

Virginia Surety Company, Inc.
Statutory-Basis Financial Statements
and Supplemental Schedules
As of and for the years ended December 31, 2022 and 2021

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Report of Independent Auditors

To the Board of Directors of Virginia Surety Company, Inc.

Opinions

We have audited the accompanying statutory-basis financial statements of Virginia Surety Company, Inc. (the "Company"), which comprise the statutory-basis statements of admitted assets, liabilities and capital and surplus as of December 31, 2022 and 2021, and the related statutory-basis statements of income, of changes in capital and surplus, and of cash flows for the years then ended, including the related notes (collectively referred to as the "financial statements").

Unmodified Opinion on Statutory Basis of Accounting

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

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 section of our report, the accompanying financial statements do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2022 and 2021, or the results of its operations or its cash flows for the years then ended.

Basis for Opinions

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

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

As described in Note 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 Illinois Department of Insurance, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the 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.



Responsibilities of Management 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 Illinois Department of Insurance. 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.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



Supplemental Information


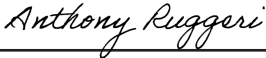
Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental summary investment schedule, schedule of investment risk interrogatories and schedule of reinsurance disclosures (collectively referred to as the "supplemental schedules") of the Company as of December 31, 2022 and for the year then ended are presented to comply with the National Association of Insurance Commissioners' Annual Statement Instructions and Accounting Practices and Procedures Manual and for purposes of additional analysis and are not a required part of the financial statements. The supplemental schedules 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 supplemental schedules 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 schedules are fairly stated, in all material respects, in relation to the financial statements taken as a whole.

PricewaterhouseCoopers LLP

April 21, 2023

Virginia Surety Company, Inc.
Statutory-Basis Statements of Admitted Assets, Liabilities, and Capital and Surplus
As of December 31, 2022 and 2021
(In millions)

	<u>2022</u>	<u>2021</u>
Admitted assets		
Cash and invested assets:		
Bonds	\$ 1,272.9	\$ 1,256.5
Preferred and unaffiliated common stocks	53.9	63.2
Common stocks - affiliated	11.2	10.4
Mortgage loans	41.6	31.0
Cash, cash equivalents and short-term investments	71.6	54.8
Other invested assets	61.7	39.4
Total cash and invested assets	<u>1,512.9</u>	<u>1,455.3</u>
Investment income due and accrued	11.0	9.4
Premiums and considerations receivable	226.5	265.2
Reinsurance balances recoverable	61.3	65.6
Net deferred tax assets	32.8	38.6
Other admitted assets	12.3	11.5
Total admitted assets	<u>\$ 1,856.8</u>	<u>\$ 1,845.6</u>
Liabilities		
Losses and loss adjustment expenses	\$ 81.6	\$ 90.4
Commission payable	78.4	56.6
Unearned premiums	898.8	876.8
Ceded reinsurance premiums payable	146.7	161.7
Funds held by company under reinsurance treaties	201.2	197.3
Amounts withheld or retained by the company for account of others	73.1	66.5
Payable to parent, subsidiaries and affiliates	16.3	33.5
Retroactive reinsurance	(15.1)	(17.3)
Other liabilities	30.9	14.6
Total liabilities	<u>1,511.9</u>	<u>1,480.1</u>
Capital and surplus		
Common capital stock, \$1 par value, 5,000,000 shares authorized, issued and outstanding	5.0	5.0
Gross paid-in and contributed surplus	182.2	182.2
Special surplus funds - retroactive reinsurance	15.1	17.3
Unassigned surplus	142.6	161.0
Total capital and surplus	<u>344.9</u>	<u>365.5</u>
Total liabilities and capital and surplus	<u>\$ 1,856.8</u>	<u>\$ 1,845.6</u>

 _____ Director	4/21/2023 _____ Date
 _____ Director	4/21/2023 _____ Date

The accompanying notes are an integral part of those financial statements.

Virginia Surety Company, Inc.
Statutory-Basis Statements of Income
For the years ended December 31, 2022 and 2021
(In millions)

	<u>2022</u>	<u>2021</u>
Premiums		
Net earned premiums	\$ 558.6	\$ 525.4
Underwriting expenses		
Losses and loss adjustment expenses incurred	331.7	320.8
Other underwriting expenses	<u>160.3</u>	<u>145.3</u>
Total underwriting expenses	492.0	466.1
Net underwriting gain	66.6	59.3
Net investment income	54.2	41.5
Net realized capital (losses) gains, net of tax	(11.2)	0.2
Miscellaneous (expense) income	<u>(12.5)</u>	<u>8.5</u>
Income after realized capital (losses) gains and before all other federal and foreign income taxes	97.1	109.5
Federal and foreign income tax expense	<u>24.4</u>	<u>25.1</u>
Net income	<u>\$ 72.7</u>	<u>\$ 84.4</u>

The accompanying notes are an integral part of those financial statements.

Virginia Surety Company, Inc.
Statutory-Basis Statements of Changes in Capital and Surplus
As of and for the years ended December 31, 2022 and 2021
(In millions)

	Common Capital Stock	Gross Paid-in and Contributed Surplus	Special Surplus Funds	Unassigned Surplus	Total Capital and Surplus
Balance at December 31, 2020	\$ 5.0	\$ 182.2	\$ 16.3	\$ 138.0	\$ 341.5
Net income	-	-	1.5	82.9	84.4
Change in net unrealized capital losses, net of taxes	-	-	-	(1.5)	(1.5)
Change in net unrealized foreign exchange losses	-	-	-	(2.2)	(2.2)
Change in net deferred income tax	-	-	-	0.4	0.4
Change in nonadmitted assets	-	-	-	5.3	5.3
Change in provision for reinsurance	-	-	-	9.1	9.1
Dividends to stockholder	-	-	-	(59.0)	(59.0)
SSAP 3 Correction of errors	-	-	-	(12.5)	(12.5)
(See Note 3)					
Transfer to unassigned surplus - paid on retroactive reinsurance transactions	-	-	(0.5)	0.5	-
Balance at December 31, 2021	5.0	182.2	17.3	161.0	365.5
Net income	-	-	(0.5)	73.2	72.7
Change in net unrealized capital losses, net of taxes	-	-	-	(13.3)	(13.3)
Change in net unrealized foreign exchange gains	-	-	-	2.2	2.2
Change in net deferred income tax	-	-	-	1.2	1.2
Change in nonadmitted assets	-	-	-	(9.7)	(9.7)
Change in provision for reinsurance	-	-	-	(8.7)	(8.7)
Dividends to stockholder	-	-	-	(65.0)	(65.0)
Transfer to unassigned surplus - paid on retroactive reinsurance transactions	-	-	(1.7)	1.7	-
Balance at December 31, 2022	\$ 5.0	\$ 182.2	\$ 15.1	\$ 142.6	\$ 344.9

The accompanying notes are an integral part of those financial statements.

Virginia Surety Company, Inc.
Statutory-Basis Statements of Cash Flows
For the years ended December 31, 2022 and 2021
(In millions)

	2022	2021
Cash from operations		
Premiums collected net of reinsurance	\$ 619.2	\$ 631.5
Net investment income collected	56.5	46.4
Miscellaneous income collected	6.4	4.8
Benefit and loss related payments	(335.9)	(312.4)
Commissions, expenses paid, and aggregate write-ins for deductions	(146.9)	(125.4)
Federal and foreign income taxes paid	(27.8)	(22.1)
Net cash provided from operations	<u>171.5</u>	<u>222.8</u>
Cash from investments		
Proceeds from investments sold, matured or repaid:		
Bonds	386.2	279.5
Stocks	4.2	14.8
Mortgage loans	0.4	0.1
Other invested assets	7.6	1.0
Net losses on cash, cash equivalents, and short-term investments	(1.1)	(0.2)
Miscellaneous proceeds	-	6.0
Total investment proceeds	<u>397.3</u>	<u>301.2</u>
Cost of investments acquired (long-term only):		
Bonds	(486.0)	(363.8)
Stocks	(5.1)	(26.2)
Mortgage loans	(11.0)	(31.1)
Other invested assets	(19.6)	(26.6)
Miscellaneous applications	(8.9)	-
Total investments acquired	<u>(530.6)</u>	<u>(447.7)</u>
Net cash used in investments	<u>(133.3)</u>	<u>(146.5)</u>
Cash from financing and miscellaneous sources		
Cash applied:		
Paid in capital	-	-
Dividends to stockholder	(15.5)	(59.0)
Funds held under reinsurance treaty	-	-
Net transfers to affiliates and other activities	(5.9)	(116.4)
Net cash applied in financing and miscellaneous sources	<u>(21.4)</u>	<u>(175.4)</u>
Reconciliation of cash, cash equivalents, and short-term investments		
Net change in cash, cash equivalents, and short-term investments	16.8	(99.1)
Cash, cash equivalents, and short-term investments:		
Beginning of year	54.8	153.9
End of year	<u>\$ 71.6</u>	<u>\$ 54.8</u>
Non cash transactions:		
Dividends in the form of securities transferred to Parent	\$ 49.5	\$ -
Tax free securities exchange	14.9	11.2
Canadian Branch Assumption Reinsurance (See Note 2)	-	48.0
Total non cash transactions	<u>\$ 64.4</u>	<u>\$ 59.2</u>

The accompanying notes are an integral part of those financial statements.

Virginia Surety Company, Inc.
Notes to Statutory-Basis Financial Statements
As of and for the years ended December 31, 2022 and 2021
(In millions)

1. Nature of Operations

Virginia Surety Company, Inc. (“VSC” or the “Company”) is a wholly owned subsidiary of TWG Holdings, Inc.. TWG Holdings, Inc. is indirectly owned by Wolverine, an insurance holding company, which is directly owned by Assurant, Inc. (“Assurant”). Assurant is a Delaware holding company whose common stock is traded on the New York Stock Exchange under the symbol “AIZ”. The Company is domiciled in the state of Illinois.

The Company provides various forms of property and casualty insurance coverage. The Company primarily writes contractual liability, mechanical repair, and appliance extended warranty coverages, as well as several other lines of business, throughout the United States and in certain international locations. The Company is licensed in all 50 states and the District of Columbia in the United States, and in Guam, Puerto Rico, U.S. Virgin Islands and Northern Mariana Islands. In North America, the majority of the Company’s premiums are generated from contractual liability policies issued to affiliated obligor companies in connection with the sale of extended warranty contracts. These contractual liability policies provide full reimbursement claims coverage or obligor failure-to-perform coverages.

The Company also has direct and assumed premiums from extended warranty products sold in Korea, Australia, China, New Zealand, the United Kingdom, and certain other international locations.

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the Company are presented on the basis of accounting practices prescribed or permitted by the Illinois Department of Insurance for determining and reporting the financial condition and results of operations of an insurance company and its solvency under the Illinois Insurance Law. The National Association of Insurance Commissioners’ (“NAIC”) *Accounting Practices and Procedures Manual* has been adopted as a component of prescribed or permitted practices by the state of Illinois. The Illinois Commissioner of Insurance has the right to permit other specific practices that deviate from prescribed practices. There are no permitted practices applicable to the Company.

Use of Estimates

The preparation of financial statements in conformity with Statement of Statutory Accounting Principles (“SSAP”) requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from the estimates reported.

The most significant estimates include those used in determining measurement of any related impairment, valuation of investments (in the absence of quoted market values), the recognition of other-than-temporary impairments, reinsurance recoverables, provision for income taxes and valuation and realizability of deferred tax assets, aggregate reserves for losses and loss adjustment expenses (“LAE”), unearned premiums, and reserves for commitments and contingencies.

Virginia Surety Company, Inc.
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Statutory accounting practices differ in certain respects from U.S. generally accepted accounting principles (“GAAP”). The most significant variances from GAAP are as follows:

Investments

Under GAAP, bonds are categorized based on positive intent as “trading securities” (reported at fair value, with changes in fair value reported in earnings), “available for sale” securities (reported at fair value, with changes in fair value reported in equity), or “held to maturity” securities (reported at amortized cost). Under statutory reporting, bonds are valued according to statutory requirements as described below.

Under GAAP, an entity’s share of undistributed earnings and losses of an investee accounted for under the equity method is recognized in earnings. Under statutory accounting, distributions received from these investments are recorded as net investment income and undistributed earnings or (losses) are recorded as unrealized capital gains or (losses) and charged or credited directly to unassigned funds. As a result of the difference in the accounting methods, the recognition of impairment losses for statutory accounting considers accumulated unrealized losses in the measurement of impairments, while these unrealized losses were previously recorded in income as incurred for GAAP.

