

*ANNUAL
STATEMENT
INSTRUCTIONS*

*SOUTH DAKOTA FARM MUTUAL
INSURANCE COMPANIES*

January, 2006

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EXHIBIT 1
ASSETS

Column

- 1 **CURRENT YEAR ASSETS** - Record all assets in this column, whether admitted or non-admitted.
- 2 **CURRENT YEAR ASSETS NOT ADMITTED** - Record all assets or portions of assets not admitted per the following instructions.
- 3 **CURRENT YEAR NET ADMITTED ASSETS** - Record the amount of Column 1 less Column 2 for each line of assets.
- 4 **PRIOR YEAR NET ADMITTED ASSETS** - Record the Prior Year Net Admitted Assets as reported on the prior year Annual Statement.

Line

- 1 **BONDS** - Enter the grand total of Page 18, Schedule D, Part 1, Column 6.
- 2.1 **PREFERRED STOCKS AT MARKET VALUE** - Enter the grand total of Page 19, Schedule D, Part 2, Section 1, Column 7.
- 2.2 **COMMON STOCKS AT MARKET VALUE** - Enter the grand total of Page 20, Schedule D, Part 2, Section 2, Column 7.
- 3 **REAL ESTATE OCCUPIED BY COMPANY** - Enter the grand total of Page 17, Schedule A, Column 10.
- 4 **CASH ON DEPOSIT** - Enter in Column 1 the grand total of Page 23, Schedule E, Column 8. This includes petty cash, savings accounts, checking accounts, and CD's. **In Column 2, the company must non-admit any aggregate amount over the \$100,000 FDIC Limit held in CD's in any one bank, not just branches of banks.** This line should equal the total of Page 23, Schedule E, Column 9. Also, if non-admitted, change in balance for year must be reflected as an expense or negative expense on Exhibit 5.
- 5 **PREMIUMS, ASSESSMENTS AND AGENTS' BALANCES IN COURSE OF COLLECTION** - Enter premiums or assessments due and uncollected from agents or policyholders. The company must record premiums, assessments or agents' balances over 90 days past due as a non-admitted asset in Column 2. Also, if non-admitted, change in balance for year must be reflected as an expense or negative expense on Exhibit 5.
- 6 **REINSURANCE RECOVERABLE ON PAID LOSSES AND LOSS ADJUSTMENT EXPENSE PAYMENTS** - Enter the grand total of Page 15, Exhibit 11, Column 8 plus Column 9.
- 7 **FEDERAL INCOME TAX RECOVERABLE** - Enter the amount of Federal Income Taxes recoverable by the company as of December 31 of the current year.

EXHIBIT 1 (ASSETS) Cont.

- 8** **ELECTRONIC DATA PROCESSING EQUIPMENT** - EDP Equipment must be classified as either non-admitted assets on Exhibit 1 or expenses on Exhibit 5. If non-admitted, enter book value on Column 1 and also on Column 2, for a net admitted asset of zero. Also, if non-admitted, change in balance for year must be reflected as an expense or negative expense on Exhibit 5.
- 9** **INTEREST DUE AND NOT RECEIVED** - Enter the grand total of Page 5, Exhibit 4, Column 3.
- 10** **REINSURANCE CEDING COMMISSIONS RECEIVABLE** - Enter the grand total of Page 15, Exhibit 11, Column 4.
- 11** **FURNITURE, FIXTURES, AUTOMOBILES AND SOFTWARE** - Furniture, fixtures, automobiles and software must be classified as non-admitted assets on Exhibit 1 or expenses on Exhibit 5. If non-admitted, enter the book value on Column 1 and also on Column 2, for a net admitted asset of zero. Also, if non-admitted, change in balance for year must be reflected as an expense or negative expense on Exhibit 5.
- 12-15** Blank lines for any other assets which have not been included above.
- 16** **TOTAL ASSETS** - Total of Lines 1 through 15.

EXHIBIT 2
LIABILITIES AND SURPLUS

Line

LIABILITIES

- 1 **UNPAID LOSSES** - Enter the grand total of Page 11, Exhibit 9, Part 1, Column 4.
- 2 **UNPAID LOSS ADJUSTMENT EXPENSES** - Enter the grand total of Page 12, Exhibit 9, Part 2, Column 4.
- 3 **UNEARNED PREMIUM RESERVE** - Enter the grand total of Page 8, Exhibit 7, Column 3. This figure should match Line 7 of Worksheet A, Unearned Premium Reserve Liability.
- 4 **UNPAID EXPENSES** - Enter amount of all unpaid expenses, including commissions due and payable, premium taxes, salaries, insurance division fees, etc. This amount equals Page 6, Exhibit 5, Line 27.
- 5 **BORROWED MONEY** - Enter book value of any notes or loans unpaid at December 31, excluding real estate mortgages.
- 6 **INTEREST DUE, BUT UNPAID ON BORROWED MONEY** - Enter amount of interest payable on borrowed money at December 31, excluding real estate interest.
- 7 **INTEREST DUE, BUT UNPAID ON REAL ESTATE ENCUMBRANCES** - Enter amount of interest payable on real estate mortgages at December 31.
- 8 **REINSURANCE PREMIUMS PAYABLE** - Enter the grand total of Page 7, Exhibit 6, Column 4.
- 9-12 Blank lines for any other liabilities which have not been included above.
- 13 **TOTAL LIABILITIES** - Sum of Line 1 through Line 12.

SURPLUS

- 14 **SURPLUS TO POLICYHOLDERS** - Total of Page 2, Exhibit 1, Column 3, Line 16 less Page 3, Exhibit 2, Line 13.
- 15 **TOTAL LIABILITIES AND SURPLUS** - Sum of Lines 13 and 14. Must equal Page 2, Exhibit 1, Column 3, Line 16.

