



Florida Lawyers Mutual[®]

I N S U R A N C E C O M P A N Y

2022 ANNUAL REPORT

PRESIDENT'S MESSAGE TO MEMBERS

Greetings, Members!

What a momentous year it has been at Florida Lawyers Mutual. On behalf of the Company's directors, officers, and team members, it is my pleasure to share with you some of the latest and ongoing developments at your chosen insurance provider.

Despite the economic uncertainty ahead in 2023, Florida Lawyers Mutual remains financially stable, and we are focused as ever on providing value, protection, and peace of mind for your firm. We are gearing up for an exciting 35th anniversary of our Company during 2024, with many new resources and initiatives underway to benefit and celebrate you.

I greatly enjoyed hearing from so many of you last year about all the ways you celebrated the first-ever Florida Lawyers Mutual member dividend, which your Board of Directors declared for qualifying members in April 2022. From spa days and lattes to vacation funds and beyond, it means so much to know that the dividend contributed to your well-being and the sense that you are valued as a member of Florida Lawyers Mutual, because you are.

Coming on the heels of that historic declaration, I am pleased to share that your Board of Directors has declared a second annual dividend for qualifying members in 2023.* Congratulations! It is your loyalty as members and your good practices as lawyers, resulting in a favorable claims experience for the Company — combined with our excellent financial standing and operational discipline as we all face the economic uncertainty of the year ahead — that this dividend is possible. It's just one of the ways that Florida Lawyers Mutual continues to serve you and create value for your practice beyond the insurance policy itself.

Your exclusive members-only portal now includes more than 40 hours of accredited, cost-free CLE. This ever-changing library houses more than enough CLE content to meet your reporting period requirement with The Florida Bar. We have put particular emphasis during the last year on developing courses with more advanced subject matter, including nearly 30 hours eligible for Board Certification credit. Also on offer are highly coveted credits in Technology, Professionalism, Bias Elimination, and Substance Abuse and Mental Illness Awareness. Recent topics range from cyber security and the metaverse to malpractice risk management, lawyer well-being, and beyond.

We also recently launched an expansive new Cyber Security Resource Center at flmic.com, full of practical (and printable) tools to keep you and your office safe from the latest threats. Each resource there has been created specifically for Florida lawyers and designed for all levels of technological proficiency, from the IT novice to the digital savant. As a member, you also have access to an exclusive, cost-free "Cyber 911" email/telephone hotline, which will connect you directly with a cyber security expert for general guidance. We encourage you all to continue to keep cyber vigilance top of mind, as cybercrime looms large in the current threat landscape for lawyers.

Our teams have been hard at work on creating an ever-better Florida Lawyers Mutual for you, our members. We recently welcomed new management to our Underwriting and Accounting teams, and in addition to serving all of you, we have also been active in our local neighborhoods, giving back to our communities through initiatives with Florida-based HOPE Helps and other philanthropic endeavors. I am so gratified to work with people who, like you, are committed to serving others and bringing their best to every project every day.

If you are not following us on Facebook, LinkedIn, Instagram, and Twitter, those are great ways to learn of updates as they arise, such as our Lawyer Well-Being Resource Center (with new content just published for 2023!), Risk Management Alerts, important Operational Updates, our updated Top 10 Malpractice Traps guide, and more.



I am so honored to continue my work with Florida Lawyers Mutual as your President, and I invite you to contact me at cathys@flmic.com to share your thoughts on what Florida Lawyers Mutual is doing well and how we can serve you better. We are, as always, here for you.

With warm regards and gratitude for your continued loyalty as Florida Lawyers Mutual members,

Cathleen M. Sargent, Esq.
President / CEO

* Your Board of Directors has declared a dividend in the amount of 5% of the premium paid to the Company during the prior policy year to those members who hold an active policy on April 1, 2023, and who paid a full year premium for that prior policy. Dividends are paid at the sole discretion of the Company's Board of Directors. A past dividend does not guarantee the payment or amount of future dividends.

OFFICERS

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Cathleen M. Sargent, President / CEO

Florida Lawyers Mutual Insurance Company, Windermere

C. Gary Williams, Vice-Chairman

Tallahassee

Ava Doppelt, Secretary

Allen, Dyer, Doppelt, & Gilchrist, P.A., Orlando

Philip A. Disque, Treasurer / CFO

Powers & Disque, Chartered, Ft. Lauderdale

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Kimberly A. Bald

Harlee & Bald, P.A., Bradenton

Donald L. Braddock

Jacksonville

Philip A. Disque

Powers & Disque, Chartered, Ft. Lauderdale

Ava Doppelt

Allen, Dyer, Doppelt, & Gilchrist, P.A., Orlando

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Nova Southeastern University, Ft. Lauderdale

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Law Office of Craig Gibbs, Jacksonville

Gordon Glover

Glover Law Firm, Ocala

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Waugh Grant, PLLC, Orlando

J. Dudley Goodlette

Of Counsel, Henderson, Franklin, Starnes and Holt, Naples

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Tallahassee

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Orange City

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Lytal, Reiter, Smith, Ivey & Fronrath, LLC, West Palm Beach

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Stephen A. Rappenecker, P.A., Gainesville

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Ft. Lauderdale

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Lansing C. Scriven

Lanse Scriven Law, Tampa

Robert M. Sondak

Of Counsel, Cohen, Chase, Hoffman & Schimmel, P.A. Miami

C. Gary Williams

Tallahassee

Lake Lytal, Jr.

West Palm Beach, Director Emeritus

C. Lawrence Stagg*

Tampa, Director Emeritus

**With great sadness, we note that Mr. Stagg passed away in June 2022. Florida Lawyers Mutual honors his memory and his many years of service to our members.*

