

**FINANCIAL STATEMENTS**

**(STATUTORY BASIS)**

**DECEMBER 31, 2014 AND 2013**

**MEMIC Casualty Company**  
**Index**  
**(Statutory Basis)**  
**December 31, 2014 and 2013**

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	<b>Page(s)</b>
<b>Independent Auditor's Report</b> .....	1-2
<b>Financial Statements</b>	
Statement of Admitted Assets, Liabilities and Capital and Surplus .....	3
Statement of Income .....	4
Statement of Changes in Capital and Surplus .....	5
Statement of Cash Flows .....	6
Notes to Financial Statements .....	7-24



## **Independent Auditor's Report**

To the Board of Directors of  
MEMIC Indemnity Company

We have audited the accompanying statutory financial statements of MEMIC Indemnity Company, which comprise the statutory statements of admitted assets, liabilities and capital and surplus as of December 31, 2014 and 2013, and the related statutory statements of income and changes in capital and surplus, and cash flows for the years then ended.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

As described in Note 2 to the financial statements, the financial statements are prepared by the Company on the basis of the accounting practices prescribed or permitted by the New Hampshire Insurance Department, which is a basis of accounting other than accounting principles generally accepted in the United States of America.



The effects on the 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.

***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statements referred to above 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, 2014 and 2013, or the results of its operations or its cash flows for the years then ended.

***Opinion on Statutory Basis of Accounting***

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and surplus of the Company as of December 31, 2014 and 2013, 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 New Hampshire Insurance Department described in Note 2.

***Other Matter***

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Supplemental Summary Investment Schedule and Supplemental Investment Risk Interrogatories of the Company as of December 31, 2014 and for the year then ended are presented for purposes of additional analysis and are not a required part of the financial statements. The Supplemental Summary Investment Schedule and Supplemental Investment Risk Interrogatories are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The effects on the Supplemental Summary Investment Schedule and Supplemental Investment Risk Interrogatories of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. As a consequence, the Supplemental Summary Investment Schedule and Supplemental Investment Risk Interrogatories do not present fairly, in conformity with accounting principles generally accepted in the United States of America, such information of the Company as of December 31, 2014 and for the year then ended. The Supplemental Summary Investment Schedule and Supplemental Investment Risk Interrogatories have been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Summary Investment Schedule and Supplemental Investment Risk Interrogatories are fairly stated, in all material respects, in relation to the financial statements taken as a whole.

*PricewaterhouseCoopers LLP*

March 20, 2015

**MEMIC Casualty Company**  
**Statement of Admitted Assets, Liabilities and Capital and Surplus**  
**(Statutory Basis)**  
**December 31, 2014 and 2013**

	2014	2013
<b>Admitted Assets</b>		
Invested assets		
Bonds, at carrying value (fair value: \$19,201,474 and \$16,483,160 at December 31, 2014 and 2013, respectively)	\$ 19,019,592	\$ 16,932,470
Cash and short term investments	<u>6,894,588</u>	<u>3,896,376</u>
Total cash and invested assets	25,914,180	20,828,846
Premium balances receivable	4,377,621	1,102,048
Due from parent	129,235	183,418
Investment income due and accrued	<u>124,615</u>	<u>106,239</u>
Total admitted assets	<u>\$ 30,545,651</u>	<u>\$ 22,220,551</u>
<b>Liabilities</b>		
Loss reserves	\$ 4,032,556	\$ 1,117,235
Loss adjustment expense reserves	491,600	124,129
Unearned premium reserves	5,459,974	1,519,068
Advance premium	140,298	21,204
Reinsurance premiums payable	71,958	1,193
Other liabilities	79,880	35,300
Premium taxes and assessments payable	284,772	369,634
Amounts withheld for others	480,507	(1,627)
Commissions payable	242,859	76,972
Net deferred tax liability	2,882	1,724
Federal income tax payable	<u>240,110</u>	<u>78,713</u>
Total liabilities	<u>\$ 11,527,396</u>	<u>\$ 3,343,545</u>
Commitments and contingencies (Note 12)		
<b>Capital and Surplus</b>		
Common stock, 1,000,000 shares authorized, 100,000 shares issued and outstanding.	\$ 3,000,000	\$ 3,000,000
Gross paid-in and contributed surplus	16,183,951	16,183,951
Unassigned surplus	<u>(165,696)</u>	<u>(306,945)</u>
Total capital and surplus	<u>19,018,255</u>	<u>18,877,006</u>
Total liabilities and capital and surplus	<u>\$ 30,545,651</u>	<u>\$ 22,220,551</u>

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

**MEMIC Casualty Company**  
**Statement of Income**  
**(Statutory Basis)**  
**Years Ended December 31, 2014 and 2013**

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	<b>2014</b>	<b>2013</b>
<b>Underwriting income</b>		
Premiums earned, net	\$ 5,553,567	\$ 1,641,155
<b>Loss and underwriting expenses</b>		
Losses incurred, net	3,755,477	1,112,976
Loss adjustment expenses incurred, net	616,709	198,470
<b>Underwriting expenses</b>		
Commissions	572,104	162,179
Premim taxes	190,407	59,684
Guarantee fund, rating bureau and other assessments	73,381	307,460
Supervision, acquisition and collection expenses	351,847	195,842
General Expenses	46,535	23,952
Total underwriting expenses	<u>1,234,274</u>	<u>749,117</u>
Total loss and underwriting expenses	<u>5,606,460</u>	<u>2,060,563</u>
Net underwriting loss	<u>(52,893)</u>	<u>(419,408)</u>
<b>Investment income</b>		
Net investment income	422,716	277,920
Net realized capital (losses) gains, net of taxes	6,846	(13,514)
Total investment income	<u>429,562</u>	<u>264,406</u>
<b>Other expenses</b>		
Bad debt expense	(50)	-
Finance charges	1,605	455
Net other expense	<u>1,555</u>	<u>455</u>
Gain (loss) before federal income taxes	378,224	(154,547)
Provision for federal income taxes	236,424	85,990
Net income (loss)	<u>\$ 141,800</u>	<u>\$ (240,537)</u>

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

**MEMIC Casualty Company**  
**Statement of Changes in Capital and Surplus**  
**(Statutory Basis)**  
**Years Ended December 31, 2014 and 2013**

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	2014	2013
<b>Capital and surplus at beginning year</b>	\$ 18,877,006	\$ 15,139,499
Net income (loss)	141,800	(240,537)
Increase in net deferred income taxes	409,604	139,903
Increase in nonadmitted assets	(410,155)	(161,859)
Capital contributions	-	4,000,000
Change in capital and surplus	<u>141,249</u>	<u>3,737,507</u>
<b>Capital and surplus at end of year</b>	<u>\$ 19,018,255</u>	<u>\$ 18,877,006</u>

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

**MEMIC Casualty Company**  
**Statement of Cash Flows**  
**(Statutory Basis)**  
**Years Ended December 31, 2014 and 2013**

	2014	2013
<b>Cash from operations</b>		
Premiums collected, net	\$ 6,408,758	\$ 1,957,849
Investment income received, net	544,311	351,705
Other expense	1,555	455
Cash provided from operations	<u>6,954,624</u>	<u>2,310,009</u>
Benefit and loss related payments	840,156	150,418
Commissions and expenses paid	1,357,907	402,075
Federal income taxes paid	78,713	5,928
Cash used in operations	<u>2,276,776</u>	<u>558,421</u>
Net cash provided from operations	<u>4,677,848</u>	<u>1,751,588</u>
<b>Cash from investing activities</b>		
Cash provided by (used in) investments		
Proceeds from bonds sold, matured or repaid	1,833,392	1,181,436
Cost of bonds acquired	(4,049,951)	(613,402)
Net cash (used in) provided from investing activities	<u>(2,216,559)</u>	<u>568,034</u>
<b>Cash from financing and miscellaneous sources</b>		
Other cash		
Capital and paid in surplus	-	150,317
Other sources (uses)	536,923	(168,292)
Net cash provided from (used in) financing and miscellaneous sources	<u>536,923</u>	<u>(17,975)</u>
Net change in cash	2,998,212	2,301,647
<b>Cash and short term investments</b>		
Beginning of year	<u>3,896,376</u>	<u>1,594,729</u>
End of year	<u>\$ 6,894,588</u>	<u>\$ 3,896,376</u>
<b>Noncash transaction</b>		
Contribution of bonds	<u>\$ -</u>	<u>\$ 3,849,683</u>

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



# **MEMIC Casualty Company**

## **Notes to Financial Statements**

### **(Statutory Basis)**

#### **December 31, 2014 and 2013**

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#### **1. Organization**

All outstanding shares of MEMIC Casualty Company (“The Company”) are owned by Maine Employers’ Mutual Insurance Company (“MEMIC”), a property/casualty insurance company domiciled in the State of Maine. The Vermont Department of Financial Regulation, acting as rehabilitator, converted the former Granite Manufacturers’ Mutual Indemnity Company (“GMMIC”), a property/casualty insurance carrier domiciled in the State of Vermont to write workers’ compensation, to a stock company and on December 12, 2011 MEMIC purchased the Company. In conjunction with the transaction, GMMIC was renamed to MEMIC Casualty Company. There are no outstanding liabilities associated with this former incorporation. At the date of conversion, the Company acquired the residual assets and liabilities of GMMIC. In 2011, MEMIC contributed capital of \$4,622,576 and a \$561,375 bond towards its original investment in the Company and in 2012 contributed capital of \$10,000,000. MEMIC contributed additional capital of \$4,000,000 in the form of fixed income securities and cash towards its investment in the Company in 2013. The \$4,000,000 capital contribution, noted as a change in policyholder surplus, includes a \$3,849,683 non-cash contribution of bonds and \$150,317 cash during 2013. To date, MEMIC has contributed 19,183,951 to the Company.