EXHIBIT 3
STATEMENT OF INCOME

Line

- 1 **NET PREMIUM AND ASSESSMENTS EARNED** - Enter the grand total of Page 8, Exhibit 7, Column 4.
- 2 **MEMBERSHIP AND SERVICE FEES RECEIVED** - Enter amount of membership and service fees collected during the year.
- 3 **INVESTMENT INCOME EARNED** - Enter the grand total of Page 5, Exhibit 4, Column 5.
- 4 **CHANGE IN BOOK VALUE OF BONDS FROM PRIOR YEAR** - Enter the grand total of Page 18, Schedule D, Part 1, Column 12. This account is used to record amortization of bond premium or accrual of bond discount. The total should equal the difference between the current year book value less the prior year book value of bonds adjusted for acquisitions and dispositions.
- 5.1 **INCREASE (DECREASE) IN MARKET VALUE OF PREFERRED STOCK FROM PRIOR YEAR** - Enter the grand total of Page 19, Schedule D, Part 2, Section 1, Column 11.
- 5.2 **INCREASE (DECREASE) IN MARKET VALUE OF COMMON STOCK FROM PRIOR YEAR** - Enter the grand total of Page 20, Schedule D, Part 2, Section 2, Column 11.
- 6 **PROFIT OR (LOSS) ON SALE OR MATURITY OF ASSETS** - Enter the grand total of Page 22, Schedule D, Part 4, Column 8.
- 7 **CEDING COMMISSIONS FROM REINSURERS** - Enter the grand total of Page 15, Exhibit 11, Column 6.
- 8-10 Blank lines for any other source of income not included above.
- 11 **TOTAL INCOME** - Total of Lines 1 through 10.
- 12 **NET LOSSES INCURRED** - Enter the grand total of Page 13, Exhibit 10, Part 1, Column 4.
- 13 **NET LOSS ADJUSTMENT EXPENSES INCURRED** - Enter the grand total of Page 14, Exhibit 10, Part 2, Column 4.
- 14 **OTHER UNDERWRITING EXPENSES INCURRED** - Enter the total of Page 6, Exhibit 5, Line 29 for the current year.
- 15 **TOTAL DEDUCTIONS** - Total of Lines 12 through 14.
- 16 **NET INCOME (LOSS)** - Total of Line 11 less Line 15.

EXHIBIT 3 (STATEMENT OF INCOME) Cont.

SURPLUS TEST

- 17 **PRIOR YEAR-END SURPLUS** - Enter the surplus reported on the prior year's annual statement.
- 18 **ADD: CURRENT YEAR NET INCOME (LOSS)** - Enter the amount reported as Net Income or Loss from Line 16 above.
- 19 **EQUALS: CURRENT YEAR-END SURPLUS** - Total of Line 17 plus Line 18. This amount should equal Page 3, Exhibit 2, Line 14.

EXHIBIT 4
INTEREST AND DIVIDEND INCOME

Column

- 1 **SCHEDULE** - Shows the source of information.
- 2 **COLLECTED DURING YEAR** - Report all amounts of interest or dividends actually received during the current year.
- 3 **DUE AND NOT RECEIVED CURRENT YEAR** - Report all amounts of interest or dividends due but not yet received as of December 31 of the current year. The total of this column is carried to Page 2, Exhibit 1, Column 1, Line 9.
- 4 **DUE AND NOT RECEIVED PRIOR YEAR** - Report all amounts of interest or dividends due but not yet received as reported on the prior year's annual statement. The total should equal the amount reported on the Prior Year Annual Statement, Page 2, Exhibit 1, Column 1, Line 9.
- 5 **EARNED DURING YEAR** - Total of Column 2 plus Column 3 less Column 4 for each line. The total of this column is carried to Page 4, Exhibit 3, Line 3.

Line

- 1 **BONDS** - Interest collected and any due but not received as shown on Page 18, Schedule D, Part 1, Column 9 and Column 10, and Page 22, Schedule D, Part 4, Column 9.
- 2 **PREFERRED STOCKS** - Dividends received and any due but not received as shown on Page 19, Schedule D, Part 2, Section 1, Column 9 and Column 10, and Page 22, Schedule D, Part 4, Column 10.
- 3 **COMMON STOCKS** - Dividends received and any due but not received as shown on Page 20, Schedule D, Part 2, Section 2, Column 9 and Column 10, and Page 22, Schedule D, Part 4, Column 10.
- 4 **CASH ON HAND AND ON DEPOSIT** - Interest received and any due but not received as shown on Page 23, Schedule E, Column 6 and Column 7.

EXHIBIT 5
EXPENSES

Line

1 ADVERTISING -

Include: Newspaper ads, radio broadcasts, signs, directory listings, promotional items and literature, billboards, mailing lists, agent awards, prospect lists, public relations counsel, etc.

Exclude: Advertising in connection with help wanted or real estate owned.

2 ALLOWANCES TO MANAGERS AND AGENTS -

Include: Payments made to managers and agents when not computed as a percentage of premium.

Exclude: Employee salaries, expenses of salaried employees.

3 BOARDS, BUREAUS, AND ASSOCIATION DUES -

Include: Dues and fees of accident and loss prevention organizations, advisory organizations, underwriting associations, rating organizations, statistical agencies, claim associations, MAMIC, and NAMIC. Also include experience data, rate manuals and rating plans.

Exclude: Dues to social or civic clubs, dues to accounting or legal associations.

4 COMMISSIONS PAID -

Include: Payments made to managers or agents when computed as a percentage of premium, policy and membership fees, funds paid to employees when duties paid for are not part of their normal duties as employees, contingent commissions, profit commissions.

Exclude: Salaries paid to managers, agents or employees.

5 DEPRECIATION -

Include: Depreciation on Real Estate. May also include depreciation of equipment, automobiles, etc. if reported as an asset on Page 2.

6 DIRECTORS' FEES -

Include: Board meeting fees paid to directors; any other expenses, fees and compensation paid to directors.

7 EMPLOYEE RELATIONS AND WELFARE -

Include the following expenses for employees: Accident insurance, retirement insurance, pensions, health and hospitalization insurance, group life insurance, Workers' Compensation insurance, food for employees, help wanted ads, employee training, employee entertainment, character reports on employees, employee contributions, gifts or donations.

8 EQUIPMENT -

Include: Rent and repairs of furniture and equipment. May also **include cost of Non-Admitted** EDP equipment, automobiles, furniture, fixtures, postage machines, etc. if not shown as an asset on Page 2.

9 FEDERAL INCOME TAXES -

Include: Federal Income Tax paid by company.

EXHIBIT 5 (EXPENSES) Cont.

- 10 INSURANCE AND FIDELITY BONDS -**
Include: Fidelity or Surety Bonds for employees and agents, insurance for office contents, company auto insurance, burglary and robbery insurance.
Exclude: Insurance in connection with real estate owned.
- 11 INVESTMENT EXPENSES -**
Include: Amounts paid for accrued interest or dividends, brokerage fees.
- 12 LEGAL AND PROFESSIONAL FEES -**
Include: Legal retainers, fees and expenses, notary fees, independent auditors' fees, fees and expenses to others than employees for collection of customer balances, payroll audit, registrar fees, dues and subscriptions to accounting and actuarial societies.
Exclude: Claim adjustment legal fees and expenses, legal fees for real estate.
- 13 MEETING EXPENSES -**
Include: Costs of hosting annual policyholders' meetings, including refreshments, door prizes, entertainment, etc.
Exclude: Directors' fees, mileage to directors' meetings.
- 14 MISCELLANEOUS EXPENSES -** Any expenses not included in the listed expenses.
Include: Donations to charity, tabulating services.
- 15 CHANGE IN ASSETS NOT-ADMITTED -** Reflect the change in the balance for the year
Include: Premiums, Assessments & Agents Balance in course of Collection, EDP Equipment, Furniture, Fixtures, Automobiles & Software, Aggregate Amount over \$100,000 FDIC Limit held in CD's in any one bank.
- 16 POSTAGE, TELEPHONE AND EXPRESS -**
Include: Postage, cost of telephone, freight, UPS.
Exclude: Rent and repairs of postage machines, employees' postage and telephone expenses while traveling.
- 17 PRINTING, STATIONERY AND OFFICE SUPPLIES -**
Include: Office supplies, policy forms, newspapers, books, tax and legal publications.
Exclude: Specific payments for rate manuals, loss prevention material.
- 18 REAL ESTATE EXPENSES -**
Include: Utilities and other costs of operating and maintaining owned real estate, insurance on real estate, salaries and wages to janitors, caretakers and maintenance men paid in connection with real estate owned, advertising in connection with owned real estate.
- 19 REAL ESTATE TAXES -**
Include: Real estate taxes, licenses and fees.
- 20 RENT AND RENT ITEMS -**
Include: Rent of home or branch office, cost of repairs and maintenance of leased premises, utilities paid on rented property, rent of storage and warehouse space, space occupied in buildings owned, safe deposit and post office box rent.
Exclude: Rent of furniture and equipment, rent of automobiles.

