OMSNIC

DEFENDING THE SPECIALTY

2023 ANNUAL REPORT

OMS National Insurance Company, Risk Retention Group

As the only medical malpractice company owned by oral & maxillofacial surgeons with singular focus on their needs, OMSNIC has always been guided by our mission to champion the Specialty and protect OMS practices.

OMSNIC takes immense pride in our heritage, founded on the proposition of OMS coming together to collectively confront the malpractice crisis of the 1980s. We continue to steadfastly honor that legacy while looking for ways to improve and propel the Company forward. Embracing both tradition and innovation will allow OMSNIC to provide the best possible protection to the Specialty for years to come.

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Cover Photo:
Dr. Chris Johnson

Below:
Dr. Chris Johnson
and team

Matthew J. Nielsen, JD, CPCU
President and Chief Executive Officer

"As OMSNIC reflects on another remarkable year, we extend our profound gratitude to Dr. James Swift for his tremendous service to the Company and to the Specialty. His Board leadership has been instrumental in driving OMSNIC forward, as evidenced by extraordinary policyholder satisfaction scores and consistent financial strength during his tenure. Beyond those metrics, Dr. Swift's legacy of always putting each policyholder front and center in decision making while steadfastly defending their interests is universally understood within the Company."

MATT NIELSEN, CEO

OMSNIC Year at a Glance

$2,571
PER SHARE PREFERRED STOCK PRICE APRIL 1, 2024

16.3%
ANNUAL INCREASE IN PER SHARE PRICE SINCE APRIL 1, 2023

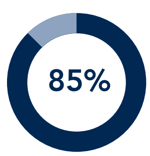
$360
PER SHARE INCREASE SINCE APRIL 1, 2023

5.8%
AVERAGE ANNUAL INCREASE IN PER SHARE PRICE OVER PAST 10 YEARS

OMSNIC wrote the highest number of policyholders ever, with **5,276** OMS insured at year-end 2023.

For the 10th consecutive year, a dividend was received from the Fortress Insurance Company, a wholly owned subsidiary. To date, Fortress has paid **$13.3 million** to OMSNIC in dividends.

To date, OMSNIC has cumulatively paid out **$104.2 million** to OMS who have received the proceeds of their OMSCap Preferred Stock, against an original investment of **$15.7 million**. This represents a gain of **$88.5 million**.



Insuring more than 85% of eligible OMS across the nation.

For the 22nd year in a row, OMSNIC received an "A" (Excellent) rating from A.M. Best, the insurance industry's "report card" of financial health.

James Q. Swift, DDS, FACS
Chair of the Board

Letter from the Chair of the Board

Dr. James Q. Swift steps down as Chair of the OMSNIC Board in 2024. It is with gratitude and heartfelt thanks that we mark the end of Dr. Swift's service to the Company. In his final Annual Report message, he shares his reflections, insights and parting wisdom gleaned from his years of service to OMSNIC, its policyholders and the Specialty.

Dear Colleagues,

Serving as Chair of the OMSNIC Board has been both a highlight of my OMS career and an unwavering privilege. I am tremendously grateful that the Board entrusted me with this role and will always have a deep and enduring appreciation for having the opportunity to represent your interests within your Company.

A Deep-Rooted Relationship

My relationship with OMSNIC began more than 35 years ago. At that time, the OMS residency program at the University of Minnesota had offered me the role of program director and faculty member. I was also affiliated with an oral and maxillofacial surgery practice in Minneapolis, Maxillofacial and Oral Surgery PA (MOSPA), which was the practice for the university faculty. We carried medical professional liability (MPL) insurance for our practice activities, and I always had a keen interest in how the law and medicine intersected.

The malpractice insurance crisis in the United States was in full swing at that time. It impacted all doctors and resulted in very high premiums from malpractice insurance carriers. Malpractice insurance was particularly unaffordable for oral and maxillofacial surgeons. Congress recognized the crisis and the need for malpractice coverage options, so a few years earlier the legislature passed the Liability Risk Retention Act of 1986, allowing common risks, such as oral and maxillofacial surgeons, to form risk retention groups (RRGs) to provide malpractice insurance coverage to the members.

The American Association of Oral and Maxillofacial Surgeons (AAOMS) assembled a sub-committee to look into establishing an RRG to provide malpractice insurance. The team, consisting of a group of knowledgeable and progressive surgeons willing to spend time and effort to create a company, established what was then known as AAOMS Mutual National Insurance Company, RRG (now, of course, known as OMSNIC). With the help of consulting insurance business professionals, these doctors established protocols for underwriting, claims defense, risk management and finance for the Company. It was a daunting task.

Claims Committee

In September of 1989, I was asked by a member of the Claims Committee if I might be interested in reviewing claims for the Company. I gladly agreed. The first Claims Committee meeting I attended was held in AAOMS's office space in Rosemont, Illinois. The committee was comprised of practicing OMS and case managers who reviewed all claims against insured doctors to identify ways to medically defend the OMS. I was infatuated with the complexity of the process and the world of malpractice liability. The Claims Committee reviewed each claim with a fine-tooth comb, and the guidance it provided most often resulted in victories (outright defense verdicts, dismissals, or a settlement payment that was significantly lower than the original demand) for the matters against our policyholders.

In those early days, we established a culture of steadfast defense of OMS that remains at the forefront of our Company today. That culture has enabled countless positive outcomes for our OMS. With exceptional claims defense, service and case management by the Company, OMSNIC built a well-deserved reputation of being the gold standard for defending the Specialty in malpractice claims. This allowed the Company to grow and provide state-of-the-art malpractice insurance for the majority of oral and maxillofacial surgeons in the US.

Providing Exceptional Service

I remain a member of the Claims Committee to this day. We still meet face-to-face six times a year at OMSNIC's headquarters, now in Schaumburg, Illinois, to deliberate each matter. Our case managers, many of whom are attorneys, provide research and prepare all the necessary materials, with all the relevant medical records, in advance of each meeting. We discuss, as a group, how to medically defend matters and we look at the legal implications to weigh our options and defense strategies. It was helpful to my career with OMSNIC to be educated in malpractice liability while on the Claims Committee. I also served on many other OMSNIC Committees and was able to understand how a malpractice risk retention group functioned successfully. It was an educational process to learn so many complex facets of the malpractice insurance enterprise while providing service to the Company and to all insured oral and maxillofacial surgeons. Underwriting, claims management, rate making, finance, risk management and actuarial sciences were all topics that were important to absorb and to achieve competency in order to govern exceptional malpractice coverage for oral and maxillofacial surgeons. My focus was always on providing the best service possible and that resulted in me being selected and elected by OMSNIC policyholders to act as a director.

Over the last two years, OMSNIC has flourished under this new leadership.

Acknowledgment and Gratitude

I remain deeply indebted to the leaders and founders of the company for the opportunity to be a part of the team and to learn from them. Oral and maxillofacial surgeons, insurance executives and individuals both within the Company and outside of it helped my career at OMSNIC. Some of those names include: Dr. Lew Estabrooks, Dr. Jeff Topf, Dr. Jerry Jones, Dr. Robert Guyette, Dr. Steven Holmes, Dr. Duke Deegan, Dr. Jack Bolton, Ken Ludwig, Victoria Sterling, Bill Passolt, and Pat Pigoni, to name just a few. Many others have been exceptional to work with over the years. The success of our company can be attributed to so many folks that have worked very hard to help us and the Specialty throughout the past 35 years.

Planning for Transition

My fellow Directors have taken steps to ensure a quality leadership succession. Each board member and each officer of OMSNIC understands the need to think about succession and the future of the company. You should know that my retirement succession has been well-planned by the Board. OMSNIC's board actively seeks people with leadership qualities and elects only the best candidates to the Board and officer roles. This ensures the Company's legacy.

Two years ago, we underwent a transition of OMSNIC's Chief Executive Officer when that position was vacated due to a planned retirement. We conducted an intense and thorough search for the new CEO. Our search and selection team consisted of all eight OMS Directors on OMSNIC's Board. We consulted with the premier insurance head-hunting firm, we sought opinions from thought leading insurance professionals, we engaged the leadership of the Medical Professional Liability Association, we elicited feedback from key stakeholders (reinsurers, actuaries, agents, etc.), and we conducted many interviews. The process took over a year.

It was our extreme good fortune to be able to hire Matt Nielsen, an existing Board member and trained lawyer, as Chief Executive Officer for OMSNIC. Matt has dedicated his legal career to defending doctors embroiled in malpractice litigation before applying his talents to overseeing operations like claims, underwriting, corporate legal and reinsurance. He understands our culture and has a profound appreciation of OMSNIC's mission to Defend the Specialty. We were also thrilled that Kathy Ehmann was willing to step into the role of Chief Operating Officer. Kathy is a Board Member that has been with the Company for over 30 years and brings vast institutional knowledge to her role.

Over the last two years, OMSNIC has flourished under this new leadership. The company has grown both in number of policyholders and gross written premium, while introducing new products and systems to meet the needs of the changing practice environment for OMS. Matt and Kathy are exceptional leaders and executives, and I am fully confident they will elevate the traditions of excellence for OMSNIC in the years to come.

Leadership Succession

Many years ago, OMSNIC formulated a leadership succession process for OMS serving as Directors. We determined that in order to assure continued leadership and maintenance of expertise, we needed to be mindful of aging and the need for endurance and exceptional performance to assure continued success. We have always kept our eyes peeled for oral and maxillofacial surgeons that are intelligent, knowledgeable, compassionate, reasonable, personable, well-spoken and well respected by members of our Specialty to act as committee members and, potentially, directors.

I am extremely pleased to inform all policyholders that Dr. Anthony Spina, Vice Chair, will succeed me later this year as Chair of the OMSNIC Board of Directors. He will be the fourth Chair in OMSNIC's 36-year history. Anthony is an excellent businessman and an exceptional surgeon. He has risen to this position due to his clinical expertise, leadership skills and intelligence. He has and will continue to do great things for OMSNIC. I cannot think of another OMS that will do a better job. It is my joy to know that Anthony's skill and ability will continue to serve the companies under the aegis of OMSNIC.

An Ongoing Commitment to Defending the Specialty

Anthony will be very well-supported by an exceptional team of surgeon directors, including Drs. Mike Stronczek, Colin Bell, Nicholas Bournias, Mark Zajkowski, Cynthia Trentacosti and Vinny Perciaccante. You are aware of the leaders in our Specialty and I believe OMSNIC has, in its service, surgeons that are capable of providing excellent support to oral and maxillofacial surgery, and in ensuring that a fair and just process is in place for every surgeon being sued. The continued success and service that OMSNIC provides for our insured oral and maxillofacial surgeons is not surpassed by any other malpractice insurance provider. The Company and this team of Directors truly are committed to continue "Defending the Specialty."

With gratitude, regards, respect and best wishes for all of you,

James Q. Swift, DDS, FACS | Chair of the Board

Remembering Lewis N. Estabrooks, DMD, MS

A Founding Director of OMSNIC and a Leader in the Specialty

Dr. Lewis Estabrooks passed away in November 2023. He was a founding member of OMSNIC and served as a director of the Company from 1988 until his retirement in 2015. During that time, Dr. Estabrooks served as Chair of the Board for 14 years, from 1999 to 2013. He was a champion of defending OMS and was instrumental in helping OMSNIC develop a claims team and defense counsel panel to vigorously defend professional liability claims brought against OMS. This effort resulted in both reduced claims and lower lawsuit payments – stabilizing the Specialty's cost of professional liability insurance during a very turbulent time. Dr. Estabrooks also served as Chair of OMSNIC's subsidiary, Fortress Insurance Company, and governed that entity during a time of significant expansion.

