

WISCONSIN LAWYERS MUTUAL INSURANCE COMPANY

STATUTORY FINANCIAL REPORT

December 31, 2009

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Wisconsin Lawyers Mutual Insurance Company
Madison, Wisconsin

We have audited the accompanying statutory balance sheets of Wisconsin Lawyers Mutual Insurance Company (the Company) as of December 31, 2009 and 2008, and the related statutory statements of income, changes in surplus, and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

As described more fully in Note 1 to the financial statements, the Company prepared these financial statements using accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin, which practices differ from U.S. generally accepted accounting principles. The effects on the statutory financial statements of the variances between the statutory basis of accounting and U.S. generally accepted accounting principles have not been determined but are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the statutory financial statements referred to above do not present fairly, in conformity with U.S. generally accepted accounting principles, the financial position of the Company as of December 31, 2009 and 2008, and the results of its operations and its cash flow for the years then ended.

In our opinion, however, the statutory financial statements referred to above do present fairly, in all material respects, the financial position of the Company as of December 31, 2009 and 2008, and the results of its operations and its cash flow for the years then ended, on the statutory basis of accounting described in Note 1.

Strohm Ballweg, LLP

Madison, Wisconsin
March 12, 2010

WISCONSIN LAWYERS MUTUAL INSURANCE COMPANY

STATUTORY BALANCE SHEETS

December 31, 2009 and 2008

	2009	2008
ADMITTED ASSETS		
Cash and invested assets:		
Bonds	\$ 21,028,544	\$ 19,642,907
Preferred stocks	962,117	1,445,908
Common stocks and mutual funds	2,945,094	2,339,444
Cash and short-term investments	1,195,627	912,339
Cash and invested assets	26,131,382	24,340,598
Uncollected premiums	596,831	611,626
Investment income due and accrued	174,296	172,790
Deductibles receivable	16,032	5,866
Reinsurance recoverable on paid losses	2,000	-
Data processing equipment (net of accumulated depreciation of \$69,312 in 2009 and \$72,533 in 2008)	4,751	9,626
Federal income taxes recoverable	-	160,954
Net deferred tax asset	307,900	508,000
Other assets	-	31,885
Total admitted assets	\$ 27,233,192	\$ 25,841,345
LIABILITIES AND SURPLUS		
Liabilities:		
Unpaid losses (net of reinsurance of \$1,720,527 in 2009 and \$1,580,870 in 2008)	\$ 2,905,333	\$ 3,573,572
Unpaid loss adjustment expenses (net of reinsurance of \$169,965 in 2009 and \$485,437 in 2008)	2,811,256	2,465,999
Unearned premiums (net of reinsurance of \$587,622 in 2009 and \$565,267 in 2008)	1,539,967	1,486,932
Ceded reinsurance premiums payable	1,085,677	1,423,335
Premiums received in advance	258,242	206,980
Provision for reinsurance	2,000	2,000
Other liabilities	276,758	154,476
Total liabilities	8,879,233	9,313,294
Surplus:		
Unassigned surplus	18,353,959	16,528,051
Total liabilities and surplus	\$ 27,233,192	\$ 25,841,345

See Notes to Statutory Financial Statements.

WISCONSIN LAWYERS MUTUAL INSURANCE COMPANY

STATUTORY STATEMENTS OF INCOME Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
UNDERWRITING OPERATIONS		
Net premium earned:		
Direct premium earned	\$ 4,640,993	\$ 4,490,878
Reinsurance ceded	<u>(1,093,187)</u>	<u>(735,632)</u>
	<u>3,547,806</u>	<u>3,755,246</u>
Net losses incurred:		
Direct losses incurred	905,427	709,077
Reinsurance recoveries	<u>(597,693)</u>	<u>(127,393)</u>
	<u>307,734</u>	<u>581,684</u>
Operating expenses incurred:		
Direct loss adjustment expenses (LAE)	1,864,881	1,287,924
Reinsurance recoveries on LAE	<u>(47,900)</u>	-
Direct underwriting expenses	1,193,730	1,074,901
Reinsurance commission income	<u>(95,517)</u>	<u>(87,862)</u>
	<u>2,915,194</u>	<u>2,274,963</u>
Underwriting gain	<u>324,878</u>	<u>898,599</u>
INVESTMENT AND OTHER INCOME		
Investment income earned	961,393	897,135
Investment expenses	<u>(168,891)</u>	<u>(206,267)</u>
Net realized capital gains (losses) (net of federal income tax expense (benefit) of (\$76,039) in 2009 and (\$189,101) in 2008)	117,271	(632,793)
Other income	<u>86,471</u>	<u>80,230</u>
Investment and other income	<u>996,244</u>	<u>138,305</u>
Net income before dividends to policyholders and federal income tax expense	1,321,122	1,036,904
Dividends to policyholders	<u>224,739</u>	<u>354,194</u>
Net income before federal income tax expense	1,096,383	682,710
Federal income tax expense	<u>340,652</u>	<u>259,707</u>
Net income	<u>\$ 755,731</u>	<u>\$ 423,003</u>