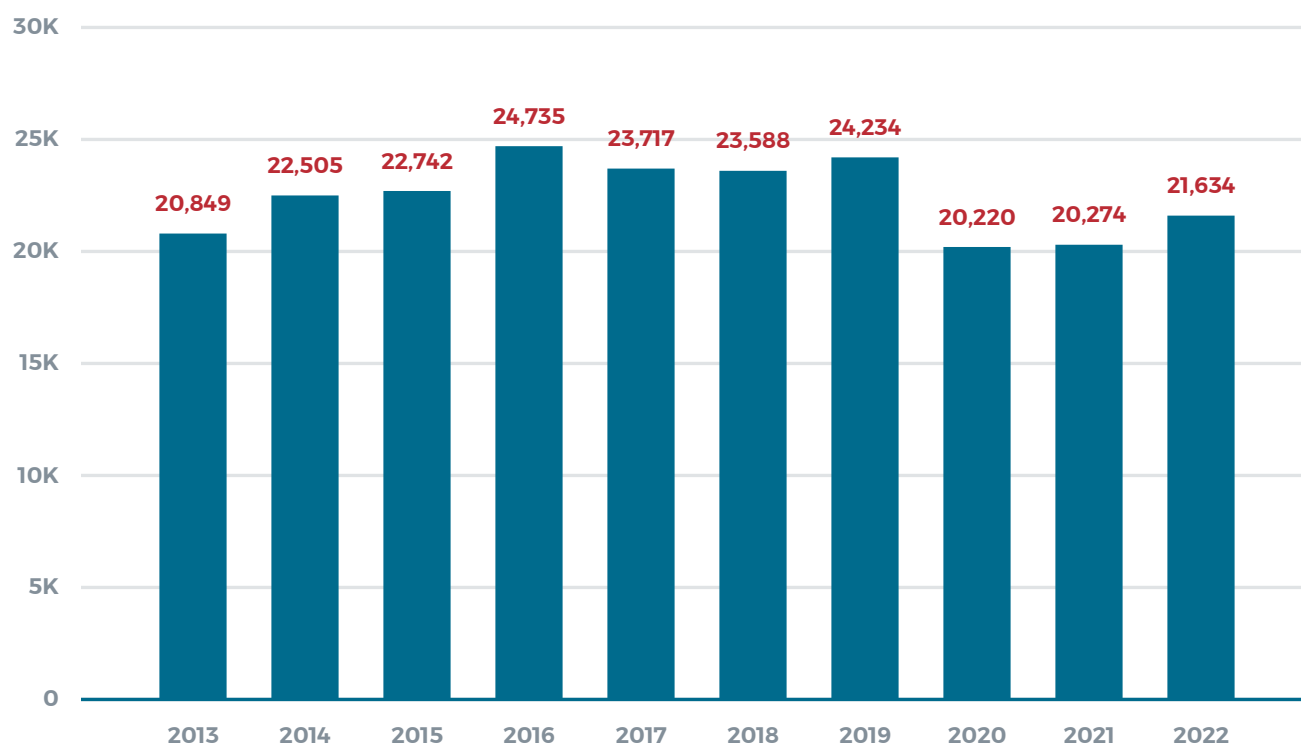


INSURED LAWYERS & FIRMS



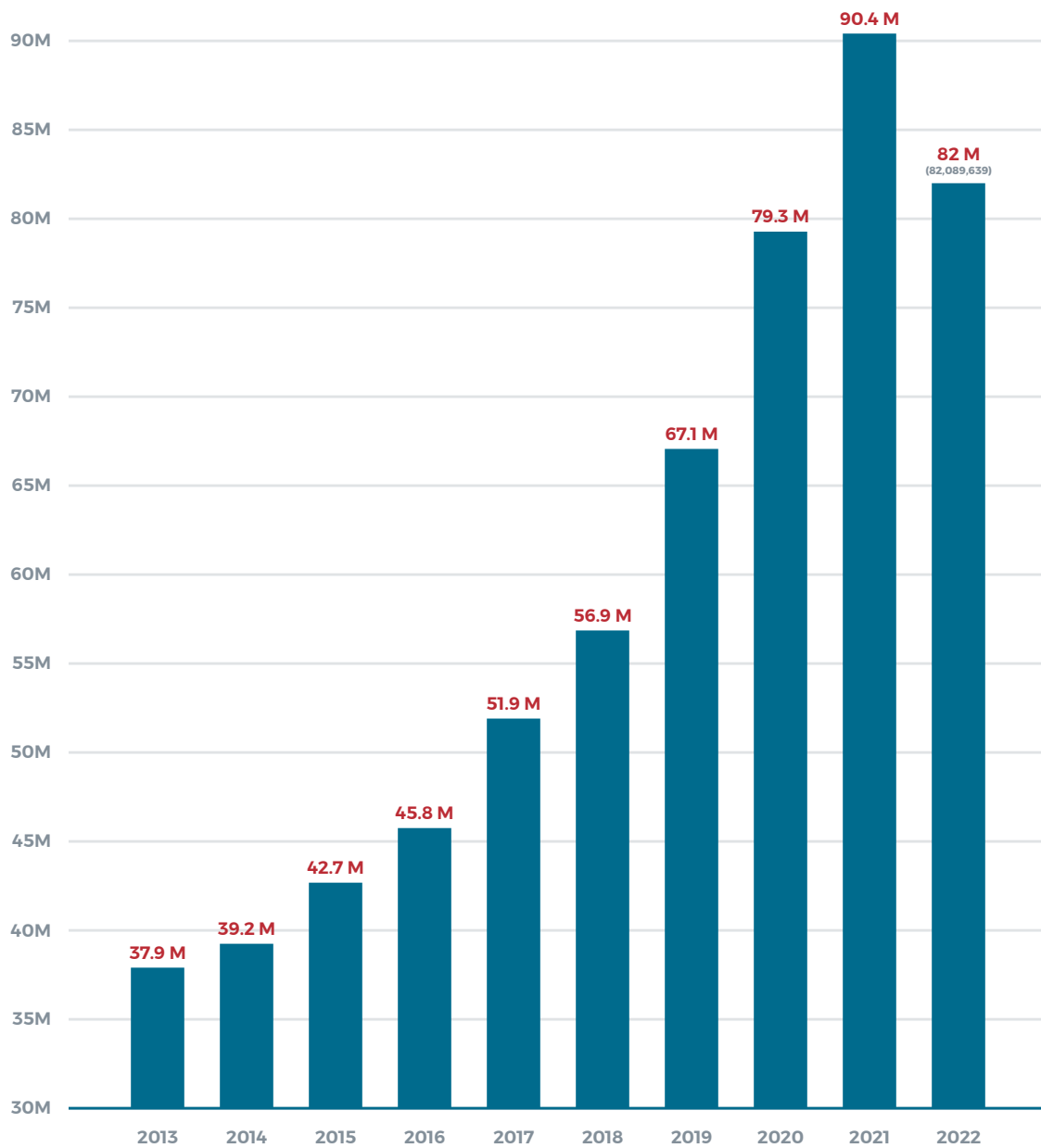


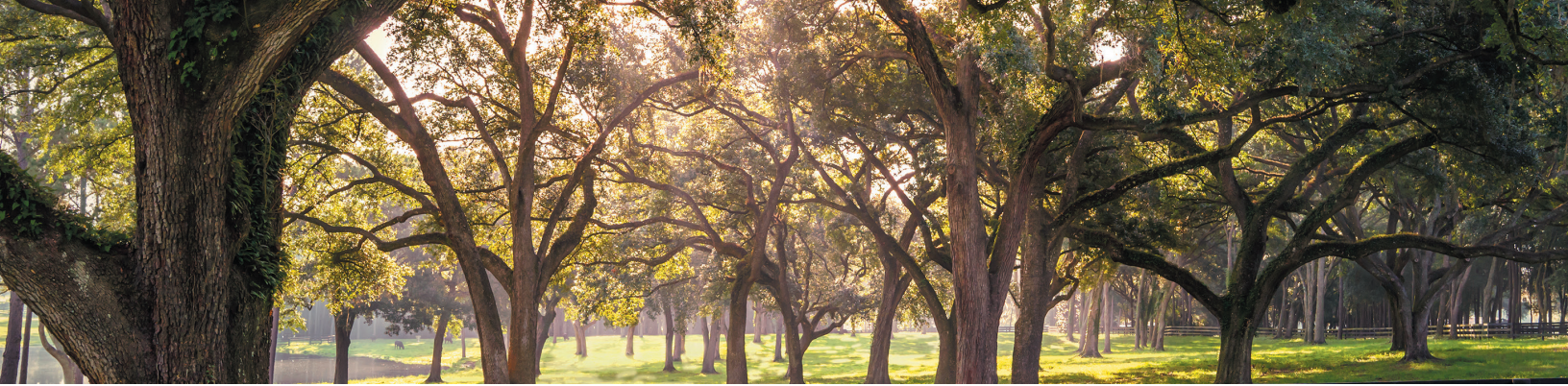
STATUTORY NET CLAIMS RESERVES