Dr. Estabrooks received his dental degree from Tufts University, where he also completed his residency and master's program in oral and maxillofacial surgery. Dr. Estabrooks was in private practice in Maine from 1974 through 2006. In 1980, he founded his solo practice with the philosophy of full-scope care for the entire community. He was a strong presence in his office and at local hospitals, performing countless orthognathic, TMJ and trauma surgeries until his retirement. As the practice grew, he added partners, mentoring and treating them as equals in his unique and subtle ways, and always leading by example. With this foundation, his practice continues to provide full-scope oral and maxillofacial services to the community.

Dr. Estabrooks was also a Diplomate of the American Board of Oral and Maxillofacial Surgery and served on multiple AAOMS committees. In 1988, he was selected as AAOMS Committee Man of the Year. He was a respected leader in the medical professional liability industry.

Dr. Estabrooks' legacy lives on through OMSNIC and the Specialty today, both of which are stronger because of his contributions and leadership.

Moving forward. Giving back.

Dr. Chris Johnson is a Board Certified Oral and Maxillofacial Surgeon practicing as a solo practitioner in Highland Park, Texas. He has been practicing for eleven years and has managed his own full-scope OMS practice for the past two years, focusing on dental implants, bone reconstruction, orthognathic surgery, oral pathology, dentoalveolar and trauma. After earning a degree in biomedical science from the University of Oklahoma, Dr. Johnson sojourned at OU to obtain his DDS from the College of Dentistry. He fulfilled his OMS Residency at the University of Cincinnati College of Medicine in 2013.

Flying Start

One might say Dr. Chris Johnson was on the fast track to becoming an Oral and Maxillofacial Surgeon from a young age. Maybe too fast. As an active fifth grader, he accidentally flew over the handlebars of his bike, knocking out his two front teeth and fracturing his maxilla. It would prove to be a life-altering experience. As he explains, "my neighbor, Dr. Lester Cowden, was an oral and maxillofacial surgeon and treated me over an 8-year period with many different procedures, including bone grafts and implants. We formed an authentic friendship over that timeframe and I worked at his practice during high school. Dr. Cowden essentially became a second dad to me and that close relationship strongly influenced my pursuit of a career in oral surgery."

Doing Good Across the Globe

Opportunities for serving those in need has always intrigued Dr. Johnson. During dental school, he volunteered his services to help veterans, the disabled and the elderly by providing dental treatments, including cleanings, fillings and more complex procedures like crowns and extractions. The desire to help others became even stronger when he started his OMS practice. Dr. Johnson volunteered his time with local and overseas medical missions to provide oral surgery to underserved communities, with multiple trips to Central and South America to treat patients with cleft lip, cleft palate and other oral surgery pathologies.

He encourages dental students, OMS residents and new-to-practice OMS that he encounters to volunteer their time and expertise. Dr. Johnson lets them know that service can take many forms, both locally or abroad, and that serving others is a win-win scenario. He noted, "Volunteering not only creates amazing memories and chances to meet like-minded colleagues, but also offers an amazing feel-good moment when you experience the positive impact you have on people who would otherwise not experience the life-changing benefits that oral surgery can provide."

Dr. Johnson continues to volunteer his time and he now finds ways to do it closer to home. He has donated his time and surgery center to provide pro bono care for faith-based ministries. He coaches his kids' sports teams and provides care for sports-related facial injuries in the community. He also serves as an on-call resource for local trauma incidents. As he says, "You can volunteer and give back anywhere. You can make a difference in someone's life close to home and across the world."

"There's nothing better than the feeling you get in seeing the impact you can make on people..."

Building A Successful Practice

Following residency, Dr. Johnson joined East Texas OMS Associates. "My partner was the mayor at the time and by being partner at one of the busiest practices in East Texas, we treated a variety of cases, including trauma, orthognathic, dentoalveolar, and implants." He believes it was helpful to inaugurate his career in a practice which provided him with heightened opportunities for collaboration and mentorship. In those early days, Dr. Johnson thought the close-knit collegial practice setting accelerated the opportunity to learn so many practical tips.

As his family grew, Dr. Johnson made the decision to move closer to extended family near Dallas, settling in Highland Park. He opened Johnson Oral Facial Surgery in 2022, which is a full-scope outpatient surgical facility. Dr. Johnson worked closely with the architects and designers to create a tech-forward OMS practice that meets 2023 Category 1 NFPA standards.

> ***...we reduced the cost for these procedures with our patients paying only a fraction of what a hospital would charge.***

"We can handle trauma in our office and have treated nasal fractures, zygomas, and orthognathic procedures. By not using a hospital facility to deliver this type of care, we reduced the cost for these procedures with our patients paying only a fraction what a hospital would charge."

> ***You can make a difference in someone's life close to home and across the world.***

Dr. Johnson relishes owning his own practice. As he explains, "Being in practice for myself, I can choose my own hours, decide how many patients to see and which procedures to focus on. I've learned how to run a small business and keep it profitable while always putting the needs of the patient first." In addition, the autonomy that comes with practice ownership allows Dr. Johnson to select his staff, develop a personal connection with them, and provide training which emphasizes optimal patient care.

His practice uses digital planning for performing dental implants, facial reconstruction, orthognathic surgery and wisdom teeth removal. The practice integrates the latest technologies, including 3D imaging for virtual surgery planning, digital intraoral scanning, and medical 3D printing capabilities. These integrated services allow Dr. Johnson to deliver optimal care and outcomes.

A Family Affair

When not attending to his busy OMS practice, Dr. Johnson cherishes spending time with his family, including his wife, Meg, and his five young children (Hunter, Charlie, Luke, Emily and Ben). Indeed, if you visit his website, you can meet all of them in a lighthearted video titled, "What My Dad Does." Dr. Johnson noted that in order to deliver the best care to his patients, he treats patients like they are family, which enhances empathy for each person. He tells his staff to strive to provide each patient with the same level of care you would expect for a loved one at a hospital.

Grateful for OMSNIC

Dr. Johnson has been an OMSNIC insured since he began practicing eleven years ago. According to him, "It was the easiest and best decision I ever made with regard to my professional liability coverage. OMSNIC's track record, peer reviews, engagement during my residency, and patient safety and risk management resources have been a tremendous asset in establishing my practice. I didn't even think to use another carrier." He believes that OMSNIC truly understands the nature of today's OMS practice. "OMSNIC really offers a unique product to policyholders that is unmatched in the professional liability realm."

> ***The easiest decision I ever made was to use OMSNIC for so many reasons.***

A Bright Future

Dr. Johnson is optimistic about the future of the Specialty and his practice. "I think oral surgery is the best job in the world, providing autonomy, flexibility–so I have time for things like coaching my kids' teams–and professional rewards, such as making a difference to my patients."

He also believes in helping the next generation, saying, "The advice I offer to young oral surgeons is to join different organizations and associations to help develop a camaraderie with your peers. It's an ideal way to ask questions and bounce ideas off like-minded professionals about everything from patient care to practice management."

As a proud member of his tight-knit community, Dr. Johnson goes on to say, "I like being the person that people turn to, whether it's a sports injury, an accident or a trauma case. You need to be open to treating people in different settings, like trauma call at the hospital, as this is how we give back with our expertise and skills. When somebody's sick, injured or in pain, they're worried about the outcome, and we, as OMS, can treat them and give them peace of mind, which is so rewarding."

> ***"I like being the person that people turn to, whether it's a sports injury, an accident or a trauma case."***

Cynthia Trentacosti, DDS, MS; Colin S. Bell, DDS, MSD; Michael J. Stronczek, DDS, MS; Matthew J. Nielsen, JD, CPCU; Anthony M. Spina, DDS, MD; James Q. Swift, DDS, FACS; Vincent J. Perciaccante, DDS, FACS; Katherine A. Ehmann, CPA; Mark D. Zajkowski, DDS, MD, MBA, FACS; Nicholas J. Bournias, DDS

Board of Directors and Corporate Officers

Board of Directors

James Q. Swift, DDS, FACS
Chair

Anthony M. Spina, DDS, MD
Vice Chair

Nicholas J. Bournias, DDS
Treasurer

Michael J. Stronczek, DDS, MS
Secretary

Colin S. Bell, DDS, MSD

Vincent J. Perciacante, DDS, FACS

Cynthia Trentacosti, DDS, MS

Mark D. Zajkowski, DDS, MD, MBA, FACS

Matthew J. Nielsen, JD, CPCU

Katherine A. Ehmann, CPA

Corporate Officers

Matthew J. Nielsen, JD, CPCU
President and Chief Executive Officer

Katherine A. Ehmann, CPA
Executive Vice President and Chief Operating Officer

Frode Brudvik
Vice President, Underwriting

Sherry L. Richard, CPA
Vice President and Chief Financial Officer

Luis Ugaz
Vice President and Chief Information Officer

Aike P. Zavala
Vice President, Human Resources

Jeffri A. Beth
Assistant Vice President, Claims

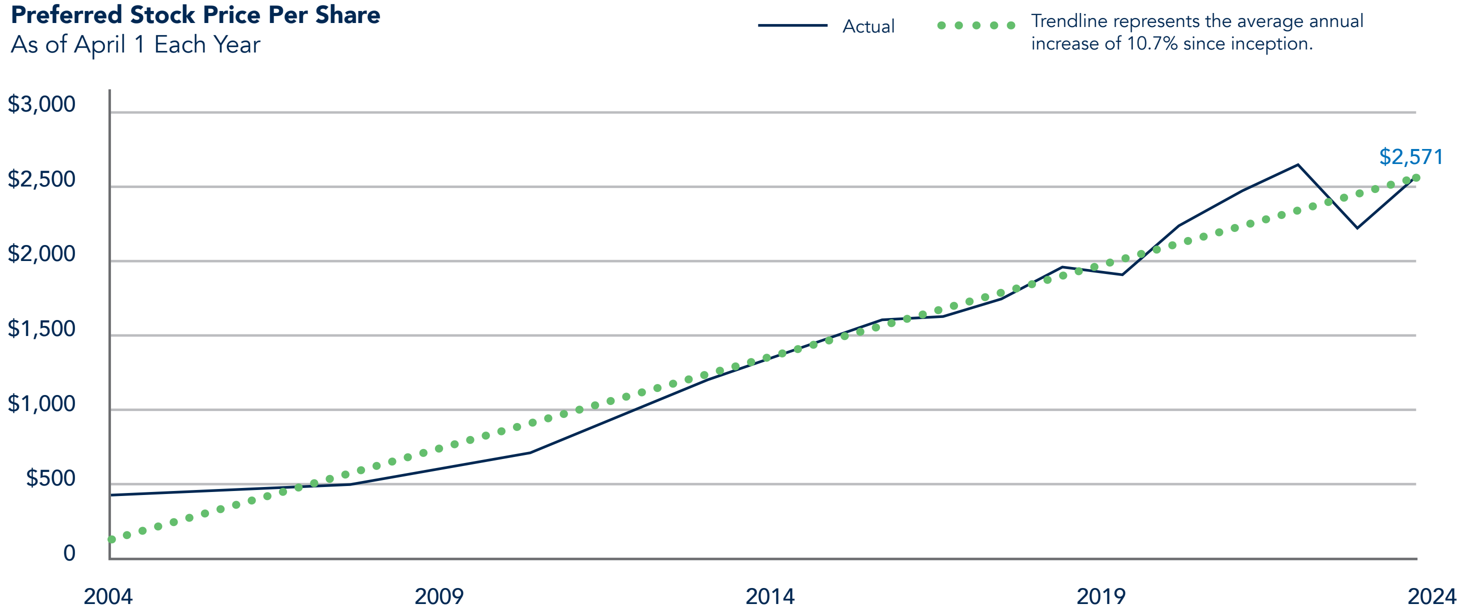
OMSCap® Plan

The OMSCap preferred stock price increased 16.3% over last year which represents a considerable increase on a year-over-year basis and further translates into a sizable per-share dollar increase.