See Notes to Statutory Financial Statements.

WISCONSIN LAWYERS MUTUAL INSURANCE COMPANY

STATUTORY STATEMENTS OF CHANGES IN SURPLUS

Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Surplus, beginning of year	<u>\$ 16,528,051</u>	<u>\$ 17,588,208</u>
Net income	755,731	423,003
Change in net unrealized capital gains (losses)	774,755	(1,061,463)
Change in nonadmitted assets	297,178	(403,432)
Change in net deferred income tax	(69,184)	(18,265)
Cumulative effect of change in accounting principle	<u>67,428</u>	<u>-</u>
Surplus, end of year	<u>\$ 18,353,959</u>	<u>\$ 16,528,051</u>

See Notes to Statutory Financial Statements.

WISCONSIN LAWYERS MUTUAL INSURANCE COMPANY

STATUTORY STATEMENTS OF CASH FLOW

Years Ended December 31, 2009 and 2008

	2009	2008
Cash from operations:		
Net premiums collected	\$ 3,329,240	\$ 3,468,973
Net investment income received	892,612	776,660
Other income received	86,471	80,230
Net losses paid	(977,973)	(1,014,272)
Operating expenses paid	(2,561,571)	(2,405,262)
Dividends paid to policyholders	(224,739)	(354,194)
Federal income taxes paid	(43,659)	(165,000)
Net cash from operations	500,381	387,135
Cash from investments:		
Proceeds from investments sold, matured, or repaid:		
Bonds	6,651,050	8,416,543
Stocks and mutual funds	1,148,945	4,161,713
Gain on disposal of cash equivalents	-	109,731
	7,799,995	12,687,987
Cost of investments acquired:		
Bonds	(7,698,273)	(7,403,468)
Stocks and mutual funds	(423,487)	(5,555,544)
Miscellaneous applications	(276)	(717)
	(8,122,036)	(12,959,729)
Net cash from investments	(322,041)	(271,742)
Cash from financing and miscellaneous sources:		
Other cash provided (applied)	104,948	(161,799)
Net cash from financing and miscellaneous sources	104,948	(161,799)
Net change in cash and short-term investments	283,288	(46,406)
Cash and short-term investments:		
Beginning of year	912,339	958,745
End of year	\$ 1,195,627	\$ 912,339

See Notes to Statutory Financial Statements.

WISCONSIN LAWYERS MUTUAL INSURANCE COMPANY

NOTES TO STATUTORY FINANCIAL STATEMENTS

Note 1 ~ Nature of Business and Summary of Significant Accounting Policies

Nature of Business. Wisconsin Lawyers Mutual Insurance Company (WILMIC) was organized in 1986 under Chapter 611 of the Wisconsin Insurance Laws as a mutual insurance company. WILMIC writes professional liability insurance for attorneys who are licensed to practice law in the state of Wisconsin.

A summary of WILMIC's significant accounting policies follows:

Basis of Presentation. The accompanying financial statements have been prepared in conformity with accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin (OCI). Prescribed statutory accounting practices include the National Association of Insurance Commissioners (NAIC) *Accounting Practices and Procedures Manual*, which was adopted by the State of Wisconsin, as well as state insurance laws, regulations, and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed, when such practices are approved by the OCI. WILMIC had no such specifically permitted practices.

