# Accident Fund Insurance Company of America and Subsidiaries

Consolidated Statutory-Basis Financial Statements as of and for the Years Ended December 31, 2022 and 2021, Consolidating Statutory-Basis Information as of and for the Year Ended December 31, 2022, Consolidated Statutory-Basis Supplemental Schedules as of and for the Year Ended December 31, 2022, and Independent Auditor's Report

# ACCIDENT FUND INSURANCE COMPANY OF AMERICA AND SUBSIDIARIES

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Accident Fund Insurance Company of America
Lansing, Michigan

### Opinions

We have audited the consolidated statutory-basis financial statements of Accident Fund Insurance Company of America and subsidiaries (the "Company"), which comprise the consolidated statutory-basis statements of admitted assets, liabilities, and capital and surplus as of December 31, 2022 and 2021, and the related consolidated statutory-basis statements of operations, capital and surplus, and cash flows for the years then ended, and the related notes to the consolidated statutory-basis financial statements (collectively referred to as the "statutory-basis financial statements").

We did not audit the combined financial statements of Star Insurance Company, the Company's investment in which is accounted for by the use of the equity method. The accompanying consolidated financial statements of the Company include its investment in the net assets of Star Insurance Company of $596,677 as of December 31, 2022. The combined financial statements of Star Insurance Company for the year ended December 31, 2022, were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Star Insurance Company, is based on the report of the other auditors and the procedures that we considered necessary in the circumstances with respect to the inclusion of the Company's equity investment in the accompanying consolidated financial statements.

#### *Unmodified Opinion on Statutory-Basis of Accounting*

In our opinion, the accompanying statutory-basis financial statements present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended, in accordance with the accounting practices prescribed or permitted by the Michigan Department of Insurance and Financial Services ("DIFS") described in Note 2.

#### *Adverse Opinion on Accounting Principles Generally Accepted in the United States of America*

In our opinion, because of the significance of the matter described in the Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America section of our report, the statutory-basis financial statements do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2022 and 2021, or the results of its operations or its cash flows for the years then ended.

### Basis for Opinions

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

***Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America***

As described in Note 2 to the statutory-basis financial statements, the statutory-basis financial statements are prepared by the Company using the accounting practices prescribed or permitted by the DIFS, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the DIFS. The effects on the statutory-basis financial statements of the variances between the statutory-basis of accounting described in Note 2 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

**Emphasis of Matter**

As disclosed in Note 2 to the statutory-basis financial statements, certain expenses represent allocations made from the shareholder of the Company. The accompanying financial statements have been prepared from separate records maintained by the Company and may not necessarily be indicative of the conditions that would have existed or the results of operations if the Company had been operated as an unaffiliated company. Our opinion is not modified with respect to this matter.

**Responsibilities of Management for the Statutory-Basis Financial Statements**

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

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

**Auditor's Responsibilities for the Audit of the Statutory-Basis Financial Statements**

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

In performing an audit in accordance with GAAS, we:

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

- Identify and assess the risks of material misstatement of the statutory-basis 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 statutory-basis 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 statutory-basis 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.

**Report on Consolidating Information**

Our 2022 audit was conducted for the purpose of forming an opinion on the 2022 statutory-basis financial statements as a whole. The consolidating information on pages 44 and 45 is presented for the purpose of additional analysis of the statutory-basis financial statements rather than to present the financial position and results of operations of the individual companies, and is not a required part of the statutory-basis financial statements. This information is the responsibility of the Company's management and was derived from and relates directly to the underlying accounting and other records used to prepare the statutory-basis financial statements. Such information has been subjected to the auditing procedures applied in our audit of the 2022 statutory-basis financial statements and certain additional procedures, including comparing and reconciling such consolidating information directly to the underlying accounting and other records used to prepare the statutory-basis financial statements or to the statutory-basis financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, such information is fairly stated in all material respects in relation to the 2022 statutory-basis financial statements as a whole.

**Report on Supplemental Schedules**

Our 2022 audit was conducted for the purpose of forming an opinion on the 2022 statutory-basis financial statements as a whole. The consolidated supplemental schedule of investment risk interrogatories-statutory-basis, the consolidated supplemental summary investment schedule-statutory-basis, and the consolidated supplemental schedule of reinsurance interrogatories-statutory-basis as of and for the year ended December 31, 2022, are presented for purposes of additional analysis and are not a required part of the 2022 statutory-basis financial statements. These schedules are the responsibility of the Company's management and were derived from and relate directly to the underlying accounting and other records used to prepare the statutory-basis financial statements. Such schedules have been subjected to the auditing procedures applied in our audit of the 2022 statutory-basis financial statements and certain additional procedures, including comparing and reconciling such schedules directly to the underlying accounting and other records used to prepare the statutory-basis financial statements or to the statutory-basis financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, such schedules are fairly stated in all material respects in relation to the 2022 statutory-basis financial statements as a whole.

Deloitte & Touche LLP

March 22, 2023

# ACCIDENT FUND INSURANCE COMPANY OF AMERICA AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF ADMITTED ASSETS, LIABILITIES, AND CAPITAL AND SURPLUS—STATUTORY-BASIS
## AS OF DECEMBER 31, 2022 AND 2021
## (Dollars in thousands)

| | 2022 | 2021 |
|---|---|---|
| **ADMITTED ASSETS** | | |
| CASH AND INVESTED ASSETS: | | |
| Bonds | $2,759,645 | $2,935,324 |
| Common stocks and mutual funds | 205,850 | 281,300 |
| Property occupied by the Company | 101,148 | 103,715 |
| Cash and cash equivalents | 833,746 | 232,035 |
| Short-term investments | 55,245 | 67,557 |
| Other invested assets - affiliated | 596,677 | - |
| Other invested assets - unaffiliated | 240,677 | 226,431 |
| Receivable from sale of securities | 33,027 | 1,012 |
| Securities lending reinvested collateral assets | 2,595 | 57,937 |
| Total cash and invested assets | 4,828,610 | 3,905,311 |
| OTHER ADMITTED ASSETS: | | |
| Premiums in the course of collection | 267,750 | 340,182 |
| Premiums deferred and not yet due | 467,572 | 415,199 |
| Net deferred tax asset | 120,544 | 123,654 |
| Investment income due and accrued | 20,447 | 19,951 |
| Other assets | 82,984 | 95,691 |
| TOTAL | $5,787,907 | $4,899,988 |
| **LIABILITIES AND CAPITAL AND SURPLUS** | | |
| LIABILITIES: | | |
| Losses and loss adjustment expenses | $2,328,332 | $2,185,452 |
| Unearned premiums | 677,424 | 722,947 |
| Assessments, taxes, and fees payable | 34,400 | 33,841 |
| Payable for purchase of securities | 50,821 | 40,011 |
| Payable for securities lending | 2,595 | 57,937 |
| Notes payable and accrued interest | 9,501 | 11,512 |
| Reinsurance balances payable | 151,621 | 232,431 |
| Accrued commissions | 56,553 | 55,995 |
| Accrued pension and postretirement benefits | 23,994 | 33,350 |
| Other accrued expenses | 81,026 | 46,152 |
| Payable for AmeriTrust Group acquisition (Miracle Nova I) | 608,859 | - |
| Other liabilities | 63,865 | 112,017 |
| Total liabilities | 4,088,991 | 3,531,645 |
| COMMITMENTS AND CONTINGENCIES | | |
| CAPITAL AND SURPLUS: | | |
| Common capital stock | 3,000 | 3,000 |
| Contributed surplus | 134,000 | 134,000 |
| Surplus notes | 350,000 | - |
| Unassigned surplus | 1,211,916 | 1,231,343 |
| Total capital and surplus | 1,698,916 | 1,368,343 |
| TOTAL | $5,787,907 | $4,899,988 |

See notes to consolidated statutory-basis financial statements.

# ACCIDENT FUND INSURANCE COMPANY OF AMERICA AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS—STATUTORY-BASIS
## FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
## (Dollars in thousands)

| | 2022 | 2021 |
|---|---|---|
| NET PREMIUMS EARNED | $ 1,692,045 | $ 1,671,240 |
| UNDERWRITING DEDUCTIONS: | | |
| Losses | 907,668 | 913,151 |
| Loss adjustment expenses | 214,036 | 221,924 |
| Other underwriting expenses | 425,448 | 381,066 |
| Policyholder dividends | 20,964 | 18,600 |
| Total underwriting deductions | 1,568,116 | 1,534,741 |
| NET UNDERWRITING GAIN | 123,929 | 136,499 |
| INVESTMENT INCOME: | | |
| Net investment income | 89,696 | 82,039 |
| Net realized capital (loss) gain—net of tax (benefit) expense of $(6,219) and $23,371 in 2022 and 2021, respectively | (93,272) | 77,143 |
| Total investment (loss) income | (3,576) | 159,182 |
| OTHER EXPENSE—Net | (18,733) | (14,761) |
| INCOME BEFORE FEDERAL INCOME TAXES | 101,620 | 280,920 |
| FEDERAL INCOME TAXES | (43,115) | (38,379) |
| NET INCOME | $ 58,505 | $ 242,541 |

See notes to consolidated statutory-basis financial statements.

# ACCIDENT FUND INSURANCE COMPANY OF AMERICA AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CAPITAL AND SURPLUS—STATUTORY-BASIS
## FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
## (Dollars in thousands)

| | Common Capital Stock | Contributed Surplus | Surplus Notes | Unassigned Surplus | Total Capital and Surplus |
|---|---|---|---|---|---|
| BALANCE—January 1, 2020 | $3,000 | $134,000 | $ - | $1,076,173 | $1,213,173 |
| Net income | - | - | - | 242,541 | 242,541 |
| Change in net unrealized gains and losses on investments—net of tax | - | - | - | (15,150) | (15,150) |
| Change in net deferred income taxes | - | - | - | 31,051 | 31,051 |
| Change in nonadmitted assets | - | - | - | (22,672) | (22,672) |
| Change in the provision for reinsurance | - | - | - | (228) | (228) |
| Dividends to stockholder | - | - | - | (85,500) | (85,500) |
| Other changes to surplus | - | - | - | 5,128 | 5,128 |
| BALANCE—December 31, 2021 | 3,000 | 134,000 | - | 1,231,343 | 1,368,343 |
| Net income | - | - | - | 58,505 | 58,505 |
| Change in net unrealized gains and losses on investments—net of tax | - | - | - | (44,998) | (44,998) |
| Change in net deferred income taxes | - | - | - | (13,022) | (13,022) |
| Change in nonadmitted assets | - | - | - | 14,803 | 14,803 |
| Change in the provision for reinsurance | - | - | - | (2,193) | (2,913) |
| Dividends to stockholder | - | - | - | (58,000) | (58,000) |
| Issuance of surplus notes | - | - | 350,000 | - | 350,000 |
| Other changes to surplus | - | - | - | 25,478 | 25,478 |
| BALANCE—December 31, 2022 | $3,000 | $134,000 | $350,000 | $1,211,916 | $1,698,916 |

See notes to consolidated statutory-basis financial statements.

# ACCIDENT FUND INSURANCE COMPANY OF AMERICA AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS—STATUTORY-BASIS
## FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
## (Dollars in thousands)

| | 2022 | 2021 |
|---|---|---|
| CASH FROM OPERATIONS: | | |
| Cash received from premiums collected—net of reinsurance | $ 1,576,375 | $ 1,674,392 |
| Cash paid for: | | |
| Losses | (789,541) | (776,505) |
| Loss adjustment and underwriting expenses | (590,760) | (596,528) |
| Total cash paid | (1,380,301) | (1,373,033) |
| Other expense | (38,707) | (33,741) |
| Interest, dividends, and rental income received | 102,780 | 103,304 |
| Income taxes paid | (41,577) | (59,621) |
| Net cash from operations | 218,570 | 311,301 |
| CASH FROM INVESTMENTS: | | |
| Purchase of investments | (2,143,851) | (3,438,469) |
| Proceeds from sale and maturity of investments | 2,218,342 | 3,295,086 |
| Miscellaneous applications | (21,205) | 32,836 |
| Net cash from investments | 53,286 | (110,547) |
| CASH FROM FINANCING AND MISCELLANEOUS SOURCES: | | |
| Proceeds from issuance of surplus notes | 350,000 | - |
| Repayments of borrowed funds | (2,012) | (52,162) |
| Stockholder dividends | (58,000) | (85,500) |
| Other cash provided (applied) | 27,555 | (56,976) |
| Net cash from financing and miscellaneous sources | 317,543 | (194,638) |
| INCREASE IN CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS | 589,399 | 6,116 |
| CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS—Beginning of year | 299,592 | 293,476 |
| CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS—End of year | $ 888,991 | $ 299,592 |

See notes to consolidated statutory-basis financial statements.

## 1. ORGANIZATION

The consolidated statutory-basis financial statements as of and for the years ended December 31, 2022 and 2021 include the accounts of Accident Fund Insurance Company of America (Accident Fund) and its wholly owned insurance subsidiaries that participate in a intercompany pooling agreement: Accident Fund National Insurance Company (National), Accident Fund General Insurance Company (General), United Wisconsin Insurance Company (UWIC), CompWest Insurance Company (CompWest), and Third Coast Insurance Company (TCIC). Accident Fund is the lead insurer in the arrangement and retains 100% of the pool. Collectively, Accident Fund and its wholly owned insurance subsidiaries are referred to as the Company.