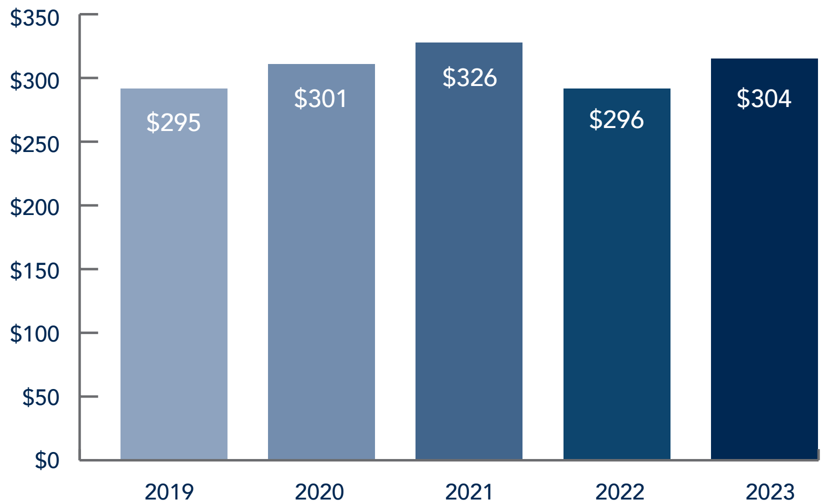
The stock price increase over the past year was driven by strong profits stemming from strong operational performance, gains recognized on the disposal of equity positions and increased fixed income yields through portfolio rebalancing efforts. Both the rallying of the equity and bond markets complimented the appreciation of the Company's Preferred Stock price. OMSNIC's preferred stock has averaged an increase of 5.8% annually over the past ten years.

OMSCap is the stock investment plan available only to OMSNIC's insured oral and maxillofacial surgeons. As a risk retention group, OMSNIC is owned by our Members, who purchase preferred stock upon joining the Company. This capital contribution establishes each OMSCap account, entitling the OMS owner to their share of OMSNIC retained profits upon retirement. The current value of OMSCap Preferred Stock is set on April 1 of each year, with price per share determined by the prior year's audited financial results.

Preferred Stock Price Per Share
As of April 1 Each Year



Shareholders' Equity
Dollars in Millions



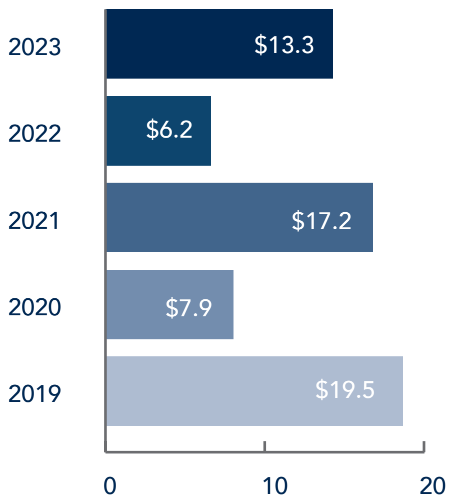
Financial Highlights
(STATUTORY BASIS)

As of December 31	2023	2022
Invested Assets	$ 486,782,612	$ 474,858,727
Total assets	527,661,090	508,170,199
Reserve for losses*	158,550,560	149,471,405
Unearned premiums	41,631,983	39,186,304
Shareholders' equity	303,587,651	295,926,727

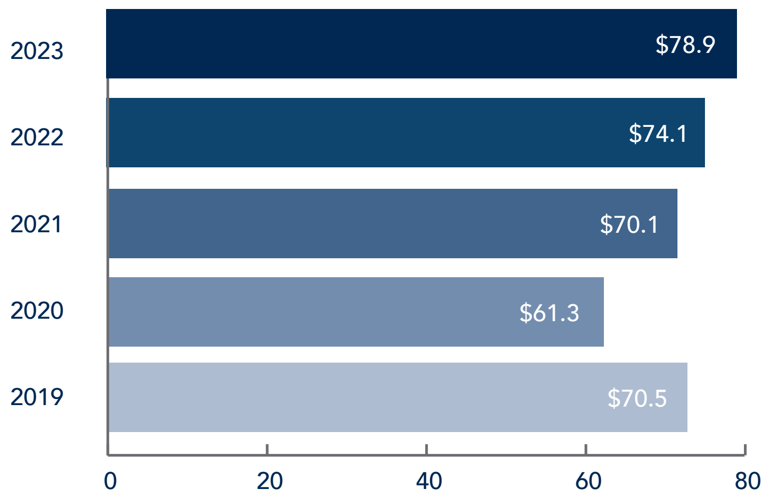
For the Years Ended December 31	2023	2022
Net premiums earned	$ 69,032,661	$ 61,230,018
Investment income	11,783,931	8,652,893
Net income	13,302,271	6,156,150

Includes loss adjustment expenses

Net Income
Dollars in Millions



Direct Written Premiums
Dollars in Millions

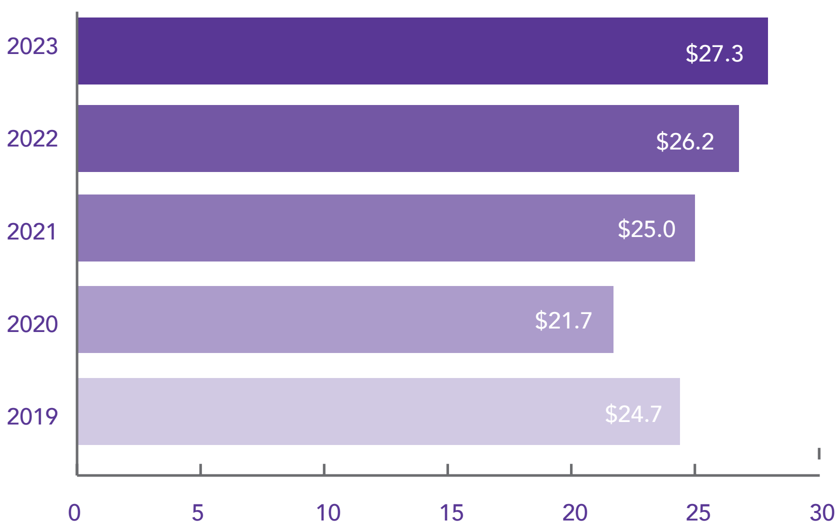


Fortress Insurance Year in Review

Fortress ended with a profitable 2023 year, impacted by greater earnings in net investment income and realized gains. The Company made a dividend payment of $1.6 million to the parent company, marking ten consecutive years of dividend payments. This represents a cumulative dividend to the parent of $13.3 million. For 2023, Fortress experienced a 4% increase in direct written premiums. The Company's policyholder base grew by 2.7% complementing the overall premium rise.

As a result of shared resources with the parent company, Fortress has a depth of clinical expertise unmatched in the industry. Fortress has crafted digital enhancements to their insured base of nearly 13,600 and continues to grow in a competitive market. The Fortress dental professional liability policy is designed to address the increasing complexity of modern dentistry, with specialized claims management, aggressive defense and exclusive patient safety and risk management education.

Fortress Direct Written Premiums
Dollars in Millions



FORTRESS
PROTECTION FOR DENTISTRY

$1.6 million
DIVIDEND TO THE PARENT IN 2023

$13.3 million
CUMULATIVE DIVIDEND TO THE PARENT

4%
INCREASE IN DIRECT WRITTEN PREMIUMS IN 2023

2.7%
POLICYHOLDER BASE GROWTH IN 2023

Dr. Courtney Richter and Dr. David Carlton of Lake District Family Dentistry in Alexandria, LA

OMS National Insurance Company,
Risk Retention Group

Statutory Basis Financial Statements and Supplemental Information

December 31, 2023 and 2022

(with Independent Auditor's Report Thereon)

Independent Auditor's Report

Board of Directors and Shareholders
OMS National Insurance Company, Risk Retention Group

Opinions
We have audited the statutory financial statements of OMS National Insurance Company, Risk Retention Group (the Company), which comprise the statutory statements of admitted assets, liabilities, and capital and surplus as of December 31, 2023 and 2022, and the related statutory statements of income, changes in capital and surplus, and cash flows for the years then ended, and the related notes to the statutory financial statements.

Unmodified Opinion on Regulatory 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 OMS National Insurance Company, Risk Retention Group as of December 31, 2023 and 2022, and the results of its operations and its cash flows thereof for the years then ended in accordance with the basis of accounting described in Note 1.

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 financial statements do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of OMS National Insurance Company, Risk Retention Group as of December 31, 2023 and 2022, or the results of its operations or its cash flows thereof 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 (GAAS). Our responsibilities under those standards are further described in the Auditor's 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 1 of the financial statements, the financial statements are prepared by the Company using accounting practices prescribed or permitted by the Insurance Department of the state of Illinois, 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 these statutory accounting practices described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

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 Insurance Department of the state of Illinois. 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 that the financial statements are issued.

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

In performing an audit in accordance with GAAS, we:

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

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

RSM US LLP

Omaha, Nebraska
April 19, 2024

OMS National Insurance Company, Risk Retention Group

Statements of Admitted Assets, Liabilities and Capital and Surplus (Statutory Basis)

December 31, 2023 and 2022

	2023	2022
Admitted Assets		
Bonds, at amortized cost	$ 300,453,103	$ 254,956,792
Common stocks, at fair value	90,960,449	113,746,640
Investment in subsidiary, at carrying value	82,795,041	78,128,165
Cash, cash equivalents and short-term investments	12,574,019	28,027,130
Cash and investments	486,782,612	474,858,727
Premiums receivable	25,920,581	24,100,659
Other amounts receivable under reinsurance contracts	2,809,553	692,692
Reinsurance recoverable on paid loss and loss adjustment expenses	2,094,634	7,994
Electronic data processing equipment	39,973	31,446
Accrued investment income	2,354,064	1,769,175
Net receivable from affiliates	551,477	489,175
Other assets	7,108,196	6,220,331
Total admitted assets	$ 527,661,090	$ 508,170,199
Liabilities and Capital and Surplus		
Reserve for losses and loss adjustment expenses	$ 158,550,560	$ 149,471,405
Unearned premiums	41,631,983	39,186,304
Accrued premium taxes	625,471	568,922
Federal income taxes	15,421	250,283
Deferred tax liability	5,401,695	6,110,103
Ceded reinsurance payable	2,028,132	2,204,236
Provision for reinsurance	138,134	63,542
Other accrued expenses	13,531,730	12,365,376
Commissions payable	1,283,245	1,205,560
Advance premiums	867,068	817,741
Total liabilities	224,073,439	212,243,472
Commitments and Contingencies (See Note 15)		
Preferred stock ($1 par value; authorized 1,000,000 shares; issued 997,901 shares)	997,901	997,901
Common stock ($1 par value; authorized 10,000 shares; issued 10,000 shares)	10,000	10,000
Subordinated surplus debentures	7,234,976	6,980,481
Gross paid-in and contributed surplus	62,354,045	60,376,876
Unassigned surplus	331,406,546	315,494,998
Treasury stock, at cost (2,234 and 2,371 shares common stock; 882,471 and 878,809 shares preferred stock in 2023 and 2022, respectively)	(98,415,817)	(87,933,529)
Total capital and surplus	303,587,651	295,926,727
Total liabilities and capital and surplus	$ 527,661,090	$ 508,170,199

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

OMS National Insurance Company, Risk Retention Group
Statements of Income (Statutory Basis)
Years Ended December 31, 2023 and 2022