EXHIBIT 5 (EXPENSES) Cont.

21 SALARIES -

Include: Salaries, bonus and overtime pay to employees, commissions, sick and annual leave pay.

Exclude: Salaries and wages to janitors, caretakers and maintenance men paid in connection with real estate owned.

22 SURVEYS AND UNDERWRITING REPORTS -

Include: Reports obtained for underwriting, appraisals, maps, accident and loss prevention materials.

23 TAXES, LICENSES AND FEES:

a STATE AND LOCAL INSURANCE TAXES -

Include: Premiums taxes, licenses and fees; fire patrol assessments; county and municipal taxes, licenses and fees.

b INSURANCE DEPARTMENT LICENSES AND FEES -

Include: Filing fees, agents' licenses, fees and expenses of insurance department examiners, certificates of compliance.

c PAYROLL TAXES -

Include: FICA taxes, unemployment insurance taxes.

d ALL OTHER TAXES (Excluding Federal Income and Real Estate Taxes) -

Include: Property tax, state income tax, business or corporation licenses or fees, statement publication fees.

24 TRAVEL AND TRAVEL ITEMS -

Include: Employees' expenses while traveling, auto repairs and maintenance, auto rent or lease, auto license plates, guests' expenses.

Exclude: Employee entertainment, traveling expenses for managers, agents and other producers.

25-26 Blank lines for any other expenses.

27 TOTAL EXPENSES PAID - Total of Lines 1 through 25.

28 ADD UNPAID EXPENSES -- CURRENT YEAR - Add all expenses due but unpaid as of December 31 of the current year. This amount is carried to Page 3, Exhibit 2, Line 4.

29 LESS UNPAID EXPENSES -- PRIOR YEAR - Include all expenses due but unpaid as reported on the prior year annual statement.

30 TOTAL UNDERWRITING EXPENSES INCURRED - Total of Line 26 plus Line 27 less Line 28. This amount is transferred to Page 4, Exhibit 3, Line 14.

EXHIBIT 6
BUSINESS WRITTEN DURING THE YEAR

Column

- 1 **ASSESSMENT OR DIRECT WRITINGS** - Enter by line of business the amount of gross assessments or direct premium written during the year, including those premiums which have not been collected.
- 2 **RETURN PREMIUMS** - Enter the amount of premiums returned to policyholders.
- 3 **PAID REINSURANCE PREMIUMS CEDED** - Enter the amount of gross premiums actually transferred to a reinsurer during the current year. This includes all prior year premiums paid in the current year. Do not include those premiums which are due but are not yet paid at the end of the current year. (**Note:** This column does not include ceding commissions, as they are included on Page 4 Exhibit 3 Line 7)
- 4 **CURRENT YEAR UNPAID REINSURANCE PREMIUMS PAYABLE** - Enter the amount of ceded premiums due to the reinsurer, but not yet paid at the end of the current year. This amount is carried to Page 3, Exhibit 2, Line 8.
- 5 **PRIOR YEAR UNPAID REINSURANCE PREMIUMS PAYABLE** - Enter the amount of ceded premiums due to the reinsurer, but not yet paid, as reported on the prior year annual statement. This amount should equal Page 3, Exhibit 2, Line 8, Prior Year.
- 6 **REINSURANCE PREMIUMS CEDED** - Total of Column 3 plus Column 4 less Column 5. The total of this column should equal the total of Page 15, Exhibit 11, Column 2.
- 7 **NET PREMIUMS** - Total of Column 1 less Column 2 less Column 6. This amount is carried forward to Page 8, Exhibit 7, Column 1.

EXHIBIT 7
PREMIUMS AND ASSESSMENTS EARNED

Column

- 1 **NET PREMIUMS WRITTEN** - Enter the total net premiums written from Page 7, Exhibit 6, Column 7.
- 2 **UNEARNED PREMIUMS DECEMBER 31, PRIOR YEAR** - Enter the amount reported as unearned premiums on Page 3, Exhibit 2, Line 3 of the prior year's Annual Statement.
- 3 **UNEARNED PREMIUMS DECEMBER 31, CURRENT YEAR** - Enter the amount reported on the current year Worksheet A, Line 7. This total is carried forward to Page 3, Exhibit 2, Line 3.
- 4 **PREMIUMS EARNED DURING YEAR** - Total of Column 1 plus Column 2 less Column 3. This amount is carried forward to Page 4, Exhibit 3, Line 1.

EXHIBIT 8
PART 1 -- LOSSES PAID

Column

- 1 **DIRECT LOSSES PAID** - Enter the total amount of losses paid, excluding loss adjustment expenses, during the current year.
- 2 **REINSURANCE RECOVERED ON PAID LOSSES** - Enter the amount of reinsurance received on paid losses.
- 3 **REINSURANCE RECOVERABLE ON PAID LOSSES** - Enter the amount of reinsurance recoverable from the reinsurer on losses already paid by the company. This amount should equal Page 15, Exhibit 11, Column 8.
- 4 **SALVAGE AND SUBROGATION CONVERTED TO CASH** - Enter the amount of funds received for salvage sold and subrogation, net of any funds disbursed to the reinsurer for reimbursement of losses paid.
- 5 **NET LOSSES PAID** - Total of Column 1 less Column 2 less Column 3 less Column 4. This amount is carried forward to Page 13, Exhibit 10, Part 1, Column 1.