Effective December 31, 2022, the Company acquired Miracle Nova I (U.S.) LLC, including AmeriTrust Group, Inc. (AmeriTrust) and its wholly owned insurance subsidiaries; Star Insurance Company, Ameritrust Insurance Corporation, Williamsburg National Insurance Company, Century Surety Company, and ProCentury Insurance Company. The insurance subsidiaries of AmeriTrust do not participate in Accident Fund's intercompany pooling arrangement. Therefore, they are not consolidated in these statutory-basis financial statements, but rather included in other invested assets-affiliates.

Accident Fund is a Michigan-domiciled property and casualty insurance company and wholly owned subsidiary of Accident Fund Holdings, Inc. (AFHI), which in turn is a wholly owned subsidiary of Emergent Holdings, Inc., which is a wholly owned subsidiary of Blue Cross Blue Shield of Michigan Mutual Insurance Company (BCBSM).

Historically, the Company has focused on selling workers' compensation insurance and services to companies located primarily in several midwestern and southern states and in California. Through one or more of Accident Fund's subsidiaries, the Company is licensed to write property and casualty insurance in all 50 states and the District of Columbia.

During 2018, the Company began writing Commercial Auto insurance through TCIC as a surplus lines product in six states. As of December 31, 2022, TCIC is licensed in one state and is eligible to write surplus lines in 48 states and the District of Columbia.

## 2. SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation**—The Michigan Department of Insurance and Financial Services (DIFS) recognizes only statutory accounting practices prescribed or permitted by the State of Michigan for determining and reporting the financial condition and results of operations of an insurance company. DIFS has adopted the National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures Manual* (NAIC SAP) as the basis for its statutory accounting practices without exception.

The accompanying financial statements have been prepared in accordance with accounting practices prescribed or permitted by DIFS. The Company has received permission from the Wisconsin Office of the Commissioner of Insurance, the California Department of Insurance, and DIFS to file consolidated financial statements. The Company has not received permission to use any practices that deviate from prescribed practices.

NAIC SAP is designed primarily to demonstrate a company's ability to meet claims of policyholders. These practices differ in certain respects from accounting principles generally accepted in the United States of America (GAAP) applied in the presentation of financial position, results of operations, and cash flows, and in some cases, those differences may be material.

**The more significant of these differences are as follows:**

***Investments***—High-quality bonds (NAIC designation 1 and 2) are recorded at amortized cost and other bonds (NAIC designation 3 to 6) are recorded at the lower of amortized cost or fair value. For NAIC SAP, investments in preferred and common stock are reported at fair or book value, depending on the NAIC designation. Changes in unrealized appreciation and depreciation in the value of preferred stocks and common stocks are reflected as direct increases or decreases in surplus. Securities Valuation Office (SVO) classified exchange traded funds (ETFs) as bonds for NAIC SAP. Accordingly, ETFs are recorded at fair value, with changes in fair value recorded directly to surplus. For GAAP, such securities are classified as equity securities and are carried at fair value, with changes in fair value reported in income.

For GAAP, bonds are classified as either trading or available-for-sale in accordance with the Company's intent and, accordingly, such securities are carried at fair value. Under GAAP, changes in unrealized gains and losses on available-for-sale debt securities are recorded directly to equity through other comprehensive income and for equity securities and trading debt securities, unrealized gains and losses are reported in income.

***Real Estate***—Real estate owned and occupied by the Company is included in investments. Under GAAP, it is reported as property, software and equipment. Statutory-basis investment income and operating expenses include implied rent for the Company's occupancy of those properties.

***Policy Acquisition Costs***—The Company expenses policy acquisition costs, such as commissions, premium taxes, and other costs related to acquiring new business, as they are incurred; under GAAP, the Company defers and amortizes policy acquisition costs as premiums are earned.

***Deferred Income Taxes***—NAIC SAP requires an amount to be recorded for deferred taxes on temporary differences between the tax basis and the financial reporting basis of assets and liabilities; however, there are limitations as to the amount of deferred tax assets (DTA) that may be reported as admitted assets. NAIC SAP allows companies upon meeting risk-based capital requirements to recognize gross DTA in excess of gross deferred tax liabilities (DTL) expected to be realized within three years of the balance sheet date, not to exceed 15% of the Company's adjusted surplus and capital. This is not a requirement for GAAP.

For statutory purposes, the Company records changes in DTAs and DTLs directly to surplus whereas for GAAP the changes are generally reported through income.

***Reinsurance***—The Company is required to establish a liability (provision for reinsurance) for unsecured unearned premiums and unpaid losses ceded to reinsurers unauthorized to assume such business and for certain overdue reinsurance balances. Changes to those amounts are credited or charged directly to unassigned surplus. GAAP does not require this liability to be established.

Reinsurance receivables for items past due more than 90 days are designated as nonadmitted assets. Under GAAP, an allowance for uncollectible reinsurance balances is established as appropriate and recorded through a charge to earnings.

In the consolidated statutory-basis statements of admitted assets, liabilities, and capital and surplus, unpaid losses recoverable from reinsurers and prepaid reinsurance premiums are netted against the related liabilities; under GAAP, such items appear as assets in the consolidated balance sheets.

***Policyholder Dividends***—Under NAIC SAP, the Company records policyholder dividends as an expense when declared by the board of directors, which is generally after the related premiums have been earned. Under GAAP, the Company records policyholder dividends as an expense as the related premiums are earned.

***Goodwill***—For NAIC SAP, goodwill is calculated as the difference between the cost of acquiring an entity and the reporting entity's share of the historical book value of the acquired entity and results in either positive or negative goodwill. Pushdown accounting is not permitted. Under GAAP, goodwill is calculated as the difference between the cost of acquiring an entity and the fair value of the assets received and liabilities assumed and is pushed down to the acquired entity. Under NAIC SAP, the amount of goodwill recorded as an admitted asset is subject to limitations and amortized over a period not to exceed 10 years. Under GAAP, the Company has elected the Private Company Council election for the amortization of positive goodwill on a straight-line basis over a 10-year period and goodwill is evaluated for impairment if a triggering event occurs. Under GAAP, negative goodwill is recognized as an immediate gain in the statement of operations.

***Nonadmitted Assets***—Assets not specifically identified as an admitted asset within the NAIC SAP and the Company's state of domicile are designated as "nonadmitted." Nonadmitted assets are excluded from the accompanying balance sheets and are charged directly to unassigned surplus. Under GAAP, such assets are included in the consolidated balance sheets, subject to review for impairment.

***Premiums Receivable***—Certain premiums receivable for items past due more than 90 days are designated as nonadmitted assets. Under GAAP, an allowance for doubtful accounts is established.

***Investment in Variable Interest Entities***—The Company entered into agreements with three variable interest entities (VIEs)—Phoenix Development Partners I (PDPI), Phoenix Development Partners II (PDPII), and Phoenix Master Tenant (PMT)—for the construction and lease of the corporate headquarters building and parking structure in Lansing, Michigan. Under GAAP, these VIEs are consolidated in the financial statements. Under NAIC SAP, these VIEs are not consolidated in the financial statements.

***Insurance-Related Assessments***—The Company establishes liabilities for insurance-related assessments when it is probable that one or more future events, including future-premium writings, will occur that will result in an assessment. In some states, the Company may be entitled to partial recoveries through future-premium tax credits. The Company recognizes such credits as recoverable when the related assessments are recorded. Under GAAP, expenses are recorded for insurance-related premium-based assessments only as related premiums are earned.

***Surplus Notes***—Surplus notes are reported as surplus for NAIC SAP while under GAAP, they are reported as long-term debt, net of issuance costs. Under NAIC SAP, the costs of issuing surplus notes are charged to net investment income when incurred.

***Consolidated Statutory-Basis Statements of Cash Flows***—Cash, cash equivalents, and short-term investments in the consolidated statutory-basis statements of cash flows represent cash balances and investments with initial maturities of one year or less. Under GAAP, the corresponding caption of cash and cash equivalents includes cash balances and cash equivalents with maturities of three months or less from its acquisition.

The consolidated statutory-basis statements of cash flows are presented using the direct method whereas the GAAP statements utilize the indirect method. The consolidated statutory-basis statements of cash flows are prepared in accordance with NAIC guidelines.

***Consolidated Statutory-Basis Statements of Operations***—Comprehensive income and its components are not presented in the consolidated statutory-basis financial statements.

Under NAIC SAP, majority-owned insurance and noninsurance subsidiaries are included as common stock carried under the equity method, with the equity in the operating results of subsidiaries credited or charged directly to the Companies' surplus. Dividends received from subsidiaries are recorded in net investment income. Under GAAP, such subsidiaries would be consolidated and dividends from such subsidiaries would be eliminated in consolidation.

The NAIC SAP to GAAP differences noted above are presumed to be material.

**Significant Accounting Policies**

***Estimates***—The preparation of financial statements in accordance with NAIC SAP requires the Company to make estimates and assumptions that affect the reported amounts of admitted assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. The significant estimates include amounts recorded relating to liabilities for loss and loss adjustment expenses, and pension and postretirement benefits.

***Premiums and Unearned Premiums***—The Company recognizes premiums as earned over the policy terms using the daily pro rata method. Unearned premiums represent the portion of written premiums that relate to the unexpired term of the policies in force—net of prepaid ceded premiums.

***Premium Deficiency***—The Company anticipates investment income in determining whether an unearned premium deficiency reserve is necessary. As of December 31, 2022, and 2021, no such reserve was necessary.

***Cash and Invested Assets***

*Cash Equivalents and Short-Term Investments*—Cash equivalents and short-term investments include commercial paper, certificates of deposits, money market mutual funds and other readily marketable investments with initial maturities less than one year for short-term investments and three months or less for cash equivalents. In general, cash equivalents are highly liquid investments that are both (a) readily convertible to known amounts of cash and (b) so near their maturity that they present an insignificant risk of changes in value because of changes in interest rates. In general, cash equivalents and short-term investments are recorded at amortized cost, which approximates fair value. Money market mutual funds are recorded at fair value or net asset value (NAV) per share.

*Common Stocks*—Common stocks are valued at fair value. Changes in unrealized appreciation and depreciation in the value of common stocks are reflected as direct increases or decreases in surplus.

*Preferred Stocks*—Redeemable preferred stocks are stated at book value for NAIC designation 1 and 2 and lower of book value or fair value for NAIC designation 3 through 6. Changes in unrealized appreciation and depreciation in the value of preferred stocks are reflected as direct increases or decreases in surplus.

*Bonds*—Bonds classified as US government, all other governments, special revenue and assessment, municipals, industrial and miscellaneous, or hybrid loans that have a NAIC designation of 1 or 2 are stated at amortized cost using the scientific effective interest method. Bonds with a NAIC designation of 3 to 6 are carried at the lower of amortized cost or fair value. Premiums and discounts on loan-backed bonds and structured securities are amortized using the retrospective method based on anticipated prepayments at the date of purchase. Prepayment assumptions are obtained from broker-dealer survey values or internal estimates. Changes in estimated cash flows from the original purchase assumptions are accounted for using the prospective method. Should the present value of anticipated cash flows collected be less than the amortized cost basis, a determination will be made on whether the decline in value is other-than-temporary. If the Company has the ability and intent to hold the security to maturity, but does not expect recovery of the carrying value, the credit portion of the decline is recognized as an impairment loss.

*Financial Futures and Forward Contracts*—Financial futures and forward contracts are commitments to purchase or sell designated financial instruments at a future date for a specified price or yield. They may be settled in cash or through delivery. Most of the securities the Company purchases settle within normal time requirements and, therefore, are not considered futures or forward contracts. The Company does periodically purchase “to-be-announced” securities that settle more than 30 days from the trade date. The Company considers such securities to be forwards and account for them as such. As of December 31, 2022 and 2021, there were no commitments to purchase any security that was expected to settle outside normal time requirements.

*Investments in Partnerships and Limited Liability Companies*—The Company has ownership interests in partnerships and limited liability companies. The Company carries these investments based on the underlying GAAP equity. Such investments are included in other invested assets on the statutory-basis statements of admitted assets, liabilities, and surplus.

***Investment Income***—Investment income consists primarily of interest and dividends. The Company recognizes interest on an accrual basis and records dividends as earned at the ex-dividend date. Interest income on mortgage-backed and asset-backed securities is determined on the effective yield method based on estimated principal repayments. The Company suspends accrual of income for bonds and mortgage loans that are in default or when the receipt of interest payments is in doubt.

Investment income due and accrued with amounts over 90 days past due is nonadmitted.

Realized gains and losses on disposition of investments are based on specific identification of the investments sold.

In the normal course of business, the Company enters into securities lending agreements with various counterparties. Under these agreements, the Company lends US debt securities in exchange for cash collateral. The cash collateral received is reinvested in money market securities approximating 102% of the value of the securities loaned. These agreements are primarily overnight in nature and settle the next business day. The cash collateral received is reinvested by the Company’s unaffiliated agents, and as a result, the Company recognizes the cash collateral received and the corresponding liability to return the cash collateral in the consolidated statutory-basis statements of admitted assets, liabilities, and capital and surplus. The fees the Company earns are included in net investment income.