	2023	2022
Direct premiums written	$ 78,876,850	$ 74,064,214
Reinsurance ceded	(7,398,510)	(11,363,911)
Net premiums written	71,478,340	62,700,303
Change in unearned premiums	(2,445,679)	(1,470,285)
Net premiums earned	69,032,661	61,230,018
Expenses		
Losses and loss adjustment expenses	48,844,466	39,881,029
Other underwriting expenses	25,691,782	23,344,899
Total underwriting expenses	74,536,248	63,225,928
Underwriting loss	(5,503,587)	(1,995,910)
Net investment income	11,783,931	8,652,893
Net realized capital gains, net of capital gains tax of $1,778,411 in 2023 and $159,525 in 2022	7,170,045	732,495
Other income (loss)	1,558,548	(200,289)
Income before federal income taxes	15,008,937	7,189,189
Federal income tax provision	1,706,666	1,033,039
Net income	$ 13,302,271	$ 6,156,150

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

OMS National Insurance Company, Risk Retention Group

Statements of Changes in Capital and Surplus (Statutory Basis)

Years Ended December 31, 2023 and 2022

	Preferred Stock	Common Stock	Subordinated Surplus Debentures	Gross Paid-in and Contributed Surplus	Unassigned Surplus	Treasury Stock Common	Treasury Stock Preferred	Total
Balance, December 31, 2021	$ 997,901	$ 10,000	$ 7,305,312	$ 58,319,714	$ 334,098,141	$ (85)	$ (74,734,546)	$ 325,996,437
Net income	-	-	-	-	6,156,150	-	-	6,156,150
Purchase of treasury stock	-	-	-	-	-	(268)	(13,200,393)	(13,200,661)
Sale of treasury stock	-	-	-	2,057,162	-	402	1,361	2,058,925
Net issuance (redemption) of subordinated debentures	-	-	(324,831)	-	-	-	-	(324,831)
Change in net deferred income tax	-	-	-	-	(44,147)	-	-	(44,147)
Change in non-admitted assets	-	-	-	-	(111,398)	-	-	(111,398)
Change in liability for unauthorized reinsurance	-	-	-	-	(11,107)	-	-	(11,107)
Change in net unrealized gains/losses on investments, net of tax	-	-	-	-	(24,592,641)	-	-	(24,592,641)
Balance, December 31, 2022	997,901	10,000	6,980,481	60,376,876	315,494,998	49	(87,933,578)	295,926,727
Net income	-	-	-	-	13,302,271	-	-	13,302,271
Purchase of treasury stock	-	-	-	-	-	(378)	(10,483,748)	(10,484,126)
Sale of treasury stock	-	-	-	1,977,169	-	515	1,323	1,979,007
Net issuance (redemption) of subordinated debentures	-	-	254,495	-	-	-	-	254,495
Change in net deferred income tax	-	-	-	-	400,242	-	-	400,242
Change in non-admitted assets	-	-	-	-	(989,892)	-	-	(989,892)
Change in liability for unauthorized reinsurance	-	-	-	-	(74,592)	-	-	(74,592)
Change in net unrealized gains/losses on investments, net of tax	-	-	-	-	3,273,519	-	-	3,273,519
Balance, December 31, 2023	$ 997,901	$ 10,000	$ 7,234,976	$ 62,354,045	$ 331,406,546	$ 186	$ (98,416,003)	$ 303,587,651

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

OMS National Insurance Company, Risk Retention Group

Statements of Cash Flows (Statutory Basis)

Years Ended December 31, 2023 and 2022

	2023	2022
Cash from operations		
Premiums collected, net of reinsurance	$ 69,545,992	$ 62,693,347
Loss and loss adjustment expenses paid, net	(41,851,951)	(43,104,552)
Underwriting expenses paid	(24,391,195)	(23,041,758)
Cash provided (used) by underwriting	3,302,846	(3,452,963)
Net investment income	11,504,438	9,023,065
Other (loss) income	(558,309)	1,281,011
Federal income taxes paid	(3,719,939)	(3,161,855)
Net cash provided by operations	10,529,036	3,689,258
Cash from investments		
Proceeds from bonds sold, matured or repaid	137,262,801	37,011,691
Proceeds from stock sold	39,575,590	12,106,602
Cost of bonds acquired	(192,372,910)	(39,440,035)
Cost of stocks acquired	-	(863,597)
Net cash (used) provided by investing activities	(15,534,519)	8,814,661
Cash from financing sources		
Capital and paid-in surplus, less treasury stock	(8,708,716)	(11,243,062)
Other cash used	(1,738,912)	(869,292)
Net cash used by financing sources	(10,447,628)	(12,112,354)
Net change in cash, cash equivalents and short-term investments	(15,453,111)	391,565
Cash, cash equivalents and short-term investments		
Beginning of year	28,027,130	27,635,565
End of year	$ 12,574,019	$ 28,027,130

Supplemental Schedules of Noncash investing and financing activities:

	2023	2022
Debentures canceled on returning policyholders	$ 203,597	$ 101,326
Total noncash activities	$ 203,597	$ 101,326

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

1. Organization

OMS National Insurance Company, Risk Retention Group (the "Company") is a stock insurance and holding company, organized under the laws of the State of Illinois. The Company operates under the Federal Liability Risk Retention Act of 1986 and provides primary professional liability coverage to members of the American Association of Oral and Maxillofacial Surgeons (the "Association") who meet the Company's underwriting standards.

The Company issues "claims-made" policies, which insure against claims made during the policy period. A claim is considered to be made when it is first reported to the Company or when specific circumstances are reported to the Company, which the insured believes may give rise to a claim in the future. The Company also offers a free extended reporting endorsement available to eligible policyholders upon death, disability or retirement.

The Company owns 100% of the common stock of Fortress Insurance Company ("Fortress"). Fortress is a stock insurance company organized under the laws of the State of Illinois. Fortress was incorporated on May 22, 1997 and was authorized to initiate operations on June 2, 1997. Fortress has licenses in 50 states and the District of Columbia and provides primary professional liability coverage to the general dental and dental specialty fields.

The Company owns 100% of the common stock of The River Agency, Inc. ("the Agency"), a stock insurance agency company organized under the laws of the State of Illinois, incorporated on August 20, 2014 and authorized to initiate operations on January 9, 2015. The operations and financial position of the Agency are nonadmitted and immaterial in relation to the Company.

2. Summary of Significant Accounting Policies

The significant accounting policies followed by the Company are summarized below.

Basis of Reporting
The accompanying statutory financial statements have been prepared in conformity with the accounting practices and procedures of the National Association of Insurance Commissioners ("NAIC") as prescribed or permitted by the Illinois Department of Insurance ("DOI"), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America ("GAAP"). The DOI recognizes only statutory accounting practices ("STAT") prescribed or permitted by the State of Illinois for determining and reporting the financial condition and results of operations of an insurance company and determining its solvency under the Illinois Insurance Law. The NAIC's *Accounting Practices and Procedures Manual, Version 2023*, effective March 1, 2023, as subsequently amended, has been adopted as a component of prescribed or permitted practices by the State of Illinois. Permitted STAT encompasses all accounting practices not so prescribed and may vary by state and among insurers within the same state. The Company currently utilizes no material accounting practices that would be considered permitted, but not prescribed.

The statutory financial statements vary materially from financial statements prepared in conformity with GAAP. The most significant differences between STAT and GAAP include:

a. Costs incurred in connection with acquiring new insurance business, including such acquisition costs as commissions, are charged against statutory earnings as such costs are incurred, while the related income from premiums is deferred and credited to statutory earnings over the terms of the respective policies. Under GAAP, such costs, to the extent recoverable, would be deferred and amortized over the effective period of the related insurance policies.

b. Investments in the wholly-owned subsidiaries are accounted for on the equity basis. The changes in unassigned surplus or equity of the subsidiaries are credited directly to the Company's unassigned surplus. Under GAAP, the subsidiaries are consolidated and the net incomes of the subsidiaries are included in consolidated net income.

c. Reinsurance assets and liabilities are reported on a net basis under STAT; however, they are presented gross for GAAP purposes.

d. Commissions allowed by reinsurers on business ceded are reported as income when received rather than being deferred and, to the extent recoverable, amortized with deferred policy acquisition costs, as required under GAAP.

e. A statutory liability is established and charged to surplus for amounts due from unauthorized reinsurers in excess of letters of credit, funds held and premiums payable to the applicable reinsurance companies whereas under GAAP, an allowance for amounts deemed uncollectible would be established through a charge to earnings.

f. Certain assets, designated as non-admitted, which are not recognized under statutory accounting practices, such as property and equipment, internally-developed software, receivables over 90 days past due and certain deferred income tax assets are charged to surplus in the year they are incurred whereas under GAAP such assets, to the extent recoverable, are recognized in the balance sheet.

g. Deferred income taxes, net of a valuation allowance, are provided for the tax effects of certain income and expense items recognized for income tax purposes in different years than for financial reporting purposes. The change in the deferred tax asset or liability is reflected in surplus. GAAP requires the change to be reported in income. Admittance testing may result in a charge to capital and surplus for non-admitted portions of the deferred tax asset. State taxes are not considered for statutory purposes in calculating a deferred tax asset or liability, however, they are considered for GAAP purposes.

h. The statements of cash flows are prepared in accordance with statutory accounting practices which do not include reconciliations of net income to net cash from operations as would be included under GAAP. Also, cash and short-term investments in the statements of cash flows represent cash balances and investments with initial maturities of one year or less. Under GAAP, the corresponding caption of cash and cash equivalents include cash balances and investments with initial maturities of three months or less.

i. Debt securities are stated at values prescribed or permitted by the NAIC. Debt securities with an NAIC designation of 1 or 2 are carried at amortized cost, whereas bonds with an NAIC designation of 3 through 6 are assigned specific year-end values by the NAIC Securities Valuation Office ("SVO") and are written down to these assigned values (if less than amortized cost) by charging statutory surplus. Under GAAP, bonds are classified into three categories: held-to-maturity, available for sale, and trading. Bonds held-to-maturity are stated at amortized cost; bonds available for sale are carried at fair value with unrealized gains or losses reported, net of related taxes, as a component of accumulated other comprehensive income in equity; and bonds held for trading are reported at fair value and the resulting unrealized gains and losses are reported in earnings.

As it relates to loan-backed and structured securities, should the Company determine that they intend to sell a security or no longer have the ability and intent to retain the investment for a period of time sufficient to recover the amortized cost, that security shall be written down to fair value. Under STAT, if the Company subsequently changes their assertion, and now believes they do not intend to sell the security or have the ability and intent to retain the investment for a period of time sufficient to recover the amortized cost, that security will continue to be carried at the lower of cost or market with any future decreases in fair value charged through operations until the security is disposed. For GAAP purposes, once the Company alters their assertion, the security's amortized cost basis will not be decreased for future reductions in fair value unless an other-than-temporary impairment is determined to have occurred.

Common stocks are reported at fair value with the change in unrealized gain or loss, net of tax, recorded to unassigned surplus. Under GAAP, common stocks are reported at fair value with the change in unrealized gain or loss recorded to net income.

j. Comprehensive income is not determined for statutory reporting purposes, whereas, for GAAP, such income is presented.

k. Subordinated surplus debentures are included in surplus for statutory reporting but are considered liabilities for GAAP.

l. Certain other reported amounts are classified or presented differently in statutory financial statements than they would be under GAAP. Statutory requirements indicate that the financial statements are to be prepared in a form and using language and groupings substantially the same as the annual statement of the Company filed with the NAIC and state regulatory authorities. Accordingly, the statutory financial statements are presented in a format consistent with the filed annual statement which differs from the format of financial statements presented under GAAP. Required statutory disclosures that are not applicable to the Company are not included in the notes to these statutory financial statements.

Risks and uncertainties

Certain risks and uncertainties are inherent to the Company's day-to-day operations and to the process of preparing its statutory financial statements. The more significant of those risks and uncertainties are presented below and throughout the notes to the statutory financial statements.

Estimates: The preparation of the statutory financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statutory financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Loss Reserves: The Company estimates loss and loss adjustment expenses based on the accumulation of case estimates for direct claims reported, net of deductions of amounts for reinsurance ceded on reported claims, and subsequent to consultation with the Company's independent actuary. Actual results could differ from these estimates.