EXHIBIT 8
PART 2 -- LOSS ADJUSTMENT EXPENSES PAID

Column

- 4 **DIRECT LOSS ADJUSTMENT EXPENSES PAID** - Enter the total amount of loss adjustment expenses paid during the current year.
- 5 **REINSURANCE RECOVERED ON PAID LOSS ADJUSTMENT EXPENSES** - Enter the amount of reinsurance received on paid loss adjustment expenses.
- 6 **REINSURANCE RECOVERABLE ON PAID LOSS ADJUSTMENT EXPENSES** - Enter the amount of reinsurance recoverable from the reinsurer on loss adjustment expenses already paid by the company. This amount should equal Page 15, Exhibit 11, Column 9.
- 4 **SALVAGE AND SUBROGATION CONVERTED TO CASH** - Enter the amount of funds received for salvage sold and subrogation, net of any funds disbursed to the reinsurer for reimbursement of loss adjustment expenses paid.
- 5 **NET LOSS ADJUSTMENT EXPENSES PAID** - Total of Column 1 less Column 2 less Column 3 less Column 4. This amount is carried forward to Page 14, Exhibit 10, Part 2, Column 1.

EXHIBIT 9
PART 1 -- UNPAID LOSSES

Column

- 1 **DIRECT UNPAID LOSSES ADJUSTED OR IN PROCESS** - Enter the amount of losses reported but unpaid at December 31 of the current year on direct business written by the company.
- 2 **REINSURANCE RECOVERABLE ON UNPAID LOSSES** - Enter the amount of reinsurance recoverable on losses unpaid at December 31 of the current year. Exclude recoverables on loss adjustment expenses. This amount is equal to Page 15, Exhibit 11, Column 10.
- 3 **NET ESTIMATED IBNR** - Enter the estimated amount of losses that were incurred in the current year, but were not reported until after December 31 of the current year, net of reinsurance recoverable.
- 4 **NET UNPAID LOSSES** - Total of Column 1 less Column 2 plus Column 3. This amount is carried forward to Page 13, Exhibit 10, Part 1, Column 2 and to Page 3, Exhibit 2, Line 1, Current Year.

EXHIBIT 9
PART 2 -- UNPAID LOSS ADJUSTMENT EXPENSES

Column

- 3 **DIRECT UNPAID LOSS ADJUSTMENT EXPENSES INCURRED OR IN PROCESS** - Enter the amount of loss adjustment expenses reported but unpaid at December 31 of the current year on direct business written by the company.
- 4 **REINSURANCE RECOVERABLE ON UNPAID LOSS ADJUSTMENT EXPENSES** - Enter the amount of reinsurance recoverable on unpaid loss adjustment expenses at December 31 of the current year. This amount is equal to Page 15, Exhibit 11, Column 11.
- 3 **NET ESTIMATED IBNR** - Enter the estimated amount of loss adjustment expenses that were incurred in the current year, but were not reported until after December 31 of the current year, net of reinsurance recoverable.
- 4 **NET UNPAID LOSS ADJUSTMENT EXPENSES** - Total of Column 1 less Column 2 plus Column 3. This amount is carried forward to Page 14, Exhibit 10, Part 2, Column 2 and to Page 3, Exhibit 2, Line 2, Current Year.

EXHIBIT 10 -- UNDERWRITING EXHIBIT
PART 1 -- LOSSES INCURRED

Column

- 1 **LOSSES PAID** - Enter the amount of losses paid net of reinsurance, salvage and subrogation for the current year from Page 9, Exhibit 8, Part 1, Column 5.
- 2 **NET LOSSES UNPAID CURRENT YEAR** - Enter the amount of net unpaid losses on December 31 of the current year from Page 11, Exhibit 9, Part 1, Column 4.
- 3 **NET LOSSES UNPAID PRIOR YEAR** - Enter the amount of net unpaid losses as reported on December 31 of the prior year from the prior year Annual Statement Exhibit 9, Part 1, Column 5. This amount should also equal current year Page 3, Exhibit 2, Line 1, Prior Year Column.
- 4 **NET LOSSES INCURRED CURRENT YEAR** - Total of Column 1 plus Column 2 less Column 3. This amount is carried forward to Page 4, Exhibit 3, Line 12.

EXHIBIT 10 -- UNDERWRITING EXHIBIT
PART 2 -- LOSS ADJUSTMENT EXPENSES INCURRED

Column

- 1 **LOSS ADJUSTMENT EXPENSES PAID** - Enter the amount of loss adjustment expenses paid net of reinsurance, salvage and subrogation for the current year from Page 10, Exhibit 8, Part 2, Column 5.
- 2 **NET LOSS ADJUSTMENT EXPENSES UNPAID CURRENT YEAR** - Enter the amount of net unpaid loss adjustment expenses on December 31 of the current year from Page 12, Exhibit 9, Part 2, Column 4.
- 3 **NET LOSS ADJUSTMENT EXPENSES UNPAID PRIOR YEAR** - Enter the amount of net unpaid loss adjustment expenses as reported on December 31 of the prior year from prior year Annual Statement Exhibit 9, Part 2, Column 5. This amount should also equal current year Page 3, Exhibit 2, Line 2, Prior Year Column.
- 4 **LOSS ADJUSTMENT EXPENSES INCURRED CURRENT YEAR** - Total of Column 1 plus Column 2 less Column 3. This amount is carried forward to Page 4, Exhibit 3, Line 13.

EXHIBIT 11
REINSURANCE CEDED

Column

- 1 **TYPE OF TREATY (ID NO.)** - Enter the number of the type of treaty from the List of Reinsurance Treaties located at the bottom of the page.
- 2 **REINSURANCE PREMIUM CEDED PER TREATY** - Enter the total premium ceded under each reinsurance treaty. This amount should equal the total of Page 7, Exhibit 6, Column 6.
- 3 **CEDING COMMISSION RECEIVED CURRENT YEAR** - Enter the amount of ceding commission received from the reinsurer during the current year.
- 4 **CEDING COMMISSION RECEIVABLE DECEMBER 31 CURRENT YEAR** - Enter the amount of ceding commission due to you but not paid as of December 31 of the current year. This amount is carried forward to Page 2, Exhibit 1, Line 10.
- 5 **CEDING COMMISSION RECEIVABLE DECEMBER 31 PRIOR YEAR** - Enter the amount of ceding commission due to you but not paid as of December 31 of the prior year as reported on the prior year Annual Statement, Exhibit 11, Column 4. This amount should also equal current year Page 2, Exhibit 1, Line 10, Column 4.
- 6 **TOTAL CEDING COMMISSION** - Total of Column 3 plus Column 4 less Column 5. This amount is carried forward to Page 4, Exhibit 3, Line 7.
- 7 **UNEARNED PREMIUM ON REINSURANCE CEDED** - Enter the total of unearned premium on reinsurance ceded, if applicable, by computing with one of two methods: (1) Pro Rata policy or (2) 24ths Factor. This amount is reported on Worksheet A, Line 6.
- 8 **REINSURANCE RECOVERABLE ON PAID LOSSES** - Enter the amount of reinsurance due to the company and not received as of December 31 of the current year on losses paid. This amount, combined with Column 9, is carried forward to Page 2, Exhibit 1, Column 1, Line 6.
- 9 **REINSURANCE RECOVERABLE ON PAID LOSS ADJUSTMENT EXPENSES** - Enter the amount of reinsurance due to the company and not received as of December 31 of the current year on loss adjustment expenses paid. This amount, combined with Column 8, is carried forward to Page 2, Exhibit 1, Column 1, Line 6. The total should also equal Page 9, Exhibit 8, Part 1, Column 3.
- 10 **REINSURANCE RECOVERABLE ON UNPAID LOSSES** - Enter the amount of reinsurance due to the company and not received as of December 31 of the current year on losses not yet paid by the company. This amount is equal to Page 11, Exhibit 9, Part 1, Column 2. The total should also equal Page 10, Exhibit 8, Part 2, Column 3.
- 11 **REINSURANCE RECOVERABLE ON UNPAID LOSS ADJUSTMENT EXPENSES** - Enter the amount of reinsurance due the company and not received as of December 31 of the current year on loss adjustment expenses not yet paid by the company. This amount is equal to Page 12, Exhibit 9, Part 2, Column 2.