Statutory accounting practices vary in some respects from U.S. generally accepted accounting principles (GAAP). Such significant differences include the following:

- Investments in debt securities are generally carried at amortized cost and investments in equity securities are generally carried at fair value. Under GAAP, WILMIC's debt and equity securities would be classified as held-to-maturity, trading, or available-for-sale. For GAAP, securities classified as held-to-maturity would be carried at cost or amortized cost and securities classified as trading or available-for-sale would be carried at fair value with the unrealized holding gains and losses reported in income for those securities classified as trading and as a separate component of surplus for those securities classified as available-for-sale.
- Policy acquisition costs, such as salaries and other items, are charged to current operations as incurred; under GAAP, these acquisition costs would be deferred and recognized as an expense over the periods covered by the policies.
- Commissions on reinsurance ceded are credited to income at the time premium is ceded; under GAAP, commissions on ceded premium would be deferred and recognized as income over the periods covered by the policies.
- Deferred income taxes are provided for differences between the financial statement and the tax bases of assets and liabilities. However, limitations are placed on the admissibility of deferred tax assets. All changes in deferred tax assets and liabilities are reported as changes in surplus, and state income taxes are not included in deferred tax calculations; under GAAP, deferred income taxes would be provided for differences between the financial statement and the tax bases of assets and liabilities and any deferred tax assets would be reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets would not be realized. Changes in deferred tax assets and liabilities would be reported through operations and/or surplus depending on their characteristics and state income taxes would be included in the deferred tax calculation.

Note 1 ~ Nature of Business and Summary of Significant Accounting Policies (Continued)

- Certain assets designated as “nonadmitted assets” (primarily prepaid expenses, furniture and equipment, and certain deferred tax assets) are charged against surplus. Under GAAP, prepaid expenses would be recorded as assets and amortized as the expense is incurred and furniture and equipment would be recognized as assets net of accumulated depreciation. Deferred taxes would be accounted for as previously noted.
- Assets related to reinsurance ceded transactions are netted with the respective liability accounts; under GAAP, reinsurance balances would be shown on a separate gross basis.
- Statutory financial statements are prepared in a form using language and groupings substantially the same as the annual statement of WILMIC filed with the NAIC and the OCI which differ from the presentation and disclosure of financial statements presented under GAAP.

The effects of these variances from GAAP on the accompanying statutory financial statements have not been determined.

Accounting Estimates. The preparation of statutory financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Estimates that are particularly susceptible to significant change in the near-term relate to:

- The liabilities for unpaid losses and unpaid loss adjustment expenses. In estimating these liabilities, management uses the methodology discussed in the unpaid losses and unpaid loss adjustment expenses paragraph of this note.
- WILMIC also has reinsurance contracts in which the ceded premiums are determined based on the loss experience of the contracts. Since the liabilities for unpaid losses and unpaid loss adjustment expenses are estimates, any significant change in these amounts will impact the amounts reported as ceded premiums.
- The assumptions regarding the other than temporary impairment analysis of the investment portfolio.
- The amount of deferred tax assets expected to be realized in the next fiscal year.

Cash and Short-Term Investments. For purposes of reporting cash flows, WILMIC follows statutory accounting practices and considers cash in checking accounts, highly liquid debt instruments purchased with a remaining maturity of one year or less and certain money market funds to be cash and short-term investments. Cash and short-term investments are carried at cost which approximates fair value. WILMIC periodically has deposits in a financial institution in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC). WILMIC does not believe it is exposed to any significant credit risk on the amounts not insured.

Investments. Investments are valued in accordance with the valuation methods prescribed by the NAIC. Investments in bonds are carried at amortized cost using the scientific interest method; however, bonds with an NAIC designation of three or lower are carried at the lower of amortized cost or fair value. Perpetual preferred stocks are generally carried at fair value; however, perpetual preferred stocks with an NAIC designation of P3 or lower are carried at the lower of cost or fair value. Redeemable preferred stocks are generally carried at amortized cost; however, redeemable preferred stocks with an NAIC designation of RP3 or lower are carried at the lower of amortized cost or fair value. Investments in common stocks and mutual funds are carried at fair value.

Note 1 ~ Nature of Business and Summary of Significant Accounting Policies (Continued)

Realized gains and losses on the sale of investments are recognized on the specific identification basis and are included in income. Unrealized gains and losses from changes in the fair value of stocks and mutual funds and certain preferred stocks and bonds are credited or charged directly to surplus.

