

WISCONSIN LAWYERS MUTUAL INSURANCE COMPANY

STATUTORY FINANCIAL REPORT

December 31, 2008

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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, 2008 and 2007, 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, 2008 and 2007, 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, 2008 and 2007, 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 5, 2009, except for Note 7,
as to which the date is March 13, 2009

WISCONSIN LAWYERS MUTUAL INSURANCE COMPANY

STATUTORY BALANCE SHEETS

December 31, 2008 and 2007

	2008	2007
ADMITTED ASSETS		
Cash and invested assets:		
Bonds	\$ 19,642,907	\$ 21,591,825
Preferred stocks	1,445,908	1,089,401
Common stocks and mutual funds	2,339,444	3,009,901
Cash and short-term investments	912,339	958,745
Cash and invested assets	24,340,598	26,649,872
Uncollected premiums	611,626	636,421
Investment income due and accrued	172,790	140,006
Deductibles receivable	5,866	22,757
Data processing equipment (net of accumulated depreciation of \$72,533 in 2008 and \$67,491 in 2007)	9,626	20,462
Federal income taxes recoverable	160,954	66,560
Net deferred tax asset	508,000	281,600
Other assets	31,885	20,125
Total admitted assets	\$ 25,841,345	\$ 27,837,803
LIABILITIES AND SURPLUS		
Liabilities:		
Unpaid losses (net of reinsurance of \$1,580,870 in 2008 and \$1,453,477 in 2007)	\$ 3,573,572	\$ 4,006,160
Unpaid loss adjustment expenses (net of reinsurance of \$485,437 in 2008 and \$416,837 in 2007)	2,465,999	2,573,050
Unearned premiums (net of reinsurance of \$565,267 in 2008 and \$527,046 in 2007)	1,486,932	1,490,036
Ceded reinsurance premiums payable	1,423,335	1,707,061
Premiums received in advance	206,980	231,217
Provision for reinsurance	2,000	2,000
Other liabilities	154,476	240,071
Total liabilities	9,313,294	10,249,595
Surplus:		
Unassigned surplus	16,528,051	17,588,208
Total liabilities and surplus	\$ 25,841,345	\$ 27,837,803

See Notes to Statutory Financial Statements.

WISCONSIN LAWYERS MUTUAL INSURANCE COMPANY

STATUTORY STATEMENTS OF INCOME

Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
UNDERWRITING OPERATIONS		
Net premium earned:		
Direct premium earned	\$ 4,490,878	\$ 4,470,113
Reinsurance ceded	(735,632)	(713,517)
	<u>3,755,246</u>	<u>3,756,596</u>
Net losses incurred:		
Direct losses incurred	709,077	1,602,123
Reinsurance recoveries	(127,393)	86,879
	<u>581,684</u>	<u>1,689,002</u>
Operating expenses incurred:		
Direct loss adjustment expenses (LAE)	1,287,924	924,346
Reinsurance recoveries on LAE	-	(410)
Direct underwriting expenses	1,074,901	1,165,583
Reinsurance commission income	(87,862)	(84,225)
	<u>2,274,963</u>	<u>2,005,294</u>
Underwriting gain	<u>898,599</u>	<u>62,300</u>
INVESTMENT AND OTHER INCOME		
Investment income earned	897,135	770,876
Investment expenses	(206,267)	(217,408)
Net realized capital gains (losses) (net of federal income tax expense (benefit) of (\$189,101) in 2008 and \$266,733 in 2007)	(632,793)	389,848
Other income	80,230	82,105
	<u>138,305</u>	<u>1,025,421</u>
Investment and other income	<u>138,305</u>	<u>1,025,421</u>
Net income before dividends to policyholders and federal income tax expense	1,036,904	1,087,721
Dividends to policyholders	<u>354,194</u>	<u>661,362</u>
Net income before federal income tax expense	682,710	426,359
Federal income tax expense (benefit)	<u>259,707</u>	<u>(31,293)</u>
Net income	<u>\$ 423,003</u>	<u>\$ 457,652</u>

See Notes to Statutory Financial Statements.

WISCONSIN LAWYERS MUTUAL INSURANCE COMPANY

STATUTORY STATEMENTS OF CHANGES IN SURPLUS

Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Surplus, beginning of year	<u>\$ 17,588,208</u>	<u>\$ 17,426,607</u>
Net income	423,003	457,652
Change in net unrealized capital gains (losses)	(1,061,463)	(197,383)
Change in nonadmitted assets	(403,432)	(131,436)
Change in net deferred income tax	<u>(18,265)</u>	<u>32,768</u>
Surplus, end of year	<u>\$ 16,528,051</u>	<u>\$ 17,588,208</u>

See Notes to Statutory Financial Statements.