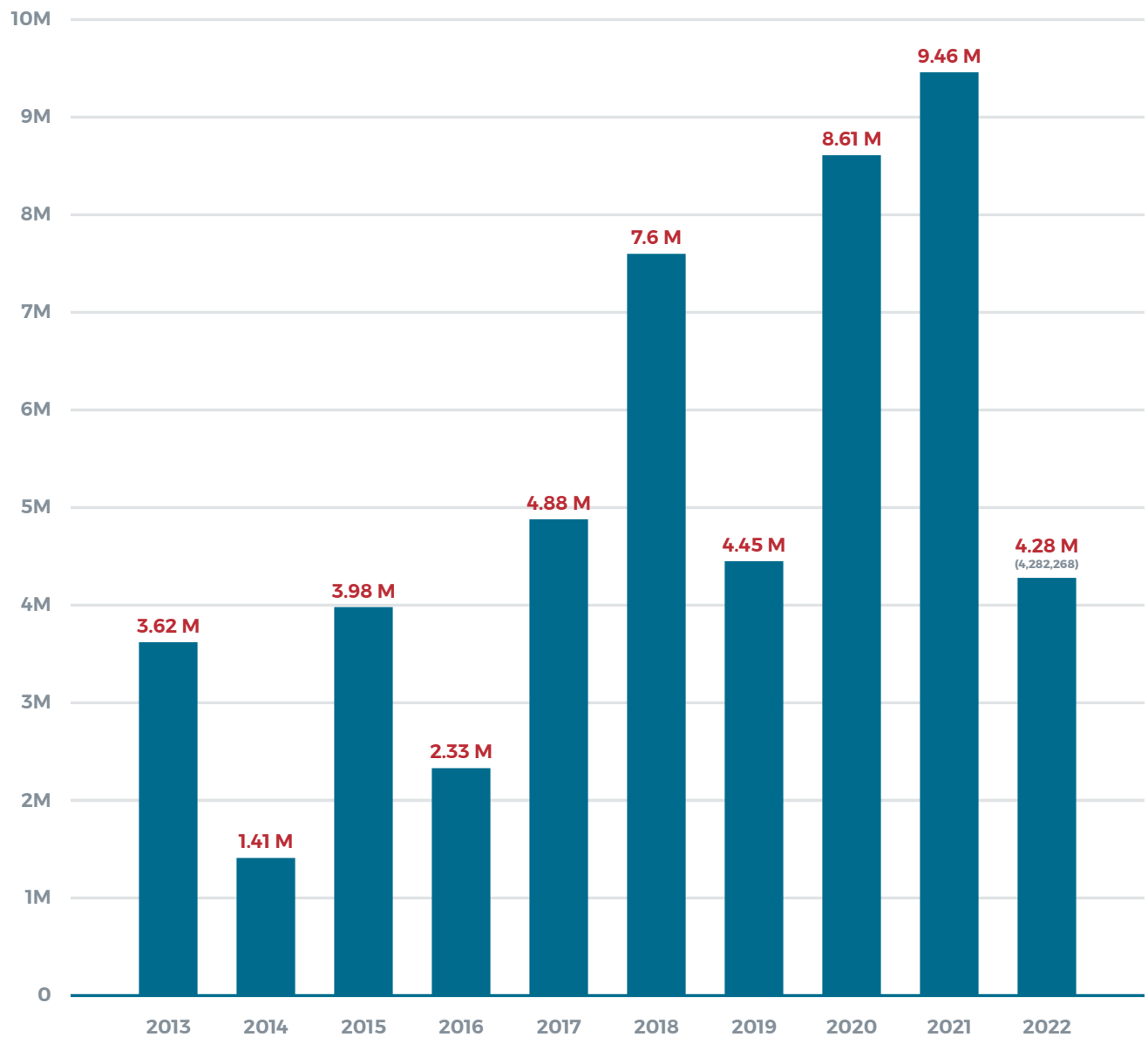


STATUTORY SURPLUS



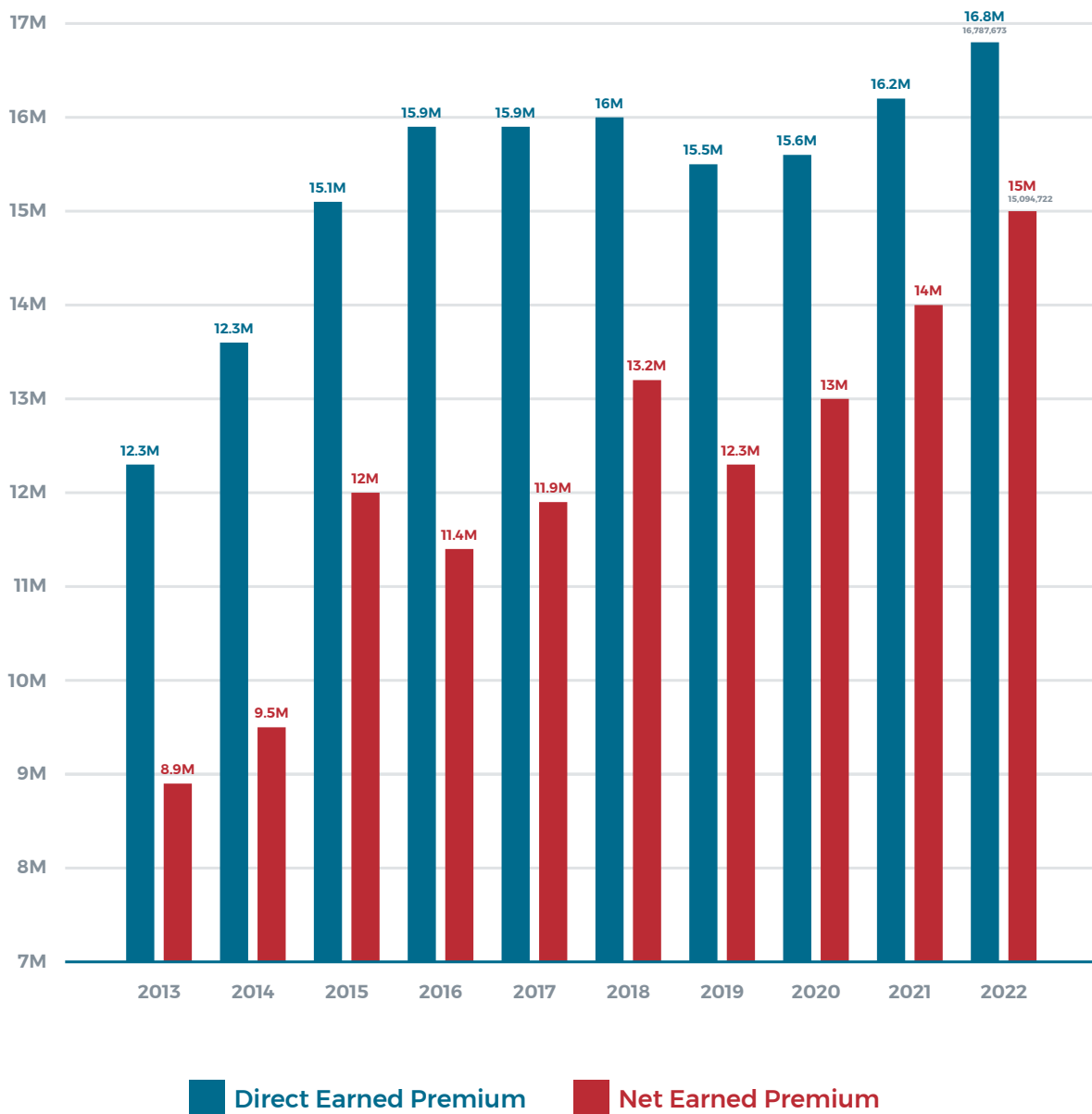


STATUTORY NET INCOME





STATUTORY DIRECT EARNED PREMIUM AND NET EARNED PREMIUM





Florida Lawyers Mutual[®]