Investment in Subsidiaries

The accounts and operations of the Company’s non-insurance subsidiaries and insurance subsidiaries (reflected as affiliated common stocks in the balance sheets) are recorded using the GAAP equity method and the statutory equity method, respectively. None of the Company’s subsidiaries are consolidated within the Company’s financial statements, as would be required under GAAP.

Policy Acquisition Costs

The costs of acquiring and renewing business are charged to expense when incurred. Commissions are based on policy writings and are expensed when earned by the agents of the Company. Under GAAP, certain costs of acquiring new or renewals of insurance contracts, principally commissions, premium tax, administration, underwriting, and sales expenses that vary with, and are directly related to, the successful acquisition of new business, are deferred and amortized as the related premiums and contract fees are earned.

Non-Admitted Assets

Certain assets designated as non-admitted, principally past-due affiliated receivable balances, past-due agents’ balances, uncollected premiums, non-operating software and property and equipment, certain affiliated subsidiary investments, and other assets not specifically identified as an admitted asset within the *Accounting Practices and Procedures Manual* of the NAIC, are excluded from the accompanying Statements of Admitted Assets, Liabilities, and Capital and Surplus by a direct charge to unassigned surplus. Under GAAP, these amounts would be included within the financial statements without an equity or surplus adjustment.

Reinsurance

A liability for reinsurance balances has been provided for unsecured unearned premiums and unpaid losses ceded to unauthorized reinsurers and for certain unsecured overdue reinsurance

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balances. Changes to those amounts are credited or charged directly to unassigned surplus. Under GAAP, there would be no consideration for authorization or calculated liability for unsecured balances (unless deemed to represent a probable loss for which a valuation allowance would be recorded through a charge to income).

Certain reinsurance agreements are subject to retroactive reinsurance accounting for statutory reporting purposes. Retroactive reinsurance relates to coverage for losses incurred in prior periods. A reinsurance agreement may include both prospective and retroactive reinsurance provisions. Prospective and retroactive reinsurance accounting methods also exist in GAAP.

Ceded losses and LAE are reported as reductions of the related loss reserves rather than as reinsurance recoverable assets for statutory reporting purposes, as would be required under GAAP.

Ceding commissions are reported as income when earned rather than being deferred and amortized as an offset to deferred policy acquisition costs, as required under GAAP. An excess ceding commission above actual acquisition costs is deferred and recognized over the term of the reinsured insurance contract for statutory reporting purposes, consistent with GAAP.

Deferred Income Taxes

Gross deferred tax assets are admitted subject to certain restrictions. The change in net deferred income tax is reported as a charge or credit directly to unassigned funds. Under GAAP, this change is reported as an adjustment to income.

Cash and Statements of Cash Flows

The Statements of Cash Flows are presented using the direct method. Such presentation differs from GAAP which permits use of either the direct or indirect methods (with the indirect method including a reconciliation of net income to net cash flow from operating activities). The Statements of Cash Flows and GAAP presentation include both changes in cash, cash equivalents, and short-term investments. Cash includes cash equivalents representing highly liquid debt instruments purchased with an original maturity of three months or less. Short-term investments included highly liquid debt instruments purchased with a remaining maturity of one year or less at the time of acquisition.

Non-cash transactions excluded from the statements of cash flows: In 2021, the Company entered into an Assumption Reinsurance Agreement with American Bankers Insurance Company (“American Bankers”). Under the terms of this agreement, the Company transferred its Canadian branch operations, including liabilities in the amount of \$48.0 million arising under its contractual liability insurance policies issued by its Canadian branch, to American Bankers and the associated assets at fair value in the amount of \$48.0 million. There was no gain or loss associated with the Canadian branch transfer transaction. The Canadian branch was subsequently liquidated and dissolved.

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(In millions)

Other Significant Accounting Policies

Investments

Bonds, other than loan-backed and structured securities and perpetual bonds, are generally reported at amortized cost using the modified scientific interest method of amortization. Bonds assigned an NAIC designation of 1 or 2 are reported at amortized cost. Bonds assigned an NAIC designation of 3 to 6 are reported at the lower of amortized cost or fair value.

Loan-backed and structured securities are reported at amortized cost using the modified scientific interest method of amortization including anticipated prepayments. Prepayment assumptions are obtained from an external independent source and are based on the current interest rate and economic environment. The retrospective method is used to account for all securities where it is probable that all contractual cash flows will be collected. The prospective method is used to account for all securities where collection of all contractual cash flows is not probable.

Perpetual bonds that are not callable or that have passed all currently effective call dates are reported at fair value. Perpetual bonds with a current effective call date are reported at amortized cost.

Redeemable preferred stocks assigned an NAIC designation of 1 or 2 are reported at fair value. Preferred stocks with an NAIC designation of 3 to 6 are reported at the lower of cost, amortized cost or fair value.

Perpetual preferred stocks are reported at fair value, not to exceed any currently effective call price.

Unaffiliated common stocks are reported at fair value.

Mortgage loans are reported at their unpaid principal balances, net of unamortized premium or discount, less valuation allowance. Valuation allowances are established for mortgage loans that are considered impaired by management and recorded based on the difference between collateral value less estimated sales costs and the amortized cost of the mortgage loan. Mortgage loans for which foreclosure is probable are reported at the value of the underlying collateral less estimated sales costs with the write-down recorded as a realized capital loss. The Company determines loans to be past due and places the loans on non-accrual status after 90 days of delinquent payments (unless the loan is both well secured and in the process of collection). Interest income on impaired mortgage loans is recognized upon receipt.

Short-term investments are reported at cost or amortized cost.

Other invested assets include real estate joint ventures and other partnerships, and bond residual tranches. The real estate joint ventures and other partnerships are reported using the equity method of accounting. In applying the equity method, the Company uses financial information provided by the investee, generally on a three month lag. Residual tranches are reported at the lower of amortized cost or fair value.

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Realized capital gains and losses are determined using the specific identification basis. Realized capital gains and losses are reported net of federal income tax. Changes in admitted asset carrying amounts of bonds, mortgage loans, preferred and common stocks deemed to be temporary impairments are credited or charged directly to unassigned surplus. Decreases in admitted values deemed to be other-than-temporary impairments are recognized as capital losses within the Statements of Income.

Electronic Data Processing Equipment (“EDP”) and Software

The Company’s EDP equipment and software assets are recorded at cost, less accumulated depreciation. The admitted value of the Company’s EDP equipment and operating software is limited to 3% of capital and surplus (the capital and surplus amount used in the calculation is adjusted to remove such assets, deferred tax assets and positive goodwill, if any). Depreciation is computed principally using the straight-line method over the lesser of the useful lives of the assets or three years. Non-operating software is depreciated using the straight-line method over the lesser of its useful life or five years.

Funds Held

The Company holds funds on behalf of unaffiliated companies in conjunction with certain reinsurance arrangements in order to securitize risks transferred as part of these reinsurance transactions. These balances are recorded as liabilities on the Company’s statements of admitted assets, liabilities and capital and surplus.

Premium Revenue Recognition

Unearned premium reserves on single-premium insurance contracts are earned over the period at risk. The calculations are based on historical analyses of claim payment patterns over the duration of the policies in force. All other insurance contract premiums are earned on a pro rata basis.

Loss and Loss Adjustment Expense Reserves

Loss and LAE reserves represent the estimated ultimate net cost of all reported and unreported losses incurred and unpaid. The Company does not discount loss and LAE reserves. The reserves for unpaid losses and LAE are estimated using individual case-basis valuations and statistical analyses. Those estimates are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management believes the reserves for losses and LAE are adequate. The estimates are reviewed and adjusted as necessary as experience develops or new information becomes known, with any resultant changes recorded in the Statements of Income in the period determined.

Reinsurance

Reinsurance premiums, commissions, losses, and LAE are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts.

Foreign Currency Translation

In most countries with stable, non-highly inflationary economic environments, revenues and expenses are translated at average monthly exchange rates. Assets and liabilities are translated at the exchange rates at the applicable period end dates. Net exchange gains and losses are charged or credited directly to unassigned surplus.

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In countries designated as highly inflationary (where cumulative three-year inflation exceeds 100%), the functional currency is changed from the local currency to U.S. dollars and any non-U.S. dollar denominated monetary assets and liabilities are subject to remeasurement with any changes recorded directly to the statements of income. In this case, the Company could experience significant income statement volatility, which would adversely affect results of operations. Beginning July 1, 2018, as a result of the classification of Argentina's economy as highly inflationary, the Company's branch and subsidiary operations' functional currency was changed to U.S. dollars. The related non-U.S. dollar denominated monetary assets and liabilities were subject to remeasurement as of December 31, 2022 and 2021.

Federal Income Taxes

The Company's tax status is as a property casualty insurance company, and it is a member of the Assurant's U.S. consolidated tax group. The method of tax allocation between the members of the consolidated tax group is subject to a formal agreement approved by the Company's Board of Directors. The consolidated tax liability is generally allocated among the members of the group as if each member filed its own tax return. Benefits are recorded by the member of the group generating a taxable loss, if such loss can be used to offset taxable income of the group.

Going Concern

Management is required to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern. Such substantial doubt is determined when relevant conditions and events, considered in the aggregate, indicate that it is probable that an entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued. Based upon its evaluation of relevant conditions and events, management does not have substantial doubt about the Company's ability to continue as a going concern.

3. Correction of Errors

In accordance with the SSAP No. 3, Accounting Changes and Corrections of Errors, paragraph 10, correction of all accounting errors in previously issued financial statements, for which an amended financial statement was not filed, are reported as adjustment to unassigned funds (surplus) in the period an error was detected.

As part of the preparation of the 2021 statutory audited financial statement, the Company identified an error relating to gross retail premium and commission expense for one of the Company's foreign branches. As a result, the 2021 unearned premium reserve was understated by \$14.0 million, net deferred tax asset was understated by \$0.6 million and current tax payable was overstated by \$2.4 million. The correction of this error, net of tax, resulted in a \$11.0 million decrease to 2021 surplus as reported in the Statutory Changes in Capital and Surplus. See Note 15 for further details as to the adjustments recorded.

During 2021, the Company identified an error relating to an overstatement of excise tax receivables for prior years. As a result, the 2020 tax receivable was overstated by \$1.9 million, Unassigned Surplus was overstated by \$1.5 million and current federal and foreign income taxes was overstated by \$0.4 million. The correction of this error, net of tax, resulted in a \$1.5 million decrease to opening 2021 surplus as reported in the Statutory Changes in Capital and Surplus.

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The Company evaluated these errors, individually and in the aggregate, and determined that the impact to the previously issued financial statements is not material.

4. Investments

At December 31, 2022, the carrying value, fair value and gross unrealized gains and losses of investments in bonds and stocks are summarized as follows:

	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Bonds:				
U.S. Government	\$ 7.0	\$ -	\$ (0.1)	\$ 6.9
Foreign governments	55.2	-	(2.6)	52.6
States and political subdivisions	4.0	-	(0.6)	3.4
Special revenue	11.9	-	(1.8)	10.1
Hybrid	9.1	0.1	(1.2)	8.0
Loan-backed and structured	319.5	0.1	(19.3)	300.3
Industrial and miscellaneous	866.2	0.3	(88.8)	777.7
Total bonds	<u>\$ 1,272.9</u>	<u>\$ 0.5</u>	<u>\$ (114.4)</u>	<u>\$ 1,159.0</u>
Stocks:				
Preferred stocks	\$ 30.9	\$ -	\$ (0.2)	\$ 30.7
Unaffiliated common stocks	23.0	-	-	23.0
Total stocks	<u>\$ 53.9</u>	<u>\$ -</u>	<u>\$ (0.2)</u>	<u>\$ 53.7</u>

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At December 31, 2021, the carrying value, fair value and gross unrealized gains and losses of investments in bonds and stocks are summarized as follows:

	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Bonds:				
U.S. Government	\$ 7.3	\$ 0.2	\$ -	\$ 7.5
Foreign governments	64.9	0.8	(1.0)	64.7
States and political subdivisions	4.4	-	(0.1)	4.3
Special revenue	6.5	0.1	-	6.6
Hybrid	10.8	0.6	-	11.4
Loan-backed and structured	304.6	12.8	(0.3)	317.1
Industrial and miscellaneous	858.0	41.5	(3.9)	895.6
Total bonds	<u>\$ 1,256.5</u>	<u>\$ 56.0</u>	<u>\$ (5.3)</u>	<u>\$ 1,307.2</u>
Stocks:				
Preferred stocks	\$ 31.4	\$ -	\$ -	\$ 31.4
Unaffiliated common stocks	31.8	-	-	31.8
Total stocks	<u>\$ 63.2</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 63.2</u>

A summary of the carrying value and fair value of the Company's investments in bonds at December 31, 2022 by contractual maturity is shown below. Expected maturities may differ from contractual maturities because certain issuers of the bonds may have the right to call or prepay obligations with or without call or prepayment penalties.