Reinsurance: Reinsurance contracts do not relieve the Company from its obligations to its insureds. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company evaluates the financial condition of its reinsurers to minimize exposure to significant losses from reinsurer insolvencies. Management believes that any liability arising from this contingency would not be material to the Company's financial position.

External Factors: The Company is highly regulated by the state in which it is domiciled, as well as states in which it does business. Such regulations, among other things, limit the amount of dividends and impose restrictions on the amount and types of investments.

Risk-Based Capital: The NAIC has developed property-casualty risk-based capital ("RBC") standards that relate an insurer's reported statutory capital and surplus to the risks inherent in its overall operations. The RBC formula uses the statutory annual statement to calculate the minimum indicated capital level to protect the Company from the various risks that it faces. The NAIC model law calls for various levels of regulatory action based on the magnitude of an indicated RBC capital deficiency, if any. The Company continues to monitor its internal capital requirements and the NAIC's RBC requirements. The Company has determined that its capital levels are in excess of the minimum capital requirements for all RBC action levels. Management believes that the Company's capital levels are sufficient to support the level of risk inherent in its operations.

Concentrations of Geographic and Credit Risk: The Company's total direct written premium of $78,876,850 for the year ended December 31, 2023 included amounts written for insured parties in the States of New York (15.0%), Florida (9.9%), California (8.0%), Texas (5.8%), New Jersey (5.4%), and Pennsylvania (5.1%).

FDIC Limit: The Company maintains its cash, cash equivalents and short-term investments with high quality financial institutions. Accounts are guaranteed by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000 per institution. From time to time the Company's cash, cash equivalents and short-term investments exceed those amounts guaranteed by the FDIC. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant risk on cash balances.

Investments: The Company invests in a professionally managed portfolio that contains equity and debt securities of publicly-traded companies, U.S. Government obligations, government agencies, state and local government obligations, mutual funds and money market funds. Such investments are exposed to various risks such as interest rate, market or credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the statutory financial statements.

This portfolio is widely diversified among various issuers and industries and is not dependent on the economic stability of one issuer or industry.

The credit quality of the bond portfolio at December 31, 2023 and 2022 is presented in the following chart:

	2023		2022	
	Carrying Value	Percentage	Carrying Value	Percentage
Class 1 - highest quality	$277,515,573	92.4%	$ 245,789,245	96.4%
Class 2 - high quality	22,937,530	7.6%	9,167,547	3.6%
Class 3 - medium quality	-	0.0%	-	0.0%
Class 4 - low quality	-	0.0%	-	0.0%
Class 5 - lower quality	-	0.0%	-	0.0%
Class 6 - in or near default	-	0.0%	-	0.0%
Total	$300,453,103	100.0%	$ 254,956,792	100.0%

Bonds with ratings from AAA to BBB as assigned by Standard & Poor's Corporation are generally considered as investment grade securities. Some securities issued by the U.S. Government or an agency thereof, are not rated, but are considered to be investment grade. The NAIC regards U.S. Treasuries and agencies and all A ratings as Class 1 (highest quality), BBB ratings as Class 2 (high quality), BB ratings as Class 3 (medium quality), B ratings as Class 4 (low quality), all C ratings as Class 5 (lower quality), and D ratings as Class 6 (in or near default).

Cash, Cash Equivalents and Short-Term Investments
Short-term investments are stated at cost and mature in one year or less. Cash equivalents consist of money-market funds and U.S. treasury bills and are short-term, highly liquid investments, with an original maturity of three months or less, that are both readily convertible to cash and so near their maturity that they present insignificant risk of changes in value.

Investments
Investments, excluding residential mortgage-backed securities not guaranteed by federal or federally sponsored agencies, commercial mortgage-backed securities and other loan-backed securities, are stated at values prescribed by the NAIC. Accordingly, bonds designated 1 and 2 by the NAIC are stated at amortized cost using the scientific (constant yield) interest method with bonds containing call provisions being amortized to the call or maturity date, which ever results in a lower asset value. Loan-backed bonds designated 1 and 2 by the NAIC are stated at amortized cost using the scientific (constant yield) interest method including anticipated prepayments. Bonds designated 3 through 6 are carried at the lower of amortized cost or fair value with the change run through capital and surplus, net of applicable taxes.

Investments in residential mortgage-backed securities, commercial mortgage-backed securities and other loan-backed securities not guaranteed by federal or federally sponsored agencies utilize a financial model commissioned by the NAIC to determine credit ratings and ultimately the NAIC designation. This financial model requires a two-step process. The Company first determines the initial designation based upon each security's amortized cost as a percentage of par in relation to security specific prescribed break points. This initial designation determines whether the security will be stated at amortized cost or fair value, based on the same criteria noted in the preceding paragraph. The lower the amortized cost relative to par, the higher the NAIC designation, and more likely the security will be carried at amortized cost. For those securities designated 3-6, the Company then determines the final designation based upon each security's fair value in relation to the same security specific prescribed break points used in the first step. The final designation is used for RBC purposes as well as for NAIC designation disclosure.

Unaffiliated common stocks are stated at fair value. Fair value of securities traded on national securities exchanges is valued at the last reported sales price. These values do not differ significantly from those prescribed by the SVO. Investments in the Company's unconsolidated subsidiaries are reflected in the accompanying statements of admitted assets, liabilities and capital and surplus based on the underlying statutory surplus or shareholders' equity, if audited. Changes in investments in the unconsolidated, audited subsidiaries are recorded as a direct increase or decrease to surplus. Dividends are recognized as income when declared.

Investment income is recognized as earned. Investment income includes amortization of premiums and accretion of discounts. Realized gains and losses are determined on a specific identification basis and recorded net of tax. Unrealized gains and losses resulting from changes in the fair value of bonds, common and preferred stocks carried at fair value are reflected in the net change in unrealized appreciation of investment; a component of the Company's unassigned surplus, net of deferred income taxes.

Declines in fair value that are considered other-than-temporary are charged to realized losses and the cost of the investment is adjusted to estimated fair value in the period when the determination is made. The assessment of other-than-temporary impairments is performed on a case-by-case basis. In determining whether these losses are expected to be other-than-temporary, the Company considers severity of impairment, investment ratings and any downgrades, duration of impairment, forecasted fair value recovery, and the intent and ability of the Company to hold the investment until the fair value has recovered. No other-than-temporary impairment write-downs were recognized in 2023 and 2022.

For loan-backed or structured securities, factors considered by management in determining whether an other-than-temporary impairment exists include the Company's stated intent to not sell, the Company's ability to hold such investments until the fair value recovers, and the discounted cash flows of the security based on the yield at the date of acquisition. If the Company intends to sell or if the Company does not have the ability to hold the security for a period of time sufficient to recover its amortized cost basis, an other-than-temporary impairment exists, and the security is written down to fair value with the amount of the write-down recorded as a realized loss. If the Company does not intend to sell the security and has the ability to hold the security for a period of time sufficient to recover the amortized cost basis, the Company calculates the cash flows expected to be collected. In this calculation, the Company compares the present value of cash flows expected to be collected, discounted at the security's effective interest rate at date of purchase, to the amortized cost basis. If the present value of cash flows is less than the amortized cost basis, a realized loss is recorded for the difference. The present value of cash flows then becomes the new cost basis.

The Company uses the retrospective method to accrete the amortized cost basis to the ultimate expected cash flows.

At year-end 2023, the Company has assessed its investment portfolio to determine subprime exposure and the Company has determined it does not have any exposure for subprime mortgage related risks. The Company owned $108,402,721 (admitted value), $18,796,343 (admitted value) and $13,857,108 (admitted value) of residential mortgage-backed, commercial mortgage-backed and other loan-backed and structured securities, respectively. These holdings represented 46.9% of the fixed-income portfolio. The individual mortgages which comprise these securities conform to strict underwriting standards, are considered AAA/AA equivalents, and the residential mortgages further carry an explicit agency guarantee as to repayment of principal and interest. In addition, with all bonds held in the portfolio, the Company's investment advisor monitors loans on an ongoing basis for delinquency and loss trends that could signal collateral deterioration.

Premiums
Premiums are deferred and earned on the daily pro rata basis over the terms of the respective policies. The standard term of a policy is twelve months.

Unearned premiums represent that portion of premiums written which is applicable to the unexpired terms of the policies in force as of the financial statement date and reserves established in anticipation of free extended reporting endorsement available to eligible policyholders upon death, disability or retirement.

Premiums Receivable
At December 31, 2023 and 2022, the Company had admitted assets of $25,920,581 and $24,100,659 respectively, in uncollected premiums receivable. The Company assesses the collectability of premiums receivables and the potential amount that may become uncollectible. Premiums past due ninety days of the original due date are non-admitted.

Reinsurance
The Company reinsures certain risks with other insurance organizations for the purpose of limiting its exposure to losses on any single risk. In 2023 and 2022, the Company retained the first $1,000,000 of each risk and reinsured amounts in excess of its retention. In addition, the Company's excess of loss reinsurance coverage has an aggregate deductible of $1,862,547 and $1,760,018 for years 2023 and 2022, respectively.

Premiums ceded to reinsurers on these reinsurance contracts are based primarily on a percentage of premiums earned or written on the underlying policies written by the Company. For certain contracts, premiums ceded on these reinsurance contracts are subject to adjustment based on the actual losses incurred, subject to contractual minimum and maximum amounts. Cessions to Lloyd's of London were 53% and 54% of reinsurance ceded before any adjustments for years 2023 and 2022, respectively.

Accrued ceded premiums payable and amounts recoverable from reinsurers are based on actuarially developed estimates of losses based upon past experience of the Company modified by certain industry data of ultimate developed costs, which may differ from case estimates. Changes in the assumptions used in making these estimates for such things as legal actions and changes in actual experience could cause these estimates to change in the near term. These estimates are reviewed by management and, as adjustments become necessary, such adjustments are reflected in results of operations in the period in which they are determined.

The reserve for losses and loss adjustment expenses is stated net of amounts ceded of $10,774,029 and $12,739,835 at December 31, 2023 and 2022, respectively. At December 31, 2023 and 2022, cessions to Lloyd's of London were 77% and 74%, respectively, in reinsurance ceded before any adjustments.

The Company evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. The Company holds collateral as security under reinsurance agreements in the form of letters of credit for any reinsurers not subject to the regulation of the DOI. In the opinion of management, all amounts due from reinsurers at December 31, 2023 and 2022 are considered recoverable. The estimated unsecured reinsurance recoverable with Lloyd's of London is $9,987,699 and $9,884,239 at December 31, 2023 and 2022, respectively.

Federal Income Taxes
Current income taxes incurred are recognized in the statutory statements of operations based on tax returns for the current year and tax contingencies for the current and all prior years, to the extent not previously provided.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the statutory financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Gross deferred tax assets and liabilities are measured using enacted tax rates and are considered for admitted asset status according to the admissibility tests as set forth by the NAIC. Changes in deferred tax assets and deferred tax liabilities, including changes attributable to changes in tax rates, are recognized as a component of unassigned surplus.

Gross deferred income tax assets are reduced by a valuation allowance if the Company determines it is more likely than not that some portion or all of the gross deferred tax assets will not be realized. Adjusted deferred income tax assets are limited to (1) the amount of federal income taxes paid in prior years that can be recovered through loss carrybacks for existing temporary differences that reverse during a timeframe corresponding with IRS tax loss carryback provisions, not to exceed three years, plus (2) the lesser of the remaining gross deferred income tax assets expected to be realized within three years of the balance sheet date or 15% of capital and surplus (subject to certain limitations), excluding any net deferred income tax assets, electronic data processing equipment and operating software and any net positive goodwill, plus (3) the amount of remaining gross deferred income tax assets that can be offset against existing deferred income tax liabilities. The remaining deferred income tax assets in excess of the above are non-admitted. Deferred income taxes do not include amounts for state taxes.