**Fair Value Measurements**—The fair value of the Company's securities and the pension and postretirement trust investments are based on quoted market prices, where available. These fair values are obtained primarily from third-party pricing services, which generally use Level 1 or Level 2 inputs for the determination of fair value.

The Company obtains only one quoted price for each security from third-party pricing services, which are derived through recently reported trades for identical or similar securities making adjustments through the reporting date based upon available market observable information. For securities not actively traded, the third-party pricing services may use quoted market prices of comparable instruments or discounted cash flow analyses, incorporating inputs that are currently observable in the markets for similar securities. Inputs that are often used in the valuation methodologies include, but are not limited to, broker quotes, benchmark yields, credit spreads, default rates, and prepayment speeds. As the Company is responsible for the determination of fair value, management performs periodic analyses on the prices received from third parties to determine whether the prices are reasonable estimates of fair value. The analysis includes a review of month-to-month price fluctuations. If unusual fluctuations are noted, management may obtain additional information from other pricing services to validate the quoted price.

In certain circumstances, it may not be possible to derive pricing model inputs from observable market activity, and therefore, such inputs are estimated internally. Such securities are designated Level 3 in accordance with NAIC SAP guidance.

Transfers between levels may occur due to changes in the availability of market observable inputs. Transfers in and/or out of any level are assumed to occur at the end of the period.

The aforementioned techniques were used to estimate the fair value and determine the classification of assets and liabilities pursuant to the valuation hierarchy. The fair value classification of investments includes the Company's investments and pension and postretirement trust assets:

***Cash Equivalents and Short-Term Investments***—Consists of money market and short-term securities with an original maturity of one year or less. Short-term investments include commercial paper, certificates of deposits, and other readily marketable investments with initial maturities greater than three months, but less than one year. Securities where the valuation is based upon unadjusted quoted prices are classified as Level 1.

***US Government***—Consists of certain US government securities. Valuation is based on observable inputs such as the US Treasury yield curve and/or similar assets in markets that are active and are classified as Level 2.

***All Other Government Securities***—Consist of government securities and bonds issued by foreign government-backed agencies. Valuation is based on prices by a pricing service using a composite yield curve. These securities are classified as Level 2.

***Special Revenue and Assessment Obligations***—Consist of bonds and debt backed by non-corporate entities. These securities are classified as Level 1. For some bonds and debt backed securities in this category, valuations are based on inputs derived directly from observable market data, such as discounted cash flows. These securities are not consistently or actively traded and are classified as Level 2. Certain debt securities backed by noncorporate entities are included in the Level 3 category, as they are typically illiquid and are valued using unobservable inputs.

***Municipals***—Consist of long-term notes and bonds issued by state and local governments. Valuation is based on inputs derived directly from observable market data and are classified as Level 2.

***Industrial and Miscellaneous***—Consist of corporate notes and bonds. Valuation is determined using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the security is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustment for certain risks that may not be observable such as credit and liquidity risk or a broker quote, if available. These securities are classified as Level 2.

***Foreign Debt Securities***—Consists of foreign notes and bonds issued by corporate entities. Valuation is based on inputs derived directly from observable market data and are classified as Level 2.

***State and Local Debt Securities***—Consists of long-term notes and bonds issued by state and local governments. Valuation is based on inputs derived directly from observable market data and are classified as Level 2.

***Corporate Debt Securities, Mortgage-Backed Securities, and Other Asset Backed Securities***—Consists of corporate notes and bonds, debt issued by non-corporate entities, commercial paper and discount notes that mature after three months. Valuation is based on inputs derived directly from observable inputs but are not consistently traded. These securities are classified as Level 2. Certain other corporate debt and asset-backed securities which do not have observable inputs are classified as Level 3.

***SVO Identified Exchange Traded Funds***—Consist of ETFs that invest in corporate bonds. The Securities Valuation Office maintains the list of ETFs that are eligible for classification as bonds. These securities are classified as Level 1.

***Common Stocks***—Consist of actively traded, exchange-listed equity securities and private entity investments. The valuation for exchange-traded securities is based on unadjusted quoted prices for these securities or funds in an active market and are classified as Level 1. The Company holds one private common stock that was priced using the SVO unit price on December 31, 2022 and 2021. The private common stock has been classified as Level 3.

***Mutual Funds***—Consist of publicly traded and private mutual funds and are based on an observable price in an active market. There are no restrictions on the Company with regard to redemption of these funds and are classified as Level 1.

***Commingled Equity Funds—Pension and Postretirement Trust Investments***—Consists of funds of international equity securities valued at NAV and are not required to be classified in the fair value hierarchy. Redemption of these funds requires 30 days' notice. There are no unfunded commitments related to these funds.

***Limited Liability Companies—Pension and Postretirement Trust Investments***—Consists of private equity funds structured as limited liability companies. Valuations are recorded at NAV and are provided by the fund managers. For interests held in limited liability companies providing large cap US equity exposure, valuations are recorded at NAV based on the underlying investments held by the limited liability companies. These securities are not required to be classified in the fair value hierarchy. Redemption of these funds requires 30 days' notice. There are no unfunded commitments related to these funds.

***Limited Partnerships—Pension and Postretirement Trust Investments***—Consists of private equity funds and hedge funds structured as limited partnerships. Valuation is recorded at NAV based on information provided by the fund managers along with audited financial information. These securities are not required to be classified in the fair value hierarchy. Redemptions of these investments can be made with 60–75 days' notice or, in the case of one limited partnership investment, 25% per quarter with 45 days' notice. There are no unfunded commitments related to these funds.

***Securities Lending Collateral***—The Company participates in a securities-lending program with its custodian banks. Under the terms of the securities-lending agreement, the Company lends US debt securities and various other security types in exchange for cash collateral. These agreements are primarily overnight and settle the next business day. The securities lending collateral is classified as Level 1.

**Disclosures about Fair Value of Financial Instruments**—The Company has estimated fair values based on values obtained from independent pricing services. For mortgage-backed securities, estimated fair value is based on inputs derived directly from observable market data, such as discounted cash flows and are not consistently or actively traded. Some of these estimates are subjective in nature and involve uncertainties and matters of considerable judgment. The use of different assumptions, judgments, and estimation methodologies may have a material effect on the estimated fair values.

**Liability for Losses and Loss Adjustment Expenses**—Losses represent the amounts the Company expects to pay for reported and unreported claims, reduced for estimated recoveries from third parties. The costs of investigating, resolving, and processing these claims are known as loss adjustment expenses.

The liability for losses and loss adjustment expenses is an estimate that reflects the total cost of claims reported but not yet paid and the cost of claims incurred but not reported (IBNR). These liabilities are based on actuarial and other assumptions. Because losses depend upon factors, such as duration of worker disability, medical cost trends, occupational disease, inflation, and life expectancy, the process the Company uses to establish the liability for losses and loss adjustment expenses is necessarily based on judgments.

The Company discounts the indemnity portion of liabilities for unpaid losses on a tabular basis. The tabular discounting on these workers' compensation claims is based on the Centers for Disease Control National Center for Health Statistics Table, using a 3.5% rate. The reserves on these claims, net of reinsurance and tabular discounts of $61,991 and $61,475, at December 31, 2022 and 2021, were $826,464 and $953,943, respectively.

The Company continually reviews its reserves using a variety of statistical and actuarial techniques to analyze current claims costs, frequency and severity data, and economic and legal factors. As loss experience develops and new information becomes available, the Company adjusts the liability established in prior years. Adjustments resulting from revisions of the estimates of the liability for losses and loss adjustment expenses are reflected in the Company's consolidated statutory-basis results of operations in the period in which they are determined.

The Company believes the liability for losses and loss adjustment expenses (LAE) as of December 31, 2022, is adequate to meet the Company's current obligations. However, actual claim experience may differ significantly from the established reserves.

**Real Estate**—Real property occupied by the Company is stated at cost, less accumulated depreciation, at $101,148 and $103,715 as of December 31, 2022 and 2021, respectively. Depreciation is calculated using the straight-line method over the estimated useful life of 40 years. Depreciation expense was

$2,567 and $2,611 for the years ended December 31, 2022 and 2021, respectively. Statutory-basis investment income and operating expenses include rent of $5,903 and $5,976 for the Company's occupancy of this property for the years ended December 31, 2022 and 2021, respectively.

**Properties and Equipment**—Properties and equipment include electronic data processing equipment, electronic data processing software, and furniture and equipment. The Company carries these assets at historical cost, less accumulated depreciation. All electronic data processing software is nonoperating system software and, therefore, is a nonadmitted asset.

The Company depreciates capitalized items on a straight-line basis over their expected useful lives, which are as follows: electronic data processing equipment—three years, software—three to five years, and furniture and equipment—three to five years. The Company charges items falling below the capitalization thresholds and expenditures for repairs and maintenance to operations as incurred.

The Company also capitalizes and depreciates additions and improvements to buildings and other fixed assets over the remaining useful life of the properties and equipment. Upon disposition, the Company removes the asset cost and related depreciation and includes the resulting gain or loss in income.

Accumulated depreciation as of December 31, 2022 and 2021, and depreciation expense for the years ended December 31, 2022 and 2021, are as follows by asset group:

| | **2022** | **2021** |
|---|---|---|
| Software: | | |
| Accumulated depreciation | $ 50,083 | $ 28,327 |
| Depreciation expense | 22,162 | 16,215 |
| Furniture and equipment: | | |
| Accumulated depreciation | 29,868 | 29,851 |
| Depreciation expense | 2,166 | 3,195 |

**Expense Allocations**—Certain expenses are allocated between related entities based on time studies conducted when budgets and forecasts are prepared. The time studies are updated no less than three times per year. These allocated expenses are reported in other underwriting expenses in the consolidated statutory-basis statements of operations.

**Principles of Consolidation**—The Company has eliminated all intercompany balances and transactions.

**Adopted Accounting Pronouncement**—None

**Forthcoming Accounting Pronouncement**—None

## 3. BUSINESS COMBINATIONS AND GOODWILL

Effective December 31, 2022, the Company acquired 100% of the membership interests of Miracle Nova I (U.S.) LLC. including AmeriTrust, a Michigan based holding company, for $608,859. The acquisition closed on January 3, 2023, and was payable as of December 31, 2022. AmeriTrust through its affiliated insurance company subsidiaries is a specialty niche focused commercial insurance underwriter and insurance administration services company. The acquisition of AmeriTrust by the Company enhances the Company's distribution channels and diversifies its product offerings. The Company accounted for this transaction using the statutory purchase method which resulted in $8,087 of negative goodwill and a carrying value of $596,677 at December 31, 2022. The negative goodwill is included in the carrying value of the investment which is reported in other invested assets-affiliated on the statutory-basis statements of admitted assets, liabilities, and surplus.

## 4. DEBT

As a member of the Federal Home Loan Bank of Indianapolis (FHLBI), the Company has long-term and line-of-credit borrowing privileges and is required to own FHLBI common stock equal to 5% of all outstanding loans. As of December 31, 2022 and 2021, the Company owns FHLBI common stock with a carrying value of $5,855.

The outstanding borrowings with the FHLBI as of December 31, 2022 and 2021, are as follows:

| Year Originated | Term | Interest Rate | Description | 2022 | 2021 |
|---|---|---|---|---|---|
| 2008 | 20 years | 4.81 % | FHLBI—Loan no. 1 | $ 4,739 | $ 5,742 |
| 2008 | 20 years | 5.53 | FHLBI—Loan no. 2 | 4,739 | 5,742 |
| Total outstanding loans | | | | 9,478 | 11,484 |
| Accrued interest | | | | 23 | 28 |
| Total FHLBI balance | | | | $ 9,501 | $ 11,512 |

Total interest expense for the years ended December 31, 2022 and 2021, was $547 and $714, respectively.

All borrowings and letters of credit with FHLBI are fully collateralized with government-backed securities at 105% of the loan amount. As of December 31, 2022 and 2021, the FHLBI loans and letters of credit were collateralized by bonds held in a segregated trust account. The fair value of the bonds held as collateral as of December 31, 2022 and 2021 is $340,392 and $71,509, respectively. The carrying value of the bonds held as collateral as of December 31, 2022 and 2021, is $404,757 and $69,409, respectively.

The weighted-average borrowing rates were 5.17% as of December 31, 2022 and 2021.