The Company is licensed to write workers’ compensation insurance in New Hampshire, New York, Pennsylvania and Vermont and commenced writing policies in May 2012.

#### **2. Summary of Significant Accounting Policies**

##### **Basis of Presentation**

The financial statements of the Company are prepared in conformity with statutory accounting practices of the National Association of Insurance Commissioners (“NAIC”) as prescribed or permitted by the Vermont Department of Financial Regulation (“statutory accounting”).

The Vermont Department of Financial Regulation recognizes only statutory accounting practices prescribed or permitted by the State of Vermont for determining and reporting the financial condition and results of operations of an insurance company, and for determining its solvency under the Vermont Insurance Law. The NAIC Accounting Practices and Procedures Manual (“NAIC SAP”) has been adopted as a component of prescribed or permitted practices by the State of Vermont. There are no differences between the Company’s net income, capital and surplus as recognized under NAIC SAP and the practices prescribed or permitted by the State of Vermont.

Statutory accounting practices differ in certain respects from accounting principles generally accepted in the United States of America (“GAAP”). The effects of such differences on the accompanying financial statements, which could be significant, have not been determined. The most significant differences generally include the following:

- a. Statutory accounting requires that policy acquisition costs such as commissions, premium taxes and other items be charged to current operations as incurred. Under GAAP, policy acquisition costs would be deferred and then amortized ratably over the periods covered by the policies;

**MEMIC Casualty Company**  
**Notes to Financial Statements**  
**(Statutory Basis)**  
**December 31, 2014 and 2013**

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- b. The statutory provision for federal income taxes represents estimated amounts currently payable based on taxable income or loss reported in the current accounting period. Deferred income taxes are provided in accordance with SSAP 101, *Income Taxes, A Replacement of SSAP 10R and SSAP 10, effective January 1, 2012*. SSAP 101 provides new requirements for tax loss contingencies and the calculation and admissibility of deferred tax assets (“DTAs”). The realization of any resulting deferred tax asset is limited based on certain criteria in accordance with SSAP 101. The GAAP provision would include a provision for taxes currently payable, as well as deferred taxes, both of which would be recorded in the income statement;
- c. Under statutory accounting, certain assets designated as “nonadmitted assets” (principally deferred income taxes and prepaid assets) are charged directly to surplus. GAAP would require the Company to maintain a reserve for doubtful accounts based on amounts deemed to be uncollectible;
- d. Under statutory accounting, investments in debt securities are generally carried at amortized cost. Under GAAP, debt securities classified as trading or available-for-sale are valued at fair value, and debt securities classified as held-to-maturity are valued at amortized cost;
- e. Reinsurance balances relating to unpaid loss and loss adjustment expenses are presented as offsets to reserves; under GAAP, such amounts would be presented as reinsurance recoverable; moreover, under statutory accounting, a liability is established for recoverable balances from reinsurers which are not authorized and for overdue paid loss recoverables;
- f. Under GAAP, the inclusion of a statement of comprehensive income, detailing the income effects of unrealized gains and losses, foreign exchange transactions, and pension liability adjustments is required;
- g. For statutory cash flow purposes, included as cash and cash equivalents are short-term investments which mature within one year as opposed to three months; and
- h. A reconciliation of cash flows to the indirect method is not provided under statutory accounting.

**Management Estimates**

The preparation of financial statements in conformity with statutory accounting practices requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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 those estimates.

**Cash and Invested Assets**

Invested assets are valued in accordance with the statutory basis of valuation prescribed by the NAIC. Cash includes cash and cash equivalents, which are short-term investments which mature within one year; the carrying value of these investments approximates fair value.

Bonds are generally stated at amortized cost. Bonds with an NAIC SVO rating of “three” or higher are carried at the lower of amortized cost or fair value. The fair values of these securities are based on quoted prices for similar assets in active markets.

**MEMIC Casualty Company**  
**Notes to Financial Statements**  
**(Statutory Basis)**  
**December 31, 2014 and 2013**

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Investment income is recorded on an accrual basis. Realized capital gains and losses are reported in operating results based on the specific identification of investments sold. Unrealized capital gains and losses from the valuation of investments at fair value are credited or charged directly to unassigned surplus, net of federal income taxes, unless determined to be other than temporary and included as a component of net realized capital (losses) gains.

Realized gains or losses on the sale of investments are determined on the specific identification method and are included in the results of operations. Declines in values of securities that are other-than-temporary are written down with a corresponding charge to net realized losses. Specific impairments are determined based on a continual review of investment portfolio valuations.

**Premiums and Unearned Premium Reserves**

Direct and assumed premiums, net of amounts ceded to other insurance companies, are earned on a monthly pro rata basis over the in-force period. Accordingly, unearned premium reserves are established for the pro rata portion of premiums written which are applicable to the unexpired terms of the policies in force, net of reinsurance. Premium adjustments resulting from retrospective rating plans and/or audits are immediately recorded as written and earned premiums once such amounts can be reasonably estimated.

**Equities and Deposits in Pools**

The Company is required to participate in involuntary pools in the state of Vermont where it writes workers' compensation business. The Company participates in underwriting results, including premiums, losses, expenses and other operations of this involuntary pool, based on the Company's proportionate share of similar business written in the state. Underwriting results are accounted for on a gross basis whereby the Company's portion of premiums, losses, expenses and other operations of the pool are recorded separately in the financial statements rather than netted against each other.

**Loss and Loss Adjustment Expense Reserves**

Losses and loss adjustment expenses are recorded as incurred so as to match such costs and premiums over the contract periods. Loss reserves are established for losses and loss adjustment expenses based upon claim evaluations and include an estimated provision for both reported and unreported claims incurred and related expenses. The assumptions used in determining loss and loss adjustment expense reserves have been developed after considering the experience of the Company, industry experience and projections by independent actuaries. The ultimate loss and loss adjustment expense reserves may vary from the amounts reflected in the accompanying financial statements. The method utilized in estimating and establishing the reserves are continually reviewed and updated and any adjustments are reflected in current operating results. The immaturity of the Company's book of business may result in an increased level of variability within the historical loss data. Allowances for subrogation recoveries are included in the Company's estimate of loss reserves. See the summary of reserves in Note 6.

**Nonadmitted Assets**

The following nonadmitted assets were excluded from the balance sheet as of December 31, 2014 and 2013:

	<b>2014</b>	<b>2013</b>
Prepaid assets	\$ -	\$ 607
Deferred income taxes	578,100	167,338
Total nonadmitted assets	<u>\$ 578,100</u>	<u>\$ 167,945</u>

# MEMIC Casualty Company

## Notes to Financial Statements

### (Statutory Basis)

#### December 31, 2014 and 2013

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#### **Federal Income Taxes**

The Company is a party to a tax-sharing agreement with MEMIC and three affiliates, MEMIC Indemnity Company, MEMIC Services, Inc. and Casco View Holdings, LLC. Under this tax-sharing agreement, the provision for federal income taxes is recorded based upon amounts expected to be reported as if the Company filed a separate federal income tax return. Additionally, under this agreement, the Company will be reimbursed for the utilization of tax operating losses, tax credits and capital loss carryforwards, to the extent the Company would have utilized these tax attributes on a separate return basis.

The provision for federal income taxes includes amounts currently payable or recoverable and deferred income taxes, computed under the asset/liability method, which results from temporary differences between the tax basis and book basis of assets and liabilities.