	Carrying Value	Fair Value
Years to maturity:		
One or less	\$ 19.9	\$ 19.7
After one through five	374.3	360.6
After five through ten	393.1	355.7
After ten	166.1	122.7
Loan-backed and structured	319.5	300.3
Total	<u>\$ 1,272.9</u>	<u>\$ 1,159.0</u>

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The following table summarizes the proceeds from sales and the gross realized gains and losses that have been included in net income as a result of those sales:

	Years Ended December 31,	
	2022	2021
Bonds:		
Proceeds from sales	\$ 309.1	\$ 177.2
Gross realized gains	\$ 0.3	\$ 4.3
Gross realized losses	(13.1)	(4.5)
Net realized losses from sales of bonds	<u>\$ (12.8)</u>	<u>\$ (0.2)</u>
Preferred and unaffiliated common stocks:		
Proceeds from sales	\$ 4.2	\$ 14.8
Gross realized gains	\$ -	\$ 0.3
Gross realized losses	(0.3)	-
Net realized (losses) gains from sales of preferred and unaffiliated common stocks	<u>\$ (0.3)</u>	<u>\$ 0.3</u>

The net realized capital gains (losses) reported net of federal income taxes are summarized as follows:

	Years Ended December 31,	
	2022	2021
Net realized capital (losses) gains related to sales and other:		
Bonds	\$ (12.8)	\$ (0.2)
Preferred and unaffiliated common stocks	(0.3)	0.3
Cash, cash equivalents and short-term investments (1)	(1.1)	0.1
Other investment income	-	0.1
Total realized capital (losses) gains	<u>(14.2)</u>	<u>0.3</u>
Federal income tax benefit (expense) on net realized capital (losses) gains	<u>3.0</u>	<u>(0.1)</u>
Net realized capital (losses) gains, net of tax	<u>\$ (11.2)</u>	<u>\$ 0.2</u>

(1) The losses related to the cash, cash equivalents and short-term investments are primarily related to foreign currency remeasurement losses associated with cash equivalents and short-term investments held by the Argentina branch that were attributable to the highly inflationary accounting basis described in Note 2.

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Major categories of the Company's net investment income are summarized as follows:

	Years Ended December 31,	
	2022	2021
Income (loss):		
Bonds	\$ 45.8	\$ 40.5
Preferred and unaffiliated common stocks	2.6	2.4
Mortgage loans	1.7	0.5
Cash, cash equivalents and short-term investments	1.7	0.7
Other invested assets	4.6	(0.6)
Total investment income	56.4	43.5
Investment expenses	(2.2)	(2.0)
Net investment income	<u>\$ 54.2</u>	<u>\$ 41.5</u>

All investment income due and accrued over 90 days past due, with the exception of mortgage loans in default, is required to be excluded from surplus. The Company did not have any nonadmitted due and accrued investment income as of December 31, 2022 and 2021.

For the year ended December 31, 2022 and 2021, 9 and 12 bonds were called or tendered resulting in net prepayment penalties and accretion fee income to the Company of \$0.3 million and \$0.8 million being recorded, respectively.

At December 31, 2022, the investment category and duration of the Company's gross unrealized losses on bonds and stocks as compared to their amortized cost basis are summarized as follows:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Bonds:						
U.S. Governments	\$ 6.9	\$ (0.1)	\$ -	\$ -	\$ 6.9	\$ (0.1)
Foreign governments	37.3	(1.5)	12.8	(1.1)	50.1	(2.6)
States and political subdivisions	-	-	2.8	(0.6)	2.8	(0.6)
Special revenue	8.2	(1.0)	1.9	(0.8)	10.1	(1.8)
Hybrid	5.3	(1.5)	1.6	(0.3)	6.9	(1.8)
Loan-backed and structured	241.2	(17.0)	34.4	(2.3)	275.6	(19.3)
Industrial and miscellaneous	664.2	(57.3)	91.1	(34.9)	755.3	(92.2)
Total bonds	<u>\$ 963.1</u>	<u>\$ (78.4)</u>	<u>\$ 144.6</u>	<u>\$ (40.0)</u>	<u>\$ 1,107.7</u>	<u>\$ (118.4)</u>
Stocks:						
Preferred stocks	\$ 24.5	\$ (3.8)	\$ 6.2	\$ (1.4)	\$ 30.7	\$ (5.2)
Unaffiliated common stocks	23.0	(2.6)	-	-	23.0	(2.6)
Total stocks	<u>\$ 47.5</u>	<u>\$ (6.4)</u>	<u>\$ 6.2</u>	<u>\$ (1.4)</u>	<u>\$ 53.7</u>	<u>\$ (7.8)</u>

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At December 31, 2021, the investment category and duration of the Company's gross unrealized losses on bonds and stocks as compared to their amortized cost basis are summarized as follows:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Bonds:						
Foreign governments	\$ 29.4	\$ (0.8)	\$ 4.0	\$ (0.2)	\$ 33.4	\$ (1.0)
States and political subdivisions	4.4	(0.1)	-	-	4.4	(0.1)
Loan-backed and structured	32.2	(0.3)	5.9	(0.1)	38.1	(0.4)
Industrial and miscellaneous	146.5	(3.9)	2.0	(0.1)	148.5	(4.0)
Total bonds	<u>\$ 212.5</u>	<u>\$ (5.1)</u>	<u>\$ 11.9</u>	<u>\$ (0.4)</u>	<u>\$ 224.4</u>	<u>\$ (5.5)</u>
Preferred stocks	<u>\$ 7.5</u>	<u>\$ (0.1)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7.5</u>	<u>\$ (0.1)</u>

The total gross unrealized losses were approximately 11% and 2% of the aggregate fair value of the related securities at December 31, 2022 and 2021, respectively. Approximately 67% and 95% of these gross unrealized losses had been in a continuous loss position for less than twelve months in 2022 and 2021, respectively. The total gross unrealized losses were comprised of 740 and 202 individual securities in 2022 and 2021, respectively.

The Company regularly monitors its investment portfolio to ensure investments that may be other-than-temporarily impaired are identified in a timely fashion, properly valued, and charged against net income in the proper period. Assessment factors include, but are not limited to, the extent to which the fair value is less than amortized cost, the financial condition and rating of the issuer, whether any collateral is held, and the intent and ability of the Company to retain the investment for a period of time sufficient to allow for recovery. For loan-backed and structured securities, the Company is required to analyze its ability to recover the amortized cost of the security by calculating the net present value of projected future cash flows. The net amount recognized in net income in the event of an impairment is equal to the difference between the amortized cost of the security and its net present value. Cash flow estimates, including prepayment assumptions, are based on data from widely accepted third-party data sources or internal estimates. In addition to prepayment assumptions, cash flow estimates vary based on assumptions regarding the underlying collateral including default rates, recoveries, and changes in value. The net present value is calculated by discounting the Company's best estimate of projected future cash flows at the effective interest rate implicit in the security prior to impairment at the reporting date. For all non-loan-backed securities whose price decrease is deemed other-than-temporary, the security is written down to its then fair value with the amount of the impairment reported as a loss.

The Company has entered into commercial mortgage loans, collateralized by the underlying real estate, on properties located throughout the United States. At December 31, 2022, approximately 48% of the commercial mortgage loan carrying value was concentrated in the states of California, North Carolina, and Texas. Although the Company has a diversified loan portfolio, an economic downturn could have an adverse impact on the ability of its debtors to pay their loans. The carrying value of commercial mortgage loans ranges in size from \$0.7 million to \$5.3 million at December 31, 2022 and from \$0.7 million to \$5.0 million at December 31, 2021.

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During 2022, the respective maximum and minimum lending rates for commercial mortgage loans were 8% and 4%. At the issuance of a loan, the percentage of loan to value on any one loan did not exceed 74%. At December 31, 2022, none of the commercial mortgage loans held by the Company had interest overdue beyond 180 days. All properties covered by the Company's commercial mortgage loans have fire insurance at least equal to the excess of the loan over the maximum loan that would be allowed on the land without the building.

Credit quality indicators for commercial mortgage loans are loan-to-value and debt-service coverage ratios. Loan-to-value and debt-service coverage ratios are measures commonly used to assess the credit quality of commercial mortgage loans. The loan-to-value ratio compares the principal amount of the loan to the fair value of the underlying property collateralizing the loan, and is commonly expressed as a percentage. The debt-service coverage ratio compares a property's net operating income to its debt-service payments and is commonly expressed as a ratio. The loan-to-value and debt-service coverage ratios are generally updated annually in the third quarter. The following summarizes the Company's loan-to-value and average debt-service coverage ratios:

As of December 31, 2022:

Loan-to-Value	Carrying Value	% of Gross Mortgage Loans	Debt-Service Coverage Ratio
70% and less	\$ 19.9	47.8%	1.42
71-80%	21.7	52.2%	1.44
Total commercial mortgage loans	<u>\$ 41.6</u>	<u>100.0%</u>	1.43

As of December 31, 2021:

Loan-to-Value	Carrying Value	% of Gross Mortgage Loans	Debt-Service Coverage Ratio
70% and less	\$ 17.0	54.8%	1.64
71-80%	14.0	45.2%	2.12
Total commercial mortgage loans	<u>\$ 31.0</u>	<u>100.0%</u>	1.85

Commercial mortgage loans are reviewed on a periodic basis for impairments. A mortgage loan is impaired when it is probable the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Factors reviewed as part of this process are deteriorating credit quality or a reduction in the debt-service coverage ratio. For impairments determined to be temporary, valuation allowances are established. The initial valuation allowance and subsequent changes are charged or credited directly to unassigned surplus. For impairments determined to be other-than-temporary, a direct write down is recognized as a realized loss, and a new cost basis is established. The Company uses one of the following valuation methods based on the individual loans facts and circumstances to measure the impairment amount: (1) the present value of expected future cash flows, (2) the loan's observable market price, or (3) the fair value of collateral.

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At December 31, 2022, the Company held unrated or less-than-investment-grade corporate bonds of \$36.6 million with a fair value of \$36.7 million. Those holdings amounted to approximately 3% of the Company's investments in bonds and approximately 2% of the Company's total admitted assets. The Company performs periodic evaluations of the relative credit standing of the issuers of these bonds.

At December 31, 2022 and 2021, securities with admitted asset values of \$7.8 and \$7.7 million respectively, were on deposit with government authorities or trustees as required by law to satisfy regulatory requirements. These holdings amounted to less than 1% of the Company's total admitted assets as of December 31, 2022 and 2021.

At December 31, 2022, and 2021, the Company's non-insurance subsidiaries (TWG Home Warranty Services, Inc. and The Warranty Group Colombia S.A.) did not obtain audits of their U.S. GAAP financial statements, and, as a result, U.S. GAAP equity of \$6.5 million and \$6.6 million for 2022 and 2021, respectively, attributable to the Company's investment in these subsidiaries was non-admitted, in accordance with statutory requirements. The Company's foreign insurance subsidiary (Virginia Surety Compania de Seguros) obtained foreign statutory audits in 2022 and 2021, allowing the Company to admit its investment in this subsidiary at December 31, 2022 and 2021.

5. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company has categorized its financial instruments into a three-level fair value hierarchy based on the priority of the inputs to the valuation technique.

The levels of the fair value hierarchy are described below:

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical financial instruments that the Company can access.

Level 2 inputs utilize other than quoted prices included in Level 1 that are observable for the financial instrument, either directly or indirectly, for substantially the full term of the financial instrument. Level 2 inputs include quoted prices for similar financial instruments in active markets, quoted prices for identical or similar financial instruments in markets that are not active and inputs other than quoted prices that are observable in the marketplace for the financial instrument. The observable inputs are used in valuation models to calculate the fair value for the financial instrument.

Level 3 inputs are unobservable but are significant to the fair value measurement for the financial instrument, and include situations where there is little, if any, market activity for the financial instrument. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the financial instrument.

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The following table presents the Company's fair value hierarchy for financial instruments measured at fair value as of December 31, 2022:

	Total	Level 1	Level 2	Level 3
Financial assets:				
Bonds:				
Hybrid	\$ 2.2	\$ -	\$ 2.2	\$ -
Industrial and miscellaneous	34.6	-	34.6	-
Preferred stocks	29.1	-	29.1	-
Unaffiliated common stocks	23.0	23.0 (1)	-	-
Other invested assets	6.0	-	5.9	0.1
Total financial assets at fair value	<u>\$ 94.9</u>	<u>\$ 23.0</u>	<u>\$ 71.8</u>	<u>\$ 0.1</u>

(1) Mainly includes mutual funds.