Future minimum payments required on outstanding debt as of December 31, 2022, are as follows:

| Years Ending December 31 | |
|---|---|
| 2023 | $ 2,320 |
| 2024 | 2,111 |
| 2025 | 1,914 |
| 2026 | 1,728 |
| 2027 | 1,555 |
| Thereafter | 1,170 |
| Total minimum payments | 10,798 |
| Less amount representing interest | (1,320) |
| Total debt | $ 9,478 |

## 5. INVESTMENTS

Investments in securities as of December 31, 2022, consist of the following:

| | 2022 | | | |
|---|---|---|---|---|
| | Book/Adjusted Carrying Value | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Bonds: | | | | |
| U.S. government | $ 1,050,470 | $ 676 | $ (98,011) | $ 953,135 |
| All other governments | 3,478 | - | (656) | 2,822 |
| Special revenue and assessment | 720,632 | 197 | (76,049) | 644,780 |
| Municipals | 30,633 | - | (5,240) | 25,393 |
| Industrial and miscellaneous | 950,829 | 11,015 | (58,559) | 903,285 |
| Exchange traded funds | 3,603 | - | - | 3,603 |
| Total bonds | 2,759,645 | 11,888 | (238,515) | 2,533,018 |
| Common stocks | 193,376 | 17,366 | (13,112) | 197,630 |
| Mutual funds | 8,994 | 130 | (904) | 8,220 |
| Total | $ 2,962,015 | $ 29,384 | $ (252,531) | $ 2,738,868 |

Investments in securities as of December 31, 2021, consist of the following:

| | 2021 | | | |
|---|---|---|---|---|
| | Book/Adjusted Carrying Value | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Bonds: | | | | |
| U.S. government | $ 962,238 | $ 47,114 | $ (2,667) | $ 1,006,685 |
| All other governments | 3,302 | 102 | (28) | 3,376 |
| Special revenue and assessment | 720,936 | 13,709 | (3,649) | 730,996 |
| Municipals | 34,616 | 1,152 | - | 35,768 |
| Industrial and miscellaneous | 1,213,157 | 35,905 | (4,359) | 1,244,703 |
| Exchange traded funds | 1,075 | - | - | 1,075 |
| Total bonds | 2,935,324 | 97,982 | (10,703) | 3,022,603 |
| Common stocks | 211,785 | 59,342 | (509) | 270,618 |
| Mutual funds | 9,620 | 1,097 | (35) | 10,682 |
| Total | $ 3,156,729 | $ 158,421 | $ (11,247) | $ 3,303,903 |

The amortized cost and fair value of bonds, notes, and other debt securities, excluding exchange traded funds, held as of December 31, 2022, by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

| | Book/Adjusted Carrying Value | Fair Value |
|---|---|---|
| Due in one year or less | $ 127,600 | $ 126,041 |
| Due after one year through five years | 787,570 | 762,147 |
| Due after five years through 10 years | 655,801 | 623,050 |
| Due after 10 years through 20 years | 282,522 | 244,483 |
| Due after 20 years | 902,549 | 773,694 |
| Total | $ 2,756,042 | $ 2,529,415 |

**Fair Value Disclosures**—The tables below reflect the fair values and admitted values of all admitted assets that are financial instruments, excluding those accounted for under the equity method (subsidiaries and joint ventures). The fair values are categorized into the three-level fair value hierarchy as described above.

Assets and liabilities are transferred into Level 3 when a significant input can no longer be corroborated with market observable data. This typically occurs when market activity related to particular securities becomes unobservable. Transfers into Level 3 are reflected as if they had occurred at the end of the period.

There were no transfers into or out of Level 3 during 2022 and 2021. For Level 2 securities whose value is determined using NAV, the information is obtained from the issuer of the security. As of December 31, 2022, values are summarized as follows:

| | | | Fair Value Measurements Using | | |
|---|---|---|---|---|---|
| | Fair Value | Admitted Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Bonds: | | | | | |
| U.S. government | $ 953,135 | $1,050,470 | $ - | $ 953,135 | $ - |
| All other governments | 2,822 | 3,478 | - | 2,822 | - |
| Special revenue and assessment | 644,780 | 720,632 | - | 644,780 | - |
| Municipals | 25,393 | 30,633 | - | 25,393 | - |
| Industrial and miscellaneous | 903,285 | 950,829 | - | 903,285 | - |
| Exchange traded funds | 3,603 | 3,603 | 3,603 | - | - |
| Total bonds | 2,533,018 | 2,759,645 | 3,603 | 2,529,415 | - |
| Common stocks: | | | | | |
| Common stocks | 197,630 | 197,630 | 188,449 | - | 9,181 |
| Mutual funds | 8,220 | 8,220 | 8,220 | - | - |
| Total common stocks | 205,850 | 205,850 | 196,669 | - | 9,181 |
| Security-lending collateral—equity fund | 2,595 | 2,595 | 2,595 | - | - |
| Total | $2,741,463 | $2,968,090 | $202,867 | $2,529,415 | $9,181 |

As of December 31, 2021, values are summarized as follows:

| | Fair Value | Admitted Value | Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|---|
| Bonds: | | | | | |
| U.S. government | $ 1,006,685 | $ 962,238 | $ - | $ 1,006,685 | $ - |
| All other governments | 3,376 | 3,302 | - | 3,376 | - |
| Special revenue and assessment | 730,996 | 720,936 | - | 730,996 | - |
| Municipals | 35,768 | 34,616 | - | 35,768 | - |
| Industrial and miscellaneous | 1,244,703 | 1,213,157 | - | 1,244,703 | - |
| Exchange traded funds | 1,075 | 1,075 | 1,075 | - | - |
| Total bonds | 3,022,603 | 2,935,324 | 1,075 | 3,021,528 | - |
| Common stocks: | | | | | |
| Common stocks | 270,618 | 270,618 | 260,041 | - | 10,577 |
| Mutual funds | 10,682 | 10,682 | 10,682 | - | |
| Total common stocks | 281,300 | 281,300 | 270,723 | - | 10,577 |
| Security-lending collateral—equity fund | 57,937 | 57,937 | 57,937 | - | - |
| Total | $ 3,361,840 | $ 3,274,561 | $ 329,735 | $ 3,021,528 | $ 10,577 |

The following table presents the Company’s assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of December 31, 2022:

| Description | Beginning Balance at January 1, 2022 | Transfers into Level 3 | Transfers out of Level 3 | Total Gains and Losses Included in Net Income | Total Gains and Losses Included in in Surplus | Purchases | Issuances | Sales | Settlements | Ending Balance at December 31, 2022 |
|---|---|---|---|---|---|---|---|---|---|---|
| Assets—common stock | $10,577 | $ - | $ - | $ - | $(1,396) | $ - | $ - | $ - | $ - | $9,181 |

The following table presents the Company’s assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of December 31, 2021:

| Description | Beginning Balance at January 1, 2021 | Transfers into Level 3 | Transfers out of Level 3 | Total Gains and Losses Included in Net Income | Total Gains and Losses Included in in Surplus | Purchases | Issuances | Sales | Settlements | Ending Balance at December 31, 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| Assets—common stock | $10,489 | $ - | $ - | $ - | $88 | $ - | $ - | $ - | $ - | $10,577 |

The Company held no securities at December 31, 2022 and 2021, where it was not practicable to determine the fair value of the investment.

The aggregate fair values of investments, by asset category, in an unrealized loss position as of December 31, 2022 and 2021, are as follows:

| | 2022 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 Months | | 12 Months or Greater | | Total | |
| | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value |
| U.S. government | $ 62,375 | $ 709,005 | $ 35,636 | $159,688 | $ 98,011 | $ 868,693 |
| All other governments | 124 | 1,047 | 532 | 1,775 | 656 | 2,822 |
| Special revenue and assessment | 25,327 | 304,444 | 50,722 | 245,588 | 76,049 | 550,032 |
| Municipals | 3,284 | 16,821 | 1,956 | 8,573 | 5,240 | 25,394 |
| Industrial and miscellaneous | 20,115 | 254,661 | 38,444 | 206,319 | 58,559 | 460,980 |
| Total bonds | 111,225 | 1,285,978 | 127,290 | 621,943 | 238,515 | 1,907,921 |
| Common stocks | 12,193 | 110,755 | 919.00 | 3,562 | 13,112 | 114,317 |
| Mutual funds | 904 | 5,651 | - | - | 904 | 5,651 |
| Total | $124,322 | $1,402,384 | $128,209 | $625,505 | $252,531 | $2,027,889 |

| | 2021 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 Months | | 12 Months or Greater | | Total | |
| | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value |
| U.S. government | $1,842 | $133,764 | $ 825 | $18,696 | $ 2,667 | $152,460 |
| All other governments | 4 | 493 | 24 | 1,040 | 28 | 1,533 |
| Special revenue and assessment | 3,337 | 292,141 | 312 | 9,284 | 3,649 | 301,425 |
| Industrial and miscellaneous | 4,113 | 424,925 | 246 | 9,214 | 4,359 | 434,139 |
| Total bonds | 9,296 | 851,323 | 1,407 | 38,234 | 10,703 | 889,557 |
| Common stocks | 509 | 20,036 | - | - | 509 | 20,036 |
| Mutual funds | 35 | 2,177 | - | - | 35 | 2,177 |
| Total | $9,840 | $873,536 | $1,407 | $38,234 | $11,247 | $911,770 |

The Company received proceeds of $1,822,426 and $2,720,224 from the sale of bonds and $254,185 and $345,608 from the sale of other investments, as of December 31, 2022 and 2021 respectively. Realized gains and losses on such sales are as follows:

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | Gains | Losses | Net | Gains | Losses | Net |
| Bonds | $ 7,077 | $ (59,363) | $ (52,286) | $ 37,478 | $ (19,721) | $ 17,757 |
| Other investments | 31,947 | (9,279) | 22,668 | 94,072 | (541) | 93,531 |
| Total | $ 39,024 | $ (68,642) | $ (29,618) | $ 131,550 | $ (20,262) | $ 111,288 |

The Company's investment in Miracle Nova I (US), which is a wholly owned limited liability company, is over 10% of admitted assets. No other investments in joint ventures, partnerships, or limited liability companies exceed 10% of admitted assets.

The components of net investment income for the years ended December 31, 2022 and 2021, are as follows:

| | 2022 | 2021 |
|---|---|---|
| Bonds | $ 83,220 | $ 71,737 |
| Short-term investments | 2,124 | 1,323 |
| Cash equivalents | 6,578 | (484) |
| Stocks | 4,406 | 6,174 |
| Real estate and other | 7,410 | 12,301 |
| Gross investment income | 103,738 | 91,051 |
| Investment expenses | (9,995) | (8,298) |
| Interest expense | (4,047) | (714) |
| Net investment income | $ 89,696 | $ 82,039 |

The determination of when a decline in value of a marketable security is an other-than-temporary impairment (OTTI) requires significant judgment. The Company has a consistent process for recognizing impairments of securities that have sustained other-than-temporary declines in value. The decision to impair includes both quantitative and qualitative information. For securities that are deemed to be impaired, the security is adjusted to fair value and the resulting losses are recognized in realized losses in the consolidated statements of operations. Subsequent to the impairment, future recoveries in value of the impaired securities are not recognized until cash is received.

The write-down to fair value of debt securities resulted in $62,220 and $7,780 in 2022 and 2021, respectively, of OTTI losses. For the years ended December 31, 2022 and 2021, OTTI losses of $7,654 and $2,994, respectively, were recorded for equity securities.

There were no loan-backed or structured securities as defined by SSAP No. 43R.

US government securities with carrying values of $533,521 and $396,553 as of December 31, 2022 and 2021, respectively, were on deposit with regulatory authorities.

The carrying value of securities and collateral involved in securities lending arrangements as of December 31, 2022 and 2021, is as follows:

| | 2022 | 2021 |
|---|---|---|
| Securities | $ 2,557 | $ 56,303 |
| Cash collateral balance | 2,595 | 57,937 |

## 6. LOSSES AND LOSS ADJUSTMENT EXPENSES

Activity in the liability for losses and LAE for the years ended December 31, 2022 and 2021, is summarized as follows:

| | 2022 | 2021 |
|---|---|---|
| Balance—January 1 | $ 2,185,452 | $ 2,032,385 |
| Incurred related to: | | |
| Current year | 1,148,980 | 1,155,029 |
| Prior years | (27,276) | (19,954) |
| Total | 1,121,704 | 1,135,075 |
| Paid related to: | | |
| Current year | 301,362 | 336,927 |
| Prior years | 677,462 | 645,081 |
| Total | 978,824 | 982,008 |
| Balance—December 31 | $ 2,328,332 | $ 2,185,452 |

The liability for losses and LAE is reduced for estimated subrogation recoveries of approximately $35,022 and $31,324 as of December 31, 2022 and 2021, respectively.

The provision for prior years' losses and LAE, net of reinsurance recoveries, decreased by $27,276 and $19,954 in 2022 and 2021, respectively. These decreases were due to a combination of lower than anticipated claims inflation and fewer large losses developing than expected.

## 7. DIRECT PREMIUM WRITTEN/PRODUCED BY MANAGING GENERAL AGENTS

The Company uses managing general agents (MGA) to underwrite or administer various property casualty policies related to its fronting and program arrangements. The MGAs with direct written premium greater than 5% of surplus for the years ended December 31, 2022 and 2021 are summarized as follows:

| Managing General Agent | 2022 | 2021 |
|---|---|---|
| Sunz Insurance Solutions, LLC | $ 152,753 | $ 143,050 |
| Program Brokerage Corporation | 134,822 | 105,598 |
| Strata Underwriting Managers | - | 173,694 |
| Paramount General Agency | - | 107,458 |
| Total | $ 287,575 | $ 529,800 |

## 8. REINSURANCE

In the ordinary course of business, the Company enters into reinsurance contracts, also known as treaties, whereby the Company assumes and cedes premiums with other insurance companies. These arrangements serve to limit the Company's maximum net loss on catastrophes. The Company also participates as a reinsurer in various residual market workers' compensation pools. Participation in these pools is mandatory in many states in which the Company conducts business, and, thus, the pools are frequently referred to as involuntary pools. Involuntary pool underwriting results generally are distributed to companies writing workers' compensation insurance in each state based upon each company's market share of the total voluntary workers' compensation market.