SCHEDULE A
REAL ESTATE OWNED

Column

- 1 **DESCRIPTION** - Enter the size, location and description of lands and buildings owned by the company, including the nature of any encumbrances.
- 2 **DATE ACQUIRED** - Enter the date the real estate was acquired.
- 3 **ENCUMBRANCE DECEMBER 31, CURRENT YEAR** - Enter the outstanding balance of all mortgages on the real estate at December 31, current year.
- 4 **ACTUAL COST DECEMBER 31, PREVIOUS YEAR** - Enter the actual cost of real estate as of December 31, previous year (prior year Annual Statement, Schedule A, Column 6).
- 5 **CURRENT YEAR ACQUISITIONS OR PERMANENT IMPROVEMENTS** - Enter the actual costs of current year acquisitions and permanent improvements.
- 6 **ACTUAL COST DECEMBER 31, CURRENT YEAR** - Enter the actual costs of real estate as of December 31, current year - sum of Column 4 plus Column 5.
- 7 **ACCUMULATED DEPRECIATION DECEMBER 31, PREVIOUS YEAR** - Enter the amount of accumulated depreciation as of December 31, previous year (prior year Annual Statement, Schedule A, Column 9).
- 8 **AMOUNT OF DEPRECIATION CURRENT YEAR** - Enter the amount of depreciation for the current year. This amount is carried forward to Page 6, Exhibit 5, Line 5.
- 9 **ACCUMULATED DEPRECIATION DECEMBER 31, CURRENT YEAR** - Enter the amount of accumulated depreciation as of December 31, current year - sum of Column 7 plus Column 8.
- 10 **BOOK VALUE DECEMBER 31, CURRENT YEAR** - Enter the book value of real estate as of December 31, current year - total of Column 6 less Column 3 less Column 9. This amount is carried forward to Page 2, Exhibit 1, Line 3, Column 1.

SCHEDULE D, PART 1
BONDS OWNED AT DECEMBER 31 OF CURRENT YEAR

Column

- 1 **DESCRIPTION** - Enter the complete description of bonds owned.
- 2 **DATE ACQUIRED** - Enter the month and year the bond was acquired.
- 3 **MATURITY DATE** - Enter the month and year of maturity.
- 4 **PAR (FACE) VALUE** - Enter the par or face value of the bond. If bond has partial redemption during the year, the par value must be reduced by the amount reflected in Schedule D, Part 4, Column 5 for that bond.
- 5 **ACTUAL COST** - Enter the actual amount paid to acquire the bond less any amount paid for accrued interest. If a bond has a partial redemption during the year, the actual cost must be reduced by the amount reflected in Schedule D, Part 4, Column 6 for that bond.
- 6 **BOOK VALUE** - Enter the book value of all bonds at December 31, current year. This amount is carried forward to Page 2, Exhibit 1, Column 1, Line 1.
- 7 **BOOK VALUE** - Enter the book value of all bonds at December 31, Prior Year which are still owned at current year end. Plus the actual cost of any bonds acquired during the current year and owned at the current year-end.
- 8 **INTEREST RATE** - Enter the interest rate.
- 9 **INTEREST PAYMENT DUE DATE** - Enter the due date or dates in which interest is paid on the bond.
- 10 **NET AMOUNT OF INTEREST RECEIVED DURING YEAR** - Enter the amount of interest received by the company during the year. This amount is carried forward to Page 5, Exhibit 4, Column 2, Line 1.
- 11 **AMOUNT OF INTEREST DUE AND NOT RECEIVED** - Enter the amount of interest due and not received as of December 31 of the current year. This amount is carried forward to Page 5, Exhibit 4, Column 3, Line 1.
- 12 **INCREASE OR (DECREASE) BY ADJUSTMENT IN BOOK VALUE DURING YEAR - (Column 6 minus Column 7)** - Enter the accrual or amortization of bond value during the current year. When bonds are purchased, the price may be higher or lower than the par (face) value. If higher, the excess is the bond premium; if lower, the deficiency is the bond discount. The cost of bonds purchased at a premium must be periodically amortized (decreased) so that the book value will equal the par value on the maturity date of the bond. The cost of bonds purchased at a discount must be periodically accrued (increased) so that the book value will equal the par value on the maturity date.

SCHEDULE D, PART 2, SECTION 1
PREFERRED STOCKS OWNED DECEMBER 31 OF CURRENT YEAR

Column

- 1 **DESCRIPTION** - Enter the complete description of preferred stocks owned at December 31 of the current year.
- 2 **DATE ACQUIRED** - Enter the month and year the stock was acquired.
- 3 **NO. OF SHARES** - Enter the number of shares of stock owned.
- 4 **COST PER SHARE** - Enter the cost of stock per share.
- 5 **BOOK VALUE** - Enter the book value or the actual cost paid to acquire the stock. This amount should equal Column 3 times Column 4.
- 6 **MARKET RATE PER SHARE** - Enter the rate per share used to obtain the current market value.
- 7 **MARKET VALUE CURRENT YEAR** - Enter the market value as of December 31 of the current year. This column should equal Column 3 times Column 6. This amount is carried forward to Page 2, Exhibit 1, Column 1, Line 2.1.
- 8 **MARKET VALUE PRIOR YEAR ADJUSTED FOR ACQUISITIONS & DISPOSITIONS-**
Enter the market value as reported on the prior year Annual Statement, Schedule D, Part 2, Section 1, Column 7, for all Preferred stocks still owned at current year end. Plus the actual cost of any Preferred stocks acquired during the current year and owned at the current year-end.
- 9 **DIVIDENDS RECEIVED DURING THE YEAR** - Enter the amount of dividends received during the current year. This amount is carried forward to Page 5, Exhibit 4, Column 2, Line 2.
- 10 **DIVIDENDS DECLARED BUT UNPAID DECEMBER 31, CURRENT YEAR** - Enter the amount of dividends which were declared but have not been received as of December 31 of the current year. This amount is carried forward to Page 5, Exhibit 4, Column 3, Line 2.
- 11 **INCREASE OR (DECREASE) IN MARKET VALUE** - Enter the change in current year market value from prior year market value adjusted for Acquisitions and Dispositions - total of Column 7 less Column 8. The total is carried forward to Page 4, Exhibit 3, Line 5.1.