The following table presents the Company's fair value hierarchy for financial instruments measured at fair value as of December 31, 2021:

	Total	Level 1	Level 2	Level 3
Financial assets:				
Bonds:				
Hybrid	\$ 1.8	\$ -	\$ 1.8	\$ -
Loan-backed and structured	2.1	-	2.1	-
Industrial and miscellaneous	1.5	-	1.5	-
Preferred stocks	29.6	-	29.6	-
Unaffiliated common stocks	31.8	31.8 (1)	-	-
Total financial assets at fair value	<u>\$ 66.8</u>	<u>\$ 31.8</u>	<u>\$ 35.0</u>	<u>\$ -</u>

(1) Mainly includes mutual funds.

The following table summarizes the change in carrying value associated with Level 3 financial instruments carried at fair value during the year ended December 31, 2022:

	Balance, beginning of period	Transfers in	Transfers out	Balance, end of period
Financial assets:				
Bonds				
Loan-backed and structured	\$ -	\$ 0.1	\$ (0.1)	\$ -
Other invested assets	-	0.1	-	0.1
Total Level 3 assets	<u>\$ -</u>	<u>\$ 0.2</u>	<u>\$ (0.1)</u>	<u>\$ 0.1</u>

Transfers into and out of Level 3 were due to a NAIC guidance change which required residual sub trache investments to be reported as other invested assets which had previously been reported as bonds.

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For all classes of financial instruments measured at fair value, the market approach is generally used. The market approach valuation technique uses prices and other relevant information generated by market transactions involving identical or comparable assets.

The narrative and tables below provide information regarding the fair value of financial instruments in the Statements of Admitted Assets, Liabilities and Capital and Surplus. Certain financial instruments are excluded, including those accounted for under the equity method of accounting, such as real estate joint ventures, other partnerships and affiliated common stock.

Bonds, preferred and common stocks

Level 1

Level 1 assets are publicly listed and are actively traded in an established market.

Level 2

Bonds are valued using various observable market inputs obtained from a pricing service or asset manager. They prepare estimates of fair value measurements for the Company's Level 2 assets using proprietary valuation models based on market approach valuation techniques such as matrix pricing which include observable market inputs. The extent of the use of each observable market input depends on the type of asset and the market conditions at the reporting date. The priority of the use of observable market inputs may change as some observable market inputs may not be relevant or additional inputs may be necessary. The following observable market inputs ("standard inputs"), listed in the approximate order of priority, are utilized in the pricing evaluation of Level 2 assets: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research data. To price loan-backed and structured securities, the pricing service uses vendor trading platform data, new issue data, monthly payment information and collateral performance inputs in addition to the standard inputs. The pricing service or asset manager may also evaluate assets based on relevant market information including relevant credit information, perceived market movements and sector news. A non-pricing service source prices certain privately placed corporate bonds using a model with observable inputs including, but not limited to, credit quality by sector, average life, and the capital size of the issuer. Preferred stocks are priced by the Company's pricing vendor utilizing observations of equity and credit default swap curves related to the issuer in addition to the standard inputs.

Level 3

The Level 3 bonds and stocks, excluding certain privately placed bonds, are priced using non-binding third-party quotes, for which the underlying quantitative inputs are not developed by the Company and not readily available or observable. For certain privately placed bonds, the fair values are originated by the internal asset manager and may incorporate significant unobservable inputs.

Mortgage loans

The fair value of mortgage loans are estimates provided by the Company's third-party investment manager using a matrix pricing model. For fixed rate loans, the matrix process uses a yield buildup

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approach to create a pricing yield, with components for base yield, credit quality spread, property type spread, and a weighted average life spread. Floating rate loans are priced with a target quality spread over the swap curve. A dollar price for each loan is derived from the pricing yield or spread by a discounted cashflow methodology in a vendor application.

Cash, cash equivalents and short-term investments

The reported carrying value approximates fair value because of the short maturity of the instruments.

Other invested assets

The residual tranches fair values are originated by the internal asset manager and may incorporate significant unobservable inputs.

Valuation models can change period to period, depending on the appropriate observable inputs that are available at the reporting date to price the financial instruments. For the reporting periods presented, the application of the valuation technique applied to the Company's classes of financial instruments measured at fair value has been consistent.

The Company generally obtains one price for each financial instrument. The Company regularly assesses if the evaluated prices represent a reasonable estimate of their fair value. This process involves quantitative and qualitative analysis and is overseen by investment and accounting professionals. Examples of procedures performed include, but are not limited to, initial and on-going review of pricing service methodologies, review of the prices received from the pricing service, review of pricing statistics and trends, and comparison of prices for certain securities with two different appropriate price sources for reasonableness. Following this analysis, the Company generally uses the best estimate of fair value based upon all available inputs. On infrequent occasions, a non-pricing service source may be more familiar with the market activity for a particular security than the pricing service. In these cases the price used is taken from the non-pricing service source. The pricing service provides information to indicate which securities were priced using market observable inputs so that the Company can properly categorize its financial instruments in the fair value hierarchy.

The following table discloses the carrying values, fair values and hierarchy level of the Company's financial instruments at December 31, 2022:

	Carrying Value	Fair Value			
		Total	Level 1	Level 2	Level 3
Financial assets:					
Bonds	\$ 1,272.9	\$ 1,159.0	\$ -	\$ 1,139.2	\$ 19.8
Preferred and unaffiliated common stocks	53.9	53.7	23.0 (1)	29.1	1.6
Mortgage loans	41.6	38.4	-	-	38.4
Cash, cash equivalents and short-term investments	71.6	71.6	68.0	3.6	-
Other invested assets	6.4	6.4		6.1	0.3
Total financial assets	<u>\$ 1,446.4</u>	<u>\$ 1,329.1</u>	<u>\$ 91.0</u>	<u>\$ 1,178.0</u>	<u>\$ 60.1</u>

(1) Mainly includes mutual funds.

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The following table discloses the carrying values, fair values and hierarchy level of the Company's financial instruments at December 31, 2021:

	Carrying Value	Fair Value			
		Total	Level 1	Level 2	Level 3
Financial assets:					
Bonds	\$ 1,256.5	\$ 1,307.2	\$ -	\$ 1,307.2	\$ -
Preferred and unaffiliated common stocks	63.2	63.2	31.8 (1)	31.4	-
Mortgage loans	31.0	30.5	-	-	30.5
Cash, cash equivalents and short-term investments	54.8	54.8	54.8	-	-
Total financial assets	<u>\$ 1,405.5</u>	<u>\$ 1,455.7</u>	<u>\$ 86.6</u>	<u>\$ 1,338.6</u>	<u>\$ 30.5</u>

(1) Mainly includes mutual funds.

6. Federal Income Taxes

The components of deferred tax assets (DTAs) and deferred tax liabilities (DTLs) are as follows:

Description	2022			2021		
	Ordinary	Capital	Total	Ordinary	Capital	Total
Gross DTAs	\$ 48.2	\$ 3.8	\$ 52.0	\$ 47.3	\$ -	\$ 47.3
Gross DTLs	(1.1)	(1.2)	(2.3)	(0.9)	(1.8)	(2.7)
Net DTA	47.1	2.6	49.7	46.4	(1.8)	44.6
DTA nonadmitted	(16.9)	-	(16.9)	(6.0)	-	(6.0)
Net admitted DTA	<u>\$ 30.2</u>	<u>\$ 2.6</u>	<u>\$ 32.8</u>	<u>\$ 40.4</u>	<u>\$ (1.8)</u>	<u>\$ 38.6</u>

The Company's adjusted gross DTAs as of December 31, 2022 and 2021, include no valuation allowances because, based on the weight of available evidence, that it is more likely than not that all DTAs will be realized.

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The components of the admission calculation are as follows:

Description	2022			2021		
	Ordinary	Capital	Total	Ordinary	Capital	Total
Admission calculation pursuant to para. 11.a.-11.c.:						
Admitted pursuant to						
para. 11.a.	\$ 24.8	\$ -	\$ 24.8	\$ 31.4	\$ -	\$ 31.4
Admitted pursuant to						
para. 11.b.						
(lesser of i. or ii.)	8.0	-	8.0	7.2	-	7.2
Paragraph 11.b.i.	8.0	-	8.0	7.2	-	7.2
Paragraph 11.b.ii.			46.8			49.1
Admitted pursuant to						
para. 11.c.	1.1	1.2	2.3	0.9	1.8	2.7
Total admitted pursuant						
to 11.a.-11.c.	<u>\$ 33.9</u>	<u>\$ 1.2</u>	<u>\$ 35.1</u>	<u>\$ 39.5</u>	<u>\$ 1.8</u>	<u>\$ 41.3</u>

Adjusted capital and surplus:

	2022	2021
Ratio used to determine recovery period		
and threshold limitation amount	468%	387%
Amount of adjusted capital and surplus		
used to determine recovery period and		
threshold limitation in 2(b)2 above	\$ 312.1	\$ 327.4

Tax planning strategies had no impact on the Company's ordinary or capital adjusted gross DTAs and net admitted DTAs as of December 31, 2022 and 2021. The Company has not utilized a tax planning strategy involving reinsurance. All DTLs have been recognized.

Current income taxes incurred consist of the following components:

Description	2022	2021
Federal income tax expense - ordinary	\$ 24.4	\$ 25.0
Foreign income tax expense - ordinary	-	-
Federal and foreign income tax expense	\$ 24.4	\$ 25.0
Federal income tax benefit - capital	(3.7)	0.1
Utilization of capital loss carry-forwards	0.7	-
Total income tax expense - ordinary and capital	<u>\$ 21.4</u>	<u>\$ 25.1</u>

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The tax effects of temporary differences that give rise to significant DTAs and DTLs are as follows:

Description	December 31,	
	2022	2021
DTAs		
<u>Ordinary</u>		
Reserves	\$ 37.8	\$ 36.8
Nonadmitted assets	6.0	6.3
Discounting of unpaid losses	0.3	0.3
Tax credit carry-forward	-	0.1
Other	4.2	3.8
Gross DTAs - Ordinary	48.2	47.3
Nonadmitted DTAs - Ordinary	(16.9)	(6.0)
Admitted adjusted DTAs - Ordinary	<u>\$ 31.4</u>	<u>\$ 41.3</u>
DTAs		
<u>Capital</u>		
Net capital loss carry-forward	\$ 0.7	\$ -
Unrealized losses	3.0	-
Gross DTAs - Capital	3.8	-
Admitted adjusted DTAs - Capital	<u>\$ 3.8</u>	<u>\$ -</u>
Admitted adjusted DTAs - Total	<u>\$ 35.1</u>	<u>\$ 41.3</u>
Description	December 31,	
	2022	2021
DTLs		
<u>Ordinary</u>		
Fixed assets	\$ (0.8)	\$ (0.8)
Unearned ceding fee	(0.0)	(0.1)
Other	(0.3)	-
Gross DTLs - Ordinary	<u>\$ (1.1)</u>	<u>\$ (0.9)</u>
<u>Capital</u>		
Investments	\$ (1.2)	\$ (1.2)
Unrealized Gains	-	(0.6)
Gross DTLs - Capital	<u>\$ (1.2)</u>	<u>\$ (1.8)</u>
Gross DTLs - Total	<u>\$ (2.4)</u>	<u>\$ (2.7)</u>
Net admitted adjusted DTAs	<u>\$ 32.8</u>	<u>\$ 38.6</u>

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

Description	December 31,		
	2022	2021	Change
Gross DTAs	\$ 52.0	\$ 47.3	\$ 4.7
Gross DTLs	(2.3)	(2.7)	0.4
Net DTAs	49.7	44.6	5.1
Tax effect of cumulative translation adjustment			(0.2)
Tax effect of change in unrealized gains/losses			(3.8)
Change in net deferred income tax			\$ 1.2

The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate to income before taxes. The significant items causing this difference are as follows:

	Effective Tax Rate	
	2022	2021
Statutory income before taxes	21.0%	21.0%
Other permanent adjustments	0.3%	(0.6%)
Tax-exempt interest and dividends	(0.1%)	0.0%
Change in nonadmitted assets	0.2%	0.3%
Return to provision	0.0%	1.9%
Total adjustments	0.4%	1.6%
Total	21.4%	22.6%
Federal income taxes incurred	22.7%	22.9%
Change in deferred income taxes	(1.3%)	(0.3%)
Total statutory income taxes	21.4%	22.6%

As of December 31, 2022, the Company had \$0.7 of capital loss carryforwards which were generated in 2022 and will expire, if not utilized, in 2027. As of December 31, 2022, the Company had no net operating loss carryforwards or foreign tax credit carryforward.