WISCONSIN LAWYERS MUTUAL INSURANCE COMPANY

STATUTORY STATEMENTS OF CASH FLOW

Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash from operations:		
Net premiums collected	\$ 3,468,973	\$ 3,613,984
Net investment income received	776,660	826,025
Other income received	80,230	82,106
Net losses paid	(1,014,272)	(782,277)
Operating expenses paid	(2,405,262)	(2,290,663)
Dividends paid to policyholders	(354,194)	(661,362)
Federal income taxes paid	(165,000)	(305,000)
Net cash from operations	<u>387,135</u>	<u>482,813</u>
Cash from investments:		
Proceeds from investments sold, matured or repaid:		
Bonds	8,416,543	6,169,681
Stocks and mutual funds	4,161,713	1,454,994
Gain on disposal of cash equivalents	109,731	-
Miscellaneous proceeds	-	1,810
	<u>12,687,987</u>	<u>7,626,485</u>
Cost of investments acquired:		
Bonds	(7,403,468)	(6,824,881)
Stocks and mutual funds	(5,555,544)	(1,080,023)
Miscellaneous applications	(717)	-
	<u>(12,959,729)</u>	<u>(7,904,904)</u>
Net cash from investments	<u>(271,742)</u>	<u>(278,419)</u>
Cash from financing and miscellaneous sources:		
Other cash applied	(161,799)	(82,905)
Net cash from financing and miscellaneous sources	<u>(161,799)</u>	<u>(82,905)</u>
Net change in cash and short-term investments	<u>(46,406)</u>	121,489
Cash and short-term investments:		
Beginning of year	<u>958,745</u>	<u>837,256</u>
End of year	<u>\$ 912,339</u>	<u>\$ 958,745</u>

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. 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 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 are included in the statutory statement of income as realized 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 financial condition of the issuer, the industry in which the issuer operates, and the status of the market as a whole. The amount of these declines deemed other than temporary were \$620,954 and \$127,929 for the years ended December 31, 2008 and 2007, respectively.

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 \$32,831 in 2008 and \$12,656 in 2007.

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.

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. While management and the independent actuary believe the liabilities as established make a reasonable provision for all unpaid loss and loss expense obligations, the independent actuary has indicated that there is an inherent uncertainty that could result in a material adverse deviation from the liabilities recorded. The liabilities for unpaid losses and unpaid loss adjustment expenses are reported net of reinsurance.

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

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.

Note 2 ~ Investments

Investments in Bonds. The amortized cost and estimated fair value of investments in bonds at December 31, 2008 and 2007, are as follows:

	2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
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
Mortgage-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.

	2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligations of states and political subdivisions	\$ 3,649,919	\$ 43,263	\$ 3,336	\$ 3,689,846
Corporate securities	9,831,661	703,402	257,090	10,277,973
Mortgage-backed securities	8,224,623	50,461	64,332	8,210,752
	<u>\$ 21,706,203</u>	<u>\$ 797,126</u>	<u>\$ 324,758</u>	<u>\$ 22,178,571</u>

The statement value is lower than amortized cost by \$114,378 at December 31, 2007, due to unrealized losses on bonds rated three or lower under the valuation methods prescribed by the NAIC.

Note 2 ~ Investments (Continued)

The amortized cost and estimated fair value of bonds at December 31, 2008, 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	\$ 1,013,154	\$ 1,021,834
Due after one year through five years	3,968,483	3,891,301
Due after five years through ten years	2,968,072	2,971,478
Due after ten years	<u>3,656,318</u>	<u>3,408,998</u>
	11,606,027	11,293,611
Mortgage-backed securities	<u>8,250,756</u>	<u>7,958,084</u>
	<u>\$ 19,856,783</u>	<u>\$ 19,251,695</u>

Investments in Common Stocks and Mutual Funds. The cumulative net unrealized capital gain (loss) on common stocks and mutual funds was (\$670,189) and \$264,396 at December 31, 2008 and 2007, respectively.

Investments in Preferred Stocks. The cumulative net unrealized capital loss on preferred stocks was (\$594,458) and (\$34,116) at December 31, 2008 and 2007, respectively.

Realized Gains and Losses on Investments Sold, Matured or Repaid. Gross gains of \$724,515 and gross losses of \$925,455 were realized on sales of investments in 2008. Gross gains of \$900,185 and gross losses of \$115,675 were realized on sales of investments in 2007.

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, 2008 and 2007:

	2008					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Bonds (excluding mortgage-backed securities)	\$ 2,376,583	\$ 200,296	\$ 2,518,794	\$ 392,575	\$ 4,895,377	\$ 592,871
Mortgage-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	<u>2,284,226</u>	<u>640,418</u>	<u>55,118</u>	<u>29,789</u>	<u>2,339,344</u>	<u>670,207</u>
	<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 2 ~ Investments (Continued)

	2007					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Bonds (excluding mortgage-backed securities)	\$ 1,899,449	\$ 112,929	\$ 3,095,818	\$ 147,495	\$ 4,995,267	\$ 260,424
Mortgage-backed securities	251,144	2,969	3,833,608	61,365	4,084,752	64,334
Preferred stocks	161,025	136,956	65,684	18,099	226,709	155,055
Common stocks and mutual funds	575,153	70,814	353,512	95,754	928,665	166,568
	<u>\$ 2,886,771</u>	<u>\$ 323,668</u>	<u>\$ 7,348,622</u>	<u>\$ 322,713</u>	<u>\$ 10,235,393</u>	<u>\$ 646,381</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, 2008 and 2007, is summarized as follows (000's omitted):