The Company files federal income tax returns and therefore the disclosures required by ASC 740, *Accounting for Uncertain Tax Positions*, pursuant to uncertain tax positions are included in these statutory financial statements. Refer to Note 5 - Income Taxes.

In November 2011, the NAIC adopted SSAP No. 101, "Income Taxes, A Replacement of SSAP No. 10R and SSAP No. 10". This statement revises statutory accounting principles for current and deferred federal and foreign income taxes and current state income taxes. SSAP No. 101, which is effective on January 1, 2012, will:(1) restrict the ability to use the 3 years/15 percent of surplus admission rule to those entities that meet a new modified risk based capital ratio threshold;(2) change the recognition threshold for recording tax contingency reserves from a probable liability standard to a more-likely-than-not liability standard;(3) require the disclosure of tax planning strategies that relate to reinsurance; and,(4) require consideration of reversal patterns of DTAs and deferred tax liabilities ("DTLs") in determining the extent to which DTLs could offset DTAs on the balance sheet. Refer to Note 5 - Income Taxes.

#### **Reclassifications**

Certain prior year amounts have been reclassified to conform to current year presentation.

### **3. Capital and Surplus**

Maine Employers' Mutual Insurance Company contributed capital of \$4,622,576 and a \$561,375 bond towards its investment in the Company on December 12, 2011. MEMIC contributed additional capital of \$4,000,000 in the form of fixed income securities and cash towards its investment in the Company in 2013. The \$4,000,000 capital contribution, noted as a change in policyholder surplus, includes a \$3,849,683 non-cash contribution of bonds and \$150,317 cash in 2013. To date, MEMIC has contributed \$19,183,951 to the Company. The Company has 1,000,000 shares of stock authorized; 100,000 shares issued and outstanding as of December 31, 2014. The stock had a \$30 par value per share as of December 31, 2014.

There are no advances to surplus not repaid or other surplus restrictions other than the capital contribution portion of surplus discussed above, dividend restrictions discussed in Note 4 or statutory deposits in Note 9.

### **4. Dividend Restrictions**

8 V.S.A. § 3685 of the Vermont Statute states the following limitation on dividends: An extraordinary dividend or distribution includes any dividend or distribution of cash or other property, whose fair market value together with that of other dividends or distributions made within the preceding 12 months exceeds the lesser of (A) 10 percent of such insurer's surplus as regards

**MEMIC Casualty Company**  
**Notes to Financial Statements**  
**(Statutory Basis)**  
**December 31, 2014 and 2013**

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policyholders as of the 31st day of December next preceding; or (B) The net gains from operations of such insurer, if such insurer is a life insurer, or the net income, if such insurer is not a life insurer, not including realized capital gains, for the 12-month period ending the 31st day of December next preceding, but shall not include pro rata distributions of any class of the insurer's own securities. In determining whether a dividend or distribution is extraordinary, an insurer other than a life insurer may carry forward net income from the previous two calendar years that has not already been paid out as dividends. This carry-forward shall be computed by taking the net income from the second and third preceding calendar years, not including realized capital gains, less dividends paid in the second and immediate preceding calendar years. The maximum amount of dividends which can be paid by the Company to shareholders without prior approval of the Superintendent of Insurance during 2014 and 2013 was \$0, respectively. There were no dividends declared during 2014 or 2013. See subsequent event footnote – 14.

**MEMIC Casualty Company**  
**Notes to Financial Statements**  
**(Statutory Basis)**  
**December 31, 2014 and 2013**

**5. Income Taxes**

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

	<b>December 31, 2014</b>		
	<b>1</b>	<b>2</b>	<b>3</b>
	<b>Ordinary</b>	<b>Capital</b>	<b>(Col 1+2) Total</b>
a. Gross deferred tax assets	\$ 578,100	\$ -	\$ 578,100
b. Statutory valuation allowance adjustment	575,218		575,218
c. Adjusted gross deferred taxes (1a - 1b)	2,882	-	2,882
d. Deferred tax assets nonadmitted	-	-	-
e. Subtotal net admitted deferred tax asset (1c - 1d)	2,882	-	2,882
f. Deferred tax liabilities	2,882	-	2,882
g. Net admitted deferred tax assets/(net deferred tax liability) (1e - 1f)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
	<b>December 31, 2013</b>		
	<b>4</b>	<b>5</b>	<b>6</b>
	<b>Ordinary</b>	<b>Capital</b>	<b>(Col 4+5) Total</b>
a. Gross deferred tax assets	\$ 167,338	\$ -	\$ 167,338
b. Statutory valuation allowance adjustment	-	-	-
c. Adjusted gross deferred taxes (1a - 1b)	167,338	-	167,338
d. Deferred tax assets nonadmitted	167,338	-	167,338
e. Subtotal net admitted deferred tax asset (1c - 1d)	-	-	-
f. Deferred tax liabilities	1,724	-	1,724
g. Net admitted deferred tax assets/(net deferred tax liability) (1e - 1f)	<u>\$ (1,724)</u>	<u>\$ -</u>	<u>\$ (1,724)</u>
	<b>Change</b>		
	<b>7</b>	<b>8</b>	<b>9</b>
	<b>(Col 1-4) Ordinary</b>	<b>(Col 2-5) Capital</b>	<b>(Col 7+8) Total</b>
a. Gross deferred tax assets	\$ 410,762	\$ -	\$ 410,762
b. Statutory valuation allowance adjustment	575,218	-	575,218
c. Adjusted gross deferred taxes (1a - 1b)	(164,456)	-	(164,456)
d. Deferred tax assets nonadmitted	(167,338)	-	(167,338)
e. Subtotal net admitted deferred tax asset (1c - 1d)	2,882	-	2,882
f. Deferred tax liabilities	1,158	-	1,158
g. Net admitted deferred tax assets/(net deferred tax liability) (1e - 1f)	<u>\$ 1,724</u>	<u>\$ -</u>	<u>\$ 1,724</u>

**MEMIC Casualty Company**  
**Notes to Financial Statements**  
**(Statutory Basis)**  
**December 31, 2014 and 2013**

Admission calculation components:

	December 31, 2014		
	1	2	3
	Ordinary	Capital	(Col 1+2) Total
a. Federal income taxes paid in prior years recoverable through loss carrybacks	\$ -	\$ -	\$ -
b. Adjusted gross deferred tax assets expected to be realized (excluding the amount of deferred tax assets from 2(a) above) after application of the threshold limitation. (The lesser of 2(b)1 and 2(b)2 below:	-	-	-
1. Adjusted gross deferred tax assets expected to be realized following the balance sheet date	2,882	-	2,882
2. Adjusted gross deferred tax assets allowed per limitation threshold	XXX	XXX	XXX
c. Adjusted gross deferred tax assets (excluding the amount of deferred tax assets from 2(a) and 2(b) above) offset by gross deferred tax liabilities	-	-	-
d. Deferred tax assets admitted as the result of application of SSAP 101 Total 2(a)+2(b)+2(c)	\$ 2,882	\$ -	\$ 2,882
	December 31, 2013		
	4	5	6
	Ordinary	Capital	(Col 4+5) Total
a. Federal income taxes paid in prior years recoverable through loss carrybacks	\$ -	\$ -	\$ -
b. Adjusted gross deferred tax assets expected to be realized (excluding the amount of deferred tax assets from 2(a) above) after application of the threshold limitation. (The lesser of 2(b)1 and 2(b)2 below:	-	-	-
1. Adjusted gross deferred tax assets expected to be realized following the balance sheet date	-	-	-
2. Adjusted gross deferred tax assets allowed per limitation threshold	XXX	XXX	XXX
c. Adjusted gross deferred tax assets (excluding the amount of deferred tax assets from 2(a) and 2(b) above) offset by gross deferred tax liabilities	-	-	-
d. Deferred tax assets admitted as the result of application of SSAP 101 Total 2(a)+2(b)+2(c)	\$ -	\$ -	\$ -
	Change		
	7	8	9
	(Col 1-4) Ordinary	(Col 2-5) Capital	(Col 7+8) Total
a. Federal income taxes paid in prior years recoverable through loss carrybacks	\$ -	\$ -	\$ -
b. Adjusted gross deferred tax assets expected to be realized (excluding the amount of deferred tax assets from 2(a) above) after application of the threshold limitation. (The lesser of 2(b)1 and 2(b)2 below:	-	-	-
1. Adjusted gross deferred tax assets expected to be realized following the balance sheet date	2,882	-	2,882
2. Adjusted gross deferred tax assets allowed per limitation threshold	XXX	XXX	XXX
c. Adjusted gross deferred tax assets (excluding the amount of deferred tax assets from 2(a) and 2(b) above) offset by gross deferred tax liabilities	-	-	-
d. Deferred tax assets admitted as the result of application of SSAP	\$ 2,882	\$ -	\$ 2,882