SCHEDULE D, PART 2, SECTION 2
COMMON STOCKS OWNED DECEMBER 31 OF CURRENT YEAR
INCLUDE MONEY MARKET AND MUTUAL FUNDS

Column

- 1 **DESCRIPTION** - Enter the complete description of common stocks owned at December 31 of the current year.
- 2 **DATE ACQUIRED** - Enter the month and year the stock was acquired.
- 3 **NO. OF SHARES** - Enter the number of shares of stock owned.
- 4 **COST PER SHARE** - Enter the cost of stock per share.
- 9 **BOOK VALUE** - Enter the book value or the actual cost paid to acquire the stock. This amount should equal Column 3 times Column 4.
- 6 **MARKET RATE PER SHARE** - Enter the rate per share used to obtain the current market value.
- 7 **MARKET VALUE CURRENT YEAR** - Enter the market value as of December 31 of the current year. This column should equal Column 3 times Column 6. This amount is carried forward to Page 2, Exhibit 1, Column 1, Line 2.2.
- 8 **MARKET VALUE PRIOR YEAR ADJUSTED FOR ACQUISITIONS & DISPOSITIONS** - Enter the market value as reported on the prior year Annual Statement, Schedule D, Part 2, Section 2, Column 7, for all Common stocks still owned at current year end. Plus the actual cost of any Common stocks acquired during the current year and owned at the current year-end.
- 9 **DIVIDENDS RECEIVED DURING THE YEAR** - Enter the amount of dividends received during the current year. This amount is carried forward to Page 5, Exhibit 4, Column 2, Line 3.
- 10 **DIVIDENDS DECLARED BUT UNPAID DECEMBER 31, CURRENT YEAR** - Enter the amount of dividends which were declared but have not been received as of December 31 of the current year. This amount is carried forward to Page 5, Exhibit 4, Column 3, Line 3.
- 11 **INCREASE OR (DECREASE) IN MARKET VALUE** - Enter the change in current year market value from prior year market value adjusted for Acquisitions and Dispositions - total of Column 7 less Column 8. The total is carried forward to Page 4, Exhibit 3, Line 5.2.

SCHEDULE D, PART 3
ALL BONDS AND STOCKS ACQUIRED DURING CURRENT YEAR
INCLUDE MONEY MARKET AND MUTUAL FUNDS

Column

- 1 **DESCRIPTION** - Enter the complete description of bonds and stocks acquired during the current year.
- 2 **DATE ACQUIRED** - Enter the date on which the investments were acquired.
- 3 **NO. OF SHARES OF STOCK** - Enter the number of shares of stock purchased.
- 4 **ACTUAL COST** - Enter the actual cost of the investment, excluding any amount paid for accrued interest or dividends.
- 5 **PAR VALUE** - Enter the par (face) value of bonds.
- 6 **PAID FOR ACCRUED INTEREST AND DIVIDENDS** - Enter the amount paid for accrued interest and dividends on bonds and stocks.

SCHEDULE D, PART 4
ALL BONDS AND STOCKS SOLD, REDEEMED OR
OTHERWISE DISPOSED OF DURING THE CURRENT YEAR

Column

- 7 **DESCRIPTION** - Enter the complete description of bonds and stocks disposed of during the current year.
- 8 **DATE SOLD** - Enter the date on which the investments were sold or redeemed.
- 9 **NO. OF SHARES OF STOCK** - Enter the number of shares of stock sold.
- 10 **CONSIDERATION** - Enter the amount received by the company less any amount received for accrued interest or dividends or paid for broker commissions.
- 11 **PAR VALUE OF BONDS** - Enter the par (face) value of bonds.
- 12 **ACTUAL COST** - Enter the actual cost of the investment less any amount paid for accrued interest or dividends.
- 13 **BOOK VALUE AT DATE OF SALE** - Enter the book value of the investment at the date of sale.
- 14 **PROFIT OR (LOSS) ON SALE** - Enter the amount of profit or (loss) on the sale (Column 4 less Column 7). If the consideration is greater than the book value, enter the profit. If the consideration is less than the book value, enter the (loss). This amount is carried forward to Page 4, Exhibit 3, Line 6.
- 15 **INTEREST RECEIVED ON BONDS DURING YEAR** - Enter the amount of interest received on bonds, including any accrued interest received by the company from the purchaser. This amount is carried forward to Page 5, Exhibit 4, Column 2, Line 1.
- 16 **DIVIDENDS RECEIVED ON STOCK DURING YEAR** - Enter the amount of dividends received on stocks, including any accrued dividends received by the company from the purchaser. This amount is carried forward to Page 5, Exhibit 4, Column 2, Line 2 or Line 3--depending on the type of stock (preferred or common).

SCHEDULE E
CASH DEPOSITS AND OTHER INVESTMENTS IN BANKS

Column

- 1 **DEPOSITORY** - Enter the name and location of the bank or savings and loan.
- 2 **TYPE OF ACCOUNT: CD, CHECKING OR SAVINGS** - Indicate the type of account represented.
- 3 **ACCOUNT OR CD NUMBER** - Enter the account number or certificate number.
- 4 **BOOK BALANCE DECEMBER 31, PREVIOUS YEAR** - Enter the account or CD balance as of December 31, previous year (prior year A/S Schedule E, Column 8).
- 5 **RATE OF INTEREST** - Enter the interest rate.
- 6 **INTEREST RECEIVED DURING YEAR** - Enter the amount of interest received by the company during the year. This amount is carried forward to Page 5, Exhibit 4, Column 2, Line 4.
- 7 **INTEREST DUE AND NOT RECEIVED DECEMBER 31, CURRENT YEAR** - Enter the amount of interest due and not yet received as of December 31 of the current year. This amount is carried forward to Page 5, Exhibit 4, Column 3, Line 4.
- 8 **BOOK BALANCE DECEMBER 31, CURRENT YEAR** - Enter the account or CD balance as of December 31, current year. This amount is carried forward to Page 2, Exhibit 1, Column 1, Line 4.
- 9 ****LIST ANY AGGREGATE AMOUNT IN CD'S IN ANY BANK OVER \$100,000** - List any aggregate amount held in CD's in any one **bank** (not just a branch of a bank) over the FDIC \$100,000 investment limitation. This does not apply to balances carried in checking or savings accounts. This amount must be non-admitted on Page 2, Exhibit 1, Column 2, Line 4.

GLOSSARY OF INSURANCE ACCOUNTING TERMS

- A -

ACCRUAL OF DISCOUNT - Adjustments to the original purchase price of bonds (purchased for less than par value) in order to increase the book value to par at the maturity date.