I N S U R A N C E C O M P A N Y

2022 INDEPENDENT
AUDITOR'S REPORT

FLORIDA LAWYERS MUTUAL INSURANCE COMPANY

STATUTORY FINANCIAL STATEMENTS

December 31, 2022 and 2021



FLORIDA LAWYERS MUTUAL INSURANCE COMPANY
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December 31, 2022 and 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Florida Lawyers Mutual Insurance Company
Oviedo, Florida

Report on the Audit of the Statutory Financial Statements

Opinions

We have audited the statutory financial statements of Florida Lawyers Mutual Insurance Company (the Company), which are comprised of the statutory balance sheets as of December 31, 2022 and 2021, and the related statutory statements of income, changes in 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 statutory financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended, in accordance with the accounting practices prescribed or permitted by the Office of Insurance Regulation of the State of Florida 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 statutory financial statements do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2022 and 2021, or the results of its operations or its cash flows thereof for the years then ended.

Basis for Opinions

We conducted our audits 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 Statutory 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 audits. 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 to the statutory financial statements, the statutory financial statements are prepared using accounting practices prescribed or permitted by the Office of Insurance Regulation of the State of Florida, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the statutory 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 have not been determined but are presumed to be material and pervasive.

Responsibilities of Management for the Statutory Financial Statements

Management is responsible for the preparation and fair presentation of these statutory financial statements in accordance with the accounting practices prescribed or permitted by the Office of Insurance Regulation of the State of Florida. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of statutory financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the statutory 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 statutory financial statements are issued.

Auditor's Responsibilities for the Audit of the Statutory Financial Statements

Our objectives are to obtain reasonable assurance about whether the statutory 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 statutory 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 statutory 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 statutory 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 statutory 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.

Strohm Ballweg, LLP

Madison, Wisconsin
February 27, 2023

FLORIDA LAWYERS MUTUAL INSURANCE COMPANY
STATUTORY BALANCE SHEETS
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ADMITTED ASSETS		
Cash and invested assets:		
Bonds	\$ 63,399,678	\$ 60,361,863
Preferred stocks	362,413	461,109
Common stocks and mutual funds	37,305,618	50,395,935
Real estate, occupied by the Company	1,014,046	1,043,702
Cash, cash equivalents, and short-term investments	10,989,087	13,307,459
Other invested assets	<u>-</u>	<u>317,417</u>
Cash and invested assets	113,070,842	125,887,485
Uncollected premiums	1,596,491	1,487,549
Due from reinsurers	139	6
Net deferred tax asset	722,585	-
Investment income due and accrued	412,779	392,760
State income tax recoverable	<u>385,633</u>	<u>50,748</u>
Total admitted assets	<u>\$ 116,188,469</u>	<u>\$ 127,818,548</u>
LIABILITIES AND SURPLUS		
Liabilities:		
Unpaid losses, net of reinsurance	\$ 11,977,186	\$ 11,191,006
Unpaid loss adjustment expenses (LAE), net of reinsurance	9,656,827	9,082,510
Unearned premiums, net of reinsurance	7,056,460	7,004,063
Premiums received in advance	1,155,483	1,352,778
Ceded reinsurance premiums payable	524,530	646,748
Due to reinsurers	3,147,350	5,104,750
Net deferred tax liability	-	2,398,598
Federal income tax payable	100,982	208,751
Other liabilities	<u>480,012</u>	<u>417,438</u>
Total liabilities	<u>34,098,830</u>	<u>37,406,642</u>
Surplus:		
Contributed surplus	299,235	299,235
Unassigned surplus	<u>81,790,404</u>	<u>90,112,671</u>
Total surplus	<u>82,089,639</u>	<u>90,411,906</u>
Total liabilities and surplus	<u>\$ 116,188,469</u>	<u>\$ 127,818,548</u>

See Notes to the Statutory Financial Statements.

FLORIDA LAWYERS MUTUAL INSURANCE COMPANY
STATUTORY STATEMENTS OF INCOME
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
UNDERWRITING OPERATIONS		
Net premiums earned:		
Direct premiums earned	\$ 16,787,673	\$ 16,185,576
Reinsurance ceded	<u>(1,692,951)</u>	<u>(2,158,238)</u>
	<u>15,094,722</u>	<u>14,027,338</u>
Net losses incurred:		
Direct losses incurred	2,889,013	6,432,352
Reinsurance recoveries	<u>1,189,211</u>	<u>(2,618,400)</u>
	<u>4,078,224</u>	<u>3,813,952</u>
Operating expenses incurred:		
Direct LAE	1,948,258	2,554,251
Reinsurance recoveries on LAE	554,335	(992,361)
Direct underwriting expenses	<u>5,352,874</u>	<u>5,091,128</u>
	<u>7,855,467</u>	<u>6,653,018</u>
Net underwriting gain	<u>3,161,031</u>	<u>3,560,368</u>
INVESTMENT AND OTHER INCOME		
Investment income earned	1,903,438	1,812,928
Investment expenses	(519,236)	(542,886)
Net realized capital gains, net of tax	1,590,144	5,745,818
Other income (expense)	<u>-</u>	<u>(135,730)</u>
Investment and other income	<u>2,974,346</u>	<u>6,880,130</u>
Net income before dividends to policyholders and federal income tax expense	6,135,377	10,440,498
Dividends to policyholders	<u>1,174,824</u>	<u>-</u>
Net income before federal income tax expense	4,960,553	10,440,498
Federal income tax expense	<u>678,285</u>	<u>983,448</u>
Net income	<u>\$ 4,282,268</u>	<u>\$ 9,457,050</u>

See Notes to the Statutory Financial Statements.