**MEMIC Casualty Company**  
**Notes to Financial Statements**  
**(Statutory Basis)**  
**December 31, 2014 and 2013**

Other admissibility criteria:

	<u>2014</u>	<u>2013</u>
a. Ratio percentage used to determine recovery period and threshold limitation amount	6456%	8528%
b. Amount of adjusted capital and surplus used to determine recovery period and threshold limitation in 2(b)2 above	\$ 2,852,738	\$ 2,831,551

Impact of tax planning strategies:

	<u>2014</u>		<u>2013</u>		<u>Change</u>	
	1	2	3	4	5	6
	Ordinary	Capital	Ordinary	Capital	(Col. 1-3) Ordinary	(Col. 2-4) Capital
a. Determination of adjusted gross deferred tax assets and net deferred tax assets, by tax as a percentage						
1 Adjusted gross DTAs Note 5A1(c).	2,882	-	167,338	-	(164,456)	-
2 Percentage of adjusted gross DTAs by tax character attributable to impact of tax planning	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
3 Net Admitted Adjusted Gross DTAs amount from Note	2,882	-	-	-	2,882	-
4 Percentage of net admitted adjusted from DTAs by tax because of the impact of strategies.	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Does the Company's tax planning strategies include the use of						
b. reinsurance?					Yes [ ]	No [ X ]



**MEMIC Casualty Company**  
**Notes to Financial Statements**  
**(Statutory Basis)**  
**December 31, 2014 and 2013**

Current and deferred income taxes:

Current income tax:

	<u>2014</u>	<u>2013</u>	<u>Change</u>
a. Federal	\$ 347,667	\$ 85,990	\$ 261,677
b. Foreign	-	-	-
c. Subtotal	<u>347,667</u>	<u>85,990</u>	<u>261,677</u>
d. Federal income tax on net capital gains	3,686	(7,277)	10,963
e. Utilization of capital loss carry-forwards	-	-	-
f. Other	-	-	-
g. Federal and Foreign income taxes incurred	<u>\$ 351,353</u>	<u>\$ 78,713</u>	<u>\$ 272,640</u>
Deferred Tax Assets			
	<u>2014</u>	<u>2013</u>	<u>Change</u>
a. Ordinary			
Discounting of unpaid losses	\$ 136,311	\$ 59,519	\$ 76,792
Unearned premium reserves	390,535	107,819	282,716
Other (including items < 5% of total ordinary tax assets)	7,784	-	7,784
Subtotal	<u>43,470</u>	<u>-</u>	<u>43,470</u>
Subtotal	578,100	167,338	410,762
b. Statutory Valuation allowance adjustment	575,218	-	575,218
c. Nonadmitted	-	167,338	(167,338)
d. Admitted ordinary deferred tax assets (2a99-2b-2c)	<u>2,882</u>	<u>-</u>	<u>2,882</u>
e. Capital:			
Investments	-	-	-
Subtotal	<u>-</u>	<u>-</u>	<u>-</u>
f. Statutory Valuation allowance adjustment	-	-	-
g. Nonadmitted	-	-	-
h. Admitted capital deferred tax assets (2e99-2f-2g)	<u>-</u>	<u>-</u>	<u>-</u>
i. Admitted deferred tax assets (2d+2h)	<u>\$ 2,882</u>	<u>\$ -</u>	<u>\$ 2,882</u>
Deferred Tax Liabilities			
a. Ordinary:			
Investments	\$ 2,882	\$ 1,724	\$ 1,158
Fixed Assets	-	-	-
Subtotal	<u>2,882</u>	<u>1,724</u>	<u>1,158</u>
b. Capital:			
Investments	-	-	-
Subtotal	<u>-</u>	<u>-</u>	<u>-</u>
c. Deferred tax liabilities (3a99+3b99)	<u>\$ 2,882</u>	<u>\$ 1,724</u>	<u>\$ 1,158</u>
Net Deferred Tax Assets/Liabilities (2i-3c)	<u>\$ -</u>	<u>\$ (1,724)</u>	<u>\$ 1,724</u>

**MEMIC Casualty Company**  
**Notes to Financial Statements**  
**(Statutory Basis)**  
**December 31, 2014 and 2013**

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Reconciliation of federal income tax rate to actual effective rate.

Among the more significant book to tax adjustments were the following:

	<u>2014</u>	<u>Effective Tax Rate (%)</u>
Provision computed at statutory rate	\$ 133,669	35%
Balance sheet true-up	(54)	0%
Provision to file	(6,733)	-2%
AMT adjustment	(185,133)	-49%
Prior year statutory valuation allowance adjustment	165,614	43%
Current year statutory valuation allowance adjustment	409,604	107%
Totals	<u>516,967</u>	<u>135%</u>
Federal and foreign income taxes incurred	347,667	91%
Realized capital gains (losses) tax	3,686	1%
Change in net deferred income taxes	165,614	43%
Total statutory income taxes	<u>\$ 516,967</u>	<u>135%</u>

As of December 31, 2014 and 2013 the Company does not have any investment tax credits, net operating loss or capital loss carry forwards available to offset against future taxable income. The amount of federal income taxes incurred in the current year and each proceeding year available for recoupment in the event of future net losses is \$246,844 for 2014 and \$83,265 for 2013. There are no deposits admitted under Section 6603 of the Internal Revenue Code.

As of December 31, 2014 and 2013 the Company does not have any uncertain tax positions requiring disclosure in these financial statements. Had the Company identified such positions, these amounts would need to be evaluated and disclosed or accrued. Liabilities would be reflected on the statement of admitted assets, liabilities, and capital and surplus and the related interest and penalties would be included on the statement of income as underwriting expenses.

As of December 31, 2014 the Company incurred AMT of \$0 on a stand-alone basis and \$390,045 on a consolidated basis.

The tax years that remain subject to examination by major tax jurisdictions for the Company are 2011, 2012 and 2013.

The Company is included in a consolidated federal income tax return with the following entities:

Maine Employers' Mutual Insurance Company, parent company,  
Casco View Holdings, LLC, a related party under common ownership,  
MEMIC Indemnity Company, a related party under common ownership,  
MEMIC Services, Inc., a related party under common ownership.

The Company has a written agreement which sets forth the manner in which the total combined federal income tax is allocated to each entity which is a party to the consolidation. Pursuant to this agreement, the Company has a right to recoup federal income taxes paid in prior years in the event of future net losses, or to recoup its net losses carried forward as an offset to future net income subject to federal income taxes.

**MEMIC Casualty Company**  
**Notes to Financial Statements**  
**(Statutory Basis)**  
**December 31, 2014 and 2013**

---

The Company does not have any tax loss contingencies for which it is reasonable possible that the total liability will significantly increase within twelve months of the reporting date.

**6. Liabilities for Loss Reserves and Loss Adjustment Expense Reserves**

Activity in the liabilities for loss reserves and loss adjustment expense reserves for the years ended December 31, 2014 and 2013 is summarized as follows:

	<u>2014</u>	<u>2013</u>
<b>Net balances at January 1,</b>	\$ 1,241,364	\$ 160,718
Incurred related to		
Current year	4,450,790	1,397,700
Prior year	<u>(78,604)</u>	<u>(86,254)</u>
Total incurred	<u>4,372,186</u>	<u>1,311,446</u>
Paid related to		
Current year	832,612	38,122
Prior year	<u>256,782</u>	<u>192,678</u>
Total paid	<u>1,089,394</u>	<u>230,800</u>
<b>Net balances at December 31,</b>	<u>\$ 4,524,156</u>	<u>\$ 1,241,364</u>

The liabilities for loss and loss adjustment expense reserves are based upon assumptions which consider the experience of the Company, industry experience, and projections by independent actuaries. However, the reserve process is inherently subjective, and the ultimate loss and loss adjustment expense reserves may vary from the amounts recorded in the financial statements.

During 2014, the Company's incurred losses related to prior years decreased by \$78,604 as a result of favorable loss development principally in the 2013 accident year. This favorable decrease is the result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims. There was no impact on reserves or surplus as a result of development of retrospectively rated policies.

During 2013, the Company's incurred losses related to prior years decreased by \$86,254 as a result of favorable loss development principally in the 2012 accident year. This favorable decrease is the result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims. There was no impact on reserves or surplus as a result of development of retrospectively rated policies.