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The following are income taxes incurred in the current and prior years that are available for recoupment in the event of future losses:

2022	\$	21.4
2021	\$	25.1

The Company has not recognized a DTL for the undistributed earnings of its wholly-owned foreign subsidiaries that arose in 2022 and prior years because the Company does not expect those unremitted earnings to reverse and become taxable to the Company in the foreseeable future.

The Company files a consolidated federal income tax return with the following entities:

Assurant, Inc., Assurant Service Protection, Inc., American Bankers General Agency, Inc., American Bankers Insurance Co. of Florida, American Bankers Insurance Group, American Bankers Life Assurance Co. of Florida, American Bankers Management Co., Inc., American Financial & Automotive Services, Inc., American Financial Warranty Corporation, American Lease Insurance Agency Corporation, American Security Insurance Co., Assurant Captive Insurance Company, Inc., Assurant IA Holding Corp., Assurant Insurance Agency, Inc., Assurant Payment Services, Inc., Assurant Reinsurance of Turks & Caicos, Ltd., Assurant BARC Reinsurance Ltd., Assurant Device Services, Inc., Automotive Warranty Services, Inc., Automotive Warranty Services of Florida, Inc., Coast to Coast Dealer Services Inc., Consumer Assist Network Association, Inc., Consumer Program Administrators, Inc., Dealer Performance, Inc., Eck & Glass, Inc., Federal Warranty Service Corp., FFG Corporation, First Extended, Inc., First Extended Service Corporation, First Extended Service Corporation of Florida, Florida Office Corp., GP Legacy Place, Inc., Hyla Mobile Inc., Recellular Acquisitions Inc, Hyla International Inc, Assurant New Ventures, Incorporated, Service Optimization Solutions, Inc., Insureco Agency and Services, Inc. (CA), Insureco, Inc., Interfinancial, Inc., IQ Data International, Inc., John Alden Life Insurance Co., Mobile Defense, Inc., MS Diversified Corp., National Insurance Agency, Inc., National Product Care Company, North American Warranty, Inc., Product Care, Inc., Privowny, Inc. Reliable Lloyds Insurance Co., Resource Acquisition Corporation, Assurant Automotive(FKA Resource Automotive, Inc.), Assurant Dealer Services, Inc.(FKA Resource Dealer Group, Inc.), Resource Training, Inc., ServicePlan, Inc., ServicePlan of Florida, Inc., Service Protection, Inc., Service Saver, Inc., Shipsurance Insurance Services, Inc., Standard Guaranty Insurance Co., SOSI-Fixt, Inc., Sureway, Inc., Telecom RE, Inc., The Warranty Group, Inc., TrackSure Insurance Agency, Inc., TS Holdings, Inc., TWG Holdings, Inc., TWG Home Warranty Services, Inc., TWG Innovative Solutions, Inc., TWG Securities, Inc., TWG Warranty Group, Inc., TWG Warranty Services, Inc., Union Security Life Insurance Co. of NY, United Service Protection Corp., United Service Protection, Inc., Virginia Surety Company, Inc., Voyager Group, Inc., Voyager Indemnity Insurance Co., Voyager Service Warranties, Inc., Wolverine Acquisitions, Inc., and Wolverine Interco, Inc.

The Company has substantially concluded all U.S. federal income tax matters through 2015.

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As of December 31, 2022, and 2021 the Company did not have any tax contingencies. The Company does not expect a significant increase in tax contingencies within the 12-month period following the balance sheet date.

8. Reinsurance

The Company remains obligated for amounts ceded in the event that the reinsurers do not meet their obligations.

The premiums on both a written and earned basis for direct, assumed and ceded business were as follows:

	2022		2021	
	Written	Earned	Written	Earned
Direct premiums	\$ 1,460.7	\$ 1,236.3	\$ 1,520.4	\$ 1,140.7
Assumed premiums:				
Affiliate	144.4	141.7	154.1	135.1
Non-affiliate	60.6	45.4	35.7	41.7
Ceded premiums:				
Affiliate	(0.5)	(1.2)	(0.3)	(0.3)
Non-affiliate	(1,070.0)	(863.6)	(1,097.0)	(791.8)
Net premiums and other considerations	<u>\$ 595.2</u>	<u>\$ 558.6</u>	<u>\$ 612.9</u>	<u>\$ 525.4</u>

At December 31, 2022, the Company had net unsecured aggregate recoverables for losses, paid and unpaid, including IBNR, LAE, and unearned premiums that exceed 3% of the Company's capital and surplus from the following reinsurers:

Individual Reinsurers Who Are Not Members of a Group:

Fed ID #	NAIC #	Reinsurer	Net Unsecured Recoverables
39-0972608	10847	Cumis Insurance Society Incorporated	\$ 121.0
48-0921045	39845	Westport Insurance Corporation	\$ 50.0

The Company recognized \$14.9 million and \$18.9 million in commissions for premiums ceded during 2022 and 2021, respectively. Had all the Company's reinsurance agreements been canceled at December 31, 2022, the Company would have had to return \$42.1 million in ceding commissions to its reinsurers; in turn, its reinsurers would have had to return \$2,416.5 million in unearned premiums to the Company. The Company's use of its reinsurance agreements resulted in reductions in incurred losses and LAE for 2022 and 2021 of \$518.7 million and \$448.5 million, respectively.

During 2016, London General Insurance Company ("LGI"), an affiliate, entered into a quota share reinsurance agreement with the Company, whereby LGI cedes to the Company 20% of the in-force and new and renewal business on or after November 1, 2016. LGI's ceded business includes core product types, such as creditor/payment protection insurance covering sickness, disability and/or unemployment, motor warranty and ancillary insurance, motor GAP insurance, and appliance and

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technology product warranties including theft and accidental damage. LGI is entitled to a ceding commission of 3% of the unearned premium reserve and ceded written premium.

In 2020, the Company executed a recapture and termination of certain business within the above quota share agreement. This included the LGI business underwritten in currencies based in Euros and Polish Zloty, with the British Pound business still assumed by the Company. LGI recaptured liabilities of \$24.1 million, consisting mainly of assumed unearned premium, and other reserves and assets, in exchange for LGI's retention of funds withheld assets of \$8.0 million, as well as the payment by the Company of securities of \$15.8 million and cash of \$0.3 million. There was no gain or loss associated with the LGI recapture and termination agreement. As of December 31, 2022, and 2021, the Company's assumed unearned premium and claim reserves, and profit commission liabilities for the remaining British Pound business was \$0 million and \$12.0 million, respectively. This agreement was commuted during 2022.

In 2017, the Company entered into a series of agreements with Insurance Australia Limited, whereby it paid the Company \$6.8 million for the assumption of in-force business totaling \$47.8 million of unearned premium, primarily related to Appliance & Technology ("A&T") policies. As of December 31, 2022 and 2021, the Company's assumed unearned premium related with this agreement was \$0.2 million and \$1.4 million, respectively.

In 2016, the Company entered into a reinsurance agreement, whereby the Company would assume certain extended warranty service contracts on a quota share basis from Ping An Property & Casualty Insurance Company of China, Ltd. ("Ping An"). The agreement contained both prospective and retroactive reinsurance provisions based on underlying terms and conditions. As of December 31, 2022 and 2021, the Company's assumed premium related to this agreement was \$10.3 million and \$10.8 million, respectively.

The Company is party to three loss portfolio transfers ("LPT") transactions entered in 2006. Two of the LPT resulted in the Company ceding all assets and liabilities related to its traditional property and casualty ("P&C") business to FFG Insurance Company ("FFG") and Old Republic Insurance Company ("ORIC") (the "traditional P&C FFG LPT" and the "traditional P&C ORIC LPT"). These two LPT transactions include an indemnification issued by Aon Corporation (Aon) for any future development on reserves or non-performance of the underlying reinsurers. The third LPT transaction resulted in the Company assuming from FFG all assets and liabilities related to certain extended warranty contracts (the "extended warranty LPT").

In 2009, Aon sold FFG to National Indemnity Company ("NICO"), a subsidiary of Berkshire Hathaway, Inc. As a condition of the sale, NICO assumed the indemnification previously issued by Aon related to the LPT transactions with FFG and ORIC. In connection with NICO's acquisition of FFG from Aon, NICO entered into a novation agreement with VSC and Aon effective as of the same date.

In 2006, the extended warranty LPT and the traditional P&C FFG LPT agreements were accepted and placed on file pursuant to section 131.20a of the Illinois Insurance Code. The traditional P&C FFG LPT was accounted for on a prospective basis since the Company and FFG were affiliates at

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the time the transactions occurred. No gain or loss was recorded as a result of the LPT transactions with FFG.

The following table provides the reductions in certain items in the financial statements as a result of ceded reinsurance agreements along with reinsurance balances recoverable for the years ended December 31:

	2022	2021
Ceded unpaid losses and LAE	\$ 230.1	\$ 261.9
Ceded unearned premium	2,416.5	2,210.7
Ceded paid losses and LAE	550.4	453.1
Total	<u>\$ 3,197.0</u>	<u>\$ 2,925.7</u>

In 2006, a separate traditional P&C ORIC LPT transaction was executed to transfer the existing Construction Program Group (“CPG”) traditional property and casualty business written directly by the Company to ORIC. This transaction was accounted for on a retroactive basis since ORIC was not affiliated with the Company. No initial gain or loss was recorded as a result of the LPT transaction with ORIC. As of December 31, 2022, and 2021 there were \$15.1 million and \$17.3 million, respectively, included in special surplus funds related to this contract.

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The following table summarizes the P&C LPT transaction with ORIC accounted for as retroactive reinsurance:

	<u>2022</u>	<u>2021</u>
Loss reserves transferred:		
Initial loss reserves ceded	\$ 227.3	\$ 227.3
Adjustment - prior years	168.7	167.3
Adjustment - current years	(0.5)	1.5
Total loss reserves transferred	<u>395.5</u>	<u>396.1</u>
Consideration paid:	227.3	227.3
Paid losses recovered:		
Prior years	378.8	378.3
Current years	1.6	0.5
Total paid losses recovered	<u>380.4</u>	<u>378.8</u>
Retroactive reinsurance reserves ceded	15.1	17.3
Special surplus from retroactive reinsurance:		
Initial surplus (gain) loss	-	-
Adjustment – prior years	17.3	16.3
Adjustment – current year	(2.1)	1.0
Current year restricted surplus	<u>15.2</u>	<u>17.3</u>
Cumulative total transferred to unassigned surplus	<u>\$ 153.1</u>	<u>\$ 151.5</u>

The Company has been indemnified for future development on losses and LAE and any uncollectible reinsurance balances recoverable which are subject to the LPT transactions.

The maximum amount of return commission that would have been due reinsurers had all of the Company's ceded reinsurance been canceled was \$20.7 million and \$20.1 million at December 31, 2022 and 2021, respectively. Had the Company canceled its assumed reinsurance, \$41.6 million and \$38.0 million in ceding commissions would have been recoverable as of December 31, 2022, and 2021, respectively.

All reinsurance contracts with adjustable features (e.g., retrospectively rated premiums and contingent, sliding scale, and profit commissions) have been analyzed, and any required adjustments have been recorded.

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Commutation of Ceded Reinsurance

During 2022, the Company commuted one treaty with reserves totaling \$8.4 million, previously reported as assumed business.

<u>Ceding Company</u>	<u>Reserves</u>	<u>Effective Date</u>
London General Insurance Company Limited	\$ 8.4	11/1/2016

9. Losses and Loss Adjustment Expenses

The following table provides a reconciliation of the beginning and ending reserves for losses and LAE, net of reinsurance recoverables, for 2022 and 2021:

	<u>Property and Casualty (1)</u>	<u>Warranty and Other</u>	<u>Total</u>
2022			
Reserves for losses and LAE, at beginning of year	\$ 17.3	\$ 73.1	\$ 90.4
Add provision for claims occurring in:			
Current year	-	340.5	340.5
Prior years	(0.6)	(8.2)	(8.8)
Net incurred losses during the current year	(0.6)	332.3	331.7
Deduct payments for claims occurring in:			
Current year	-	280.3	280.3
Prior years	1.7	58.5	60.2
Net claim payments during the current year	1.7	338.8	340.5
Reserve for losses and LAE, at end of year	\$ 15.0	\$ 66.6	\$ 81.6
	<u>Property and Casualty (1)</u>	<u>Warranty and Other</u>	<u>Total</u>
2021			
Reserves for losses and LAE, at beginning of year	\$ 16.3	\$ 63.3	\$ 79.6
Add provision for claims occurring in:			
Current year	-	323.3	323.3
Prior years	1.5	(4.0)	(2.5)
Net incurred losses during the current year	1.5	319.3	320.8
Deduct payments for claims occurring in:			
Current year	-	255.7	255.7
Prior years	0.5	53.8	54.3
Net claim payments during the current year	0.5	309.5	310.0
Reserve for losses and LAE, at end of year	\$ 17.3	\$ 73.1	\$ 90.4

(1) The Property and Casualty represents the 2006 LPT transaction executed with ORIC.