Property and Equipment
Equipment, furniture, leasehold improvements and internally developed software are recorded at cost less accumulated depreciation. Equipment is depreciated on the straight-line method over three years. Furniture is depreciated on the straight-line method over five years and leasehold improvements are depreciated on the straight-line method over the remaining life of the lease. Internal and external costs incurred during the application development stage to develop internal use computer software are capitalized and depreciated on the straight-line method over five years. The external costs include fees paid to third parties for services provided to develop the software and the internal costs include payroll and payroll-related costs incurred by employees directly associated with development. Software development costs for internally developed

software of $950,513 and $1,052,470 were capitalized in 2023 and 2022, respectively, recorded as other assets, and appropriately non-admitted.

The following summarizes depreciable assets by class as of December 31:

	2023				
	Basis	Accumulated Depreciation/ Amortization	Admitted Carrying Basis	Non-Admitted Carrying Basis	Depreciation/ Amortization Expense
EDP equipment	570,686	530,713	$ 39,973	$ -	$ 33,053
Capitalized software	802,574	801,992	-	582	1,168
Equipment	305,921	303,632	-	2,289	247
Internally developed software	15,177,844	14,293,874	-	883,970	227,474
Furniture	1,083,352	1,063,899	-	19,453	216,669
Leasehold improvements	1,810,140	589,869	-	1,220,271	120,719
Total	$ 19,750,517	$ 17,583,979	$ 39,973	$ 2,126,565	$ 599,330

	2022				
	Basis	Accumulated Depreciation/ Amortization	Admitted Carrying Basis	Non-Admitted Carrying Basis	Depreciation/ Amortization Expense
EDP equipment	529,106	497,660	$ 31,446	$ -	$ 58,027
Capitalized software	802,574	800,824	-	1,750	2,158
Equipment	303,385	303,385	-	-	8,060
Internally developed software	14,187,686	14,066,400	-	121,286	111,956
Furniture	1,083,352	847,230	-	236,122	216,427
Leasehold improvements	1,806,016	469,150	-	1,336,866	120,619
Total	$ 18,712,119	$ 16,984,649	$ 31,446	$ 1,696,024	$ 517,247

Reserve for Losses and Loss Adjustment Expenses

The reserve for losses and loss adjustment expenses is based upon the accumulation of individual case estimates for reported losses, plus actuarially developed estimates, based upon past experience of the Company modified by certain industry data, of ultimate developed costs. Changes in the assumptions used in making these estimates for such things as legal actions and changes in actual experience could cause these estimates to change in the near term. These estimates are reviewed by management and, as adjustments become necessary, such adjustments are reflected in results of operations in the period in which they are determined. In the opinion of the Company's management, the reserve for losses and loss adjustment expenses is sufficient to meet the Company's liability for future claims payments. However, since the reserve for losses and loss adjustment expenses is necessarily based upon estimates and derived, in part, from the Company's historical experience, the ultimate settlement of these liabilities may be significantly greater or less than such estimates.

The components of the reserve for unpaid losses and loss adjustment expenses as of December 31:

	2023	2022
Unpaid losses:		
Case basis	$ 27,494,886	$ 29,162,292
Reserves for development, including incurred but not reported	82,288,078	76,604,379
Reinsurance recoverable on unpaid losses	(8,089,014)	(10,939,299)
	101,693,950	94,827,372
Unpaid loss adjustment expenses:		
Case basis	24,700,504	24,144,760
Reserves for development, including incurred but not reported	34,841,121	32,299,809
Reinsurance recoverable on unpaid LAE	(2,685,015)	(1,800,536)
	56,856,610	54,644,033
	$158,550,560	$149,471,405

Premium Deficiency Reserves

Premium deficiency reserves and the related expense are recognized when it is probable that losses, loss adjustment expense and policy maintenance costs under a group of existing contracts will exceed net unearned premiums and expected reinsurance recoveries. The Company evaluated if a premium deficiency reserve was needed and determined that no premium deficiency reserve is required at December 31, 2023. The Company does not anticipate investment income as a factor in determining premium deficiency reserves.

3. Investments

The amortized cost, gross unrealized gains, gross unrealized losses and estimated fair value of investments at December 31:

	2023			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. Government corporations and agencies:				
Guaranteed	$ 10,042,239	$ 91,941	$ -	$ 10,134,180
States, territories, and possessions	6,643,964	56,566	553,931	6,146,599
Political subdivisions of states, territories and possessions	26,883,790	6,360	3,721,347	23,168,803
Special revenue and assessments	39,786,868	372,400	2,993,222	37,166,046
Industrial and miscellaneous	76,040,070	2,039,158	1,285,894	76,793,334
Residential mortgage-backed	108,402,721	2,060,357	2,020,449	108,442,629
Commercial mortgage-backed	18,796,343	665,309	-	19,461,652
Other loan-backed securities	13,857,108	92,456	1,049,238	12,900,326
Total bonds and notes	300,453,103	5,384,547	11,624,081	294,213,569
Common stocks	39,495,585	51,464,864	-	90,960,449
Total investments	$ 339,948,688	$ 56,849,411	$ 11,624,081	$ 385,174,018

	2022			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
States, territories, and possessions	$ 8,207,840	$ -	$ 880,089	$ 7,327,751
Political subdivisions of states, territories and possessions	65,178,496	20,015	8,729,244	56,469,267
Special revenue and assessments	88,757,920	158,555	8,108,636	80,807,839
Industrial and miscellaneous	55,730,683	-	4,992,418	50,738,265
Residential mortgage-backed	24,904,677	23,667	2,176,773	22,751,571
Other loan-backed securities	12,177,176	-	615,635	11,561,541
Total bonds and notes	254,956,792	202,237	25,502,795	229,656,234
Common stocks	60,814,321	53,255,244	322,925	113,746,640
Total investments	$ 315,771,113	$ 53,457,481	$ 25,825,720	$ 343,402,874

The amortized cost and estimated fair value of debt securities at December 31, 2023, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Cost or Amortized Cost	Estimated Fair Value
Due in 1 year or less	$ 16,851,789	$ 16,633,064
Due after 1 year through 5 years	52,535,904	51,610,552
Due after 5 years through 10 years	89,577,276	84,732,010
Due after 10 years through 20 years	431,962	433,336
Residential mortgage-backed	108,402,721	108,442,629
Commercial mortgage-backed	18,796,343	19,461,652
Other loan-backed securities	13,857,108	12,900,326
Total debt securities	$ 300,453,103	$ 294,213,569

The following tables show estimated fair value and gross unrealized losses for the Company's investments that are not deemed to be other-than-temporarily impaired, aggregated by individual category and length of time that individual securities have been in a continuous unrealized loss position, at December 31:

	2023					
	12 Months or Less		More than 12 Months		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
States, territories, and possessions	$ -	$ -	$ 3,130,033	$ 553,931	$ 3,130,033	$ 553,931
Political subdivisions of states, territories and possessions	2,393,640	15,918	18,768,803	3,705,429	21,162,443	3,721,347
Special revenue and assessments	-	-	25,060,542	2,993,222	25,060,542	2,993,222
Industrial and miscellaneous	-	-	16,269,247	1,285,894	16,269,247	1,285,894
Residential mortgage-backed	14,021,609	154,855	12,160,073	1,865,594	26,181,682	2,020,449
Other loan-backed securities	-	-	9,871,101	1,049,238	9,871,101	1,049,238
Total bonds and notes	16,415,249	170,773	85,259,799	11,453,308	101,675,048	11,624,081
Total investments	$ 16,415,249	$ 170,773	$ 85,259,799	$ 11,453,308	$ 101,675,048	$ 11,624,081

	2022					
	12 Months or Less		More than 12 Months		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
States, territories, and possessions	$ 4,166,964	$ 119,675	$ 3,160,787	$ 760,414	$ 7,327,751	$ 880,089
Political subdivisions of states, territories and possessions	11,725,220	1,077,553	41,468,047	7,651,691	53,193,267	8,729,244
Special revenue and assessments	22,729,528	2,780,346	45,300,832	5,328,290	68,030,360	8,108,636
Industrial and miscellaneous	13,141,213	472,902	37,597,052	4,519,516	50,738,265	4,992,418
Residential mortgage-backed	8,648,743	300,773	10,957,085	1,876,000	19,605,828	2,176,773
Other loan-backed securities	11,119,610	525,684	441,931	89,951	11,561,541	615,635
Total bonds and notes	71,531,278	5,276,933	138,925,734	20,225,862	210,457,012	25,502,795
Common stocks	9,278,136	322,925	-	-	9,278,136	322,925
Total investments	$ 80,809,414	$ 5,599,858	$ 138,925,734	$ 20,225,862	$ 219,735,148	$ 25,825,720

The Company evaluates impairment at each reporting period for each security (other than loan-backed or structured securities) where the fair value of the investment is less than its amortized cost. It is expected that the securities would not be settled at a price less than the amortized cost of the investment, as the Company has the ability and intent to hold the investment until forecasted recovery. The Company evaluated the credit ratings of these holdings, noting neither a significant deterioration since purchase nor other factors which may indicate an other-than-temporary impairment, such as the length of time and extent to which fair value has been less than cost, the financial condition and near-term prospects of the issuer as well as specific events or circumstances that may influence the operations of the issuer, and the Company's intent and ability to hold the investment for a sufficient time in order to enable recovery of our cost.

The Company evaluated each loan-backed and structured security for impairment where the fair value of the investment was less than its amortized cost. For those securities that the Company does intend to sell or does not have the ability to hold the security until recovery, an impairment is recorded equal to the difference of amortized cost and fair value. However, the Company had no such securities in which an impairment needed to be recognized. For all other loan-backed and structured securities, the Company developed assumptions around prepayment speeds, expected default rates and the value of the underlying collateral. These assumptions were used to develop expected cash flows which were discounted at the effective yield at the date of acquisition (or most recent impairment). These modeled cash flows were compared against the current amortized cost basis. If the expected discounted cash flows were less than the amortized cost basis, the security was written down to the discounted cash flow amount, with the difference recorded as a realized loss. As a result, no amounts were recorded as other than temporary impairments.

The Company's investment income for the years ended December 31:

	2023	2022
Bonds and notes interest	$ 7,671,045	$ 5,074,688
Cash, cash equivalent and short-term investments	829,085	302,872
Equities dividends	3,562,937	3,579,604
Total securities interest and dividends	12,063,067	8,957,164
Less investment expenses	279,136	304,271
Net investment income	$ 11,783,931	$ 8,652,893

Proceeds from sales of debt securities were $107,437,658 and $0 in 2023 and 2022. Proceeds from sales of equity securities were $39,575,590 and $12,106,602 in 2023 and 2022, respectively. Gross realized gains and losses for the years ended December 31:

	2023		2022	
	Gross Realized Gains	Gross Realized Losses	Gross Realized Gains	Gross Realized Losses
Debt securities - sales	$ 2,981	$ 9,311,380	$ 12,227	$ -
Equities - sales	18,313,807	56,952	1,649,582	769,789
Total securities capital gains (losses)	$ 18,316,788	$ 9,368,332	$ 1,661,809	$ 769,789

The Company has no investments in joint ventures, partnerships or limited liability companies.

The Company does not engage in any off-balance-sheet, derivative or hedging activities.

4. Investment in Subsidiary

The Company's investment in subsidiary is composed of the statutory net worth of Fortress. The net income and financial position of the Agency are immaterial to the Company and are nonadmitted due to being unaudited.