The Company also enters into quota-share reinsurance agreements in conjunction with its fronting arrangements, whereby the Company cedes to the reinsurer the majority (50% to 100%) of its gross liability under all policies issued by and on behalf of the Company. The Company remains exposed to the credit risk of the reinsurer, or the risk that one of its reinsurers becomes insolvent or otherwise unable or unwilling to pay policyholder claims. This credit risk is generally mitigated by selecting well capitalized, highly rated authorized reinsurers and in some cases requiring that the reinsurer post collateral to secure the reinsured risks.

Reinsurance does not relieve the Company of the primary obligations under the Company's contracts of insurance. To the extent reinsurers are unable or unwilling to honor their obligations under the reinsurance treaties, the Company remains primarily liable to the policyholders. To manage this risk, the Company periodically evaluates the financial condition of the reinsurers.

The Company had unsecured aggregate reinsurance recoverable balances greater than 3% of statutory surplus. These balances include amounts for paid and unpaid losses, including IBNR, LAE, and unearned premium, net of amounts payable to the reinsurer. The reportable unsecured aggregate reinsurance recoverable balances as of December 31, 2022 and 2021, are as follows:

| **Reinsurer** | **2022** | **2021** |
|---|---|---|
| Lyndon Southern Insurance Company | $ 157,841 | $ 93,559 |
| Swiss Reinsurance America Corporation | 121,604 | 100,593 |
| Everest Reinsurance Company | 61,577 | 63,542 |
| Michigan Workers Comp Ins Placement Facility | 51,836 | 50,817 |
| Total unsecured reinsurance recoverable | $ 392,858 | $ 308,511 |

The effects of reinsurance activities on premiums and losses for the years ended December 31, 2022 and 2021, are as follows:

| | 2022 | 2021 |
|---|---|---|
| Written premiums: | | |
| Direct | $ 2,077,137 | $ 2,234,178 |
| Reinsurance assumed | 125,231 | 68,437 |
| Reinsurance ceded | (596,203) | (681,457) |
| Net | $ 1,606,165 | $ 1,621,158 |
| Earned premiums: | | |
| Direct | $ 2,229,468 | $ 2,293,880 |
| Reinsurance assumed | 125,991 | 68,303 |
| Reinsurance ceded | (663,414) | (690,943) |
| Net | $ 1,692,045 | $ 1,671,240 |
| Losses and loss adjustment expenses: | | |
| Direct | $ 1,553,333 | $ 1,757,562 |
| Reinsurance assumed | 237,548 | 172,864 |
| Reinsurance ceded | (669,177) | (795,351) |
| Net | $ 1,121,704 | $ 1,135,075 |

There were no reinsurance balances deemed uncollectible during 2022 or 2021.

## 9. INSURANCE-RELATED ASSESSMENTS

The liabilities and anticipated payment schedules for guaranty fund and other insurance-related assessments recorded as of December 31, 2022 and 2021, are as follows:

| | 2022 | 2021 |
|---|---|---|
| Payable in one year or less | $ 29,283 | $ 33,264 |
| Payable after one year through five years | 506 | 1,685 |
| Payable after five years through ten years | 73 | 280 |
| Payable after ten years | 59 | 236 |
| Total insurance—related assessments | 29,921 | 35,465 |
| Other taxes and fees | 4,479 | (1,624) |
| Total assessments, taxes, and fees payable | $ 34,400 | $ 33,841 |

The Company receives assessments from state guaranty funds to cover losses owed to policyholders by insolvent insurance companies. Adjustments to accruals for guaranty fund assessments of $174 and $1,054 were included in other expenses during 2022 and 2021, respectively. The Company anticipates future assessments relating to insolvencies occurring in 2022 and prior and has established a related liability of $5,229 and $5,518 as of December 31, 2022 and 2021, respectively, for these future assessments.

The assets and anticipated receipt schedules for premium tax credit offsets related to guaranty fund assessments recorded as of December 31, 2022 and 2021, are as follows:

| | **2022** | **2021** |
|---|---|---|
| Recoverable in one year or less | $ 358 | $ 835 |
| Recoverable after one year through five years | 316 | 442 |
| Recoverable after five years through ten years | 316 | 441 |
| Total tax credits recoverable | $ 990 | $ 1,718 |

## 10. FEDERAL INCOME TAXES

The Company is included in the consolidated federal income tax return with BCBSM. Current and deferred taxes are allocated to the Company under the "benefits for loss" method. Under this method, taxes are calculated individually for the Company. These calculations are then combined as the basis for the consolidated return. Net operating losses and other tax attributes realized or realizable at the consolidated return level are allocated back to the Company, even those which would not have otherwise realized these attributes on an individual basis. Federal income taxes payable as of December 31, 2022 and 2021, were $4,719 and $9,400, respectively.

The components of the net DTA as of December 31, 2022 and 2021, are as follows:

| | 2022 | | | 2021 | | | Change | | |
|---|---|---|---|---|---|---|---|---|---|
| | Ordinary | Capital | Total | Ordinary | Capital | Total | Ordinary | Capital | Total |
| Components of net deferred tax assets (liabilities): | | | | | | | | | |
| Gross deferred tax assets | $ 137,083 | $ 22,902 | $ 159,985 | $ 141,981 | $39,290 | $181,271 | $ (4,898) | $(16,388) | $ (21,286) |
| Statutory valuation allowance | - | - | - | - | - | - | - | - | - |
| Adjusted gross deferred tax assets | 137,083 | 22,902 | 159,985 | 141,981 | 39,290 | 181,271 | (4,898) | (16,388) | (21,286) |
| Deferred tax assets nonadmitted | 4,661 | 327 | 4,988 | 9,464 | 247 | 9,711 | (4,803) | 80 | (4,723) |
| Subtotal net admitted deferred tax asset | 132,422 | 22,575 | 154,997 | 132,517 | 39,043 | 171,560 | (95) | (16,468) | (16,563) |
| Deferred tax liabilities | 21,843 | 12,610 | 34,453 | 30,888 | 17,018 | 47,906 | (9,045) | (4,408) | (13,453) |
| Net admitted deferred tax asset | $ 110,579 | $ 9,965 | $ 120,544 | $ 101,629 | $22,025 | $123,654 | $ 8,950 | $(12,060) | $ (3,110) |
| Admission calculation components: | | | | | | | | | |
| Federal income taxes paid in prior years recoverable through loss carrybacks | $ 88,197 | $ 12,534 | $ 100,731 | $ 92,125 | $22,325 | $114,450 | $ (3,928) | $ (9,791) | $ (13,719) |
| Adjusted gross deferred tax assets expected to be realized (excluding the amount of deferred tax assets above) after application of the threshold limitation. | 14,452 | 5,523 | 19,975 | 10,003 | 267 | 10,270 | 4,449 | 5,256 | 9,705 |
| Adjusted gross deferred tax assets expected to be realized following the balance sheet date. | 14,452 | 5,523 | 19,975 | 13,795 | 572 | 14,367 | 657 | 4,951 | 5,608 |
| Adjusted gross deferred tax assets allowed per limitation threshold. | - | - | 236,756 | - | - | 256,769 | - | - | (20,013) |
| Adjusted gross deferred tax assets (excluding the amount of deferred tax assets offset by gross deferred tax liabilities) | 29,773 | 4,518 | 34,291 | 30,033 | 16,807 | 46,840 | (260) | (12,289) | (12,549) |
| Deferred tax assets admitted as a result of tax planning strategies planning strategies. | - | - | - | - | - | - | - | - | - |
| Total | $ 132,422 | $ 22,575 | $ 154,997 | $ 132,161 | $39,399 | $171,560 | $ 261 | $(16,824) | $ (16,563) |
| Ratio percentage used to determine recovery period and threshold limitation amount. | 453 % | - % | - % | 826 % | - % | - % | | | |
| Amount of adjusted capital and surplus used to determine recovery period and threshold limitation. | $ 1,576,644 | | | $1,702,248 | | | | | |
| Impact of tax planning strategies: | | | | | | | | | |
| Determination of adjusted gross deferred tax assets and net admitted deferred tax assets, by tax character as a percentage Adjusted gross DTAs. | $ 137,083 | $ 22,902 | $ 159,985 | $ 141,981 | $39,290 | $181,271 | $ (4,898) | $(16,388) | $ (21,286) |
| Percentage of adjusted gross DTAs by tax character attributable to the impact of tax planning strategies. | - % | - % | - % | - % | - % | - % | - % | - % | - % |
| Net admitted adjusted gross DTAs | $ 132,422 | $ 22,575 | $ 154,997 | $ 132,517 | $39,043 | $171,560 | $ (95) | $(16,468) | $ (16,563) |
| Percentage of net admitted adjusted gross DTAs by tax character admitted because of the impact of tax planning strategies. | - % | - % | - % | - % | - % | - % | - % | - % | - % |
| Does the Company's tax planning strategies include the use of reinsurance? | No | | | No | | | | | |

The tax effects of temporary differences that give rise to significant portions of the DTA are as follows:

| | December 31, 2022 | 2021 | Change |
|---|---|---|---|
| Current income taxes incurred consist of the following major components: | | | |
| Current income tax: | | | |
| Federal | $ 43,115 | $ 38,379 | $ 4,736 |
| Federal income tax on net capital gains and losses | (6,219) | 23,371 | (29,590) |
| Federal and foreign income taxes incurred | $ 36,896 | $ 61,750 | $ (24,854) |
| Deferred tax assets: | | | |
| Ordinary: | | | |
| Discounting of unpaid losses | $ 56,121 | $ 58,062 | $ (1,941) |
| Unearned premium reserve | 28,915 | 30,984 | (2,069) |
| Policyholder dividends accrual | 5,169 | 3,857 | 1,312 |
| Fixed assets | 11,872 | 16,084 | (4,212) |
| Compensation and benefits accrued | 8,556 | 9,192 | (636) |
| Pension accrual | 4,086 | 7,309 | (3,223) |
| Receivables—nonadmitted | 5,737 | 7,927 | (2,190) |
| Net operating loss carryforward | 59 | 285 | (226) |
| Tax credit carryforward | 249 | 453 | (204) |
| Other (including items <5% of total ordinary tax assets) | 16,319 | 7,828 | 8,491 |
| Subtotal | 137,083 | 141,981 | (4,898) |
| Statutory valuation allowance adjustment | - | - | - |
| Nonadmitted | 4,661 | 9,464 | (4,803) |
| Admitted ordinary deferred tax assets | 132,422 | 132,517 | (95) |
| Capital: | | | |
| Investments | 22,902 | 39,290 | (16,388) |
| Subtotal | 22,902 | 39,290 | (16,388) |
| Nonadmitted | 327 | 247 | 80 |
| Admitted capital deferred tax assets | 22,575 | 39,043 | (16,468) |
| Admitted deferred tax assets | 154,997 | 171,560 | (16,563) |
| Deferred tax liabilities: | | | |
| Ordinary: | | | |
| Fixed assets | 9,109 | 13,562 | (4,453) |
| Other | - | - | - |
| Other (including items <5% of total ordinary tax liabilities) | 12,734 | 17,326 | (4,592) |
| Subtotal | 21,843 | 30,888 | (9,045) |
| Capital: | | | |
| Investments | 9,061 | 16,973 | (7,912) |
| Other (including items <5% of total ordinary tax liabilities) | 3,549 | 45 | 3,504 |
| Subtotal | 12,610 | 17,018 | (4,408) |
| Deferred tax liabilities | 34,453 | 47,906 | (13,453) |
| Net deferred tax asset | $120,544 | $123,654 | $ (3,110) |

The change in net deferred income taxes is composed of the following (this analysis is exclusive of nonadmitted assets as the change in nonadmitted assets is reported separately from the change in net deferred income taxes in the surplus section of the annual statement):

| | 2022 | 2021 | Change |
|---|---|---|---|
| Total deferred tax assets | $ 159,985 | $ 181,271 | $ (21,286) |
| Total deferred tax liabilities | (34,453) | (47,906) | 13,453 |
| Net deferred tax asset | $ 125,532 | $ 133,365 | (7,833) |
| Tax effect of unrealized gains | | | (11,961) |
| Tax effect on pension and postretirement benefits | | | 6,772 |
| Change in net deferred income tax | | | $ (13,022) |

The provision for income taxes differs from the amount computed by applying the U.S. statutory income tax rate of 21% to income before taxes in 2022 and 2021 for the following reasons:

| | 2022 | | 2021 | |
|---|---|---|---|---|
| | Tax | Rate | Tax | Rate |
| Provision computed at statutory rate | $20,034 | 21.00 % | $ 63,901 | 21.00 % |
| Permanent differences | 381 | 0.40 | 226 | 0.07 |
| Taxes payable adjustment | - | - | (3,035) | (1.00) |
| Change in nonadmitted assets | 2,123 | 2.23 | (2,735) | (0.90) |
| Executive compensation limitation | 2,329 | 2.44 | 3,299 | 1.08 |
| Deferred only adjustments | 29,555 | 30.97 | (35,524) | (11.67) |
| Other | (4,504) | (4.72) | 4,567 | 1.50 |
| Total | $49,918 | 52.32 % | $ 30,699 | 10.08 % |
| Federal income taxes incurred | $36,896 | 38.67 % | $ 61,750 | 20.28 % |
| Change in net deferred income tax | 13,022 | 13.65 | (31,051) | (10.20) |
| Total statutory income taxes | $49,918 | 52.32 % | $ 30,699 | 10.08 % |

As of December 31, 2022, the Company had $1,840 in unused operating loss carryforwards available to offset against future taxable income. Income taxes incurred in the current and prior years that will be available for recoupment in the event of future losses are as follows:

| **December 31** | |
|---|---|
| 2022 | $ 40,453 |
| 2021 | 60,473 |
| 2020 | 18,298 |

As of December 31, 2022 and 2021, the Company had no material unrecognized tax benefits or accrued interest and penalties. The Company's policy is to account for interest as a component of interest expense and penalties as a component of other expense. Federal tax years 2018 to 2022 were open for examination as of December 31, 2022.