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Since the reserves for net losses and LAE include estimates developed from various actuarial methods, the Company's actual losses incurred may vary from the Company's previous estimates (changes are referred to as either favorable development when less than previous estimates or adverse development when more than previous estimates). In 2022 and 2021, the Company experienced favorable development of \$8.8 million and \$2.5 million on older accident years across the P&C lines and warranty and other lines.

Certain of the Company's arrangements with producers of warranty contracts include profit-sharing provisions whereby a portion of the favorable development would be subject to profit sharing commissions which would partially offset the effect of the favorable development in the Statements of Income.

As discussed above, the Company's P&C business is ceded to various third-party reinsurers, and the changes in claim development does not affect the Company's financial position. The favorable development of \$0.6 million and unfavorable development of \$1.5 million in 2022 and 2021, respectively, were fully offset with a corresponding expense reported in Miscellaneous income within the Statements of Income.

10. Information Concerning Parent, Subsidiaries, and Affiliates

The Company is a member of a group of affiliated companies and has extensive transactions and relationships with members of the group. Because of these relationships, it is possible that the terms of these transactions, although fair and reasonable, may not be the same as those that would result from transactions among wholly unrelated parties.

The Company has service agreements with various affiliates to provide and/or receive services to and/or from the other relating to management, premium processing, claims processing, premium collection, accounting, actuarial, and legal service, etc. These services include administrative expenses, including employment, occupancy, regulatory, and general administrative expenses.

The expenses related to these administrative, management, and support services are allocated to, or allocated by, the Company in amounts equal to the direct and indirect costs and expenses incurred in providing these services. Direct costs include expenses such as salaries, benefits, communications, advertising, consulting services, maintenance, rent, utilities, and supplies, which are directly attributable to the operations of the Company. Allocated costs include expenses such as salaries, benefit claims and enrollment processing, billing, accounting, underwriting, product development, and budgeting, which support the operations of the Company. These costs are allocated based on various utilization ratio assessments.

During 2022 and 2021, net amounts allocated to the Company pursuant to the intercompany services agreement with Assurant were \$37.9 million and \$32.3 million, respectively. The allocated expenses are included in other underwriting expenses and losses and LAE incurred in the statements of income. The amounts paid by the Company through a tax sharing agreement were \$25.1 million and \$22.0 million. Tax sharing expenses represent the current year federal income tax allocation along with true up from prior year.

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At December 31, 2022 and 2021, the Company reported \$0.1 million and \$5.1 million, respectively, due from its parent, subsidiaries, and affiliates and \$16.3 million and \$33.5 million due to its parent, subsidiaries, and affiliates, respectively. Amounts non-admitted due from affiliates as of December 31, 2022 and 2021, were \$0.4 million and \$4.6 million, respectively.

The receivable or payable due from parent, subsidiaries and affiliates is non-interest bearing and the terms of the agreements require that the amounts be settled between 30 and 90 days. These amounts are reported in the Statements of Admitted Assets, Liabilities, and Capital and Surplus.

The Company insures losses associated with certain of the warranty agreements written by its affiliated companies. Additionally, the Company has issued contractual liability and failure-to-perform policies to affiliated companies.

During 2022, the Company had no material transactions with related parties.

During 2021, the Company sold \$57.2 million of invested assets, at market value, to its affiliate, American Bankers Insurance Company of Florida.

During 2021, the Company purchased \$10.4 million of invested assets, at market value, from its affiliate, United Service Protection Corporation.

11. Capital and Surplus

The Company has \$5.0 million shares of \$1 par value common stock authorized, issued, and outstanding.

The Company is subject to certain minimum surplus requirements of the Illinois Insurance Code. Additionally, the Company is subject to certain risk-based capital (“RBC”) requirements as specified by the NAIC. Under those requirements, the amount of capital and surplus maintained by the Company is to be determined based on the various risk factors related to it. At December 31, 2022 and 2021, the Company exceeded the minimum RBC requirements.

The maximum amount of dividends, which can be paid by state of Illinois insurance companies without prior approval of the Insurance Commissioner, is subject to restrictions relating to statutory surplus. The payment of dividends by the Company to its stockholder is limited by state regulatory requirements. A dividend is considered extraordinary when any dividend of cash, other than a proportional distribution of an insurer’s stock, the fair market value of which, together with that of other dividends paid or credited and distributions made within the preceding twelve months, exceeds the greater of: a) 10% of the insurer’s surplus as regards to policyholders as of the preceding December 31 or b) net income for the twelve-month period ending December 31 of the preceding year. The Company has the ability, under state regulatory requirements, to dividend up to \$72.7 million to its Parent in 2023 without permission from the Illinois regulators.

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The Company paid dividends during 2022 and 2021 as follows:

Date of Dividend Payment	Ordinary	Extraordinary	Total
March 30, 2022	\$ 5.0	\$ -	\$ 5.0
June 27, 2022	20.0	-	20.0
September 26, 2022	15.0	-	15.0
December 19, 2022	25.0	-	25.0
	<u>\$ 65.0</u>	<u>\$ -</u>	<u>\$ 65.0</u>

Date of Dividend Payment	Ordinary	Extraordinary	Total
March 31, 2021	\$ -	\$ 25.0	\$ 25.0
June 21, 2021	-	25.0	25.0
December 31, 2021	9.0	-	9.0
	<u>\$ 9.0</u>	<u>\$ 50.0</u>	<u>\$ 59.0</u>

During 2022, the Company paid \$65.0 million of dividends in the form of cash of \$15.5 million and invested assets, including related accrued interest, with a market value of \$49.5 million.

The Company obtained timely approval from the Illinois Department of Insurance prior to the payment for all extraordinary dividends paid in 2021. Dividends classified as extraordinary may contain both ordinary and extraordinary regulatory distinctions, however, are based on classification deemed by Illinois regulators.

The portion of unassigned surplus represented by unrealized losses is \$21.8 million and \$8.8 million for 2022 and 2021, respectively.

12. Employee Benefits

The Company participates in a defined contribution plan, sponsored by Assurant, covering employees who meet eligibility requirements as to age and length of service. Benefits are payable to participants on retirement or disability and to the beneficiaries of participants in the event of death. The amounts allocated to and expensed by the Company were \$0.6 million and \$0.5 million for 2022 and 2021, respectively.

13. Third-Party Administrators

The Company utilizes third-party administrators (“TPAs”) primarily for premium collection and claims payment processing of certain business. These TPAs do not perform any underwriting or risk-taking functions related to the insurance business of the Company.

Aggregate premiums administered by those TPAs were \$854.2 million and \$823.9 million in 2022 and 2021, respectively.

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Premiums administered during 2022 by those TPAs that exceeded 5% of the Company's capital and surplus were as follows (all such TPAs did not have an exclusive contract with the Company; administered warranty related business; and were authorized for premiums collection and claims payment processing):

Third-Party Administrator	FEIN Nubmer	Direct Written Premiums
Safeguard Products International, Inc. Two Concourse Pkwy. Suite 500 Atlanta, GA 30328	58-2014424	\$ 332.9
Total Warranty Services 505 South Flagler Dr Suite 700 West Palm Beach FL 33401	27-2498538	\$ 169.0
HomeServe USA 601 Merritt 7, 6th Floor Norwalk, CT 06851	98-0381967	\$ 129.3
Portfolio 11 Vanderbilt Rd Irvine, CA 92618	33-0620692	\$ 58.0
American Guardian 4450 Waever Parkway, Suite 200 Warrenville, IL 60555	36-4236704	\$ 43.1
APEX 5802 North Navarro Victoria, TX 77904	45-4656924	\$ 35.1

14. Commitments and Contingencies

Legal Proceedings

The Company and its subsidiaries are involved in a variety of litigation relating to its current and past business operations and, from time to time, it may become involved in other such actions. Further, the Company is subject to routine examination by state departments of insurance. The Company has established an accrued liability for various legal and regulatory proceedings. However, the possible loss or range of loss resulting from such litigation and regulatory proceedings, if any, in excess of the amounts accrued is inherently unpredictable and uncertain. Consequently, no estimate can be made of any possible loss or range of loss in excess of the accrual. Although the Company cannot predict the outcome of any pending legal or regulatory action, or the potential losses, fines, penalties or equitable relief, if any, that may result, it is possible that such outcome could have a material adverse effect on the Company's results of

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operations or cash flows for an individual reporting period. However, on the basis of currently available information, management does not believe that the pending matters are likely to have a material adverse effect, individually or in the aggregate, on the Company's financial condition.

In the Company's insurance operations, litigation arising from claim settlement activities is generally considered in the establishment of the Company's liability for unpaid claims and claims adjustment expense. As discussed in Note 8, NICO has assumed the indemnification previously issued by Aon for any future development on claim reserves, non-performance of third-party reinsurers, or any lawsuits arising from the property and casualty business that was reinsured to FFG and ORIC.

The accrued liability for various legal and regulatory proceedings as of December 31, 2022 and 2021 was \$0.6 million and \$0.7 million, respectively. While the ultimate result of these lawsuits and claims cannot be predicted with certainty, management does not believe they will have a material adverse effect, individually or in aggregate, on the Company's financial position, results of operations or cash flows.

Investments

At December 31, 2022, the Company has bond commitments of \$16.4 million, mortgage loan commitments of \$1.4 million, real estate joint ventures and other partnerships commitments of \$36.5 million.

15. Reconciliation to the Filed Annual Statement

Subsequent to the filing of the Company's 2021 Annual Statement, the Company identified an error related to gross retail premium and commission expense for one of the Company's foreign branches. See Note 3 for further details.

Virginia Surety Company, Inc.
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The impacts of the adjustments recorded by financial statement lines within the 2021 audited financial statements are as follows:

	Per filed		Per
Statutory-Basis Statements of Admitted	Annual		Statutory
Assets, Liabilities, and Capital and Surplus:	Statement	Adjustments	Audited
			Financial
			Statements
Net deferred tax asset	\$ 38.0	\$ 0.6	\$ 38.6
Total admitted assets	1,845.0	0.6	1,845.6
Unearned premiums	862.8	14.0	876.8
Other liabilities - Current tax payable	17.0	(2.4)	14.6
Total liabilities	1,468.5	11.6	1,480.1
Unassigned surplus	172.0	(11.0)	161.0
Total capital and surplus	376.5	(11.0)	365.5
Total liabilities and capital and surplus	\$ 1,845.0	\$ 0.6	\$ 1,845.6
Statutory-Basis Statements of Changes in			
Capital and Surplus:			
Aggregate write-ins for gains and losses in surplus	(1.5)	(11.0)	(12.5)
Total capital and surplus, balance as of			
December 31, 2021	\$ 376.5	\$ (11.0)	\$ 365.5

16. Subsequent Events

Management has evaluated events and transactions that have occurred since December 31, 2022, through April 21, 2023, the date the accompanying financial statements were available to be issued and has determined that there were no subsequent events requiring disclosure in these financial statements, except for the matters described below.

The Inflation Reduction Act was enacted on August 16, 2022 and included a new corporate alternative minimum tax (CAMT). The controlled group of corporations of which the Company is a member has determined that it does not expect to be an “applicable corporation” for the purposes of the CAMT in 2023.

Dividends: On March 29, 2023, the Company paid an ordinary dividend of \$5.0 million to its parent, TWG Holdings, Inc.

Virginia Surety Company, Inc.