**MEMIC Casualty Company**  
**Notes to Financial Statements**  
**(Statutory Basis)**  
**December 31, 2014 and 2013**

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**7. Reinsurance**

As a condition of writing policies in several states, the Company is required to participate in the National Workers' Compensation Reinsurance Pool and the Massachusetts Reinsurance Pool (the "Pools") as it relates to those states. Participation requires that the Company share in the losses and expenses of the Pool. Pool results are accounted for on a gross basis whereby the Company's portion of premiums, losses, expenses and other operations of the Pool are recorded separately in the financial statements. All amounts are recorded as assumed business. Amounts added to premiums, reserves and expenses for reinsurance assumed from pools are as follows:

	<u>2014</u>	<u>2013</u>
Premiums earned	\$ 233,325	\$ 68,329
Loss and loss adjustment expenses incurred	176,422	54,503
Unearned premiums	60,835	15,848
Loss and loss adjustment expense reserves	152,727	38,538
Premiums receivable	50,254	13,910
Underwriting expenses incurred	56,464	18,260

The Company reinsures portions of risks with another insurance company through excess of loss reinsurance agreements. Such agreements serve to limit the Company's maximum loss on catastrophes and large losses. To the extent that the reinsurer might be unable to meet its obligations, the Company would be liable for such defaulted amounts.

Under the Company's excess of loss agreement, the Company's net retention for losses on a per occurrence basis is \$750,000 for 2014 and 2013. In addition, for 2014, the Company maintains additional coverage up to \$100,000,000 on a per occurrence basis. In 2013, the Company maintained additional coverage up to \$75,000,000 on a per occurrence basis, with the Company co-participating at 50% on losses in excess of \$50,000,000 up to \$75,000,000 per occurrence.

Amounts deducted from premiums, reserves and expenses for reinsurance ceded were as follows:

	<u>2014</u>	<u>2013</u>
Premiums earned	\$ 271,958	\$ 85,481
Loss and loss adjustment expenses incurred	25,615	12,559
Loss and loss adjustment expense reserves	38,174	12,559

The 2014 and 2013 ceded loss and loss adjustment expense reserves above are comprised of amounts with one reinsurance carrier although the Company has contracts with other carriers.

The Company had no unsecured reinsurance recoverables from a reinsurer that exceeded 3% of capital and surplus at December 31, 2014.

**MEMIC Casualty Company**  
**Notes to Financial Statements**  
**(Statutory Basis)**  
**December 31, 2014 and 2013**

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The Company has no reinsurance contracts that contain the following features (a) a contract term longer than two years and that is noncancellable by the Company 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) a unilateral right by either party (or both parties) to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party; (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); or (f) payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity. The Company has neither ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards to policyholders or it report calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year end surplus as regards to policyholders nor has the Company 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 accounted for that contract as reinsurance (either prospective or retroactive) under statutory account principles. Additionally, the Company has not ceded any risk under any reinsurance contract where (a) the written premiums ceded to the reinsurer represents 50% or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statements or (b) 25% or more of the written premium ceded to the reinsurer has been retroceded back to the Company in a separate reinsurance contract. Accordingly, the Company has not included the Supplemental Schedule of Reinsurance Disclosures.

**8. Premiums written and earned**

During the years ended December 31, 2014 and 2013, direct, assumed and ceded premiums were as follows:

	2014		2013	
	Written	Earned	Written	Earned
Direct	\$ 9,448,119	\$ 5,592,200	\$ 2,931,172	\$ 1,658,307
Assumed	278,311	233,325	84,177	68,329
Ceded	<u>(271,958)</u>	<u>(271,958)</u>	<u>(85,481)</u>	<u>(85,481)</u>
Net premiums	<u>\$ 9,454,472</u>	<u>\$ 5,553,567</u>	<u>\$ 2,929,868</u>	<u>\$ 1,641,155</u>

**9. Statutory Deposits**

Various regulatory authorities require that securities be placed on deposit. At December 31, 2014 and 2013, the Company had fixed income securities on deposit with a carrying value of \$1,147,875 and \$1,150,433, respectively.

**MEMIC Casualty Company**  
**Notes to Financial Statements**  
**(Statutory Basis)**  
**December 31, 2014 and 2013**

**10. Investments**

The carrying value and fair values of bonds at December 31, 2014 and 2013 are as follows:

	<b>2014</b>			
	<b>Carrying Value</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
U.S. Government and government agencies and authorities	\$ 2,954,917	\$ 139,317	\$ -	\$ 3,094,234
Political subdivisions of states	275,901	51,342	-	327,243
Industrial and miscellaneous	9,624,942	80,757	(95,185)	9,610,514
Asset backed securities	6,163,832	71,851	(66,200)	6,169,483
Total bonds	<u>\$ 19,019,592</u>	<u>\$ 343,267</u>	<u>\$ (161,385)</u>	<u>\$ 19,201,474</u>

  

	<b>2013</b>			
	<b>Carrying Value</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
U.S. Government and government agencies and authorities	\$ 3,213,539	\$ 90,349	\$ (8,681)	\$ 3,295,207
Political subdivisions of states	275,901	-	(1,428)	274,473
Industrial and miscellaneous	7,355,180	8,969	(295,768)	7,068,381
Asset backed securities	6,087,850	1,828	(244,579)	5,845,099
Total bonds	<u>\$ 16,932,470</u>	<u>\$ 101,146</u>	<u>\$ (550,456)</u>	<u>\$ 16,483,160</u>

The carrying value and fair value of bonds at December 31, 2014 by contractual maturity are as follows:

<b>Maturity</b>	<b>Carrying Value</b>	<b>Fair Value</b>
One year or less	\$ 1,393,213	\$ 1,389,947
Over one year through five years	4,697,241	4,708,325
Over five years through ten years	5,938,002	5,921,320
Over ten years through twenty years	551,402	685,156
Over twenty years	275,901	327,243
Asset backed securities (principally ten through twenty years)	6,163,833	6,169,483
	<u>\$ 19,019,592</u>	<u>\$ 19,201,474</u>

Bonds subject to early or unscheduled prepayments have been included above based upon their contractual maturity dates. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

**MEMIC Casualty Company**  
**Notes to Financial Statements**  
**(Statutory Basis)**  
**December 31, 2014 and 2013**

Proceeds from sales of investments on debt securities and the gross realized gains and losses on those sales for the years ended December 31, 2014 and 2013 are summarized as follows:

	<b>2014</b>		
	<b>Proceeds From Sales</b>	<b>Gross Realized Gains</b>	<b>Losses</b>
Bonds	\$ 705,943	\$ 10,533	\$ -
	<u>\$ 705,943</u>	<u>\$ 10,533</u>	<u>\$ -</u>
	<b>2013</b>		
	<b>Proceeds From Sales</b>	<b>Gross Realized Gains</b>	<b>Losses</b>
Bonds	\$ 179,393	\$ -	\$ (20,791)
	<u>\$ 179,393</u>	<u>\$ -</u>	<u>\$ (20,791)</u>

At December 31, 2014 and 2013, the Company owned no securities that were in an unrealized loss position that management determined were other-than-temporarily and given current market conditions would recover. The Company did not record any other-than-temporary-impairments on these securities during 2014 or 2013.

The fair value and gross unrealized loss of investment securities and the amount of time the security has been in an unrealized loss position as of December 31, 2014 is as follows:

	<b>Less Than 12 Months</b>		<b>12 Months or More</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
Bonds (NAIC 1-2)	\$ 1,576,917	\$ (6,113)	\$ 5,745,148	\$ (155,272)	\$ 7,322,065	\$ (161,385)
Bonds (NAIC 3-6)					-	-
	<u>\$ 1,576,917</u>	<u>\$ (6,113)</u>	<u>\$ 5,745,148</u>	<u>\$ (155,272)</u>	<u>\$ 7,322,065</u>	<u>\$ (161,385)</u>

Unrealized losses on investment grade securities (NAIC 1-2) principally relate to changes in interest rates.

The major categories of net investment income for the years ended December 31, 2014 and 2013 are summarized as follows:

	<b>2014</b>	<b>2013</b>
Bonds	\$ 450,638	\$ 303,878
Cash and short-term investments	3,822	2,837
Other income	19	-
Total investment income	<u>454,479</u>	<u>306,715</u>
Less: Investment expenses	<u>(31,763)</u>	<u>(28,795)</u>
Net investment income	<u>\$ 422,716</u>	<u>\$ 277,920</u>

**MEMIC Casualty Company**  
**Notes to Financial Statements**  
**(Statutory Basis)**  
**December 31, 2014 and 2013**

**11. Fair Value of Financial Instruments**

The fair value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. The fair value of a liability is the amount at which that liability could be incurred or settled in a current transaction between willing parties, that is, other than in a forced or liquidation sale.