ACQUISITION COSTS - All expenses incurred by an insurance or reinsurance company which are directly related to acquiring insurance accounts (insured or reinsured) for the company.

ADMITTED ASSETS - Assets recognized and accepted by state insurance laws in determining the solvency of insurers or reinsurers.

AGENT COMMISSION - In insurance, the amount paid to an agent for insurance placement services.

AGENTS' BALANCES - Written premiums, less commissions, due the insurer from agents, brokers, policyholders or other insurers. Also referred to as "Uncollected Premiums."

AMORTIZATION OF PREMIUM - Adjustments to the purchase price of bonds (purchased in excess of par value) in order to decrease the book value to par at the maturity date.

ANNUAL STATEMENT - A summary of an insurance company's financial operations for a particular year, including a balance sheet supported by detailed exhibits and schedules, filed with the state insurance department of each jurisdiction in which the company is licensed to conduct business.

ASSESSMENT - The charge levied by an insurer writing an assessable policy, in addition to the policy premium, in the event the insurer becomes unable to pay its total losses.

ASSETS - All property and resources of a business.

ASSUME - To accept all or part of a ceding company's insurance or reinsurance on a risk or exposure.

- B -

BALANCE SHEET - A statement of the assets, liabilities and owners' equity (surplus) of an enterprise.

BOOK VALUE - The dollar amount of assets (bonds, stocks, real estate, etc.) shown in a company's books.

BROKERAGE COMMISSION - An amount paid a broker for insurance or reinsurance placement and other services.

- C -

CASE RESERVE - An estimated liability from an outstanding claim for losses and allocated loss adjustment expenses.

CEDE - To pass on to another insurer (the reinsurer) all or part of the insurance written by an insurer (the ceding insurer) with the objective of reducing the possible liability of the ceding insurer.

CEDING COMMISSION - In reinsurance, an allowance (usually a percentage of the reinsurance premium) made by the reinsurer for part or all of a ceding company's acquisition and other costs. The ceding commission may also include a profit factor for the reinsured.

CONTINGENT COMMISSION - An allowance payable to the ceding insurer, in addition to the normal ceding commission, based on the net profit derived from a reinsurance treaty.

CONTINGENT LIABILITY - 1) A liability which may be incurred by an insured as a result of negligence on the part of independent persons engaged to perform work. The most common example is the contingent liability of a principal contractor, which may result from construction operations undertaken by subcontractors. Also applies to the liability of a principal for the acts of an agent or servant. 2) In property damage insurance, the possibility of financial loss to a policyholder, resulting from damage or loss to the property of another; e.g., a supplier or a customer.

- D -

DEPRECIATION - The reduction in value of tangible property caused by physical deterioration or obsolescence.

DEVELOPMENT OF LOSS RESERVES - Comparison of the loss reserves outstanding at any particular date with the total of the payments on such losses from the reserve date to the development date, plus the estimated reserve for losses still unpaid at the date of the development.

DIRECT BILLING - A system for the collection of premiums whereby the insurance company sends a notice to the insured for the premium in lieu of the conventional collection of premiums by the agent. The company sends a statement to the agent--usually monthly--recording the premiums collected direct, and credits the agent with commission due on those items.

DIRECT WRITTEN PREMIUM - The gross written premium income of a primary company, adjusted for additional or return premiums but before deducting any premiums for insurance ceded and not including any premiums for reinsurance assumed.

- E -

EARNED PREMIUM - That portion of written premium equal to the expired portion of the time for which the insurance or reinsurance was in effect. Technically, the unearned premium reserve at the beginning of the period is added to the premium written (booked) during the period, and the unearned premium reserve at the end of the period is subtracted.

EFFECTIVE DATE - The day upon which a policy first becomes eligible to pay covered losses.

EQUIPMENT - Personal property of a business which is not inventory or supplies; machinery and vehicles may be considered to be "equipment" for insurance purposes.

EXPERIENCE - A statistical compilation relating losses to premiums.

- F -

FURNITURE AND FIXTURES - In insurance language, usually the contents of a building, excepting merchandise for sale or in the course of manufacture (stock) and excepting machinery. Fixtures are the pieces attached to the building.

- G -

GENERALLY ACCEPTED ACCOUNTING PRINCIPALS (GAAP) - A method of reporting the financial results of an insurer more in accordance with the going-concern basis used by other businesses. GAAP assigns income and disbursements to their proper period, as distinguished from the more conservative requirements of statutory accounting affecting insurers.

GROSS NET PREMIUMS - Gross written premiums less return premiums but not less reinsurance.

GROSS PREMIUM - The direct written premium before deducting any premium paid for reinsurance or return premium.

- I -

IMPROVEMENTS AND BETTERMENTS - Additions made to real estate enhancing its value and amounting to more than mere repairs or replacement of waste. When made by a tenant, such additions are normally included in the tenant's own property insurance.

IN-FORCE PREMIUMS - The original or full-term premiums paid on all policies not yet expired.

INCURRED BUT NOT REPORTED (IBNR) - The liability for future payments on losses which have already occurred but have not yet been reported in the insurer's records. This definition may be extended to include expected future development on claims already reported.

INCURRED EXPENSE - A cost of administering insurance which has happened, whether or not paid.

INCURRED LOSS RATIO - The relationship between incurred losses and earned premium, usually expressed as a percentage.

INCURRED LOSSES - 1) In insurance accounting, an amount representing the losses paid plus the change (positive or negative) in outstanding loss reserves within a given period of time. 2) Losses which have happened and which will result in a claim under the terms of an insurance policy or a reinsurance agreement.

INVESTMENT EXPENSES - All expenses incurred either wholly or partially in connection with the management of invested assets.

INVESTMENT INCOME - Money earned from invested assets. May also include realized capital gains, or be reduced by capital losses, over the same period.

- L -

LEDGER ASSETS - Those assets which are recorded on the books of the insurer.

LOADING - An amount added to an insurance "pure risk" rate applicable to a class of risk, either to compensate the insurer for additional hazard present with an individual risk, for the insurer's expenses, or for both.

LOSS - 1) The amount the insurer is required to pay because of a happening against which it has insured. 2) A happening that causes the company to pay (e.g. any reduction in quality, quantity of value of insurance property resulting from an insured peril). 3) The over-all financial result of some operation, as opposed to profit. 4) The amount suffered by a person or property, with or without insurance.

LOSS EXPENSE - All of the costs associated with the settlement of claims, except the claim payment itself.

LOSS EXPENSE ALLOCATED - Those loss adjustment expenses identified by claim file in company records, such as court costs, attorney fees and independent adjuster fees.

LOSS EXPENSE UNALLOCATED - Those expenses functionally associated with settling losses not identified by claim file, such as salaries of staff adjusters, claim examiners and other claims processing personnel, plus related overhead.

LOSS RATIO - Losses incurred expressed as a percentage of earned premiums.