Fair Value Measurements. Certain invested assets included in the statutory financial statements are recorded at fair value. The fair value of an asset is the amount at which the asset could be bought or sold in a current transaction between willing parties, other than in a forced or liquidation sale. WILMIC uses fair value measurement for common stocks, mutual funds, and certain preferred stocks and bonds.

The fair value of stocks and mutual funds is based on quoted prices from active securities markets. The fair value of bonds is based on values provided by the Securities Valuation Office of the NAIC or other published sources.

Declines in fair value that are determined to be other than temporary (OTTI) are included in the statutory statement of income as realized capital losses. WILMIC determines a decline to be other than temporary by reviewing and evaluating relevant objective and subjective factors for each security, including the extent of the depressed value, the length of time the value has been depressed, WILMIC's intent and ability to hold the security, a security's current performance, the current and projected financial condition of the issuer, the issuer's projected ability to service and repay its debt obligations, the industry in which the issuer operates, the estimated future cash flows on loan-backed securities, and the status of the market as a whole. Estimating the future cash flows of loan-backed securities also involves assumptions regarding the underlying collateral such as prepayment rates, default and recovery rates, existence of subordinated classes capable of absorbing losses, and third-party servicing abilities.

The amount of these declines deemed other than temporary were \$147,391 and \$620,954 for the years ended December 31, 2009 and 2008, respectively. This includes OTTI on one loan-backed security of \$2,879, which was recorded because the present value of cash flows expected to be collected was less than amortized cost. This security, CWL 2006-S3 A4 CUSIP, had an amortized cost basis of \$107,936 prior to the OTTI, an amortized cost of \$105,057 after OTTI, and a fair value of \$85,043.

Property and Equipment. Electronic data processing (EDP) equipment and operating software are recorded as admitted assets at cost less accumulated depreciation. Furniture and equipment and nonoperating software are considered nonadmitted assets for statutory financial statement reporting purposes. The net change in book value of nonadmitted assets (cost less depreciation) is charged or credited directly to surplus. Depreciation is calculated and charged to expense by applying the straight-line method over the useful lives of the respective assets (not to exceed three years for EDP equipment). Depreciation expense was \$28,565 in 2009 and \$32,831 in 2008.

Unpaid Losses and Unpaid Loss Adjustment Expenses. The liabilities for unpaid losses and unpaid loss adjustment expenses are determined using case basis evaluations and statistical analyses and represent estimates of the ultimate cost of the losses and their related expenses which are unpaid at year end.

Note 1 ~ Nature of Business and Summary of Significant Accounting Policies (Continued)

All estimates of unpaid losses and unpaid loss adjustment expenses are continually reviewed and any adjustments determined to be necessary are reflected in current operations. Because of the nature of risks insured, the estimates of unpaid losses and LAE are susceptible to significant changes based on ultimate settlements. Although it is not possible to measure the degree of variability inherent in such estimates, management believes that the liabilities for unpaid losses and unpaid loss adjustment expenses are adequate. The liabilities for unpaid losses and unpaid loss adjustment expenses are reported net of reinsurance.

Recognition of Premium. Premiums from policies written are recognized on a pro rata basis over the respective terms of the policies. Unearned premium represents the portion of premiums written which relates to future periods. A liability for premiums received in advance is established for premiums received for policies effective in the next fiscal year.

Reinsurance. Reinsurance premiums, commissions, loss and loss adjustment expense recoveries, and receivables related to reinsured business are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts.

Federal Income Taxes. WILMIC records deferred income taxes on temporary differences between the financial reporting basis and the tax basis of WILMIC's assets and liabilities based upon enacted tax rates.

New Accounting Pronouncements. In 2009, the NAIC adopted *Statement of Statutory Accounting Principle No. 43R, Loan-backed and Structured Securities*, which changes the valuation of certain loan-backed and structured securities. With the adoption of SSAP No. 43R, WILMIC recorded a cumulative change in accounting principle of \$67,428. The adjustment was calculated by comparing the present value of the cash flows and the amortized cost basis of a security. The discount rate used to calculate the present value of the cash flows was the rate in effect before recognizing any prior OTTIs.