Changes in tax law and rates may affect recorded deferred tax assets and liabilities and our effective tax rate in the future. On August 16, 2022, the U.S. government enacted the inflation Reduction Act of 2022 that includes changes to the U.S. corporate income tax system, including a fifteen percent minimum tax assessed on corporations with “adjusted financial statement income” in excess of $1 billion. This provision is not expected to apply to the consolidated filing group of BCBSM and subsidiaries in tax year 2023. As such, no provision for the AMT has been recorded as of December 31, 2022.

## 11. EMPLOYEE BENEFITS

The Company’s employees participate in employee benefit plans, several of which are sponsored by BCBSM. The Company maintains separate records for the liabilities of the BCBSM-sponsored plans that pertain to its employees; plan assets are commingled for all plan participants but for purposes of financial reporting are allocated to the Company on a basis of a predefined formula. The plans are as follows:

***Defined Contribution Plans***—Substantially all employees who meet age and service requirements may participate in a 401(k) plan. The Company matches 50% of employee contributions up to 10% of biweekly adjusted wages. The Company will also contribute a nonmatching contribution of 3.5% of compensation for certain eligible employees. Total 401(k) expense for 2022 and 2021 was $5,419 and $5,074, respectively.

**Qualified Defined Benefit Pension Plans**—The Company participates in two tax-qualified defined benefit pension plans administered under a single master trust as follows:

***Retirement Account Plan***—Certain employees who meet age and service requirements and who are not members of a labor union participate in a defined benefit plan that provides participants an account balance to which interest credits and earning credits are added. Subject to an annual 4% minimum, interest is credited quarterly based on a rate equal to the yield on a one-year US Treasury bill as of August, immediately preceding the plan year. Annual earning credits ranging from 3% to 10% based on age and date of hire are credited on a monthly basis. Employees can elect to receive the lump-sum value of their account balance when they retire or leave employment, or they can receive monthly payments at retirement. The Company did not make any contributions to the retirement account plan during 2022 and 2021.

***Represented Employees’ Retirement Income Plan***—Employees who meet age and service requirements and who are members of a labor union participate in this plan. The plan is a final average pay arrangement for participants hired prior to January 1, 2009 and provides a postretirement monthly benefit based on average monthly earnings and credited service years. For participants hired after January 1, 2009, the plan is a cash balance arrangement and provides an account balance that grows through earnings and interest credits. These participants can elect to receive their vested balance as a lump sum or in monthly payments upon retirement. Employees participating under the final average payment provisions only can elect from various monthly payment options upon retirement. The Company makes annual contributions sufficient to meet the minimum funding standards of the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code of 1986. The Company did not make any contributions to the retirement income plan during 2022 and 2021.

**Nonqualified Plans**—Retirement benefits are provided for a group of key employees under nonqualified defined benefit pension plans. The general purpose of the plans is to provide additional retirement benefits to participants who are subject to the contribution and benefit limitations applicable to tax-qualified plans under the Internal Revenue Code of 1986. Benefits under the plans are unfunded and paid out of the general assets of the Company. The pension benefit obligation for these plans was $4,047 and $5,479 as of December 31, 2022 and 2021, respectively.

**Other Postretirement Benefits**—The Company provides postretirement health care and selected other benefits to some of its employees who meet service and age requirements. Postretirement benefits for employees who are represented by a labor union are subject to collective bargaining agreements. Postretirement health care benefits are subject to revision at the discretion of the Company.

BCBSM established two trusts to fund retiree medical benefits. Both of these trusts qualify as tax-exempt 501(c)(9) entities. Plan sponsorship and the determination of plan benefit design continue to reside with BCBSM. Similar to pension trust assets, the assets in the retiree medical trusts are restricted and cannot revert back to the Company for any purpose.

Information regarding the change in benefit obligation, plan assets, and funded status as of December 31, 2022 and 2021, for the qualified and nonqualified defined benefit pension plans and other postretirement benefits is shown in the tables below.

**Defined Benefit Plans**

Change in components of benefit obligation as of December 31, is as follows:

| | **2022** | **2021** |
|---|---|---|
| Pension benefits: | | |
| Benefit obligation at beginning of year | $ 164,642 | $ 161,484 |
| Service cost | 9,536 | 9,240 |
| Interest cost | 5,017 | 4,648 |
| Curtailments and settlements | - | (5,506) |
| Actuarial gain | (45,911) | (685) |
| Benefits paid | (6,755) | (2,581) |
| Plan amendments | - | (1,958) |
| Benefit obligation at end of year | $ 126,528 | $ 164,642 |

| | **2022** | **2021** |
|---|---|---|
| Postretirement benefits: | | |
| Benefit obligation at beginning of year | $ 45,794 | $ 45,847 |
| Service cost | 2,600 | 2,814 |
| Interest cost | 1,414 | 1,340 |
| Actuarial gain | (27,048) | (2,382) |
| Benefits paid | (2,046) | (1,825) |
| Benefit obligation at end of year | $ 20,714 | $ 45,794 |

Change in plan assets, as of December 31, is as follows:

| | Pension | | Postretirement | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Fair value of plan assets—beginning of year | $ 152,678 | $ 154,564 | $ 33,430 | $ 32,841 |
| Actual return on plan assets | (26,169) | 7,974 | (6,350) | 2,238 |
| Reporting entity contribution | - | - | 221 | 176 |
| Curtailments and settlements | - | (7,464) | - | - |
| Benefits paid | (6,532) | (2,396) | (2,046) | (1,825) |
| Fair value of plan assets—end of year | $ 119,977 | $ 152,678 | $ 25,255 | $ 33,430 |

Funded status of pension plan and postretirement benefits, as of December 31, is as follows:

| | Pension | | Postretirement | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Components: | | | | |
| Prepaid benefit cost | $ 17,941 | $ 24,334 | $ 2,816 | $ 3,719 |
| Overfunded plan assets | (8,286) | (20,175) | 9,514 | 1,144 |
| Accrued benefit costs | (5,037) | (4,090) | (15,174) | (13,484) |
| Liability for pension benefits | (12,018) | (12,033) | (32) | (3,743) |
| Assets and liabilities recognized: | | | | |
| Assets—non-admitted | $ 9,654 | $ 4,159 | $ 12,330 | $ 4,863 |
| Liabilities recognized | (17,055) | (16,123) | (15,206) | (17,227) |

Information regarding the pension and postretirement benefit plans' components of net periodic costs as of December 31, are shown below:

| | Pension | | Postretirement | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Service cost | $ 9,536 | $ 9,240 | $ 2,600 | $ 2,814 |
| Interest cost | 5,017 | 4,648 | 1,414 | 1,340 |
| Expected return on plan assets | (8,460) | (9,110) | (1,595) | (1,616) |
| Other adjustments | - | 1,569 | - | - |
| Amortization of losses | 1,467 | 1,792 | 57 | 238 |
| Amortization of prior service cost or credit | 3 | 3 | 338 | 337 |
| Total net periodic benefit cost | $ 7,564 | $ 8,142 | $ 2,813 | $ 3,113 |

Amounts in unassigned surplus recognized as components of net periodic benefit cost, as of December 31, are shown below:

| | Pension | | Postretirement | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Items not yet recognized as a component of net periodic cost—prior year | $ 32,208 | $35,122 | $ 2,598 | $ 6,176 |
| Other adjustments | - | (1,569) | - | - |
| Net prior service cost or credit arising during the period | - | - | - | - |
| Net prior service cost or credit recognized | (3) | (3) | (338) | (336) |
| Net gain and loss arising during the period | (11,283) | 451 | (19,102) | (3,004) |
| Net gain recognized | (1,467) | (1,792) | (57) | (238) |
| Items not yet recognized as a component of net periodic cost—current year | $ 19,455 | $32,209 | $(16,899) | $ 2,598 |

Amounts in unassigned surplus expected to be recognized in the next fiscal year as components of net periodic benefit cost, as of December 31, are shown below:

| | Pension | | Postretirement | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Net prior service cost or credit | $ - | $ - | $ 340 | $ 340 |
| Net recognized gains and losses | 820 | 1,480 | (1,300) | 60 |

Amounts in unassigned surplus that have not yet been recognized as components of net periodic benefit cost as of December 31, are shown below:

| | Pension | | Postretirement | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Net prior service cost or credit | $ 14 | $ 17 | $ 848 | $ 1,187 |
| Net recognized gains and losses | 19,441 | 32,191 | (17,748) | 1,412 |

Weighted average assumptions used to determine net periodic benefit costs as of December 31, are shown below:

| | Pension | | Postretirement | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Weighted-average discount rate | 2.95% - 3.15% | 2.65% - 3.00% | 3.10% - 3.15% | 2.90% - 3.00% |
| Expected long-term rate of return on plan assets | 5.70% | 6.00% | 4.85% | 5.00% |
| Rate of compensation increase | 2.64% - 5.88% (depending on age of participants) | 2.64% - 5.88% (depending on age of participants) | 5.00% - 5.91% | 5.00% |

Weighted average assumptions used to determine net periodic benefit obligations as of December 31, are shown below:

| | Pension | | Postretirement | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Weighted-average discount rate | 5.90% | 2.95%–3.15% | 5.90% | 3.10%–3.15% |
| Rate of compensation increase | 2.64%–5.88% (depending on age of participants) | 2.64%–5.88% (depending on age of participants) | 5.00%–5.92% | 5.00% |

For measurement purposes, a 5.04% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2022. The rate was assumed to decrease gradually to 4.76% for 2025 and remain at that level thereafter.

The amount of the accumulated benefit obligation for defined benefit pension plans was $122,308 and $149,368 as of December 31, 2022 and 2021, respectively.

The following estimated future benefit payments for pension and postretirement plans reflect expected future service and are expected to be paid in the years indicated:

| | Amount |
|---|---|
| 2023 | $ 7,410 |
| 2024 | 8,810 |
| 2025 | 9,270 |
| 2026 | 9,040 |
| 2027 | 10,270 |
| 2028 through 2032 | 62,390 |
| Total | $ 107,190 |

The Company does not have any regulatory contribution requirements for the pension and postretirement plans for 2023.

**Information about Plan Assets**

***Pension and Retiree Medical Trusts Investment Policy***—Plan assets for both the nonrepresented and represented employee's pension plans are held in a single master trust with State Street Bank. Plan assets for the retiree medical trusts are held with The Northern Trust. Each plan owns its allocable share of all master trust assets. Master trust assets are for the exclusive benefit of participants and can only be used to pay plan benefits and administrative expenses. Plan assets in the master trust are managed by external investment managers with assets allocated to equity, fixed-income securities, cash, and alternative investments based on the pension investment policy statement.

The pension trust asset allocation considers return objectives, characteristics of pension liabilities, capital market expectations, and asset-liability projections. The pension trust allocation is currently transitioning to an allocation that will reduce the consolidated balance sheet and funding volatility while ensuring the continued maintenance of trust assets sufficient to cover plan benefits and expenses.

The ultimate target allocation under the investment policy is 80% long-duration fixed-income securities and 20% return-seeking assets. Return-seeking assets under the policy are defined as any asset class other than long-duration fixed-income securities and cash equivalents. The return-seeking allocation currently includes publicly traded equities, publicly traded high-yield fixed-income securities, and fund-of-fund private equity funds. The ultimate target asset allocation is expected to possibly occur by the end of 2021 but could take more or less time depending on market conditions.

Weighted-average year-to-date target asset allocation and actual asset allocations as of December 31, 2022 and 2021, by asset category are as follows:

| | 2022 | | 2021 | |
|---|---|---|---|---|
| | **Target** | **Actual** | **Target** | **Actual** |
| Asset category: | | | | |
| Return-seeking assets | 54 % | 53 % | 54 % | 55 % |
| Long-duration fixed-income securities | 46 | 47 | 46 | 45 |
| Total | 100 % | 100 % | 100 % | 100 % |

Investment allocations consider risk and return objectives, hedge interest rate risk on plan liabilities, and are designed to ensure the availability of funds to pay benefits. Medical trust target allocations include a 40-60% allocation to return-seeking assets and the balance to long duration and municipal bonds.