Valuation techniques used to derive fair value of investment securities are based on observable or unobservable inputs. Observable inputs reflect market data obtained from independent resources such as active markets or nationally recognized pricing services. Unobservable inputs reflect comparable securities or valuations received from various broker or dealer quotes.

Items Measured and Reported at Fair Value by Levels 1, 2 and 3.

The Company has categorized its assets and liabilities that are reported on the balance sheet at fair value into a three-level fair value hierarchy as reflected in the table below. The three-level fair value hierarchy is based on the degree of subjectivity inherent in the valuation method by which fair value was determined. The three levels are defined as follows:

**Level 1 - Quoted Prices in Active Markets for Identical Assets and Liabilities:** This category, for items measured at fair value on a recurring basis, includes exchange-traded preferred and common stocks. The estimated fair value of the equity securities within this category are based on quoted prices in active markets and are thus classified as Level 1.

**Level 2 - Significant Other Observable Inputs:** This category for items measured at fair value on a recurring basis includes bonds, which are not exchange-traded. The estimated fair values of some of these items were determined by independent pricing services using observable inputs. Others were based on quotes from markets which were not considered actively traded. The Company currently has no assets or liabilities measured at fair value in this category.

**Level 3 - Significant Other Unobservable Inputs:** Transfers to and from Level 3 would be recognized when a purchase, sale or settlement increases or decrease an asset previously valued as a Level 3 or when an investment is purchased which is carried at fair market value and does not have an observable input for valuation. The Company currently has no assets or liabilities measured at fair value in this category. There are no Level 3 fair value assets which were transferred in or out during 2014.

	<b>2014</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Assets on balance sheet at fair value				
Other - short term investments	\$ 871,649	\$ -	\$ -	\$ 871,649
Total assets on balance sheet at fair value	<u>\$ 871,649</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 871,649</u>
	<b>2013</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Assets on balance sheet at fair value				
Other - short term investments	\$ 1,058,673	\$ -	\$ -	\$ 1,058,673
Total assets on balance sheet at fair value	<u>\$ 1,058,673</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,058,673</u>



**MEMIC Casualty Company**  
**Notes to Financial Statements**  
**(Statutory Basis)**  
**December 31, 2014 and 2013**

At the end of each reporting period, the Company evaluates whether or not any event has occurred or circumstances have changed that would cause an instrument to be transferred between Levels 1, 2 or 3. Transfers to and from Level 2 or 3 would be recognized when a purchase, sale or settlement increases or decrease an asset previously valued as a Level 1 or 2 or when an investment is purchased which is carried at fair market value and does not have an observable input for valuation. There were no Level 2 or 3 fair value assets during 2014 or 2013. The Company has no derivative assets or liabilities or assets carried at fair value on a nonrecurring basis.

The table below reflects the fair values and admitted assets and liabilities that are financial instruments excluding those accounted for under the equity method (subsidiaries, joint ventures and ventures) as of December 31, 2014. The fair values are also categorized into the three-level fair value hierarchy as described above.

Type of Financial Instrument	2014					Not Practicable (Carrying Value)
	Fair Value	Admitted Value	Level 1	Level 2	Level 3	
Bonds	\$ 19,201,474	\$ 19,019,592	\$ -	\$ 19,201,474	\$ -	\$ -
Cash, cash equivalents & short-term investments	6,894,588	6,894,588	6,894,588			
Total assets	\$ 26,096,062	\$ 25,914,180	\$ 6,894,588	\$ 19,201,474	\$ -	\$ -

  

Type of Financial Instrument	2013					Not Practicable (Carrying Value)
	Fair Value	Admitted Value	Level 1	Level 2	Level 3	
Bonds	\$ 16,483,160	\$ 16,932,470	\$ -	\$ 16,483,160	\$ -	\$ -
Cash, cash equivalents & short-term investments	3,896,376	3,896,376	3,896,376			
Total assets	\$ 20,379,536	\$ 20,828,846	\$ 3,896,376	\$ 16,483,160	\$ -	\$ -

**12. Commitment and Contingent Liabilities**

The Company is involved in litigation with respect to claims arising in the ordinary course of business, which is taken into account in establishing loss and loss adjustment expense reserves. The Company periodically reviews its overall loss and loss adjustment expense reserve position as well as its provision for reinsurance. The Company's management believes the resolution of such litigation is not expected to have a material adverse effect on the financial position or the operating results of the Company.

The Company is subject to guaranty funds and other assessments by the state of Vermont where it has written business. Guaranty fund assessments should be accrued at the time of insolvencies. Certain assessments that are unknown to the Company are accrued at the time of assessment. In the case of premium based assessments, the expense is accrued at the time the premiums are written, or, in the case of loss based assessments, at the time the losses are incurred.

# **MEMIC Casualty Company**

## **Notes to Financial Statements**

### **(Statutory Basis)**

#### **December 31, 2014 and 2013**

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The Company has recorded an expense for the Vermont guaranty fund and other New York and Pennsylvania assessments of \$105,121 and \$314,704 at December 31, 2014 and 2013, respectively. Of these amounts, the company has accrued a net liability at December 31, 2014 and 2013 of \$146,440 and 317,837, respectively, which is included in premium taxes and other assessments on the balance sheet. This amount represents management's best estimate of its liability for guaranty fund and other New York assessments based on information received from the state in which the Company writes business and may change due to many factors, including the Company's share of the ultimate cost of current insolvencies. The Company does not have the ability to recover these noted assessments through policyholder surcharges so no related asset is recorded on the balance sheet or income statement.

The Company's parent MEMIC has adopted a qualified defined contribution pension, 401(k) and profit sharing plan covering substantially all full-time employees who meet the plans' eligibility requirements. MEMIC has also adopted a non-qualified, deferred compensation plan for certain key executives and an Incentive Compensation Plan for certain members of senior management. The Company does not currently have any of its own employees. The salaries and employee benefit expenses that reside in the Company are a result of intercompany contracts for claims, underwriting, loss control, administration and management and not direct costs therefore, the Company did not incur any direct expense for any employee benefit plans during 2014 or 2013.

The Company has no obligations to former employees for benefits after their employment but before their retirement other than for compensation related to earned vacation pay.

#### **13. Related Party Transactions**

MEMIC charges management fees and other services to the Company in the normal course of business and in accordance with the terms of certain cost sharing agreements. In 2014 and 2013, there was \$179,731 and \$155,653, charged from MEMIC to the Company for administrative and management services, underwriting, claims, managed care and investment management fees. Certain other direct costs are paid by MEMIC and charged back to the Company as well.

MEMIC Indemnity Company charges underwriting, claims and premium audit services to the Company in the normal course of business in accordance with certain cost sharing agreements. In 2014 and 2013, there was \$147,318 and \$31,874, respectively, charged from MEMIC Indemnity to the Company.

MEMIC Services, Inc. charges agency service fees to the Company in the normal course of business in accordance with certain cost sharing agreements. The charge for these services during 2014 and 2013 was \$16,756 and \$4,692, respectively.

#### **14. Subsequent Events**

Subsequent events have been considered through March 20, 2015 for these statutory financial statements which are available to be issued on March 20, 2015. As of January 1, 2015 the Company changed its state of domicile from Vermont to New Hampshire. There is no financial impact as a result of this change that is not accounted for herein.