Supplemental Schedules

As of and for the year ended December 31, 2022

Virginia Surety Company, Inc.
Supplemental Schedule of Reinsurance Disclosures
December 31, 2022
(In millions)

1. Has the reporting entity reinsured any risk with any other entity under a quota-share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota-share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit, or any similar provisions)? Yes ☒ No ☐
2. If yes, indicate the number of reinsurance contracts containing such provisions: 6
3. If yes, does the amount of reinsurance credit taken reflect the reduction in quota-share coverage caused by any applicable limiting provisions? Yes ☒ No ☐
4. Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which, during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus in regard to policyholders or reported calendar-year-written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus in regard to policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contracts contain one or more of the following features or other features that would have similar results: Yes ☒ No ☐
 - (a) A contract term longer than two years and the contract is non-cancelable by the reporting entity during the contract term
 - (b) A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer
 - (c) Aggregate stop-loss reinsurance coverage
 - (d) A unilateral right by either party (or both parties) to commute the reinsurance contract, whether conditional or not, except for such provisions that 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)

Virginia Surety Company, Inc.
Supplemental Schedule of Reinsurance Disclosures
December 31, 2022
(In millions)

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

5. Has the reporting entity, during the period covered by the statement, ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which, during the period covered by the statement, it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus in regard to policyholders or reported calendar-year-written premium ceded or year-end loss and loss expense reserves greater than 5% of prior year-end surplus in regard to policyholders, excluding cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with: (i) one or more unaffiliated policyholders of the reporting entity or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member where:

Yes [X] No []

(a) The written premium ceded to the reinsurer by the reporting entity or its affiliates represents 50% or more of the entire direct and assumed premium written by the reinsurer based on its most recently available statutory-basis financial statements

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

6. If yes to 4 or 5, please provide the following information:

(a) The aggregate statutory-basis financial statement impact gross of all such ceded reinsurance contracts on the statutory-basis balance sheet and statutory-basis statement of income

(b) A summary of the reinsurance contract terms and indicate whether they apply to the contracts meeting the criteria in 4 or 5.

(c) A brief discussion of management's principal objectives in entering into the reinsurance contract, including the economic purpose to be achieved.

Virginia Surety Company, Inc.
Supplemental Schedule of Reinsurance Disclosures
December 31, 2022
(In millions)

Reinsurer	As Reported	Reinsurance Effect	Restated without Reinsurance
1) Amguard Group Reinsurance (A)			
Assets	\$ 1,856.8	\$ 161.8	\$ 2,018.6
Liabilities	1,511.9	83.3	1,595.2
Surplus as Regards to Policyholders	344.9	78.5	423.4
Profit	97.1	9.6	106.7
Management's Objective	Cede Risk to Unaffiliated Reinsurance Captive		

Reinsurer	As Reported	Reinsurance Effect	Restated without Reinsurance
2) Asset Ins Co Ltd (B)			
Assets	\$ 1,856.8	\$ 498.8	\$ 2,355.6
Liabilities	1,511.9	167.7	1,679.6
Surplus as Regards to Policyholders	344.9	331.1	676.0
Profit	97.1	26.9	124.0
Management's Objective	Cede Risk to Unaffiliated Reinsurance Captive		

Reinsurer	As Reported	Reinsurance Effect	Restated without Reinsurance
3) Concord Atlantic Reins Ltd (C.A.R.) (B)			
Assets	\$ 1,856.8	\$ 181.5	\$ 2,038.3
Liabilities	1,511.9	63.1	1,575.0
Surplus as Regards to Policyholders	344.9	118.4	463.3
Profit	97.1	12.1	109.2
Management's Objective	Cede Risk to Unaffiliated Reinsurance Captive		

Reinsurer	As Reported	Reinsurance Effect	Restated without Reinsurance
4) Cumis Ins Society Inc (A)			
Assets	\$ 1,856.8	\$ 121.8	\$ 1,978.6
Liabilities	1,511.9	124.2	1,636.1
Surplus as Regards to Policyholders	344.9	(2.4)	342.5
Profit	97.1	(0.3)	96.8
Management's Objective	Cede Risk to Unaffiliated Reinsurance Captive		

Virginia Surety Company, Inc.
Supplemental Schedule of Reinsurance Disclosures
December 31, 2022
(In millions)

Reinsurer	As Reported	Reinsurance Effect	Restated without Reinsurance
5) Drive Reins Ltd (A)			
Assets	\$ 1,856.8	\$ 39.5	\$ 1,896.3
Liabilities	1,511.9	49.9	1,561.8
Surplus as Regards to Policyholders	344.9	(10.4)	334.5
Profit	97.1	12.0	109.1
Management's Objective	Cede Risk to Unaffiliated Reinsurance Captive		

Reinsurer	As Reported	Reinsurance Effect	Restated without Reinsurance
6) Express Performance Ltd (A)			
Assets	\$ 1,856.8	\$ 339.4	\$ 2,196.2
Liabilities	1,511.9	114.1	1,626.0
Surplus as Regards to Policyholders	344.9	225.3	570.2
Profit	97.1	48.6	145.7
Management's Objective	Cede Risk to Unaffiliated Reinsurance Captive		

Reinsurer	As Reported	Reinsurance Effect	Restated without Reinsurance
7) Glendale Ins Co Ltd (B)			
Assets	\$ 1,856.8	\$ 332.8	\$ 2,189.6
Liabilities	1,511.9	90.8	1,602.7
Surplus as Regards to Policyholders	344.9	242.0	586.9
Profit	97.1	17.4	114.5
Management's Objective	Cede Risk to Unaffiliated Reinsurance Captive		

Reinsurer	As Reported	Reinsurance Effect	Restated without Reinsurance
8) Kenwood Ins Co Ltd (B)			
Assets	\$ 1,856.8	\$ 576.9	\$ 2,433.7
Liabilities	1,511.9	186.3	1,698.2
Surplus as Regards to Policyholders	344.9	390.6	735.5
Profit	97.1	37.3	134.4
Management's Objective	Cede Risk to Unaffiliated Reinsurance Captive		

Virginia Surety Company, Inc.
Supplemental Schedule of Reinsurance Disclosures
December 31, 2022
(In millions)

Reinsurer	As Reported	Reinsurance Effect	Restated without Reinsurance
9) Lariat Ins Co Ltd (B)			
Assets	\$ 1,856.8	\$ 212.9	\$ 2,069.7
Liabilities	1,511.9	63.7	1,575.6
Surplus as Regards to Policyholders	344.9	149.2	494.1
Profit	97.1	11.4	108.5
Management's Objective	Cede Risk to Unaffiliated Reinsurance Captive		

Reinsurer	As Reported	Reinsurance Effect	Restated without Reinsurance
10) Safe-Guard Reins Co Ltd (A)			
Assets	\$ 1,856.8	\$ 675.2	\$ 2,532.0
Liabilities	1,511.9	474.9	1,986.8
Surplus as Regards to Policyholders	344.9	200.3	545.2
Profit	97.1	37.6	134.7
Management's Objective	Cede Risk to Unaffiliated Reinsurance Captive		

Reinsurer	As Reported	Reinsurance Effect	Restated without Reinsurance
11) The Chicago Standard Ins Co Ltd (B)			
Assets	\$ 1,856.8	\$ 202.3	\$ 2,059.1
Liabilities	1,511.9	111.7	1,623.6
Surplus as Regards to Policyholders	344.9	90.6	435.5
Profit	97.1	21.6	118.7
Management's Objective	Cede Risk to Unaffiliated Reinsurance Captive		

Reinsurer	As Reported	Reinsurance Effect	Restated without Reinsurance
12) VWFS Ins Service Inc (C)			
Assets	\$ 1,856.8	\$ 81.0	\$ 1,937.8
Liabilities	1,511.9	67.7	1,579.6
Surplus as Regards to Policyholders	344.9	13.3	358.2
Profit	97.1	12.1	109.2
Management's Objective	Cede Risk to Unaffiliated Reinsurance Captive		

Virginia Surety Company, Inc.
Supplemental Schedule of Reinsurance Disclosures
December 31, 2022
(In millions)

Reinsurer	As Reported	Reinsurance Effect	Restated without Reinsurance
13) WPB Insurance, Inc. (A)			
Assets	\$ 1,856.8	\$ 273.7	\$ 2,130.5
Liabilities	1,511.9	188.8	1,700.7
Surplus as Regards to Policyholders	344.9	84.9	429.8
Profit	97.1	12.1	109.2
Management's Objective	Cede Risk to Unaffiliated Reinsurance Captive		

The reinsurance effect in this interrogatory on surplus is shown as the underwriting (loss) profit for the year ended December 31, 2022, as it is assumed that any prior surplus would have been distributed to policyholders.

Reinsurance Contract Terms Key

- (A) 100% quota share, included due to >50% of reinsurer's premiums come from the Company.
- (B) 100% quota share (25% funds held) of business to reinsurer, loss corridor 120% to 165% or 180%, included due to >50% of reinsurer's premiums come from the Company.
- (C) 100% quota share (100% funds held) of business to reinsurer, included due to >50% of reinsurer's premiums come from the Company.

7. Except for transactions meeting the requirements of paragraph 31 of SSAP No. 62R, *Property and Casualty Reinsurance*, has the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the statutory-basis financial statements, and either:

Yes [] No [X]

- (a) Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles (SAP) and as a deposit under generally accepted accounting principles (GAAP)?
- (b) Accounted for that contract as reinsurance under GAAP and as a deposit under SAP?

8. If yes to 7, explain why the contract is treated differently for GAAP and SAP.

Yes [] No [] N/A [X]

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement			
	1	2	3	4	5	6
	Amount	Percentage of Column 1 Line 13	Amount	Securities Lending Reinvested Collateral Amount	Total (Col. 3 + 4) Amount	Percentage of Column 5 Line 13
1. Long-Term Bonds (Schedule D, Part 1):						
1.01 U.S. governments	7,048,919	0.464	7,048,919		7,048,919	0.466
1.02 All other governments	55,179,625	3.631	55,179,625		55,179,625	3.647
1.03 U.S. states, territories and possessions, etc. guaranteed	3,935,265	0.259	3,935,265		3,935,265	0.260
1.04 U.S. political subdivisions of states, territories, and possessions, guaranteed		0.000				0.000
1.05 U.S. special revenue and special assessment obligations, etc. non-guaranteed	63,246,196	4.162	63,246,196		63,246,196	4.180
1.06 Industrial and miscellaneous	1,134,396,526	74.643	1,134,396,526		1,134,396,526	74.980
1.07 Hybrid securities	9,132,868	0.601	9,132,868		9,132,868	0.604
1.08 Parent, subsidiaries and affiliates		0.000				0.000
1.09 SVO identified funds		0.000				0.000
1.10 Unaffiliated bank loans		0.000				0.000
1.11 Unaffiliated certificates of deposit		0.000				0.000
1.12 Total long-term bonds	1,272,939,399	83.759	1,272,939,399		1,272,939,399	84.137
2. Preferred stocks (Schedule D, Part 2, Section 1):						
2.01 Industrial and miscellaneous (Unaffiliated)	30,890,934	2.033	30,890,934		30,890,934	2.042
2.02 Parent, subsidiaries and affiliates		0.000				0.000
2.03 Total preferred stocks	30,890,934	2.033	30,890,934		30,890,934	2.042
3. Common stocks (Schedule D, Part 2, Section 2):						
3.01 Industrial and miscellaneous Publicly traded (Unaffiliated)		0.000				0.000
3.02 Industrial and miscellaneous Other (Unaffiliated)		0.000				0.000
3.03 Parent, subsidiaries and affiliates Publicly traded		0.000				0.000
3.04 Parent, subsidiaries and affiliates Other	18,071,354	1.189	11,247,730		11,247,730	0.743
3.05 Mutual funds	22,999,660	1.513	22,999,660		22,999,660	1.520
3.06 Unit investment trusts		0.000				0.000
3.07 Closed-end funds		0.000				0.000
3.08 Exchange traded funds		0.000				0.000
3.09 Total common stocks	41,071,014	2.702	34,247,390		34,247,390	2.264
4. Mortgage loans (Schedule B):						
4.01 Farm mortgages		0.000				0.000
4.02 Residential mortgages		0.000				0.000
4.03 Commercial mortgages	41,609,034	2.738	41,609,034		41,609,034	2.750
4.04 Mezzanine real estate loans		0.000				0.000
4.05 Total valuation allowance		0.000				0.000
4.06 Total mortgage loans	41,609,034	2.738	41,609,034		41,609,034	2.750
5. Real estate (Schedule A):						
5.01 Properties occupied by company		0.000				0.000
5.02 Properties held for production of income		0.000				0.000
5.03 Properties held for sale		0.000				0.000
5.04 Total real estate		0.000				0.000
6. Cash, cash equivalents and short-term investments:						
6.01 Cash (Schedule E, Part 1)	11,761,160	0.774	11,761,160		11,761,160	0.777
6.02 Cash equivalents (Schedule E, Part 2)	58,226,465	3.831	58,226,465		58,226,465	3.849
6.03 Short-term investments (Schedule DA)	1,610,521	0.106	1,610,521		1,610,521	0.106
6.04 Total cash, cash equivalents and short-term investments	71,598,146	4.711	71,598,146		71,598,146	4.732
7. Contract loans		0.000				0.000
8. Derivatives (Schedule DB)		0.000				0.000
9. Other invested assets (Schedule BA)	53,668,322	3.531	53,668,322		53,668,322	3.547
10. Receivables for securities	7,985,394	0.525	7,985,394		7,985,394	0.528
11. Securities Lending (Schedule DL, Part 1).....		0.000		XXX	XXX	XXX
12. Other invested assets (Page 2, Line 11)		0.000				0.000
13. Total invested assets	1,519,762,242	100.000	1,512,938,618		1,512,938,618	100.000