**Fair Value of Plan Assets**

Fair value measurements of pension plan assets as of December 31, 2022:

| | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** | **Total** |
|---|---|---|---|---|
| Corporate debt securities | $ - | $29,618 | $ 75 | $ 29,693 |
| Common stocks | 4,729 | - | 29 | 4,758 |
| Cash equivalents and short-term | 4,679 | - | - | 4,679 |
| U.S. government | - | 1,583 | - | 1,583 |
| Foreign debt securities | - | 1,079 | - | 1,079 |
| State and local debt securities | - | 1,192 | - | 1,192 |
| Special revenue and assessments | 132 | (3) | - | 129 |
| Other asset-backed securities | 5 | - | - | 5 |
| Total | $9,545 | $33,469 | $104 | 43,118 |
| Measured at NAV: | | | | |
| Commingled equity funds | | | | 53,519 |
| Limited partnerships | | | | 23,340 |
| Total measured at NAV | | | | 76,859 |
| Total plan assets | | | | $119,977 |

Fair value measurements of pension plan assets as of December 31, 2021:

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|---|---|---|---|---|
| Corporate debt securities | $ - | $ 50,899 | $ 74 | $ 50,973 |
| Common stocks | 7,495 | - | 3 | 7,498 |
| Cash equivalents and short-term | 1,693 | - | - | 1,693 |
| U.S. government | - | 9,288 | - | 9,288 |
| Mortgage-backed securities | 220 | 470 | 83 | 773 |
| Foreign debt securities | - | 1,416 | - | 1,416 |
| State and local debt securities | - | 1,384 | - | 1,384 |
| Other asset-backed securities | - | 1,399 | - | 1,399 |
| Total | $9,408 | $ 64,856 | $ 160 | 74,424 |
| Measured at NAV: | | | | |
| Commingled equity funds | | | | 48,533 |
| Limited liability companies | | | | 11,010 |
| Limited partnerships | | | | 18,711 |
| Total measured at NAV | | | | 78,254 |
| Total plan assets | | | | $ 152,678 |

The Company's share of the retiree medical trust plan assets by category for 2022 is as follows:

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|---|---|---|---|---|
| Corporate debt securities | $ - | $ 8,874 | $ - | $ 8,874 |
| Common stocks | 5,506 | - | - | 5,506 |
| Cash equivalents and short-term investments | 325 | - | - | 325 |
| U.S. government | - | 1,730 | - | 1,730 |
| Mortgage-backed securities | - | 109 | 18 | 127 |
| Foreign debt securities | - | 108 | - | 108 |
| State and local debt securities | - | 2,252 | - | 2,252 |
| Other asset-backed securities | - | 139 | - | 139 |
| Total | $5,831 | $13,212 | $18 | 19,061 |
| Measured at NAV | | | | |
| Commingled international equity funds | | | | 6,194 |
| Total | | | | $25,255 |

The retiree medical trust plan assets by category for 2021 are as follows:

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|---|---|---|---|---|
| Corporate debt securities | $ - | $12,918 | $ - | $12,918 |
| Common stocks | 6,792 | - | - | 6,792 |
| Cash equivalents and short-term investments | 323 | - | - | 323 |
| U.S. government | - | 2,481 | - | 2,481 |
| Mortgage-backed securities | - | 176 | 25 | 201 |
| Foreign debt securities | - | 290 | - | 290 |
| State and local debt securities | - | 2,991 | - | 2,991 |
| Other asset-backed securities | - | 162 | - | 162 |
| Total | $7,115 | $19,018 | $25 | 26,158 |
| Measured at NAV | | | | |
| Commingled international equity funds | | | | 7,272 |
| Total | | | | $33,430 |

The Company has no obligations to current or former employees for benefits after their employment ends, but before their retirement, other than for compensation related to earned vacation and certain deferred compensation agreements.

## 12. RELATED-PARTY TRANSACTIONS

The Company entered into an agreement whereby the Company, BCBSM, and other affiliated entities may provide services to one another. The agreement provides for monthly payments and a year-end settlement based on actual cost of services performed. Miracle Nova I (U.S.) LLC and its affiliated subsidiaries were not a party to this agreement in 2022.

During 2022 and 2021, BCBSM supplied executive, legal, financial, and other services to the Company at a cost of $10,076 and $10,968, respectively. In addition, other subsidiaries of BCBSM provided these types of services to the Company at a cost of $18,982 and $17,741 during 2022 and 2021, respectively.

As a result of these transactions, the Company had a net payable to BCBSM and subsidiaries of $5,713 and $2,845 as of December 31, 2022 and 2021, respectively.

## 13. CLAIMS ADMINISTRATION SERVICES

The Company sells claims administration services to large employers who have qualified to self-insure their workers' compensation obligations. In some cases, the Company also sells these employers excess workers' compensation insurance, which caps their obligations on an occurrence or aggregate basis.

The Company's results from claims administration services was a net gain of $897 and $596 in 2022 and 2021, respectively. The gains were attributable to accounts that do not purchase excess workers' compensation insurance from the Company.

The amount payable to self-insured employers was $4,787 and $6,714 as of December 31, 2022 and 2021, respectively.

## 14. CAPITAL AND SURPLUS

The Company is subject to state regulatory restrictions that limit the maximum amount of annual dividends or other distributions, including loans or cash advances that can be paid without prior approval by insurance regulatory authorities.

The Company paid ordinary dividends in the amount of $58,000 and $85,500 to AFHI during 2022 and 2021, respectively.

As of December 31, 2022, the maximum amount of dividends and other distributions that may be made during 2023 without prior approval is as follows:

| | |
|---|---|
| Accident Fund | $ 169,891 |
| National | 8,880 |
| General | 11,336 |
| UWIC | 3,149 |
| CompWest | 15,583 |

As of December 31, 2022, TCIC does not have unassigned surplus; therefore, no dividends may be declared or paid without the prior approval of the Wisconsin Insurance Commissioner.

Capital and surplus within each of the insurance companies in excess of the amounts shown above is considered restricted.

Unassigned surplus has been increased or decreased for various items by the amounts shown below as of December 31, 2022 and 2021:

| | 2022 | 2021 |
|---|---|---|
| Unrealized gains—net of tax | $ 25,280 | $ 70,278 |
| Nonadmitted assets | (177,103) | (191,906) |
| Provision for reinsurance | (5,693) | (3,500) |

## 15. SURPLUS NOTES

On November 7, 2022, the Company issued $350,000 in surplus notes due August 1, 2032, at par, in exchange for cash, less debt issuance costs of $3,500. Interest on the surplus notes is fixed at 8.5% and payable semiannually. The surplus notes were issued pursuant to Rule 144A under the Securities Act of 1933 and underwritten by J.P. Morgan Securities LLC, and administered by The Bank of New York Mellon as the fiscal agent. The surplus notes are subject to optional redemption.

The surplus notes are an unsecured obligation of the Company and subordinated to all present and future indebtedness, policy claims and prior claims of the Company. Repayment of principal and interest on the surplus notes is restricted to earned surplus of the Company and all such payments must be approved by the DIFS. The surplus notes will not be entitled to any sinking funds.

The carrying value of the surplus notes was $350,000 as of December 31, 2022. No interest was paid or accrued in 2022. The surplus notes are held by bank custodians for unaffiliated investors which may hold 10.0% of more of the outstanding surplus notes at any time. Affiliated investors hold $14,250 or 4.0% of the surplus notes.

## 16. OTHER LIABILITIES

Other liabilities as of December 31, 2022 and 2021, consist of the following:

| | 2022 | 2021 |
|---|---|---|
| Amounts held for others | $ 4,815 | $ 36,468 |
| Policyholder dividends | 18,770 | 17,780 |
| Advanced premiums | 7,409 | 11,144 |
| Federal income tax payable | 4,719 | 9,400 |
| Miscellaneous liabilities | 28,152 | 37,225 |
| Total | $ 63,865 | $ 112,017 |

## 17. LEASES

The Company leases certain office space, office equipment, parking spaces, and storage under various operating leases. Rental expense for 2022 and 2021 was $8,085 and $8,718, respectively. Future minimum lease payments are as follows:

| Years Ending December 31 | |
|---|---|
| 2023 | $ 4,802 |
| 2024 | 4,673 |
| 2025 | 2,676 |
| 2026 | 2,546 |
| 2027 | 2,610 |
| Thereafter | 42,669 |
| Total | $ 59,976 |

## 18. RETROSPECTIVELY RATED CONTRACTS

The Company estimates accrued retrospective premium adjustments through the review of each individual retrospectively rated risk. Adjustments to retrospectively rated contracts are recorded as increases or decreases to written premiums. Net premiums written that were subject to retrospective rating features were $70,968 and $71,552 during 2022 and 2021, respectively, representing 4% of total net premiums written for both 2022 and 2021. Ten percent of accrued retrospective premiums, to the extent they are not offset by retrospective return premiums, other liabilities to the same party (other than losses and loss adjustment expenses), or appropriate collateral, are classified as nonadmitted assets. Accrued retrospective premiums as of December 31, 2022 and 2021, are as follows:

| | 2022 | 2021 |
|---|---|---|
| Total accrued retrospective premiums | $ 17,321 | $ 19,114 |
| Unsecured amount | $ 17,321 | $ 19,114 |
| Less nonadmitted amount | 1,732 | 1,911 |
| Admitted amount | $ 15,589 | $ 17,203 |

## 19. STRUCTURED SETTLEMENTS

In the course of settling claims, the Company sometimes buys annuities from life insurance companies. These annuities, which name the claimant as beneficiary, pay periodic amounts to the claimant, and relieve the Company of the primary liability for the claim. If the life insurance company becomes unable to meet its obligations under the annuity contract, the Company could again become liable for the claim. Management believes the likelihood of this occurring is minimal.

## 20. HIGH-DEDUCTIBLE POLICIES

The liability recorded for high-deductible unpaid claims is $12,948 and $7,797 as of December 31, 2022 and 2021, respectively. The amount billed and recoverable on paid claims for high-deductible policies is $410 and $205 as of December 31, 2022 and 2021, respectively. All high-deductible policies are secured by either cash collateral or letters of credit.

## 21. CONCENTRATION OF RISK

The Company is exposed to risk as a result of concentrations within geographic areas and as a result of writing primarily one line of business. Specifically, the Company insures a small number of employers whose size and concentration of employees in a limited geographic area expose the Company to severe financial consequences should a catastrophic event occur at a work location of these employers. Workers' compensation insurance accounts for 76% of the Company's direct premium revenues. Michigan, New York, and California generated approximately 11%, 13%, and 13% respectively, of direct written premiums in 2022.

## 22. COMMITMENTS AND CONTINGENCIES

The Company is involved in lawsuits arising in the normal course of administering the property casualty business. In management's opinion, adequate provision for the costs of resolving those matters is included in the loss and loss adjustment expense liabilities or, based on the advice of legal counsel, management believes the matters will be resolved without material adverse effect on the Company's financial position, results of operations, or cash flows.

## 23. SUBSEQUENT EVENTS

The Company has evaluated all events subsequent to the consolidated statutory statements of admitted assets, liabilities, and capital and surplus date of December 31, 2022, through March 22, 2023, which is the date these consolidated statutory-basis financial statements were available to be issued and has determined that there are no subsequent events that require adjustment to, or disclosure in, the consolidated statutory-basis financial statements.

* * * * * *

**CONSOLIDATING INFORMATION**

# ACCIDENT FUND INSURANCE COMPANY OF AMERICA AND SUBSIDIARIES

## CONSOLIDATING STATEMENT OF ADMITTED ASSETS, LIABILITIES, AND CAPITAL AND SURPLUS—STATUTORY-BASIS AS OF DECEMBER 31, 2022 (Dollars In thousands)