**SUMMARY INVESTMENT SCHEDULE**

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement			
	1 Amount	2 Percentage	3 Amount	4 Securities Lending Reinvested Collateral Amount	5 Total (Col. 3 + 4) Amount	6 Percentage
1. Bonds:						
1.1 U.S. treasury securities.....	2,954,917	11.4	2,954,917		2,954,917	11.4
1.2 U.S. government agency obligations (excluding mortgage-backed securities):						
1.21 Issued by U.S. government agencies.....		0.0			0	0.0
1.22 Issued by U.S. government sponsored agencies.....		0.0			0	0.0
1.3 Non-U.S. government (including Canada, excluding mortgage-backed securities).....		0.0			0	0.0
1.4 Securities issued by states, territories and possessions and political subdivisions in the U.S.:						
1.41 States, territories and possessions general obligations.....		0.0			0	0.0
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations.....		0.0			0	0.0
1.43 Revenue and assessment obligations.....	275,901	1.1	275,901		275,901	1.1
1.44 Industrial development and similar obligations.....		0.0			0	0.0
1.5 Mortgage-backed securities (includes residential and commercial MBS):						
1.51 Pass-through securities:						
1.511 Issued or guaranteed by GNMA.....		0.0			0	0.0
1.512 Issued or guaranteed by FNMA and FHLMC.....	4,621,985	17.8	4,621,985		4,621,985	17.8
1.513 All other.....		0.0			0	0.0
1.52 CMOs and REMICs:						
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA.....	504,674	1.9	504,674		504,674	1.9
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-based securities issued or guaranteed by agencies shown in Line 1.521.....		0.0			0	0.0
1.523 All other.....	1,037,174	4.0	1,037,174		1,037,174	4.0
2. Other debt and other fixed income securities (excluding short-term):						
2.1 Unaffiliated domestic securities (includes credit tenant loans and hybrid securities).....	8,998,924	34.7	8,998,924		8,998,924	34.7
2.2 Unaffiliated non-U.S. securities (including Canada).....	626,017	2.4	626,017		626,017	2.4
2.3 Affiliated securities.....		0.0			0	0.0
3. Equity interests:						
3.1 Investments in mutual funds.....		0.0			0	0.0
3.2 Preferred stocks:						
3.21 Affiliated.....		0.0			0	0.0
3.22 Unaffiliated.....		0.0			0	0.0
3.3 Publicly traded equity securities (excluding preferred stocks):						
3.31 Affiliated.....		0.0			0	0.0
3.32 Unaffiliated.....		0.0			0	0.0
3.4 Other equity securities:						
3.41 Affiliated.....		0.0			0	0.0
3.42 Unaffiliated.....		0.0			0	0.0
3.5 Other equity interests including tangible personal property under lease:						
3.51 Affiliated.....		0.0			0	0.0
3.52 Unaffiliated.....		0.0			0	0.0
4. Mortgage loans:						
4.1 Construction and land development.....		0.0			0	0.0
4.2 Agricultural.....		0.0			0	0.0
4.3 Single family residential properties.....		0.0			0	0.0
4.4 Multifamily residential properties.....		0.0			0	0.0
4.5 Commercial loans.....		0.0			0	0.0
4.6 Mezzanine real estate loans.....		0.0			0	0.0
5. Real estate investments:						
5.1 Property occupied by company.....		0.0			0	0.0
5.2 Property held for production of income (including \$.....0 of property acquired in satisfaction of debt).....		0.0			0	0.0
5.3 Property held for sale (including \$.....0 property acquired in satisfaction of debt).....		0.0			0	0.0
6. Contract loans.....		0.0			0	0.0
7. Derivatives.....		0.0			0	0.0
8. Receivables for securities.....		0.0			0	0.0
9. Securities lending (Line 10, Asset Page reinvested collateral).....		0.0		XXX	XXX	XXX
10. Cash, cash equivalents and short-term investments.....	6,894,588	26.6	6,894,588		6,894,588	26.6
11. Other invested assets.....		0.0			0	0.0
12. Total invested assets.....	25,914,180	100.0	25,914,180	0	25,914,180	100.0



## SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For the year ended December 31, 2014

(To be filed by April 1)

Of MEMIC Casualty Company

Address (City, State, Zip Code): Manchester, NH 03104

NAIC Group Code.....1332

NAIC Company Code.....14164

Employer's ID Number.....03-6009096

The Investment Risks Interrogatories are to be filed by April 1. They are also to be included with the Audited Statutory Financial Statements.

Answer the following interrogatories by reporting the applicable U.S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement. \$.....30,545,651

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

	1	2	3	4
	<u>Issuer</u>	<u>Description of Exposure</u>	<u>Amount</u>	<u>Percentage of Total Admitted Assets</u>
2.01	PROGRESSIVE CORP.....	Long Term Bonds.....	\$.....526,797	.....1.725 %
2.02	CHAIT 2012-A4 A4.....	Long Term Bonds.....	\$.....503,113	.....1.647 %
2.03	JPMORGAN CHASE & CO.....	Long Term Bonds.....	\$.....384,510	.....1.259 %
2.04	CAMDEN PROPERTY TRUST.....	Long Term Bonds.....	\$.....377,648	.....1.236 %
2.05	BARRICK NA FINANCE LLC.....	Long Term Bonds.....	\$.....375,780	.....1.230 %
2.06	UNITEDHEALTH GROUP INC.....	Long Term Bonds.....	\$.....350,424	.....1.147 %
2.07	AVALONBAY COMMUNITIES IN.....	Long Term Bonds.....	\$.....348,255	.....1.140 %
2.08	BANK OF MONTREAL.....	Long Term Bonds.....	\$.....346,727	.....1.135 %
2.09	NATIONAL RURAL UTIL COOP.....	Long Term Bonds.....	\$.....333,174	.....1.091 %
2.10	WELLS FARGO & COMPANY.....	Long Term Bonds.....	\$.....327,858	.....1.073 %

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC designation.

		1	2
<u>Bonds</u>			
3.01	NAIC-1.....	\$.....17,405,573	.....56.982 %
3.02	NAIC-2.....	\$.....2,485,669	.....8.138 %
3.03	NAIC-3.....	\$.....	.....0.000 %
3.04	NAIC-4.....	\$.....	.....0.000 %
3.05	NAIC-5.....	\$.....	.....0.000 %
3.06	NAIC-6.....	\$.....	.....0.000 %
<u>Preferred Stocks</u>			
3.07	P/RP-1.....	\$.....	.....0.000 %
3.08	P/RP-2.....	\$.....	.....0.000 %
3.09	P/RP-3.....	\$.....	.....0.000 %
3.10	P/RP-4.....	\$.....	.....0.000 %
3.11	P/RP-5.....	\$.....	.....0.000 %
3.12	P/RP-6.....	\$.....	.....0.000 %

4. Assets held in foreign investments:

4.01	Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets?	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>
If response to 4.01 above is yes, responses are not required for interrogatories 5-10.		
4.02	Total admitted assets held in foreign investments	\$.....0.000 %
4.03	Foreign-currency-denominated investments	\$.....0.000 %
4.04	Insurance liabilities denominated in that same foreign currency	\$.....0.000 %

5. Aggregate foreign investment exposure categorized by NAIC sovereign designation:

		1	2
5.01	Countries designated NAIC-1.....	\$.....	.....0.000 %
5.02	Countries designated NAIC-2.....	\$.....	.....0.000 %
5.03	Countries designated NAIC-3 or below.....	\$.....	.....0.000 %

6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign designation:

		1	2
Countries designated NAIC-1:			
6.01	Country 1: .....	\$.....	.....0.000 %
6.02	Country 2: .....	\$.....	.....0.000 %
Countries designated NAIC-2:			
6.03	Country 1: .....	\$.....	.....0.000 %
6.04	Country 2: .....	\$.....	.....0.000 %
Countries designated NAIC-3 or below:			
6.05	Country 1: .....	\$.....	.....0.000 %
6.06	Country 2: .....	\$.....	.....0.000 %