FLORIDA LAWYERS MUTUAL INSURANCE COMPANY
STATUTORY STATEMENTS OF CHANGES IN SURPLUS
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Surplus, beginning of year	\$ 90,411,906	\$ 79,277,142
Net income	4,282,268	9,457,050
Change in net unrealized capital gains (losses), net of tax	(12,854,731)	1,497,518
Change in nonadmitted assets	336,752	83,147
Change in net deferred income tax	(86,556)	45,629
Change in provision for reinsurance	-	51,420
Net change in surplus	<u>(8,322,267)</u>	<u>11,134,764</u>
Surplus, end of year	<u>\$ 82,089,639</u>	<u>\$ 90,411,906</u>

FLORIDA LAWYERS MUTUAL INSURANCE COMPANY
STATUTORY STATEMENTS OF CASH FLOWS
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash from operations:		
Net premiums collected	\$ 12,761,265	\$ 14,413,370
Net investment income received	1,787,987	1,713,547
Other income	-	(135,730)
Dividends paid to policyholders	(1,174,824)	-
Net losses paid	(3,292,176)	(2,910,211)
Operating expenses paid	(7,499,460)	(7,319,515)
Federal income taxes paid	<u>(1,208,751)</u>	<u>(2,104,853)</u>
Net cash from operations	<u>1,374,041</u>	<u>3,656,608</u>
Cash from investments:		
Proceeds from investments sold, matured, or repaid:		
Bonds	14,552,425	17,971,104
Stocks and mutual funds	8,789,560	15,874,978
Other invested assets	300,000	-
Miscellaneous proceeds	25,232	29,678
	<u>23,667,217</u>	<u>33,875,760</u>
Cost of investments acquired:		
Bonds	(17,940,778)	(20,998,250)
Stocks and mutual funds	(9,418,852)	(16,466,699)
Other invested assets	-	(319,374)
	<u>(27,359,630)</u>	<u>(37,784,323)</u>
Net cash from investments	<u>(3,692,413)</u>	<u>(3,908,563)</u>
Net change in cash, cash equivalents, and short-term investments	(2,318,372)	(251,955)
Cash, cash equivalents, and short-term investments:		
Beginning of year	<u>13,307,459</u>	<u>13,559,414</u>
End of year	<u>\$ 10,989,087</u>	<u>\$ 13,307,459</u>

See Notes to the Statutory Financial Statements.

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

Nature of Business. Florida Lawyers Mutual Insurance Company (the Company), is a Florida mutual insurance company that provides professional liability insurance for eligible lawyers who are members in good standing of The Florida Bar and whose principal practice of law is in the state of Florida. The Company offers insurance on a "claims made" basis, with both "prior acts" and "tail" coverage available. Under a "claims made" policy, insurance is generally provided to cover claims presented during the term of the policy.

A summary of the Company's significant accounting policies follows.

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

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

- Investments in debt securities are generally carried at amortized cost. Under GAAP, the Company's debt securities would be classified as held-to-maturity, trading, or available-for-sale. For GAAP, debt securities classified as held-to-maturity would be carried at cost or amortized cost, and debt securities classified as trading or available-for-sale would be carried at fair value with the unrealized holding gains and losses reported in income for those securities classified as trading and as a separate component of surplus for those securities classified as available-for sale.
- Investments in equity securities are generally carried at fair value, except for redeemable preferred stocks, which are generally recorded at amortized cost, with unrealized holding gains and losses reported as a direct charge or credit to surplus. Under GAAP, the Company's equity securities would be carried at fair value with the unrealized holding gains and losses reported in income.
- Policy acquisition costs are charged to current operations as incurred; under GAAP, these acquisition costs would be deferred and recognized as an expense over the periods covered by the policies.
- Deferred income taxes are provided for differences between the financial statement and the tax bases of assets and liabilities and are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Additionally, under statutory accounting practices, limitations are placed on the admissibility of deferred tax assets, changes in deferred tax assets and liabilities are reported as changes in surplus, and state income taxes are not included in deferred tax calculations; under GAAP, there is no admissibility concept, deferred income taxes would be provided for state income taxes, changes in deferred tax assets and liabilities would be reported through operations and/or surplus depending on their characteristics, and state income taxes would be included in the deferred tax calculation.

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

- Certain assets designated as “nonadmitted assets” (principally certain premiums and deductibles receivable, furniture and equipment, prepaid expenses, investments in subsidiaries and affiliates, and certain deferred tax assets) are charged against surplus. Under GAAP, receivables would be recorded as an asset less an allowance for uncollectible amounts. Furniture and equipment would be recognized as an asset net of accumulated depreciation, and prepaid expenses would be recognized as assets. The operations of subsidiaries and affiliates would be presented on a consolidated basis. Deferred taxes would be accounted for as previously noted.
- Assets related to reinsurance ceded transactions are netted with the respective liabilities; under GAAP, reinsurance balances would be shown on a separate gross basis.
- Statutory financial statements are prepared in a form using language and groupings substantially the same as the annual statement of the Company filed with the NAIC and state regulatory authorities, which differ from the presentation and disclosure of financial statements presented under GAAP.

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

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

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

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

Risk and Uncertainties. The Company's operating results and financial condition are affected by numerous factors and circumstances unique to the property/casualty insurance industry, some of which it can neither predict nor control. Among them are (1) statutorily imposed regulatory capital requirements can limit an insurer's ability to underwrite new business or retain otherwise desirable risks; (2) an insurer's ability to enter into suitable reinsurance agreements is subject to prevailing conditions in reinsurance markets; (3) competitive pressure on pricing, while cyclical, may be intense; (4) fluctuations in interest rates affect the value and income yield of an insurer's investment portfolio in the short-term and often affect default and prepayment rates over time; (5) inflationary pressures affect the magnitude of losses and loss adjustment expenses; (6) emerging legal precedents and trends may have a significant specific impact on settlement amounts and the cost of defending claims; and (7) ultimate losses may not fully emerge for several years following the year in which an insured event occurs is reported.

Cash, Cash Equivalents, and Short-Term Investments. For purposes of reporting cash flows, the Company follows statutory accounting practices and considers cash in checking accounts, bank deposit accounts, and bonds and certificates of deposit purchased with a maturity of 1 year or less to be cash, cash equivalents, and short-term investments. Cash and cash equivalents are carried at cost, which approximates fair value. Short-term investments are carried at amortized cost in the same manner as similar long-term investments.

The Company periodically has deposits in a financial institution in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC). The Company does not believe it is exposed to any significant credit risk on the amounts not insured.

In accordance with Florida Statutes, the Company is required to maintain assets on deposit in trust funds as security for claims of all policyholders and creditors. At December 31, 2022, \$250,000 of cash was on deposit.

Investments. Investments are valued in accordance with the valuation methods prescribed by the NAIC. Investments in bonds are generally carried at amortized cost using the scientific interest method; however, bonds with an NAIC designation of 3 or lower are carried at the lower of amortized cost or fair value. Loan-backed securities are generally valued at amortized cost using the scientific interest method, including anticipated prepayments; however, loan-backed securities with an initial NAIC designation of 3 or lower are carried at the lower of amortized cost or fair value. The retrospective adjustment method is used to value all loan-backed securities. Prepayment assumptions are obtained from Moody's Analytics and are based on 3-month PSA speed.

Investments in unaffiliated common stocks and mutual funds are generally carried at fair value.

Redeemable preferred stocks are generally carried at amortized cost; however, redeemable preferred stocks with an NAIC designation of 3 or lower are carried at the lower of cost or fair value. Perpetual preferred stocks are generally carried at fair value, not to exceed any currently effective call price.

Surplus debentures are included in other invested assets and are valued at amortized cost; however, surplus debentures with an NAIC designation of 3 or lower are carried at the lower of amortized cost or fair value.