Subsequent Events. Subsequent events were evaluated through March 12, 2010, which is the date the financial statements were available to be issued.

Note 2 ~ Investments

Investments in Bonds. The amortized cost and estimated fair value of investments in bonds at December 31, 2009 and 2008, are as follows:

	2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities	\$ 200,864	\$ 590	\$ -	\$ 201,454
Obligations of states and political subdivisions	3,664,907	166,902	10,419	3,821,390
Corporate securities	7,593,053	533,775	46,993	8,079,835
Loan-backed securities	9,630,532	280,986	130,976	9,780,542
	<u>\$ 21,089,356</u>	<u>\$ 982,253</u>	<u>\$ 188,388</u>	<u>\$ 21,883,221</u>

Note 2 ~ Investments (Continued)

The statement value is lower than amortized cost by \$60,812 at December 31, 2009, due to unrealized losses on bonds rated three or lower under the valuation methods prescribed by the NAIC.

	2008			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Obligations of states and political subdivisions	\$ 4,271,625	\$ 155,042	\$ -	\$ 4,426,667
Corporate securities	7,334,402	125,413	592,871	6,866,944
Loan-backed securities	8,250,756	140,906	433,578	7,958,084
	<u>\$ 19,856,783</u>	<u>\$ 421,361</u>	<u>\$ 1,026,449</u>	<u>\$ 19,251,695</u>

The statement value is lower than amortized cost by \$213,876 at December 31, 2008, due to unrealized losses on bonds rated three or lower under the valuation methods prescribed by the NAIC.

The amortized cost and estimated fair value of bonds at December 31, 2009, by contractual maturity, are as shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
Due within one year	\$ 565,821	\$ 572,224
Due after one year through five years	6,108,917	6,510,543
Due after five years through ten years	2,447,043	2,490,245
Due after ten years	<u>2,337,043</u>	<u>2,529,667</u>
	11,458,824	12,102,679
Loan-backed securities	<u>9,630,532</u>	<u>9,780,542</u>
	<u>\$ 21,089,356</u>	<u>\$ 21,883,221</u>

Investments in Common Stocks and Mutual Funds. The cumulative net unrealized capital loss on common stocks and mutual funds was (\$97,526) and (\$670,189) at December 31, 2009 and 2008, respectively.

Investments in Preferred Stocks. The cumulative net unrealized capital loss on preferred stocks was (\$141,497) and (\$594,458) at December 31, 2009 and 2008, respectively.

Realized Gains and Losses on Investments Sold, Matured, or Repaid. Gross gains of \$375,581 and gross losses of \$186,958 were realized on the sale of investments in 2009. Gross gains of \$724,515 and gross losses of \$925,455 were realized on the sale of investments in 2008.

Note 2 ~ Investments (Continued)

Securities in an Unrealized Loss Position. The following tables show unrealized losses on WILMIC's portfolio sorted by security type and by length of time that the securities were in an unrealized loss position as of December 31, 2009 and 2008:

	2009					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Bonds (excluding loan-backed securities)	\$ 1,036,412	\$ 20,162	\$ 1,371,907	\$ 37,250	\$ 2,408,319	\$ 57,412
Loan-backed securities	1,098,412	35,168	939,843	95,808	2,038,255	130,976
Preferred stocks	770,795	121,157	-	-	770,795	121,157
Common stocks and mutual funds	-	-	2,578,488	98,484	2,578,488	98,484
	<u>\$ 2,905,619</u>	<u>\$ 176,487</u>	<u>\$ 4,890,238</u>	<u>\$ 231,542</u>	<u>\$ 7,795,857</u>	<u>\$ 408,029</u>

	2008					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Bonds (excluding loan-backed securities)	\$ 2,376,583	\$ 200,296	\$ 2,518,794	\$ 392,575	\$ 4,895,377	\$ 592,871
Loan-backed securities	739,538	68,666	1,882,372	364,912	2,621,910	433,578
Preferred stocks	1,235,947	682,888	11,310	20,970	1,247,257	703,858
Common stocks and mutual funds	2,284,226	640,418	55,118	29,789	2,339,344	670,207
	<u>\$ 6,636,294</u>	<u>\$ 1,592,268</u>	<u>\$ 4,467,594</u>	<u>\$ 808,246</u>	<u>\$ 11,103,888</u>	<u>\$ 2,400,514</u>