7. Aggregate unhedged foreign currency exposure..... \$.....0.000 %

8.	Aggregate unhedged foreign currency exposure categorized by NAIC sovereign designation:	1	2
8.01	Countries designated NAIC-1.....	\$.....	0.000 %
8.02	Countries designated NAIC-2.....	\$.....	0.000 %
8.03	Countries designated NAIC-3 or below.....	\$.....	0.000 %
9.	Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign designation:		
	Countries designated NAIC-1:	1	2
9.01	Country 1: .....	\$.....	0.000 %
9.02	Country 2: .....	\$.....	0.000 %
	Countries designated NAIC-2:		
9.03	Country 1: .....	\$.....	0.000 %
9.04	Country 2: .....	\$.....	0.000 %
	Countries designated NAIC-3 or below:		
9.05	Country 1: .....	\$.....	0.000 %
9.06	Country 2: .....	\$.....	0.000 %
10.	Ten largest non-sovereign (i.e. non-governmental) foreign issues:		
		1	2
		<u>Issuer</u>	<u>NAIC Designation</u>
			3
			4
10.01	.....	\$.....	0.000 %
10.02	.....	\$.....	0.000 %
10.03	.....	\$.....	0.000 %
10.04	.....	\$.....	0.000 %
10.05	.....	\$.....	0.000 %
10.06	.....	\$.....	0.000 %
10.07	.....	\$.....	0.000 %
10.08	.....	\$.....	0.000 %
10.09	.....	\$.....	0.000 %
10.10	.....	\$.....	0.000 %
11.	Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:		
11.01	Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets? If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11.		Yes [ X ] No [ ]
11.02	Total admitted assets held in Canadian Investments.....	\$.....	0.000 %
11.03	Canadian currency-denominated investments.....	\$.....	0.000 %
11.04	Canadian-denominated insurance liabilities.....	\$.....	0.000 %
11.05	Unhedged Canadian currency exposure.....	\$.....	0.000 %
12.	Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions.		
12.01	Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.		Yes [ X ] No [ ]
		1	2
			3
12.02	Aggregate statement value of investments with contractual sales restrictions.....	\$.....	0.000 %
	Largest three investments with contractual sales restrictions:		
12.03	.....	\$.....	0.000 %
12.04	.....	\$.....	0.000 %
12.05	.....	\$.....	0.000 %
13.	Amounts and percentages of admitted assets held in the ten largest equity interests:		
13.01	Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets? If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.		Yes [ X ] No [ ]
		1	2
		<u>Name of Issuer</u>	3
13.02	.....	\$.....	0.000 %
13.03	.....	\$.....	0.000 %
13.04	.....	\$.....	0.000 %
13.05	.....	\$.....	0.000 %
13.06	.....	\$.....	0.000 %
13.07	.....	\$.....	0.000 %
13.08	.....	\$.....	0.000 %
13.09	.....	\$.....	0.000 %
13.10	.....	\$.....	0.000 %
13.11	.....	\$.....	0.000 %
14.	Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:		
14.01	Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.		Yes [ X ] No [ ]
		1	2
			3
14.02	Aggregate statement value of investments held in nonaffiliated, privately placed equities.....	\$.....	0.000 %
	Largest three investments held in nonaffiliated, privately placed equities:		
14.03	.....	\$.....	0.000 %
14.04	.....	\$.....	0.000 %
14.05	.....	\$.....	0.000 %

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:
- 15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets? Yes [ X ] No [ ]  
 If response to 15.01 above is yes, responses are not required for the remainder of Interrogatory 15.
- |                                                                                           | 1       | 2 | 3       |
|-------------------------------------------------------------------------------------------|---------|---|---------|
| 15.02 Aggregate statement value of investments held in general partnership interests..... | \$..... |   | 0.000 % |
| Largest three investments in general partnership interests:                               |         |   |         |
| 15.03 .....                                                                               | \$..... |   | 0.000 % |
| 15.04 .....                                                                               | \$..... |   | 0.000 % |
| 15.05 .....                                                                               | \$..... |   | 0.000 % |
16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:
- 16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets? Yes [ X ] No [ ]  
 If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.
- |                                                     | 1       | 2 | 3       |
|-----------------------------------------------------|---------|---|---------|
| <u>Type (Residential, Commercial, Agricultural)</u> |         |   |         |
| 16.02 .....                                         | \$..... |   | 0.000 % |
| 16.03 .....                                         | \$..... |   | 0.000 % |
| 16.04 .....                                         | \$..... |   | 0.000 % |
| 16.05 .....                                         | \$..... |   | 0.000 % |
| 16.06 .....                                         | \$..... |   | 0.000 % |
| 16.07 .....                                         | \$..... |   | 0.000 % |
| 16.08 .....                                         | \$..... |   | 0.000 % |
| 16.09 .....                                         | \$..... |   | 0.000 % |
| 16.10 .....                                         | \$..... |   | 0.000 % |
| 16.11 .....                                         | \$..... |   | 0.000 % |
- Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:
- |                                                         |         | <u>Loans</u> |
|---------------------------------------------------------|---------|--------------|
| 16.12 Construction loans.....                           | \$..... | 0.000 %      |
| 16.13 Mortgage loans over 90 days past due.....         | \$..... | 0.000 %      |
| 16.14 Mortgage loans in the process of foreclosure..... | \$..... | 0.000 %      |
| 16.15 Mortgage loans foreclosed.....                    | \$..... | 0.000 %      |
| 16.16 Restructured mortgage loans.....                  | \$..... | 0.000 %      |
17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:
- | <u>Loan-to-Value</u>  | <u>Residential</u> |         | <u>Commercial</u> |         | <u>Agricultural</u> |         |
|-----------------------|--------------------|---------|-------------------|---------|---------------------|---------|
|                       | 1                  | 2       | 3                 | 4       | 5                   | 6       |
| 17.01 above 95%.....  | \$.....            | 0.000 % | \$.....           | 0.000 % | \$.....             | 0.000 % |
| 17.02 91% to 95%..... | \$.....            | 0.000 % | \$.....           | 0.000 % | \$.....             | 0.000 % |
| 17.03 81% to 90%..... | \$.....            | 0.000 % | \$.....           | 0.000 % | \$.....             | 0.000 % |
| 17.04 71% to 80%..... | \$.....            | 0.000 % | \$.....           | 0.000 % | \$.....             | 0.000 % |
| 17.05 below 70%.....  | \$.....            | 0.000 % | \$.....           | 0.000 % | \$.....             | 0.000 % |
18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:
- 18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets? Yes [ X ] No [ ]  
 If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.
- Largest five investments in any one parcel or group of contiguous parcels of real estate:
- |                    | 2       | 3       |
|--------------------|---------|---------|
| <u>Description</u> |         |         |
| 18.02 .....        | \$..... | 0.000 % |
| 18.03 .....        | \$..... | 0.000 % |
| 18.04 .....        | \$..... | 0.000 % |
| 18.05 .....        | \$..... | 0.000 % |
| 18.06 .....        | \$..... | 0.000 % |
19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans.
- 19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's admitted assets? Yes [ X ] No [ ]  
 If response to 19.01 is yes, responses are not required for the remainder of Interrogatory 19.
- |                                                                                    | 1       | 2 | 3       |
|------------------------------------------------------------------------------------|---------|---|---------|
| 19.02 Aggregate statement value of investments held in mezzanine real estate loans | \$..... |   | 0.000 % |
| Largest three investments held in mezzanine real estate loans:                     |         |   |         |
| 19.03 .....                                                                        | \$..... |   | 0.000 % |
| 19.04 .....                                                                        | \$..... |   | 0.000 % |
| 19.05 .....                                                                        | \$..... |   | 0.000 % |
20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:
- |                                                                                                           | <u>At Year-End</u> |         | <u>At End of Each Quarter</u> |         |         |
|-----------------------------------------------------------------------------------------------------------|--------------------|---------|-------------------------------|---------|---------|
|                                                                                                           |                    |         | 1st Qtr                       | 2nd Qtr | 3rd Qtr |
|                                                                                                           | 1                  | 2       | 3                             | 4       | 5       |
| 20.01 Securities lending agreements (do not include assets held as collateral for such transactions)..... | \$.....            | 0.000 % | \$.....                       | \$..... | \$..... |
| 20.02 Repurchase agreements.....                                                                          | \$.....            | 0.000 % | \$.....                       | \$..... | \$..... |
| 20.03 Reverse repurchase agreements.....                                                                  | \$.....            | 0.000 % | \$.....                       | \$..... | \$..... |
| 20.04 Dollar repurchase agreements.....                                                                   | \$.....            | 0.000 % | \$.....                       | \$..... | \$..... |
| 20.05 Dollar reverse repurchase agreements.....                                                           | \$.....            | 0.000 % | \$.....                       | \$..... | \$..... |

21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps and floors:

	<u>Owned</u>		<u>Written</u>	
	1	2	3	4
21.01 Hedging.....	\$.....	0.000 %	\$.....	0.000 %
21.02 Income generation.....	\$.....	0.000 %	\$.....	0.000 %
21.03 Other.....	\$.....	0.000 %	\$.....	0.000 %

22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:

	<u>At Year-End</u>		<u>At End of Each Quarter</u>		
	1	2	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>
			3	4	5
22.01 Hedging.....	\$.....	0.000 %	\$.....	\$.....	\$.....
22.02 Income generation.....	\$.....	0.000 %	\$.....	\$.....	\$.....
22.03 Replications.....	\$.....	0.000 %	\$.....	\$.....	\$.....
22.04 Other.....	\$.....	0.000 %	\$.....	\$.....	\$.....

23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:

	<u>At Year-End</u>		<u>At End of Each Quarter</u>		
	1	2	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>
			3	4	5
23.01 Hedging.....	\$.....	0.000 %	\$.....	\$.....	\$.....
23.02 Income generation.....	\$.....	0.000 %	\$.....	\$.....	\$.....
23.03 Replications.....	\$.....	0.000 %	\$.....	\$.....	\$.....
23.04 Other.....	\$.....	0.000 %	\$.....	\$.....	\$.....