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

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

Fair Value Measurements. Financial instruments are categorized in a fair value hierarchy based on the reliability of inputs to the valuation techniques, as follows:

- Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the Company has the ability to access.
- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets in active markets; quoted prices for identical or similar assets in inactive markets; inputs other than quoted prices that are observable; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Company believes its valuation methods are appropriate and consistent with other market participants. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Company owns 631 shares of Lawyers Reinsurance Company (LRC), which represents approximately 33 percent ownership. The financial statement value of LRC common stock, prior to non-admittance, was \$448,862 and \$940,954 at December 31, 2022 and 2021, respectively. The financial statement value of the common stock is based on the reinsurer's statutory surplus from the most recent financial statement as filed with the Vermont Department of Financial Regulation Division of Insurance. The common stock was obtained through private placement, contains significant transfer restrictions, and has no public trading market. As of December 31, 2022, the Company has nonadmitted this investment after notifying the Department of their intent to nonadmit the investment, and not receiving disapproval of this treatment.

Real Estate. Real estate occupied by the Company of \$1,014,046 and \$1,043,702 is recorded as an admitted asset at cost less accumulated depreciation of \$368,964 and \$339,308 at December 31, 2022 and 2021, respectively, and is presented as an investment. Depreciation expense is calculated by applying the straight-line method over the estimated useful life. The total depreciation expense was \$29,656 for both 2022 and 2021.

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

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

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

Recognition of Premium. Premiums from policies written are recognized on a pro rata basis over the respective terms of the policies. Unearned premiums represent the portion of premiums written which relate to future periods, net of reinsurance. A liability for premiums received in advance is established for all premiums received by the Company or by the Company's agent on policies effective in the following fiscal year.

Reinsurance. Reinsurance premiums, commissions, loss, and loss adjustment recoveries related to reinsured business are accounted for on terms consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. The Company's loss-sensitive reinsurance contracts are recorded at the maximum potential obligation due under the contract until sufficient time has elapsed for management to evaluate the ultimate losses. These obligations are recorded within the due to reinsurers and ceded reinsurance premiums payable balances on the statutory balance sheets.

Federal Income Taxes. The Company files both federal and state income tax returns. The Company records deferred income taxes on temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities based upon enacted federal income tax rates.

Subsequent Events. Subsequent events were evaluated through February 27, 2023, which is the date the financial statements were available to be issued.

FLORIDA LAWYERS MUTUAL INSURANCE COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2022 and 2021

Note 2 ~ Investments

The carrying value and fair value of investments in bonds at December 31, 2022 and 2021, were as follows:

	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>2022</u>				
U.S. government	\$ 3,942,247	\$ -	\$ (104,389)	\$ 3,837,858
Other governments	455,694	-	(63,293)	392,401
States, territories, and possessions	7,524,646	-	(646,903)	6,877,743
Special revenue	18,966,281	31,795	(1,498,689)	17,499,387
Corporate securities	27,645,090	762,314	(1,808,206)	26,599,198
Loan-backed securities	4,618,032	-	(406,816)	4,211,216
Hybrid securities	247,688	64	(48,512)	199,240
	<u>\$ 63,399,678</u>	<u>\$ 794,173</u>	<u>\$ (4,576,808)</u>	<u>\$ 59,617,043</u>
<u>2021</u>				
U.S. government	\$ 874,125	\$ 37,674	\$ -	\$ 911,799
Other governments	457,336	189	(3,766)	453,759
States, territories, and possessions	7,343,180	177,162	(40,559)	7,479,783
Special revenue	17,128,161	462,475	(51,260)	17,539,376
Corporate securities	28,709,040	2,657,494	(176,191)	31,190,343
Loan-backed securities	5,626,959	34,739	(46,124)	5,615,574
Hybrid securities	223,062	3,618	(519)	226,161
	<u>\$ 60,361,863</u>	<u>\$ 3,373,351</u>	<u>\$ (318,419)</u>	<u>\$ 63,416,795</u>

The cumulative unrealized loss on bonds of \$4,576,808 as of December 31, 2022, consisted of \$2,400,243 of unrealized losses in a loss position for greater than 12 months and \$2,176,565 of unrealized losses in a loss position for less than 12 months. The cumulative unrealized loss on bonds of \$318,419 as of December 31, 2021, consisted of \$10,575 of unrealized losses in a loss position for greater than 12 months and \$307,844 of unrealized losses in a loss position for less than 12 months.

Note 2 ~ Investments (Continued)

The carrying value and fair value of bonds (including short-term investments) are categorized by the effective maturity date below. Effective maturities differ from contractual maturities because certain borrowers have the right to call or prepay obligations.

	Carrying Value	Fair Value
Due in one year or less	\$ 10,734,196	\$ 10,617,086
Due after one year through five years	37,788,511	36,418,474
Due after five years through ten years	16,276,120	14,347,470
Due after ten years	<u>3,212,785</u>	<u>2,837,138</u>
	<u>\$ 68,011,612</u>	<u>\$ 64,220,168</u>

The cost and fair value of investments in stocks at December 31, 2022 and 2021, were as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>2022</u>				
Redeemable preferred stocks (amortized cost)	\$ 31,431	\$ -	\$ (9,606)	\$ 21,825
Perpetual preferred stocks	436,877	-	(105,895)	330,982
Common stocks and mutual funds	<u>37,802,683</u>	<u>3,634,875</u>	<u>(4,131,940)</u>	<u>37,305,618</u>
Total stocks	<u>\$ 38,270,991</u>	<u>\$ 3,634,875</u>	<u>\$ (4,247,441)</u>	<u>\$ 37,658,425</u>
<u>2021</u>				
Redeemable preferred stocks (amortized cost)	\$ 15,097	\$ 200	\$ -	\$ 15,297
Perpetual preferred stocks	451,650	1,785	(7,423)	446,012
Common stocks and mutual funds	<u>35,225,066</u>	<u>15,511,943</u>	<u>(341,074)</u>	<u>50,395,935</u>
Total stocks	<u>\$ 35,691,813</u>	<u>\$ 15,513,928</u>	<u>\$ (348,497)</u>	<u>\$ 50,857,244</u>

The cumulative unrealized loss on stocks of \$4,247,441 as of December 31, 2022, consisted of \$2,769,971 of unrealized losses in a loss position for greater than 12 months and \$1,477,470 of unrealized losses in a loss position for less than 12 months. The cumulative unrealized loss on bonds of \$348,497 as of December 31, 2021, consisted of \$330,501 of unrealized losses in a loss position for greater than 12 months and \$17,996 of unrealized losses in a loss position for less than 12 months.

Note 2 ~ Investments (Continued)

Gains and Losses on Investments. The components of net realized investment gains were as follows:

	<u>2022</u>	<u>2021</u>
Gains on disposals	\$ 3,575,549	\$ 7,566,262
Losses on disposals	<u>(1,562,708)</u>	<u>(293,075)</u>
	2,012,841	7,273,187
Tax expense	<u>(422,697)</u>	<u>(1,527,369)</u>
Net realized capital gains	<u>\$ 1,590,144</u>	<u>\$ 5,745,818</u>

Declines in fair value that are determined to be OTTI are included in the statutory statement of income as realized capital losses. The Company determines a decline to be other than temporary by reviewing and evaluating relevant objective and subjective factors for each security, including the extent of the depressed value, the length of time the value has been depressed, the Company's intent and ability to hold the security, a security's current performance, the current and projected financial condition of the issuer, the industry in which the issuer operates, the estimated future cash flows of loan-backed securities, and the status of the market as a whole. Estimating the future cash flows of loan-backed securities also involves assumptions regarding the underlying collateral such as prepayment rates, default and recovery rates, existence of subordinated classes capable of absorbing losses, and third-party servicing abilities. There were no such declines for the years ended December 31, 2022 and 2021.