Note 3 ~ Liabilities for Unpaid Losses and Unpaid Loss Adjustment Expenses

Activity in the liabilities for unpaid losses and unpaid loss adjustment expenses for the years ended December 31, 2009 and 2008, is summarized as follows (000's omitted):

	<u>2009</u>	<u>2008</u>
Balance, beginning of year	\$ 8,106	\$ 8,449
Less reinsurance recoveries	<u>2,066</u>	<u>1,870</u>
Net balance at January 1	<u>6,040</u>	<u>6,579</u>
Incurred related to:		
Current year	3,237	3,037
Prior years	<u>(1,112)</u>	<u>(1,167)</u>
Total incurred	<u>2,125</u>	<u>1,870</u>
Paid related to:		
Current year	470	457
Prior years	<u>1,978</u>	<u>1,953</u>
Total paid	<u>2,448</u>	<u>2,410</u>
Net balance at December 31	5,717	6,039
Plus reinsurance recoveries	<u>1,890</u>	<u>2,067</u>
Balance, end of year	<u>\$ 7,607</u>	<u>\$ 8,106</u>

As a result of changes in estimates of insured events in prior years, net loss and loss adjustment expenses incurred were decreased in 2009 and 2008 due to lower than anticipated losses and related expenses.

Note 4 ~ Deferred Compensation Agreement

The Chief Executive Officer has entered into a deferred compensation agreement with WILMIC which began January 1, 2006, and provides for benefits payable upon her separation from service from WILMIC. Amounts due under this agreement at December 31, 2009 and 2008, were \$108,899 and \$55,118, respectively.

Note 5 ~ Reinsurance

WILMIC reinsures a portion of its business through excess of loss reinsurance agreements to minimize its exposure to losses and loss adjustment expenses. Loss and loss adjustment expenses have been reinsured on an excess of loss basis, retaining \$150,000 of each insurance risk written. As of April 1, 2005, WILMIC retains 20 percent of the \$850,000 excess \$150,000 reinsurance layer.

WILMIC has received surplus aid from reinsurance of \$46,140 as of December 31, 2009, and \$44,145 as of December 31, 2008, computed as the maximum amount of return commission which would be due to the reinsurer if all reinsurance contracts were cancelled at year end.

In the event the reinsuring company is unable to meet its obligations under the existing reinsurance agreement, WILMIC's surplus level could be impacted negatively. At December 31, 2009, WILMIC had unsecured aggregate recoverables for losses, loss adjustment expense, and unearned premiums from three reinsurers which exceeds three percent of surplus as follows:

<u>Reinsurer</u>	<u>Amount</u>
Hannover Re	\$ 586,000
Lloyd's Syndicate #435	585,000
Transatlantic Re	555,000

Note 6 ~ Lease Commitments

WILMIC leases office space, office equipment, and an automobile under various operating leases. The original terms of the leases vary from three to seven years.

Future minimum lease payments under these leases are as follows:

<u>Years Ending December 31,</u>	
2010	\$ 91,175
2011	93,591
2012	94,314
2013	88,000
2014	90,640
Thereafter	<u>7,572</u>
	<u>\$ 465,292</u>

Total rental expense was \$90,458 and \$99,202 for the years ended December 31, 2009 and 2008, respectively.

Note 7 ~ Surplus and Dividends

WILMIC is required to maintain minimum surplus established by the OCI. WILMIC is also subject to risk-based capital (RBC) requirements promulgated by the NAIC and adopted by the OCI. The RBC standards establish minimum surplus requirements for insurance companies. The RBC formula applies various weighting factors to financial balances or various levels of activities based on the perceived degree of risk. At December 31, 2009, WILMIC's surplus significantly exceeded the minimum levels required by the OCI and RBC standards.

During 2009, WILMIC paid a dividend of 5 percent of policy premium for policyholders of record at March 10, 2009. The amount of the dividend paid was \$224,739. During 2008, WILMIC paid a dividend of 8 percent of policy premium for policyholders of record at March 10, 2008. The amount of the dividend paid was \$354,194.