| | Accident Fund | General | National | UWIC | TCIC | CompWest | Elim | Consolidated |
|---|---|---|---|---|---|---|---|---|
| **ADMITTED ASSETS** | | | | | | | | |
| CASH AND INVESTED ASSETS: | | | | | | | | |
| Bonds | $2,207,186 | $116,745 | $ 90,864 | $130,168 | $ 54,674 | $160,008 | $ - | $2,759,645 |
| Common stocks and mutual funds | 748,859 | - | - | 250 | - | 37 | (543,296) | 205,850 |
| Property occupied by the Company | 101,148 | - | - | - | - | - | - | 101,148 |
| Cash and cash equivalents | 825,359 | 4,985 | 2,833 | (131) | 653 | 47 | - | 833,746 |
| Short-term investments | 51,430 | 1,186 | 879 | 1,000 | 250 | 500 | - | 55,245 |
| Other invested assets-affiliated | 596,677 | - | - | - | - | - | - | 596,677 |
| Other invested assets-unaffiliated | 239,330 | - | - | - | - | 1,347 | - | 240,677 |
| Receivable from sale of securities | 23,786 | 2,379 | 2,379 | 473 | 2,460 | 1,550 | - | 33,027 |
| Securities lending reinvested collateral assets | 1,886 | 709 | - | - | - | - | - | 2,595 |
| Total cash and invested assets | 4,795,661 | 126,004 | 96,955 | 131,760 | 58,037 | 163,489 | (543,296) | 4,828,610 |
| OTHER ADMITTED ASSETS: | | | | | | | | |
| Premiums in the course of collection | 295,801 | 57,280 | 12,149 | 35,497 | 7,465 | 45,585 | (186,027) | 267,750 |
| Premiums deferred and not yet due | 467,572 | 124,491 | 58,132 | 39,147 | 29,570 | 29,587 | (280,927) | 467,572 |
| Net deferred tax asset | 115,112 | 1,021 | 718 | 1,822 | 296 | 1,575 | - | 120,544 |
| Investment income due and accrued | 16,929 | 764 | 675 | 782 | 329 | 968 | - | 20,447 |
| Other assets | 82,787 | 18,143 | 6,453 | 7,951 | 22 | 550 | (32,922) | 82,984 |
| TOTAL | $5,773,862 | $327,703 | $175,082 | $216,959 | $ 95,719 | $241,754 | $(1,043,172) | $5,787,907 |
| **LIABILITIES AND CAPITAL AND SURPLUS** | | | | | | | | |
| LIABILITIES: | | | | | | | | |
| Losses and loss adjustment expenses | $2,328,332 | $ - | $ - | $ - | $ - | $ - | $ - | $2,328,332 |
| Unearned premiums | 677,424 | - | - | - | - | - | - | 677,424 |
| Assessments, taxes, and fees payable | 34,400 | - | - | - | - | - | - | 34,400 |
| Payable for purchases of securities | 39,608 | 3,011 | 3,409 | 2,012 | 468 | 2,313 | - | 50,821 |
| Payable for securities lending | 1,886 | 709 | - | - | - | - | - | 2,595 |
| Notes payable and accrued interest | 9,501 | - | - | - | - | - | - | 9,501 |
| Reinsurance balances payable | 151,621 | 209,749 | 82,508 | 85,286 | 37,469 | 82,821 | (497,833) | 151,621 |
| Accrued commissions | 56,553 | - | - | - | - | - | - | 56,553 |
| Accrued pension and postretirement benefits | 23,994 | - | - | - | - | - | - | 23,994 |
| Other accrued expenses | 81,013 | - | - | 4 | 3 | 6 | - | 81,026 |
| Payable for Miracle Nova I acquisition | 608,859 | - | - | - | - | - | - | 608,859 |
| Other liabilities | 61,755 | 870 | 364 | 798 | 1,346 | 775 | (2,043) | 63,865 |
| Total liabilities | 4,074,946 | 214,339 | 86,281 | 88,100 | 39,286 | 85,915 | (499,876) | 4,088,991 |
| CAPITAL AND SURPLUS: | | | | | | | | |
| Common capital stock | 3,000 | 4,500 | 3,000 | 3,000 | 1,000 | 3,000 | (14,500) | 3,000 |
| Contributed surplus | 134,000 | 72,000 | 37,000 | 40,820 | 71,401 | 47,000 | (268,221) | 134,000 |
| Surplus notes | 350,000 | - | - | - | - | - | - | 350,000 |
| Unassigned surplus | 1,211,916 | 36,864 | 48,801 | 85,039 | (15,968) | 105,839 | (260,575) | 1,211,916 |
| Total capital and surplus | 1,698,916 | 113,364 | 88,801 | 128,859 | 56,433 | 155,839 | (543,296) | 1,698,916 |
| TOTAL | $5,773,862 | $327,703 | $175,082 | $216,959 | $ 95,719 | $241,754 | $(1,043,172) | $5,787,907 |

# ACCIDENT FUND INSURANCE COMPANY OF AMERICA AND SUBSIDIARIES

## CONSOLIDATING STATEMENT OF OPERATIONS—STATUTORY-BASIS
## FOR THE YEAR ENDED DECEMBER 31, 2022
## (Dollars in thousands)

| | Accident Fund | General | National | UWIC | TCIC | CompWest | Elim | Consolidated |
|---|---|---|---|---|---|---|---|---|
| NET PREMIUMS EARNED | $1,692,045 | $ - | $ - | $ - | $ - | $ - | $ - | $1,692,045 |
| UNDERWRITING DEDUCTIONS: | | | | | | | | |
| Losses | 907,668 | - | - | - | - | - | - | 907,668 |
| Loss adjustment expenses | 214,036 | - | - | - | - | - | - | 214,036 |
| Other underwriting expenses | 425,448 | - | - | - | - | - | - | 425,448 |
| Policyholder dividends | 20,964 | - | - | - | - | - | - | 20,964 |
| Total underwriting deductions | 1,568,116 | - | - | - | - | - | - | 1,568,116 |
| NET UNDERWRITING GAIN | 123,929 | - | - | - | - | - | - | 123,929 |
| INVESTMENT INCOME: | | | | | | | | |
| Net investment income | 75,896 | 3,048 | 2,411 | 3,159 | 1,336 | 3,846 | - | 89,696 |
| Net realized capital loss —net of tax | (81,239) | (3,446) | (3,686) | (1,888) | (703) | (2,310) | - | (93,272) |
| Total investment income | (5,343) | (398) | (1,275) | 1,271 | 633 | 1,536 | - | (3,576) |
| OTHER EXPENSE—Net | (18,733) | - | - | - | - | - | - | (18,733) |
| INCOME BEFORE FEDERAL INCOME TAXES | 99,853 | (398) | (1,275) | 1,271 | 633 | 1,536 | - | 101,620 |
| FEDERAL INCOME TAXES | (40,064) | (523) | (330) | (10) | (1,055) | (1,133) | - | (43,115) |
| NET INCOME | $ 59,789 | $ (921) | $(1,605) | $ 1,261 | $ (422) | $ 403 | $ - | $ 58,505 |

# CONSOLIDATED SUPPLEMENTAL SCHEDULES

## ACCIDENT FUND INSURANCE COMPANY OF AMERICA AND SUBSIDIARIES

### CONSOLIDATED SUPPLEMENTAL SCHEDULE OF INVESTMENT RISK INTERROGATORIES—STATUTORY BASIS
### AS OF DECEMBER 31, 2022
### (Dollars in thousands)

1. Total admitted assets were $5,787,907 as of December 31, 2022.

2. The 10 largest exposures, by investment category, to a single issuer, borrower, or investment, excluding U.S. government, U.S. government agency securities, certain U.S. government money market funds, property occupied by the Company, policy loans and all SEC and foreign registered funds as of December 31, 2022, are as follows:

| | Amount | Percentage of Total Admitted Assets |
|---|---|---|
| MIRACLE NOVA I, LLC | $ 596,677 | 10.3 % |
| ARROWSTREET CAPITAL | 74,696 | 1.3 |
| BANK OF AMERICA CORP | 24,704 | 0.4 |
| VISTA CREDIT PARTNERS | 23,402 | 0.4 |
| TWIN TREE CAPITAL | 21,925 | 0.4 |
| WELLS FARGO & COMPANY | 21,683 | 0.4 |
| JABIL INC | 20,162 | 0.3 |
| JPMORGAN CHASE & CO | 17,572 | 0.3 |
| AT&T INC | 17,016 | 0.3 |
| DYAL CAPITAL | 16,411 | 0.3 |

3. The amounts and percentages of total admitted assets held in bonds and preferred stock by NAIC rating category as of December 31, 2022, are as follows:

| NAIC Category | Amount | Percentage |
|---|---|---|
| NAIC-1 | $ 2,140,885 | 37.0 % |
| NAIC-2 | 543,084 | 9.4 |
| NAIC-3 | 97,597 | 1.7 |
| NAIC-4 | 85,297 | 1.5 |
| NAIC-5 | 9,152 | 0.2 |
| NAIC-6 | 1,425 | 0.0 |

4. Assets held in foreign investments are less than 2.5% of total admitted assets.

5-10. Responses are not required for interrogatories 5-10 because assets held in foreign investments are less than 2.5%.

11. Assets held in Canadian investments are less than 2.5% of the total admitted assets.

12. Assets held in investments with contractual sales restrictions are less than 2.5% of total admitted assets.

13. The amounts and percentages of total admitted assets in the 10 largest equity interests were as follows:

| | Amount | Percentage of Total Admitted Assets |
|---|---|---|
| MIRACLE NOVA I, LLC | $596,677 | 10.3 % |
| ARROWSTREET CAPITAL | 74,696 | 1.3 |
| VISTA CREDIT PARTNERS | 23,402 | 0.4 |
| TWIN TREE CAPITAL MASTER FUND LP | 21,925 | 0.4 |
| DYAL CAPITAL PARTNERS | 16,411 | 0.3 |
| VERITON MULTI STRATEGY | 16,208 | 0.3 |
| MARINER ATLANTIC | 15,475 | 0.3 |
| BROOKFIELD STRATEGIC REAL ESTATE PARTNERS | 13,568 | 0.2 |
| SANDBOX INSURTECH | 11,146 | 0.2 |
| INVESCO QQQ TRUST SERIES | 10,152 | 0.2 |

14. Assets held in nonaffiliated, privately placed equities are less than 2.5% of total admitted assets.

15. Assets held in general partnership interests are less than 2.5% of total admitted assets.

16. Assets held in mortgage loans are less than 2.5% of total admitted assets.

17. Response is not required for interrogatory 17 because assets held in mortgage loans are less than 2.5% of total admitted assets.

18. Assets held in each of the five largest investments in one parcel or group of contiguous parcels of real estate reported in Schedule A are less than 2.5% of total admitted assets.

19. The Company held no investments in mezzanine real estate loans as of December 31, 2022.

20. The amounts and percentages of total admitted assets subject to securities lending agreements were as follows:

| | | |
|---|---|---|
| December 31, 2022 | $2,595 | 0.0 % |
| September 30, 2022 | 1,657 | 0.0 |
| June 30, 2022 | 274 | 0.0 |
| March 31, 2022 | 600 | 0.0 |

21. The Company did not own any warrants not attached to other financial instruments, options, caps, and floors as of December 31, 2022.

22. The Company did not have any potential exposure related to investments in collars, swaps, and forwards as of December 31, 2022.

23. The Company did not have potential exposure related to investments in future contracts as of December 31, 2022.

# ACCIDENT FUND INSURANCE COMPANY OF AMERICA AND SUBSIDIARIES

## CONSOLIDATED SUPPLEMENTAL SUMMARY INVESTMENT SCHEDULE—STATUTORY-BASIS
## AS OF DECEMBER 31, 2022
## (Dollars in thousands)

| | Gross Investment Holdings | | Admitted Assets as Reported in the Annual Statement | |
|---|---|---|---|---|
| | Amount | Percent | Amount | Percent |
| Long-term bonds: | | | | |
| U.S. government | $ 1,064,461 | 21.9 % | $ 1,050,470 | 21.8 % |
| All other governments | 3,478 | 0.1 | 3,478 | 0.1 |
| U.S. special revenue and special assessment obligations, non-guaranteed | 751,265 | 15.5 | 751,265 | 15.6 |
| Industrial and miscellaneous | 950,829 | 19.6 | 950,829 | 19.7 |
| SVO identified funds | 3,603 | 0.1 | 3,603 | 0.1 |
| Total long-term bonds | 2,773,636 | 57.0 | 2,759,645 | 57.2 |
| Common stocks: | | | | |
| Industrial and miscellaneous publicly traded (unaffiliated) | 182,307 | 3.7 | 182,307 | 3.8 |
| Industrial and miscellaneous other (unaffiliated) | 15,323 | 0.3 | 15,323 | 0.3 |
| Mutual funds | 8,220 | 0.2 | 8,220 | 0.2 |
| Total common stocks | 205,850 | 4.2 | 205,850 | 4.3 |
| Real estate: | | | | |
| Property occupied by Company | 101,148 | 2.1 | 101,148 | 2.1 |
| Total real estate | 101,148 | 2.1 | 101,148 | 2.1 |
| Receivable for securities | 33,027 | 0.7 | 33,027 | 0.7 |
| Securities lending | 2,595 | 0.1 | 2,595 | 0.1 |
| Cash and cash equivalents | 833,746 | 17.1 | 833,746 | 17.3 |
| Short-term investments | 55,245 | 1.1 | 55,245 | 1.1 |
| Other invested assets - affiliated | 608,859 | 12.5 | 596,677 | 12.4 |
| Other invested assets - unaffiliated | 248,316 | 5.1 | 240,677 | 5.0 |
| TOTAL | $ 4,862,422 | 100.0 % | $ 4,828,610 | 100.0 % |

## ACCIDENT FUND INSURANCE COMPANY OF AMERICA AND SUBSIDIARIES

**CONSOLIDATED SUPPLEMENTAL SCHEDULE OF REINSURANCE INTERROGATORIES—STATUTORY-BASIS**
**FOR THE YEAR ENDED DECEMBER 31, 2022**
**(Dollars in thousands)**

The 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 cap, an aggregate limit, or any similar provisions). The amount of reinsurance credit taken reflects the reduction in quota-share coverage caused by any applicable limiting provision.

The Company has ceded risk under a reinsurance contract 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 reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member where: The written premium ceded to the reinsurer by the reporting entity or its affiliate 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.

The Company has not 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 (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. A contract term longer than two years and the contract is noncancelable by the reporting entity during the contract term

b. A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer or an affiliate of the reinsurer

c. Aggregate stop loss reinsurance coverage

d. An unconditional or unilateral right by either party to commute the reinsurance contract except for such provisions, which are only triggered by a decline in the credit status of the other party

e. 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)

f. Payment schedule, accumulating retentions from multiple years, or any features inherently designed to delay timing of the reimbursement to the ceding entity; or

g. Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates in a separate reinsurance contract.

Except for transactions meeting the requirements of paragraph 30 of SSAP No. 62, *Property and Casualty Reinsurance*, the Company has not ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:

h. Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles (SAP) and as a deposit under GAAP

i. Accounted for that contract as reinsurance under GAAP and as a deposit under SAP