Summary of Significant Valuation Techniques for Financial Instruments. The following valuation techniques and inputs were used to estimate the fair value of each class of significant financial instrument:

Level 1 Measurements

Bonds and short-term investments: Comprised of actively traded U.S. Treasury notes and highly liquid debt instruments purchased with a remaining maturity of 1 year or less. Valuation is based on unadjusted quoted prices for identical assets in active markets that are accessible to the Company at the measurement date.

Common stocks: Comprised of actively traded equity securities. Valuation is based on unadjusted quoted prices for identical assets in active markets that are accessible to the Company.

Mutual funds: Comprised of actively traded mutual funds that have daily quoted net asset values for identical assets that are accessible to the Company.

Note 2 ~ Investments (Continued)

Level 2 Measurements

Bonds: Comprised of government, municipal, corporate, and loan-backed securities. Valuation is based on inputs including quoted prices for identical or similar assets in inactive markets. The Company uses a leading, nationally recognized provider of financial market data and analytics to price the Company's bond holdings. Because many fixed income securities do not trade on a daily basis, the provider's pricing applications apply available information through processes such as benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing to prepare evaluations.

Preferred stocks: Valuation is provided by a leading, nationally recognized provider of financial market data and analytics to price the Company's preferred stock holdings.

Other invested assets: Comprised of investments in surplus debentures and valuation is based on inputs including quoted prices for similar assets in inactive markets.

Financial Instruments Reported at Fair Value in the Statutory Balance Sheets. The following summarizes the assets measured at fair value as of December 31, 2022 and 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>2022</u>				
Common stocks and mutual funds	\$ 37,305,618	\$ -	\$ -	\$ 37,305,618
Bonds	-	337,288	-	337,288
Preferred stocks	-	330,982	-	330,982
	<u>\$ 37,305,618</u>	<u>\$ 668,270</u>	<u>\$ -</u>	<u>\$ 37,973,888</u>
<u>2021</u>				
Common stocks and mutual funds	\$ 50,395,935	\$ -	\$ -	\$ 50,395,935
Preferred stocks	-	446,012	-	446,012
	<u>\$ 50,395,935</u>	<u>\$ 446,012</u>	<u>\$ -</u>	<u>\$ 50,841,947</u>

The Company does not have any liabilities measured at fair value at December 31, 2022 and 2021.

FLORIDA LAWYERS MUTUAL INSURANCE COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2022 and 2021

Note 2 ~ Investments (Continued)

All Financial Instruments. The following is the aggregate fair value for all financial instruments (excluding investments accounted for under the equity method) as of December 31, 2022 and 2021:

Type of Financial Instrument	Aggregate Fair Value	Admitted Assets	Level 1	Level 2	Level 3
<u>2022</u>					
Bonds	\$ 59,617,043	\$ 63,399,678	\$ 3,837,858	\$ 55,779,185	\$ -
Preferred stocks	352,807	362,413	-	352,807	-
Common stocks and mutual funds	37,305,618	37,305,618	37,305,618	-	-
Cash equivalents	2,255,690	2,255,690	2,255,690	-	-
Short-term investments	4,603,125	4,611,934	4,603,125	-	-
	<u>\$ 104,134,283</u>	<u>\$ 104,935,333</u>	<u>\$ 48,002,291</u>	<u>\$ 56,131,992</u>	<u>\$ -</u>
<u>2021</u>					
Bonds	\$ 63,416,795	\$ 60,361,863	\$ 911,799	\$ 62,504,996	\$ -
Preferred stocks	461,309	461,109	-	461,309	-
Common stocks and mutual funds	50,395,935	50,395,935	50,395,935	-	-
Cash equivalents	3,724,140	3,724,140	3,724,140	-	-
Short-term investments	400,000	400,000	400,000	-	-
Other invested assets	315,615	317,417	-	315,615	-
	<u>\$ 118,713,794</u>	<u>\$ 115,660,464</u>	<u>\$ 55,431,874</u>	<u>\$ 63,281,920</u>	<u>\$ -</u>

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

Activity in the liabilities for unpaid losses and unpaid loss adjustment expenses for the years ended December 31, 2022 and 2021, is summarized as follows (000's omitted):

	<u>2022</u>	<u>2021</u>
Balance, beginning of year	\$ 28,218	\$ 25,650
Less reinsurance recoverable	<u>7,944</u>	<u>5,430</u>
Net balance at January 1	<u>20,274</u>	<u>20,220</u>
Incurred related to:		
Current year	9,544	9,821
Prior years	<u>(2,963)</u>	<u>(4,445)</u>
Total incurred	<u>6,581</u>	<u>5,376</u>
Paid related to:		
Current year	752	1,869
Prior years	<u>4,469</u>	<u>3,453</u>
Total paid	<u>5,221</u>	<u>5,322</u>
Net balance at December 31	21,634	20,274
Plus reinsurance recoverable	<u>4,122</u>	<u>7,944</u>
Balance, end of year	<u>\$ 25,756</u>	<u>\$ 28,218</u>

As a result of changes in estimates of insured events in prior years, net loss and loss adjustment expenses incurred were decreased in 2022 and 2021 by approximately \$2,963,000 and \$4,445,000, respectively, due to lower than anticipated losses and related expenses.

Note 4 ~ Reinsurance

The Company has purchased reinsurance coverage to pay individual losses and loss adjustment expenses in excess of its retention limits, as follows:

<u>Policy Period</u>	<u>Retention per Claim</u>
Prior to June 30, 2007	\$250,000 plus \$25,000 increase each year claim remains open
July 1, 2007 – June 30, 2018	\$350,000
July 1, 2018 – June 30, 2020	\$500,000
July 1, 2020 – June 30, 2021	\$500,000 plus 20 percent of next \$4,500,000
July 1, 2021 – June 30, 2022	\$500,000 plus 25 percent of next \$4,500,000
After July 1, 2022	\$500,000

Note 4 ~ Reinsurance (Continued)

In the event that all or any of the reinsuring companies might be unable to meet their obligations under existing reinsurance agreements, the Company would be liable for such defaulted amounts. Amounts included in admitted assets and the amounts deducted from certain liabilities resulting from these reinsurance agreements were as follows at December 31 (000's omitted):

	<u>2022</u>	<u>2021</u>
Unpaid losses	\$ 2,257	\$ 5,040
Unpaid LAE	1,865	2,904
Unearned premiums	<u>1,420</u>	<u>1,176</u>
	<u>\$ 5,542</u>	<u>\$ 9,120</u>

At December 31, 2022, the Company had no unsecured aggregate recoverables for losses, loss adjustment expenses, and unearned premiums from individual reinsurers which exceed 3 percent of surplus.