Subsequent to December 31, 2009, the Board of Directors declared a dividend of 8 percent of policy premium for policyholders of record at March 12, 2010. The amount of the dividend will be \$378,216.

Note 8 ~ Income Taxes

WILMIC is taxed as an insurance company under Section 831 of the Internal Revenue Code. Federal income tax expense differs from the amount obtained by applying the federal income tax rate of 34 percent to pretax income for the years ended December 31, 2009 and 2008, due to the following:

	<u>2009</u>	<u>2008</u>
Computed expected federal income tax	\$ 346,917	\$ 167,827
Increase (decrease) in taxes resulting from:		
Unearned premiums	3,606	(211)
Unpaid losses and LAE	20,925	(48,241)
Tax-exempt interest, net	(30,316)	(35,748)
Discount accrual not recognized as income	(19,199)	(27,164)
Discount accrual on disposal of bonds	12,647	17,643
Dividends received deduction, net	(14,642)	(21,475)
Deferred compensation	21,034	(17,206)
Other than temporary impairments	(91,300)	90,343
Depreciation	9,390	(46,871)
Other, net	<u>5,551</u>	<u>(8,291)</u>
Federal income tax expense	<u>\$ 264,613</u>	<u>\$ 70,606</u>

Note 8 ~ Income Taxes (Continued)

The components of the net deferred tax asset as of December 31, 2009 and 2008, are as follows:

	<u>2009</u>	<u>2008</u>
Deferred tax assets related to book/tax differences in:		
Unpaid losses and LAE	\$ 200,139	\$ 179,214
Unearned premiums	104,718	101,111
Premiums received in advance	17,560	14,075
Other than temporary impairments	41,880	156,106
Deferred compensation	37,026	18,740
Net unrealized losses on investments	101,944	502,698
Other	49,133	49,956
Total deferred tax assets	<u>552,400</u>	<u>1,021,900</u>
Deferred tax liabilities related to book/tax differences in:		
Accrued market discount	18,200	10,014
Other	43,600	52,986
Total deferred tax liabilities	<u>61,800</u>	<u>63,000</u>
Net deferred tax asset, admitted and nonadmitted	490,600	958,900
Less: Total nonadmitted deferred tax assets	<u>182,700</u>	<u>450,900</u>
Net deferred tax asset, admitted	<u>\$ 307,900</u>	<u>\$ 508,000</u>

The net admitted deferred tax asset was determined using the guidance related to admissibility provided in the following paragraphs of NAIC *Statement of Statutory Accounting Principles No. 10R*:

	<u>2009</u>
Admissible under paragraph:	
10.a (Ability to recoup previous taxes paid)	\$ 307,900
10.b (Ability to realize in one year, up to 10% of adjusted surplus)	-
10.c (Offset of deferred tax liabilities)	<u>61,800</u>
Total admitted deferred tax assets	369,700
Total deferred tax liabilities	<u>(61,800)</u>
Net admitted deferred tax asset	<u>\$ 307,900</u>

The Company did not elect to admit additional deferred tax assets under the provisions of paragraph 10.e of NAIC *Statement of Statutory Accounting Principles No. 10R*.

Note 8 ~ Income Taxes (Continued)

Federal income taxes which would be available for recoupment in the event of future tax losses are approximately \$357,000 and \$244,000 for 2009 and 2008, respectively. WILMIC pays Wisconsin income tax equal to the lesser of 7.9 percent of Wisconsin taxable income or two percent of direct premiums written. Included in underwriting expenses are state income taxes of \$152,823 in 2009 and \$33,240 in 2008.

As of December 31, 2009, WILMIC has not identified any material loss contingencies arising from uncertain tax positions.

Note 9 ~ Pension Plan

WILMIC has a simplified employee pension plan and a salary reduction plan to provide retirement benefits for all its employees that meet eligibility requirements. WILMIC has contributed 7.5 percent of each eligible employee's compensation and contributed an additional 5.7 percent in excess of the social security wage base to an individual retirement account. Amounts expensed for retirement benefits were \$84,532 in 2009 and \$84,110 in 2008.

Note 10 ~ Line of Credit

WILMIC has a bank line of credit for up to \$3,000,000. The interest rate is monthly LIBOR plus 3 percent. No amounts were borrowed or outstanding from the line of credit during 2009 or 2008.