	2008	2007
Balance, beginning of year	\$ 8,449	\$ 7,887
Less reinsurance recoveries	1,870	1,889
Net balance at January 1	<u>6,579</u>	<u>5,998</u>
Incurred related to:		
Current year	3,037	3,127
Prior years	(1,167)	(514)
Total incurred	<u>1,870</u>	<u>2,613</u>
Paid related to:		
Current year	457	579
Prior years	1,953	1,453
Total paid	<u>2,410</u>	<u>2,032</u>
Net balance at December 31	6,039	6,579
Plus reinsurance recoveries	<u>2,067</u>	<u>1,870</u>
Balance, end of year	<u>\$ 8,106</u>	<u>\$ 8,449</u>

As a result of changes in estimates of insured events in prior years, net loss and loss adjustment expenses incurred were decreased in 2008 and 2007 due to lower than anticipated losses and related expenses.

Note 4 ~ Deferred Compensation Agreements

WILMIC had deferred and incentive compensation agreements with its former Chief Executive Officer which provide for benefits payable upon his retirement from WILMIC. As of December 31, 2008 and 2007, amounts due under these agreements were \$0 and \$52,650, respectively. Payments under these agreements were fulfilled during 2008.

The current Chief Executive Officer 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, 2008 and 2007, were \$55,118 and \$52,650, 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 \$44,145 as of December 31, 2008, and \$38,741 as of December 31, 2007, 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, 2008, 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	\$ 627,000
Lloyd's Syndicate #435	618,000
Transatlantic Re	570,000

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>	
2009	\$ 87,102
2010	85,880
2011	88,296
2012	90,785
2013	88,000
Thereafter	<u>98,212</u>
	<u>\$ 538,275</u>

Total rental expense was \$99,202 and \$79,997 for the years ended December 31, 2008 and 2007, 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, 2008, WILMIC's surplus significantly exceeded the minimum levels required by the OCI and RBC standards.

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. During 2007, WILMIC paid a dividend of 15 percent of policy premium for policyholders of record at March 10, 2007. The amount of the dividend paid was \$661,362.

Subsequent to December 31, 2008, the Board of Directors declared a dividend of 5 percent of policy premium for policyholders of record at March 10, 2009. The amount of the dividend will be \$224,739.

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, 2008 and 2007, due to the following:

	<u>2008</u>	<u>2007</u>
Computed expected federal income tax	\$ 167,827	\$ 235,652
Increase (decrease) in taxes resulting from:		
Unearned premiums	(211)	2,535
Unpaid losses and LAE	(48,241)	31,200
Tax-exempt interest, net	(35,748)	(30,966)
Discount accrual not recognized as income	(27,164)	(23,837)
Discount accrual on disposal of bonds	17,643	18,480
Dividends received deduction, net	(21,475)	(11,366)
Deferred compensation	(17,206)	(26,072)
Other than temporary impairments	90,343	43,496
Depreciation	(46,871)	-
Other, net	<u>(8,291)</u>	<u>(3,682)</u>
 Federal income tax expense	 <u>\$ 70,606</u>	 <u>\$ 235,440</u>

The components of the net deferred tax asset as of December 31, 2008 and 2007, are as follows:

	<u>2008</u>	<u>2007</u>
Deferred tax assets related to book/tax differences in:		
Unpaid losses and LAE	\$ 179,214	\$ 228,582
Unearned premiums	101,111	101,322
Premiums received in advance	14,075	15,723
Other than temporary impairments	156,106	65,763
Deferred compensation	18,740	35,802
Net unrealized losses on investments	502,698	-
Other	49,956	35,958
Total deferred tax assets	<u>1,021,900</u>	<u>483,150</u>
 Deferred tax liabilities related to book/tax differences in:		
Accrued market discount	10,014	11,210
Net unrealized gains on investments	-	39,066
Other	52,986	2,524
Total deferred tax liabilities	<u>63,000</u>	<u>52,800</u>
 Net deferred tax asset, admitted and nonadmitted	 958,900	 430,350
 Less: Total nonadmitted deferred tax assets	 <u>450,900</u>	 <u>148,750</u>
 Net deferred tax asset, admitted	 <u>\$ 508,000</u>	 <u>\$ 281,600</u>

Note 8 ~ Income Taxes (Continued)

Federal income taxes which would be available for recoupment in the event of future tax losses are approximately \$245,000 and \$237,000 for 2008 and 2007, 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 \$33,240 in 2008 and \$72,875 in 2007.

As of December 31, 2008, 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 salary 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 \$84,110 in 2008 and \$78,131 in 2007.

Note 10 ~ Line of Credit

During 2008, WILMIC increased its bank line of credit from \$1,000,000 up to \$3,000,000. The interest rate is prime minus 1.0 percent. There were no amounts outstanding on this line of credit at December 31, 2008 and 2007.