At December 31, the investment in Fortress on the balance sheet is composed of:

	2023	2022
Statutory surplus of Fortress	$ 82,795,041	$ 78,128,165

Summarized statutory information for Fortress is in the table below for the years ended December 31:

	Net Income	Assets	Liabilities	OMSNIC Carrying Value
2023	$ 6,952,530	$167,802,951	$ 85,007,910	$ 82,795,041
2022	$ 1,785,902	$159,290,810	$ 81,162,645	$ 78,128,165

Fortress' non-admitted assets were $283,880 and $481,521 in 2023 and 2022, respectively.

5. Fair Values of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash, cash equivalents and short-term investments: The carrying amount approximates fair value because of the short-term maturity of those investments.

Investment securities: The fair values of investment securities are estimated based on market prices published by the SVO, or in the absence of the SVO published markets, the last reported sales prices for those securities traded on national securities exchange. For securities not actively traded, fair values are estimated based upon yields and other factors such as discounted cash flow models and similar techniques.

The Company's financial assets and liabilities carried at fair value have been classified, for disclosure purposes, based on a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The hierarchy gives the highest priority to fair values determined using unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to fair values determined using unobservable inputs (Level 3). An asset's or liability's classification is determined based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3). The levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 – Valuations derived from inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as:

a) Quoted prices for similar assets or liabilities in active markets.
b) Quoted prices for identical or similar assets or liabilities in markets that are not active.
c) Inputs other than quoted prices that are observable for the asset or liability.
d) Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Valuations are derived from techniques that require significant unobservable inputs. The unobservable inputs reflect the Company's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

The following summarizes the carrying values and fair values of all admitted assets that are financial instruments excluding those that are accounted for under the equity method as of December 31, 2023 and 2022. The fair values are also categorized into the three-level hierarchy.

			Fair Value Hierarchy Level			
2023	**Carrying Value**	**Fair Value**	**Level 1**	**Level 2**	**Level 3**	**Net Asset Value (NAV)**
Bonds	$ 300,453,103	$ 294,213,569	$ 10,134,180	$ 284,079,389	$ -	$ -
Common stocks	90,960,449	90,960,449	90,960,449	-	-	-
Cash, cash equivalents and short-term investments	12,574,019	12,574,019	12,574,019	-	-	-
Total	$ 403,987,571	$ 397,748,037	$ 113,668,648	$ 284,079,389	$ -	$ -

			Fair Value Hierarchy Level			
2022	**Carrying Value**	**Fair Value**	**Level 1**	**Level 2**	**Level 3**	**Net Asset Value (NAV)**
Bonds	$ 254,956,792	$ 229,656,234	$ -	$ 229,656,234	$ -	$ -
Common stocks	113,746,640	113,746,640	113,746,640	-	-	-
Cash, cash equivalents and short-term investments	28,027,130	28,032,453	28,032,453	-	-	-
Total	$ 396,730,562	$ 371,435,327	$ 141,779,093	$ 229,656,234	$ -	$ -

6. Reserve for Losses and Loss Adjustment Expenses

Activity in the reserve for losses and loss adjustment expenses is summarized as follows:

	2023	**2022**
Reserves on unpaid loss and LAE at January 1	$ 149,471,405	$ 152,690,995
Incurred related to		
Current year	54,615,746	47,669,977
Prior years	(5,771,280)	(7,788,948)
Total incurred	48,844,466	39,881,029
Paid related to		
Current year	2,329,588	2,193,696
Prior years	39,522,363	40,910,856
Total paid	41,851,951	43,104,552
Reinsurance recovered on paid loss and LAE	2,086,640	3,933
Reserves on unpaid loss and LAE at December 31	$ 158,550,560	$ 149,471,405

In 2023 and 2022, the estimated cost of loss and loss adjustment expenses attributable to insured events of prior years decreased by a net $5,771,280 and $7,788,948, respectively. Management reviews the reserve activity on an accident year basis as additional information is received regarding unpaid individual claims. Unfavorable development in more recent years was offset by favorable development in more mature years resulting in the overall decreases to the reserves related to prior years.

Increases or decreases of this nature occur as a result of claim settlements during the current year, and as additional information is received regarding unpaid individual claims. Recent loss development trends are also taken into account in evaluating the overall adequacy of unpaid losses and loss adjustment expenses.

7. Dividend Restrictions, Capitalization and Surplus

Without prior approval of the Director of the DOI, ordinary dividends to shareholders are limited by the laws of Illinois to an amount that is based on restrictions relating to the Company's statutory surplus. Statutory surplus at December 31, 2023 was $303,587,651. The maximum dividend payout which can be made on either common stock or preferred stock, without prior approval, as of December 31, 2023 is $30,358,765. No dividends may be paid on common shares or preferred shares if payments for repurchases of preferred shares, as discussed in Note 12, are suspended by law, regulation, order of the DOI, the Board of Directors or if the number of shareholders is fewer than 1,000. Additionally, under the Company's bylaws, dividends cannot be paid on common stock unless dividends of at least $8.00 per share have been paid on preferred stock in that year. The annual maximum dividend payable on common stock is $0.10 per share. As required by the Illinois Insurance Code, the Company must maintain minimum capital of $1,000,000 and minimum policyholders' surplus of $500,000.

The portion of unassigned funds represented by each item below at December 31 is as follows:

	2023	2022
Unrealized gains	$ 81,321,222	$ 78,355,869
Net deferred tax liabilities	$ (5,401,695)	$ (6,110,103)
Non-admitted assets	$ (8,496,640)	$ (7,506,748)

The unrealized gains are not net of the applicable deferred tax liability of $10,807,621 and $11,115,787 for 2023 and 2022, respectively.

8. Related-Party Transactions

Other underwriting expenses include $750,000 in 2023 and $600,000 in 2022 paid to the Association, under an endorsement and royalty agreement in connection with the advertising, marketing, promotion and sale of professional liability insurance. The Company has an endorsement and royalty agreement with the Association that expires December 31, 2026. Under the terms of the endorsement and royalty agreement, the Company pays the Association a monthly fee of $50,000. A one-time special bonus of $150,000 was paid to the Association in 2023. The bonus was contingent upon the total number of OMSNIC insureds exceeding 5,171 policyholders; this milestone was met in August 2023.

In 2023 and 2022, the Company received $1,600,000 and $1,500,000, respectively, in common stock dividends from Fortress. In 2023, the Company received $300,000 in common stock dividends from The River Agency.

At December 31, 2023 and 2022, the Company reported $551,477 and $489,175, respectively, as net amounts due from affiliates. The net terms of the quarterly settlement require that these amounts are settled within 45 days.

The Company and Fortress entered into a reinsurance intermediary agreement effective August 1, 2006. Under this agreement, the Company performs all functions and activities necessary to act as a reinsurance intermediary on behalf of Fortress including contacting the reinsurance markets and negotiating reinsurance agreements on behalf of Fortress. The Company retained intermediary income of $99,211 and $120,112 in 2023 and 2022, respectively.

The Company entered into a capital support (keep well) agreement effective December 1, 2013 with Fortress. Under this agreement, the Company agrees to provide Fortress cash equity capital contributions to allow Fortress to qualify and retain its "A" rating with A.M. Best. The terms of this agreement shall continue in full force and effect until November 30, 2024. On each anniversary of the effective date, this Agreement shall automatically renew for an additional twelve-month period.

The Company and its subsidiary company, Fortress, entered into a management agreement effective January 1, 2014. Under this agreement, personnel expenses are reimbursed in accordance with the regulations of the Illinois Administrative Code, (215 ILCS 5/131.20a). The reimbursed costs were $2,734,339 and $2,810,699 in 2023 and 2022, respectively.

The Company and Fortress entered into a cost-sharing agreement effective January 1, 2021. Under this agreement, rent, utilities, and insurance expenses are apportioned in accordance with the regulations relating to Joint Expenses of the Illinois Administrative Code, (50 Ill. Adm. Code 903.310). The allocated costs were $351,886 and $342,302 in 2023 and 2022, respectively.

9. Federal Income Taxes

The Company files a consolidated federal income tax return as an insurance company with its subsidiaries. The method of allocation between the companies is subject to written agreement, approved by the Board of Directors. Intercompany tax balances are settled quarterly within 45 days and the final settlement for the year is made 15 days after the filing of the return.

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

	2023			2022			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Gross Deferred Tax Assets	$ 6,350,059		$ 6,350,059	$ 5,879,427	$ 102,066	$ 5,981,493	$ 470,632	$ (102,066)	$ 368,566
Statutory Valuation Allowance Adjustments	-	-	-	-	-	-	-	-	-
Adjusted Gross DTA	6,350,059	-	6,350,059	5,879,427	102,066	5,981,493	470,632	(102,066)	368,566
Deferred Tax Assets Nonadmitted	-	-	-	-	-	-	-	-	-
Subtotal Net Admitted Deferred Tax Assets	6,350,059	-	6,350,059	5,879,427	102,066	5,981,493	470,632	(102,066)	368,566
Deferred Tax Liability	944,133	10,807,621	11,751,754	974,508	11,117,088	12,091,596	(30,375)	(309,467)	(339,842)
Net Admitted DTA (DTL) at 21%	$ 5,405,926	$ (10,807,621)	$ (5,401,695)	$ 4,904,919	$ (11,015,022)	$ (6,110,103)	$ 501,007	$ 207,401	$ 708,408

A summary of the Company's adjusted admitted gross DTA calculation by component and character for the years ended December 31, 2023 and 2022 as outlined in SSAP 101 are as follows:

	2023			2022			Change		
Component	**Ordinary**	**Capital**	**Total**	**Ordinary**	**Capital**	**Total**	**Ordinary**	**Capital**	**Total**
a. Federal income taxes paid in prior years recoverable through loss carrybacks	$ 2,751,648	$ -	$ 2,751,648	$ 2,973,250	$ -	$ 2,973,250	$ (221,602)	$ -	$ (221,602)
b. Adjusted Gross DTA Expected to be realized (excluding the amount of DTAs from a, above) after application of the threshold limitation (the lesser of b.i. and b.ii. below)	1,135,876	-	1,135,876	827,686	-	827,686	308,190	-	308,190
bi. Adjusted Gross DTA Expected to be realized following the balance sheet date	1,135,876	-	1,135,876	827,686	-	827,686	308,190	-	308,190
bii Adjusted Gross DTA allowed per limitation threshold	N/A	N/A	45,538,148	N/A	N/A	44,389,009	N/A	N/A	1,149,139
c. Adjusted Gross DTAs (excluding a. and b. above) Offset by DTLs	2,462,535	-	2,462,535	2,078,491	102,066	2,180,557	384,044	(102,066)	281,978
Deferred tax assets admitted as the result of application of SSAP No. 101 Total (a+b+c)	$ 6,350,059	$ -	$ 6,350,059	$ 5,879,427	$ 102,066	$ 5,981,493	$ 470,632	$ (102,066)	$ 368,566

	2023	2022
Ratio percentage used to determine recovery period threshold limitation amount	1215%	1072%
Amount of adjusted capital and surplus used to determine recovery period and threshold limitation	$ 303,547,678	$ 295,895,281

For 2023 and 2022, the Company determined a valuation allowance was not necessary and no tax planning strategies were used.

All deferred tax liabilities (DTLs) have been recognized and none of the exceptions described in paragraph 7 of SSAP 101 apply to the Company.