LOSS RESERVE - For an individual loss, an estimate of the amount the insurer expects to pay for the reported claim. For total losses, estimates of expected payments for reported and unreported claims. May include amounts for loss adjustment expenses.

LOSSES OUTSTANDING - Losses (reported or not reported) which have been incurred but not yet paid.

LOSSES PAID - The sum of losses for which money has been disbursed as opposed to losses incurred, which included losses outstanding but still unpaid.

- N -

NET LOSS - The amount of loss sustained by an insurer after making deductions for all recoveries, salvage and all claims upon reinsurers--with specifics of the definition derived from the reinsurance agreement. Such net loss may not include claim expenses. As provided in the reinsurance agreement, net loss can be confined to the amount paid by the reinsured within applicable policy limits, or it can also include amounts paid by the reinsured for compensatory damages in excess of applicable policy limits because of failure of the reinsured to settle within applicable policy limits.

NET PREMIUM - The gross premium less return premium and reinsurance ceded.

NET PROFIT - In accounting, the difference between all income and all expenses, including reserves provided for expected expenses.

NET RETENTION - The amount of insurance which an insurer keeps for its own account and does not pass on to another insurer.

NON-ADMITTED ASSETS - Assets owned by an insurance company which are not recognized for solvency purposes by state insurance laws or insurance department regulations; e.g. premiums due and uncollected past ninety days and furniture and fixtures, among others.

NON-LEDGER ASSETS - Those assets which have not been converted to cash or an investment. Thus non-ledger assets contain accrual items which are included in the company's financial reports but which are not recorded on the books.

- O -

OPERATING INCOME/PROFIT - The sum of the net investment income and net underwriting income in any reporting period.

OVERRIDING COMMISSION - 1) A fee or percentage of money which is paid to a party responsible for placing a retrocession of reinsurance. 2) In insurance, a fee or percentage of money which is paid by the insurer to an agent or general agent for premium volume produced by other agents in a given geographical territory.

- P -

POLICYHOLDER SURPLUS - 1) The net worth of an insurer as reported in its Annual Statement. For a mutual insurer, its surplus. 2) The amount by which the assets of an insurer exceed the organization's liabilities. (Also referred to as "Surplus to Policyholders")

PREMIUMS EARNED - When used as an accounting term, premiums earned describe the premiums written during a period plus the unearned premiums at the beginning of the period less the unearned premiums at the end of the period.

PREMIUMS IN FORCE - A figure in the standard form of the annual financial report of an insurance company, representing the initial premium on all policies which have not expired or been canceled; e.g. those which are still in force.

PURE PREMIUM - 1) That part of the premium which is sufficient to pay losses and loss adjustment expenses but not including other expenses. 2) Also the premium developed by dividing losses by units of exposure, disregarding any loading for commission, taxes and expenses. 3) In crop-hail insurance, the ratio of incurred loss to liability, or the dollars of loss per \$100 of insurance in force.

- R -

RATE - 1) The price for a unit of insurance; all units in a given policy, multiplied by the rate per unit, produce the premium. In fire insurance, the price per \$100 of insurance for one year. The basis for pricing other types of insurance varies greatly. 2) The percent or factor applied to the ceding company's subject premium to produce the reinsurance premium, or the percentage applied to the reinsurer's premium to produce the commission payable to the primary company.

RECOVERIES - Amounts received from a reinsurer for a reinsured's loss.

RECOVERY - Loss money which an insurance company gets back from reinsurance, salvage, or by subrogation against a third party.

REINSURANCE - The transaction whereby the reinsurer, for a consideration, agrees to indemnify the ceding company against all or part of the loss which the latter may sustain under the policy or policies which it has issued.

REINSURANCE ASSUMED - That portion of risk the reinsurer accepts from the original insurer or ceding company.

REINSURANCE CEDED - The portion of risk that the ceding company transfers to the reinsurer.

REINSURANCE COMMISSION - In reinsurance, an allowance (usually a percentage of the reinsurance premium) made by the reinsurer for part or all of a ceding company's acquisition and other costs. The ceding commission may also include a profit factor for the reinsured. (Also referred to as "Ceding Commission")

REINSURANCE PREMIUM - An amount paid by the ceding company to the reinsurer in consideration for liability assumed by the reinsurer.

RESERVE - An amount representing actual or potential liabilities kept by an insurer to cover debts to policyholders.

RETENTION - In reinsurance, the amount which a ceding company assumes for its own account. In pro rata contract, the retention may be a percentage of the policy limit. In excess of loss contracts, the retention is a dollar amount of loss.

RETURN PREMIUM - That part of a premium returned to a policyholder: a) upon cancellation or partial cancellation of a policy by the insured or insurer; b) when rate adjustments are necessary; or c) when an advance premium is in excess of the actual premium.

- S -

SALVAGE - Property in a loss saved from further loss, taken over by the insurer as partial reimbursement of the loss.

SOFTWARE - All documents, manuals and written instructions which guide a computer operation.

STATUTORY ACCOUNTING PRINCIPLES (SAP) - Those principles required by state law which must be followed by insurance companies submitting their financial statements to state insurance departments. Such principles differ from generally accepted accounting principles (GAAP) in some important respects; e.g. SAP requires that expenses must be recorded immediately and cannot be deferred to track with premiums as they are earned and taken into revenue.

SUBROGATION - In insurance, the substitution of one party (insurer) for another party (insured) to pursue any rights the insured may have against a third-party liability for a loss paid by the insurer.

SURPLUS - The remainder after a company's liabilities are deducted from its assets.

SURPLUS TO POLICYHOLDERS - 1) The net worth of an insurer as reported in its Annual Statement. For a mutual insurer, its surplus. 2) The amount by which the assets of an insurer exceed the organization's liabilities. (Also referred to as "Policyholder Surplus")

- U -

UNCOLLECTED PREMIUMS - Written premiums, less commissions, due the insurer from agents, brokers, policyholders or other insurers. (Also referred to as "Agents' Balances")

UNDERWRITING INCOME - The excess of premiums earned by a reinsurer during any reporting period over the combined total of expenses and losses incurred by the reinsurer during the same period.

UNDERWRITING PROFIT OR LOSS - 1) Money earned or lost by an insurer in its underwriting operations, as distinguished from money earned or lost in the investment of assets. 2) Earned premiums less losses, loss adjustment expenses incurred and other underwriting expenses incurred, usually determined monthly for managerial purposes.

UNEARNED PREMIUM - The portion of the premium representing the unexpired portion of the policy term.

UNEARNED PREMIUM RESERVE - The sum of all the premiums representing the unexpired portions of the policies or contracts which the insurer or reinsurer has on its books as of a certain date. It is usually based on a formula of averages of issue dates and the length of term.

- W -

WRITTEN PREMIUMS - The premiums on all the policies which a company has issued in a period of time, as opposed to Earned Premium.