debt and fixed income securities (excluding short-term):				
Unaffiliated domestic securities (includes credit tenant loans and hybrid securities)	38,872	45.7	38,872	45.7
Unaffiliated non-U.S. securities (including Canada)	5,780	6.8	5,780	6.8
Equity interests:				
Investments in mutual funds	1,056	1.2	1,056	1.2
Other equity securities:				
Affiliated	1,419	1.7	1,419	1.7
Receivables for Securities	251	0.3	251	0.3
Cash and cash equivalents	4,161	4.9	4,161	4.9
Other invested assets	1,075	1.3	1,075	1.3
Total invested assets	<u>\$ 84,899</u>	<u>100.0</u>	<u>\$ 84,899</u>	<u>100.0</u>

* The Company did not have any securities lending reinvested collateral as of December 31, 2018.

CAMICO MUTUAL INSURANCE COMPANY

Supplemental Investment Risk Interrogatories December 31, 2018 (Dollars in Thousands)

1. Company's total admitted assets: \$ 94,109

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

Issuer	Investment Categories	Amount	Percentage of Total Admitted Assets
Federal Natl Mtg Assn Gtd Mtg Federal Home Loan Mortgage Corporation	Unaffiliated bond	\$ 6,788	7.2%
Archipelago Partners	Unaffiliated bond	3,342	3.6
Citibank Credit Card Issuance Trust	Other invested asset	1,075	1.1
Bank of America Corporation	Unaffiliated bond	905	1.0
The Goldman Sachs Group, Inc.	Unaffiliated bond	779	0.8
Vanguard Marketing Corporation	Unaffiliated bond	742	0.8
Morgan Stanley	Equity interests	704	0.8
Dreyfus Government Cash Management Funds	Unaffiliated bond	689	0.7
Federal Home Loan Mortgage Corporation Multi Class Mtg Participation Cert Agreement	Unaffiliated bond	679	0.7
		658	0.7

3. Amounts and percentages of the Company's total admitted assets held in bonds and preferred stocks by NAIC rating.

	Amount	Percentage of Total Admitted Assets
Bonds:		
NAIC-1	\$ 60,192	64.0%
NAIC-2	15,232	16.2
NAIC-3	1,416	1.5
NAIC-4	97	0.1

4. Amounts and percentages of the Company's total admitted assets in foreign investments:

Description	Amount	Percentage of Total Admitted Assets
Foreign Investments	\$ 4,661	5.0%

CAMICO MUTUAL INSURANCE COMPANY

Supplemental Investment Risk Interrogatories (Continued)

December 31, 2018

(Dollars in Thousands)

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

Issuer	Amount	Percentage of Total Admitted Assets
Vanguard Marketing Corporation	\$ 704	0.8%
Vanguard Specialized Funds	352	0.4

14. Amounts and percentages of the Company's assets held in nonaffiliated, privately placed equities are less than 2.5% of total admitted assets.

15. Amounts and percentages of the Company's assets held in partnership interests are less than 2.5% of total admitted assets.

16. Amounts and percentages of the Company's assets held in mortgage loans are less than 2.5% of total admitted assets. Response to interrogatory 17 is not required.

17. The Company does not have mortgage loans.

18. Amounts and percentages of the Company's assets held in real estate are less than 2.5% of total admitted assets.

19. Amounts and percentages of the Company's assets held in mezzanine real estate loans are less than 2.5% of total admitted assets.

20. The Company does not have any assets subject to securities lending, repurchase, reverse repurchase, dollar repurchase, or dollar reverse repurchase agreements.

21. The Company does not have any warrants not attached to other financial instruments, options, caps, or floors.

22. The Company does not have any assets of potential exposure for collars, swaps, or forwards.

23. The Company does not have any assets of potential exposure for futures contracts.

CAMICO MUTUAL INSURANCE COMPANY

Supplemental Reinsurance Interrogatories December 31, 2018 (Dollars in Thousands)

1. This Company has reinsured risk under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g. a deductible, a loss ratio corridor, a loss ratio cap, an aggregate limit, or any similar provisions).
2. The Company has not ceded risk through certain reinsurance contracts for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:
 - A contract term longer than two years and the contract is noncancellable by the Company during the contract term;
 - A limited or conditional cancellation provision under which cancellation triggers an obligation by the Company, or an affiliate of the Company, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;
 - Aggregate stop loss reinsurance coverage;
 - A unilateral right by either party to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party;
 - A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or
 - Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity.
3. The Company has not during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), for which during the period covered by the statement it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; excluding cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the Company, or (ii) an association of which one or more unaffiliated policyholders of the Company is a member where:
 - The written premium ceded to the reinsurer by the Company or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or
 - Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the Company or its affiliates.
4. Except for transactions meeting the requirements of paragraph 31 of SSAP No. 62R, Property and Casualty Reinsurance, the Company has not ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) during the period covered by the statutory financial statements, and either:
 - Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles (SAP) and as a deposit under generally accepted accounting principles (GAAP); or
 - Accounted for that contract as reinsurance under GAAP and as a deposit under SAP.