Changes in main components of the DTAs and DTLs at December 31 are as follows:

	2023	2022	Change
DTAs resulting from book/tax differences in:			
Ordinary			
Reserves	$ 2,470,532	$ 2,315,260	$ 155,272
Deferred compensation	2,094,568	1,883,998	210,570
Unearned premiums	1,748,542	1,645,824	102,718
Advance premiums	36,417	34,345	2,072
Capital			
Investment impairment on equities	-	102,066	(102,066)
Total DTAs at 21%	$ 6,350,059	$ 5,981,493	$ 368,566
DTLs resulting from book/tax differences in:			
Ordinary			
Market discount accretion (bonds)	$ 293,633	$ 236,676	$ 56,957
2017 "TCJA" Transition Adjustment	203,292	304,937	(101,645)
Depreciable assets	408,019	390,311	17,708
Accrued dividends	39,189	42,584	(3,395)
Capital			
Bonds	-	1,301	(1,301)
Common stocks	10,807,621	11,115,787	(308,166)
Total DTLs at 21%	$ 11,751,754	$ 12,091,596	$ (339,842)
Total Net DTL	$ (5,401,695)	$ (6,110,103)	$ 708,408

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

	2023	2022	Change
Total DTAs	$ 6,350,059	$ 5,981,493	$ 368,566
Total DTLs	11,751,754	12,091,596	(339,842)
Net DTLs	$ (5,401,695)	$ (6,110,103)	708,408
Tax effect of changes in unrealized gains and losses			(308,166)
Change in net deferred income tax, excluding tax effect of changes in unrealized gains and losses			$ 400,242

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 income taxes. The significant items causing this difference are as follows:

	2023	2023 Effective Tax Rate	2022	2022 Effective Tax Rate
Provision computed at statutory rate	$ 3,525,344	21.0 %	$ 1,543,230	21.0 %
Tax exempt income deduction	(112,603)	(0.7)	(114,812)	(1.4)
Dividends received deduction	(506,202)	(3.0)	(441,291)	(6.0)
Meals	18,532	0.1	190	-
Other	159,764	1.0	249,394	3.3
	$ 3,084,835	18.4 %	$ 1,236,711	16.9 %
Federal income taxes	$ 1,706,666	10.2 %	$ 1,033,039	14.1 %
Realized capital gains tax	1,778,411	10.6	159,525	2.2
Federal income taxes incurred	3,485,077	20.8	1,192,564	16.3
Change in net deferred income tax, excluding tax effect of unrealized gains (losses)	(400,242)	(2.4)	44,147	0.6
Total statutory income taxes	$ 3,084,835	18.4 %	$ 1,236,711	16.9 %

The provisions for federal income taxes incurred on earnings for the years ended December 31 are:

	2023	2022
Current income tax expense (benefit)	$ 1,715,137	$ 1,044,981
Adjustments to prior year taxes	(8,471)	(11,942)
Subtotal	1,706,666	1,033,039
Realized capital gains tax (benefit)	1,778,411	159,525
Federal income taxes incurred	$ 3,485,077	$ 1,192,564

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

2023	$ 3,493,548
2022	$ 1,196,035

The Company has no capital loss or operating loss carryforward or AMT credit carryforwards at December 31, 2023 or 2022.

The statute of limitations has expired for tax years through 2019.

The Company has no liability for tax contingencies computed in accordance with SSAP no. 5, *Liabilities, Contingencies and Impairments of Assets*, with modifications provided in SSAP No. 101, *Income Taxes – A Replacement of SSAP No. 10R and SSAP No. 10*, at December 31, 2023 or 2022, and believes it is reasonably possible that the tax contingencies balance will not increase within the next twelve months. No amounts have been accrued for interest or penalties with respect to tax contingencies.

The Company had no deposits at December 31, 2023 under Section 6603 of the Code.

The Inflation Reduction Act (Act) was enacted on August 16, 2022, and included a new Corporate Alternative Minimum Tax (CAMT). The reporting entity (or the controlled group of corporations of which the reporting entity is a member) has determined that they do not expect to be liable for CAMT in 2023.

10. Lease Agreements

The Company entered into a new lease for office and storage space beginning February 1, 2019 and expiring January 31, 2034. The new lease agreement includes an abatement of base rent, tax payments and operating expense (CAM) payments for the first fifteen full calendar months. Total rent is expensed on a straight-line basis.

The lease agreement also includes a leasehold incentive of $1,680,825 relating to the construction of the new leased office space. This incentive is recorded as a liability and amortized on a straight-line basis over the life of the lease (15 years) as a reduction to rent expense. Total rent expense under this lease was $623,320 and $605,660 in 2023 and 2022, respectively.

The storage portion of the lease was cancelled effective June 30, 2022, resulting in cancellation fee expenses of $7,741.

The future minimum base rental payments (before taxes and operating expenses) required under this lease are as follows:

Year ending December 31	
2024	$ 385,656
2025	396,861
2026	408,067
2027	419,272
2028	430,478
Thereafter	2,361,093
Total minimum payments required	$ 4,401,427

The Company leases various office equipment under non-cancelable leases that expire through December 2028. Rental expense for 2023 and 2022 was $81,292 and $68,651, respectively. Future minimum rental payments are as follows:

Year ending December 31	
2024	$ 67,210
2025	67,210
2026	34,776
2027	34,776
2028	31,878
Total minimum payments required	$ 235,850

Certain office equipment rental commitments have renewal options extending through the year 2028.

11. Capital Stock

The transferability of common shares is restricted to the Company or another shareholder, and only at a price of $1.00 per share. Preferred shares are not transferable except to the Company.

Common and preferred shares are repurchased by the Company when a policyholder terminates his or her insurance coverage. The repurchase price for common shares is $1.00 per share. Subject to specific exceptions enumerated in the Articles of Incorporation and By-laws of the Company, the repurchase price for preferred shares is the price per share as of the termination date, or, if lower, at the time of the policyholder's death, disability or retirement. The preferred share price is calculated each April 1 as the prior year's ending statutory surplus adjusted for the difference in market value versus carrying cost of investments and certain other adjustments as defined in the Company's Amended and Restated Articles of Incorporation. As of December 31, 2023, the preferred share price was $2,210.83 per share. Payment for repurchased shares is deferred until death, disability or retirement of the policyholder. Repurchased common and preferred shares are held as treasury stock.

The preferred stock of the Company is nonvoting. Shares of preferred stock may only be transferred to the Company. New insureds are required to purchase preferred stock in an amount equal to 75% of the first $250,000 in coverage. Shares of preferred stock are issued out of treasury stock at a price determined annually according to a formula.

In liquidation of the Company, the holders of preferred stock are entitled to receive all liquidation proceeds up to $100.00 per share before the holders of common stock receive $1.00 per share. All remaining liquidation proceeds then go to holders of preferred stock.

12. Subordinated Surplus Debentures

The Company issues subordinated surplus debentures for repurchases of preferred stock made on cessation of coverage for reasons other than retirement, disability or death. The debentures are payable in an amount equal to the number of shares repurchased times the lower of the per share price at the date of cessation of coverage or at the date of retirement, disability or death. The debentures are non-interest-bearing and are subordinate in right of payment to all other indebtedness of the Company. Payment of the debentures upon retirement, disability or death may only be made if the statutory surplus of the Company exceeds the statutory surplus at the time the debenture was issued and approval of the payment has been received from the Director of the DOI.

If a former policyholder returns to the Company, amounts owed on subordinated surplus debentures to the former policyholder are reduced or canceled to offset the policyholder's new preferred stock repurchase requirement.

The following summarizes the issuance and repayment of debentures in 2023:

Balance at December 31, 2022	$ 6,980,481
Debentures issued in 2023	783,371
Debentures repaid in 2023	(325,279)
Debentures canceled on returning policyholders in 2023	(203,597)
Balance at December 31, 2023	$ 7,234,976

13. Reinsurance

The following table summarizes the ceded and assumed unearned premiums and related commission equity at December 31, 2023:

	Assumed		Ceded		Assumed Less Ceded	
	Unearned Premium	Commission Equity	Unearned Premium	Commission Equity	Unearned Premium	Commission Equity
Affiliates	$ -	$ -	$ -	$ -	$ -	$ -
All other	-	-	735,060	147,012	(735,060)	(147,012)
Total	$ -	$ -	$ 735,060	$ 147,012	$ (735,060)	$ (147,012)

Direct unearned premium reserve is $42,367,043 and $39,838,418 in 2023 and 2022, respectively.

14. Defined Contribution Plan and Deferred Compensation Plan

The Company has established an employee 401(k) plan for which all employees of the Company and Fortress who have attained the age of 21 are eligible to participate on a voluntary basis. The 401(k) plan calls for the Company and Fortress to match employee contributions up to 4% of an employee's compensation, limited to the maximum allowed under federal tax laws, which was $13,200 and $12,200 per employee for 2023 and 2022, respectively. The Company and Fortress fund their full obligation under the 401(k) plan annually. The Company's contributions to the 401(k) plan were $335,381 and $320,918 for the years ended December 31, 2023 and 2022, respectively. These contributions include $77,671 and $75,975 contributed by Fortress, during 2023 and 2022, respectively.

The Company has established a Deferred Compensation Plan for all employees. Under the terms of the plan, units are credited to eligible employees in an amount equal to 5% of an employee's base annual salary as of April 1 of the grant year, divided by the price per share of the Company's preferred stock. An employee vests in phantom stock awards on the fifth anniversary of the grant. Grants of deferred compensation units that have not vested are forfeited upon termination of employment except in the case of death, disability, or retirement. The plan is not funded.

The following summarizes the units granted, paid, and forfeited during 2023 and 2022:

	2023	2022
Units outstanding at January 1	2,076.08	2,172.50
Plus: units granted	247.29	193.03
Less: units paid	(292.91)	(229.35)
Less: units forfeited	(44.86)	(60.10)
Units outstanding at December 31	1,985.60	2,076.08
Vested units at December 31	1,124.89	1,060.64

Payment of vested amounts is made on the vesting date unless an employee elects to defer payment to a later date. During 2023 and 2022, $654,361 and $609,871, respectively, in vested units were paid to employees.

The total cost of the deferred compensation units granted is expensed pro rata over the five-year vesting period. Shares deferred for future payout but vested upon retirement are expensed in full in the year of retirement. Adjustments due to changes in the price per share which is used in the deferred compensation calculation or forfeitures are expensed in the year of the change. Included in Loss Adjustment Expenses and Salary Expense for 2023 are $18,860 and ($446,739) and for 2022 are $100,068 and $634,846, respectively, for unvested and vested units. Fortress recorded Loss Adjustment Expenses and Salary Expense for 2023 of $11,918 and ($122,987) and for 2022 of $42,586 and $135,679 respectively, for unvested and vested units. As of December 31, 2023 and 2022, $2,515,858 and $3,526,335, respectively, were included in other liabilities relating to the plan. As of December 31, 2023 and 2022, $944,453 and $1,127,286, respectively, were also included in Fortress' other liabilities relating to the plan.

Assuming no forfeitures or terminations of employment and using the share price at December 31, 2023, the scheduled payout of grants as of December 31, 2023, adjusted for elective employee deferrals, is as follows:

Year	Deferred Compensation Units	Amount
2024	251.23	$555,427
2025	316.90	$700,612
2026	364.32	$805,450
2027	460.68	$1,018,485
2028	325.52	$719,669
After 2028	266.95	$590,181

The Company offers a nonqualified deferred compensation arrangement for certain senior executives and board members of the Company and Fortress. The plan is unfunded under Sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974.

15. Contingencies

It is management's opinion, after consultation with counsel, that the Company has no contingent liabilities which could have a material effect on the Company's financial position or results of operations.

16. Reconciliation to Annual Statement

There are no differences to the Annual Statement filed with the DOI and the audited statutory statements of admitted assets, liabilities and capital and surplus, the statement of operations and the statutory statement of cash flows for 2023 and 2022.

17. Subsequent Events

All of the effects of subsequent events that provide additional evidence about conditions that existed at the financial statement date, including the estimates inherent in the process of preparing the statutory financial statements, are recognized in the statutory financial statements. The Company does not recognize subsequent events that provide evidence about conditions that did not exist at the financial statement date but arose after, but before the statutory financial statements are available to be issued. In some cases, non-recognized subsequent events are disclosed to keep the statutory financial statements from being misleading.

The Company has evaluated subsequent events through April 19, 2024 and determined no additional disclosures are required. These statutory financial statements were available for release on April 19, 2024.