Note 5 ~ Income Taxes

The Company is taxed as an insurance company under Section 831 of the Internal Revenue Code. Federal income tax expense differs from the amount obtained by applying the federal income tax rate of 21 percent to pretax income for the years ended December 31, 2022 and 2021, due to the following:

	<u>2022</u>	<u>2021</u>
Computed expected federal income tax	\$ 1,130,475	\$ 2,513,252
Increase (decrease) in taxes resulting from:		
Discounting of unpaid losses and LAE	25,918	13,246
Unearned and advance premium adjustment	(6,086)	27,166
Tax-exempt interest	(5,276)	(10,214)
Dividends received deduction	(41,698)	(39,912)
Other – net	<u>(2,351)</u>	<u>7,279</u>
Federal income tax expense	<u>\$ 1,100,982</u>	<u>\$ 2,510,817</u>

FLORIDA LAWYERS MUTUAL INSURANCE COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2022 and 2021

Note 5 ~ Income Taxes (Continued)

The components of the net deferred tax asset (liability) at December 31, 2022 and 2021, were as follows:

	Ordinary	Capital	Total
<u>2022</u>			
Gross deferred tax assets	\$ 810,927	\$ 182,798	\$ 993,725
Statutory valuation allowance	-	-	-
	<u>810,927</u>	<u>182,798</u>	<u>993,725</u>
Deferred tax asset nonadmitted	<u>(187,929)</u>	<u>(21,412)</u>	<u>(209,341)</u>
	622,998	161,386	784,384
Deferred tax liability	<u>(61,799)</u>	<u>-</u>	<u>(61,799)</u>
Net deferred tax asset (liability)	<u>\$ 561,199</u>	<u>\$ 161,386</u>	<u>\$ 722,585</u>
<u>2021</u>			
Gross deferred tax assets	\$ 918,083	\$ 779	\$ 918,862
Statutory valuation allowance	-	-	-
	<u>918,083</u>	<u>779</u>	<u>918,862</u>
Deferred tax asset nonadmitted	<u>-</u>	<u>-</u>	<u>-</u>
	918,083	779	918,862
Deferred tax liability	<u>(82,399)</u>	<u>(3,235,061)</u>	<u>(3,317,460)</u>
Net deferred tax asset (liability)	<u>\$ 835,684</u>	<u>\$ (3,234,282)</u>	<u>\$ (2,398,598)</u>

FLORIDA LAWYERS MUTUAL INSURANCE COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2022 and 2021

Note 5 ~ Income Taxes (Continued)

The admitted deferred tax asset was determined using the guidance related to admissibility provided in the following paragraphs of NAIC *Statement of Statutory Accounting Principles No. 101 (SSAP 101)*:

	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
<u>2022</u>			
11a. Ability to recover taxes paid in prior years	\$ 561,199	\$ 161,386	\$ 722,585
11b. Expected to be realized, after application of threshold limitations	-	-	-
11c. Offset of deferred tax liabilities	<u>61,799</u>	<u>-</u>	<u>61,799</u>
	<u>\$ 622,998</u>	<u>\$ 161,386</u>	<u>\$ 784,384</u>
<u>2021</u>			
11a. Ability to recover taxes paid in prior years	\$ 565,246	\$ -	\$ 565,246
11b. Expected to be realized, after application of threshold limitations	-	-	-
11c. Offset of deferred tax liabilities	<u>352,837</u>	<u>779</u>	<u>353,616</u>
	<u>\$ 918,083</u>	<u>\$ 779</u>	<u>\$ 918,862</u>
		<u>2022</u>	<u>2021</u>
Ratio Used to Determine Recovery Period and Threshold Limitation amount under paragraph 11b		1,696%	1,398%
Amount of Adjusted Capital And Surplus Used To Determine Recovery Period And Threshold Limitation under paragraph 11b		\$ 81,367,054	\$ 90,411,906

FLORIDA LAWYERS MUTUAL INSURANCE COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
December 31, 2022 and 2021

Note 5 ~ Income Taxes (Continued)

The major components of current income taxes incurred and net deferred tax assets (liabilities) as of December 31, 2022 and 2021, were as follows:

	2022	2021	Change
Current income tax:			
Federal	\$ 678,285	\$ 983,448	\$ (305,163)
Federal income tax on net capital gains	422,697	1,527,369	(1,104,672)
Federal and foreign income taxes incurred	<u>\$ 1,100,982</u>	<u>\$ 2,510,817</u>	<u>\$ (1,409,835)</u>
Deferred tax assets:			
Unpaid loss and LAE	352,878	347,559	5,319
Unearned and advance premiums	344,902	350,987	(6,085)
Net unrealized capital losses	182,798	779	182,019
Nonadmitted assets	95,311	198,650	(103,339)
Other	17,836	20,887	(3,051)
Total deferred tax assets	<u>993,725</u>	<u>918,862</u>	<u>74,863</u>
Nonadmitted deferred tax assets	<u>(209,341)</u>	<u>-</u>	<u>(209,341)</u>
Total admitted deferred tax assets	<u>784,384</u>	<u>918,862</u>	<u>(134,478)</u>
Deferred tax liabilities:			
Unpaid loss and LAE	(61,799)	(82,399)	20,600
Net unrealized capital gains	<u>-</u>	<u>(3,235,061)</u>	<u>3,235,061</u>
Total deferred tax liabilities	<u>(61,799)</u>	<u>(3,317,460)</u>	<u>3,255,661</u>
Net deferred tax asset (liability)	<u>\$ 722,585</u>	<u>\$ (2,398,598)</u>	<u>\$ 3,121,183</u>

As of December 31, 2022, the Company had not identified any material loss contingencies arising from uncertain tax positions. The Company had no tax planning strategies that have a material impact on adjusted gross or net admitted deferred tax assets.

Income taxes incurred in the current and prior year that will be available for recoupment in the event of future net losses were \$1,100,982 and \$2,508,749, respectively.

The Company also pays Florida income and franchise taxes at a rate of 5.50 percent and 3.54 percent of Florida taxable income for the years ended December 31, 2022 and 2021, respectively. Included in direct underwriting expenses incurred is \$188,671 and \$437,746 of Florida state income and franchise taxes for the years ended December 31, 2022 and 2021, respectively.

Note 6 ~ Pension Plan

The Company offers a profit sharing 401(k) plan, where the Company contributes 3 percent of each employee's salary to the plan. The amount of contributions under this plan was \$96,465 for 2022 and \$62,031 for 2021.

Note 7 ~ Surplus

The Department requires the maintenance of a minimum surplus level for a mutual insurance company that issues nonassessable insurance policies. The Company is also subject to Risk-Based Capital (RBC) requirements promulgated by the NAIC and adopted by the Department. The RBC standards establish uniform minimum capital requirements for insurance companies. The RBC formula applies various weighting factors to financial balances and various levels of activities based on the perceived degree of risk. At December 31, 2022, the Company's surplus exceeded the minimum levels required by the Department and RBC standards.

The Company's unassigned surplus was increased (reduced) by the following cumulative amounts as of December 31:

	<u>2022</u>	<u>2021</u>
Unrealized gains (losses), net of taxes of (\$182,798) and \$3,234,282 in 2022 and 2021, respectively	\$ (687,669)	\$ 12,167,062
Nonadmitted assets	(782,870)	(1,119,623)



INSURANCE COMPANY

 LAWYERS PROFESSIONAL LIABILITY INSURANCE
CREATED BY THE FLORIDA BAR 