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For The Year Ended December 31, 2022
(To Be Filed by April 1)

Of The VIRGINIA SURETY COMPANY, INC.
ADDRESS (City, State and Zip Code) Chicago , IL 60604
NAIC Group Code 0019 NAIC Company Code 40827 Federal Employer's Identification Number (FEIN) 36-3186541

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. \$ 1,856,767,476

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

	1	2	3	4
	Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
2.01	JP MORGAN CHASE & CO	BOND	\$ 13,931,831	0.8 %
2.02	AUSTRALIAN GOVERNMENT	BOND	\$ 13,611,282	0.7 %
2.03	GOLDMAN SACHS GROUP INC	BOND	\$ 12,995,943	0.7 %
2.04	MORGAN STANLEY	BOND	\$ 12,582,637	0.7 %
2.05	VIRGINIA SURETY COMPANIA DE SEGUROS	COMMON STOCK AFFILIATE	\$ 11,247,729	0.6 %
2.06	VERIZON COMMUNICATIONS	BOND	\$ 10,786,394	0.6 %
2.07	SALESFORCE.COM INC	BOND	\$ 10,286,909	0.6 %
2.08	BENCHMARK MORTGAGE TRUST	MORTGAGE BACKED	\$ 9,584,386	0.5 %
2.09	BNP PARIBAS	BOND	\$ 9,580,288	0.5 %
2.10	CITIGROUP INC	BOND, PREFERRED STOCK	\$ 9,548,954	0.5 %

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

	Bonds	1	2		Preferred Stocks	3	4
3.01	NAIC 1	\$728,578,504	.....39.2 %	3.07	NAIC 1	\$1,800,000	.....0.1 %
3.02	NAIC 2	\$511,325,558	.....27.5 %	3.08	NAIC 2	\$23,747,174	.....1.3 %
3.03	NAIC 3	\$36,272,927	.....2.0 %	3.09	NAIC 3	\$5,343,760	.....0.3 %
3.04	NAIC 4	\$356,561	..... %	3.10	NAIC 4	\$ %
3.05	NAIC 5 .....	\$ .....	..... %	3.11	NAIC 5	\$ %
3.06	NAIC 6 .....	\$ .....	..... %	3.12	NAIC 6	\$ %

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 [] No [X]
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	\$ 264,856,600 14.3 %
4.03	Foreign-currency-denominated investments	\$ 127,870,975 6.9 %
4.04	Insurance liabilities denominated in that same foreign currency	\$ 163,755,857 8.8 %

SUPPLEMENT FOR THE YEAR 2022 OF THE VIRGINIA SURETY COMPANY, INC.

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

		1	2
5.01	Countries designated NAIC-1	\$242,517,418	.....13.1 %
5.02	Countries designated NAIC-2	\$8,999,667	.....0.5 %
5.03	Countries designated NAIC-3 or below	\$13,339,515	.....0.7 %

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: AUSTRALIA	\$80,799,188	.....4.4 %
6.02	Country 2: UNITED KINGDOM	\$29,808,782	.....1.6 %
Countries designated NAIC - 2:			
6.03	Country 1: PHILIPPINES	\$3,473,564	.....0.2 %
6.04	Country 2: MEXICO	\$3,000,000	.....0.2 %
Countries designated NAIC - 3 or below:			
6.05	Country 1: ARGENTINA	\$11,337,428	.....0.6 %
6.06	Country 2: SUPRA-NATIONAL – ASIAN DEVELOPMENT BANK	\$863,756%

		1	2
7.	Aggregate unhedged foreign currency exposure	\$%

8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign designation:

		1	2
8.01	Countries designated NAIC-1	\$%
8.02	Countries designated NAIC-2	\$%
8.03	Countries designated NAIC-3 or below	\$%

9. Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign designation:

		1	2
Countries designated NAIC - 1:			
9.01	Country 1:	\$%
9.02	Country 2:	\$%
Countries designated NAIC - 2:			
9.03	Country 1:	\$%
9.04	Country 2:	\$%
Countries designated NAIC - 3 or below:			
9.05	Country 1:	\$%
9.06	Country 2:	\$%

10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:

	1	2	3	4
	Issuer	NAIC Designation		
10.01	VIRGINIA SURETY COMPANIA DE SEGUROS .....	.....	\$ .....11,247,729	.....0.6 %
10.02	BNP PARIBAS	1GFE, 2AFE, 2CFE	\$9,580,288	.....0.5 %
10.03	CREDIT AGRICOLE SA	2AFE	\$7,746,828	.....0.4 %
10.04	BANCO SANTANDER SA	2BFE	\$6,344,084	.....0.3 %
10.05	CARVAL CLO LTD	1AFE, 1CFE	\$6,000,000	.....0.3 %
10.06	SUMITOMO MITSUI FINL GRP	1.GFE	\$5,733,748	.....0.3 %
10.07	WESTPAC BANKING CORP	1.DFE	\$5,244,761	.....0.3 %
10.08	BAE SYSTEMS PLC	2.AFE	\$5,136,034	.....0.3 %
10.09	ROYALTY PHARMA PLC	2.CFE	\$4,924,343	.....0.3 %
10.10	AERCAP HOLDINGS NV	2.CFE	\$4,396,150	.....0.2 %

SUPPLEMENT FOR THE YEAR 2022 OF THE VIRGINIA SURETY COMPANY, INC.

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? Yes [X] No []

If response to 11.01 is yes, detail is not required for the remainder of interrogatory 11.

		1	2	
11.02	Total admitted assets held in Canadian investments .....	\$ .....	.....	%
11.03	Canadian-currency-denominated investments .....	\$ .....	.....	%
11.04	Canadian-denominated insurance liabilities .....	\$ .....	.....	%
11.05	Unhedged Canadian currency exposure .....	\$ .....	.....	%

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? Yes [X] No []

If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.

	1	2	3	
12.02	Aggregate statement value of investments with contractual sales restrictions .....	\$ .....	.....	%
Largest three investments with contractual sales restrictions:				
12.03	.....	\$ .....	.....	%
12.04	.....	\$ .....	.....	%
12.05	.....	\$ .....	.....	%

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

13.01 Are assets held in equity interests less than 2.5% of the reporting entity's total admitted assets? Yes [] No [X]

If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.

	1	2	3	
	Issuer			
13.02	VIRGINIA SURETY COMPANIA DE SEGUROS	\$ 11,247,729	..... 0.6	%
13.03	PNC FINANCIAL SERVICES	\$ 5,522,728	..... 0.3	%
13.04	AMERICAN EXPRESS CO	\$ 3,799,438	..... 0.2	%
13.05	COBANK ACB	\$ 3,372,112	..... 0.2	%
13.06	BANK OF AMERICA CORP	\$ 2,551,250	..... 0.1	%
13.07	CHARLES SCHWAB CORP	\$ 2,392,350	..... 0.1	%
13.08	US BANCORP	\$ 1,962,000	..... 0.1	%
13.09	CITIGROUP INC	\$ 1,780,020	..... 0.1	%
13.10	FIRST REPUBLIC BANK	\$ 1,314,400	..... 0.1	%
13.11	CITIZENS FINANCIAL GROUP	\$ 1,175,000	..... 0.1	%

SUPPLEMENT FOR THE YEAR 2022 OF THE VIRGINIA SURETY COMPANY, INC.

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? Yes [X] No []

If response to 14.01 above is yes, responses are not required for 14.02 through 14.05.

	1	2	3	
14.02	Aggregate statement value of investments held in nonaffiliated, privately placed equities .....	\$ .....	.....	%
	Largest three investments held in nonaffiliated, privately placed equities:			
14.03	.....	\$ .....	.....	%
14.04	.....	\$ .....	.....	%
14.05	.....	\$ .....	.....	%

Ten largest fund managers:

	1	2	3	4
	Fund Manager	Total Invested	Diversified	Nondiversified
14.06	JPMORGAN	\$ 55,942,635	\$ 55,942,635	\$
14.07	BLACKROCK GLOBAL FUNDS – CHINA	\$ 22,999,660	\$ 22,999,660	\$
14.08	FIRST AMERICAN	\$ 160,001	\$ 160,001	\$
14.09	HF PESOS FONDO COMUN DE INVERS	\$ 89,699	\$ 89,699	\$
14.10	FLORIDA TREASURY	\$ 50,000	\$ 50,000	\$
14.11	WELLS FARGO FUNDS MANAGEMENT	\$ 500	\$ 500	\$
14.12	.....	\$ .....	\$ .....	\$ .....
14.13	.....	\$ .....	\$ .....	\$ .....
14.14	.....	\$ .....	\$ .....	\$ .....
14.15	.....	\$ .....	\$ .....	\$ .....

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 .....	\$ .....	.....	%
	Largest three investments in general partnership interests:			
15.03	.....	\$ .....	.....	%
15.04	.....	\$ .....	.....	%
15.05	.....	\$ .....	.....	%

SUPPLEMENT FOR THE YEAR 2022 OF THE VIRGINIA SURETY COMPANY, INC.

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	
	Type (Residential, Commercial, Agricultural)			
16.02	\$	%
16.03	\$	%
16.04	\$	%
16.05	\$	%
16.06	\$	%
16.07	\$	%
16.08	\$	%
16.09	\$	%
16.10	\$	%
16.11	\$	%

Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:

			Loans	
16.12	Construction loans .....	\$ .....	.....	%
16.13	Mortgage loans over 90 days past due .....	\$ .....	.....	%
16.14	Mortgage loans in the process of foreclosure .....	\$ .....	.....	%
16.15	Mortgage loans foreclosed .....	\$ .....	.....	%
16.16	Restructured mortgage loans .....	\$ .....	.....	%

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

		Residential		Commercial		Agricultural	
Loan to Value		1	2	3	4	5	6
17.01	above 95%.....	\$ %	\$ %	\$ %
17.02	91 to 95%.....	\$ %	\$ %	\$ %
17.03	81 to 90%.....	\$ %	\$ %	\$ %
17.04	71 to 80%.....	\$ %	\$ %	\$ %
17.05	below 70%.....	\$ %	\$ %	\$ %

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.

	Description	2	3	
	1			
18.02	\$	%
18.03	\$	%
18.04	\$	%
18.05	\$	%
18.06	\$	%

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 total 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: .....	\$ .....	.....	%
	Largest three investments held in mezzanine real estate loans:			
19.03	.....	\$ .....	.....	%
19.04	.....	\$ .....	.....	%
19.05	.....	\$ .....	.....	%

SUPPLEMENT FOR THE YEAR 2022 OF THE VIRGINIA SURETY COMPANY, INC.

20. Amounts and percentages of the reporting entity’s total admitted assets subject to the following types of agreements:

At Year End			At End of Each Quarter		
			1st Quarter	2nd Quarter	3rd Quarter
			3	4	5
			1	2	
20.01	Securities lending agreements (do not include assets held as collateral for such transactions)	\$ %	\$ %	\$ %	\$ %
20.02	Repurchase agreements	\$ %	\$ %	\$ %	\$ %
20.03	Reverse repurchase agreements	\$ %	\$ %	\$ %	\$ %
20.04	Dollar repurchase agreements	\$ %	\$ %	\$ %	\$ %
20.05	Dollar reverse repurchase agreements	\$ %	\$ %	\$ %	\$ %

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

Owned			Written		
			3	4	
			1	2	
21.01	Hedging	\$ %	\$ %	\$ %	\$ %
21.02	Income generation	\$ %	\$ %	\$ %	\$ %
21.03	Other	\$ %	\$ %	\$ %	\$ %

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

At Year End			At End of Each Quarter		
			1st Quarter	2nd Quarter	3rd Quarter
			3	4	5
			1	2	
22.01	Hedging	\$ %	\$ %	\$ %	\$ %
22.02	Income generation	\$ %	\$ %	\$ %	\$ %
22.03	Replications	\$ %	\$ %	\$ %	\$ %
22.04	Other	\$ %	\$ %	\$ %	\$ %

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

At Year End			At End of Each Quarter		
			1st Quarter	2nd Quarter	3rd Quarter
			3	4	5
			1	2	
23.01	Hedging	\$ %	\$ %	\$ %	\$ %
23.02	Income generation	\$ %	\$ %	\$ %	\$ %
23.03	Replications	\$ %	\$ %	\$ %	\$ %
23.04	Other	\$ %	\$ %	\$ %	\$ %