

MUTUAL CAPITAL GROUP, INC.

**YEARS ENDED
DECEMBER 31, 2020 AND 2019**



CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

A Professional Corporation

MUTUAL CAPITAL GROUP, INC.

YEARS ENDED DECEMBER 31, 2020 AND 2019

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Independent Auditor's Report

Board of Directors
Mutual Capital Group, Inc.
Wyalusing, Pennsylvania

Report on the Statutory Financial Statements

We have audited the accompanying statutory financial statements of Mutual Capital Group, Inc., (MCG, previously known as Tuscarora Wayne Mutual Group, Inc.), which comprise the statutory statements of admitted asset and members' equity as of December 31, 2020 and 2019 and the related statutory statements of members' equity for the years then ended and the related notes to the statutory financial statements.

Management's Responsibility for the Statutory Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these statutory financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to MCG's preparation and fair presentation of the financial statements 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 MCG's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the admitted asset and members' equity of Mutual Capital Group, Inc. as of December 31, 2020 and 2019, in accordance with accounting practices prescribed by the Insurance Department of the Commonwealth of Pennsylvania as described in Note 1.

Basis of Accounting

We draw attention to Note 1 to the financial statements, which describes the basis of accounting. The financial statements are prepared on the basis of the financial reporting provisions of the Insurance Department of the Commonwealth of Pennsylvania, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of the Commonwealth of Pennsylvania. Our opinion is not modified with respect to that matter.

Restriction on Use

This report is intended solely for the information and use of the board of directors and management of Mutual Capital Group, Inc., rating agencies and for filing with state insurance departments to whose jurisdiction the Company is subject and is not intended to be and should not be used by anyone other than these specified parties.

Brown Schultz Steindam & Fritz

Camp Hill, Pennsylvania
May 14, 2021

MUTUAL CAPITAL GROUP, INC.

STATUTORY STATEMENTS OF ADMITTED ASSET AND MEMBERS' EQUITY
DECEMBER 31, 2020 AND 2019

ADMITTED ASSET

	<u>2020</u>	<u>2019</u>
Investment in subsidiary	<u>\$ 99,983,461</u>	<u>\$ 94,476,167</u>
Total assets	<u>\$ 99,983,461</u>	<u>\$ 94,476,167</u>

MEMBERS' EQUITY

Members' equity	<u>\$ 99,983,461</u>	<u>94,476,167</u>
Total liability and members' equity	<u>\$ 99,983,461</u>	<u>\$ 94,476,167</u>

See notes to statutory financial statements.

MUTUAL CAPITAL GROUP, INC.

STATUTORY STATEMENTS OF MEMBERS' EQUITY
YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Members' equity:		
Beginning	\$ 94,476,167	\$ 85,977,813
Other		300
Net unrealized capital gain	<u>5,507,294</u>	<u>8,498,054</u>
Ending	<u><u>\$ 99,983,461</u></u>	<u><u>\$ 94,476,167</u></u>

See notes to statutory financial statements.

MUTUAL CAPITAL GROUP, INC.

NOTES TO STATUTORY FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2020 AND 2019

1. Nature of business and summary of significant accounting policies:

Nature of business:

Mutual Capital Group, Inc. (MCG, previously known as Tuscarora Wayne Mutual Group, Inc.) is a mutual holding company that owns 99.811% of Mutual Capital Holdings, Inc. (MCH, previously known as Susquehanna Capital Corporation), a stock holding company that owns 100% of Tuscarora Wayne Insurance Company (Tuscarora) and Lebanon Valley Insurance Company (Lebanon). Tuscarora writes property and liability insurance in the Commonwealth of Pennsylvania and the State of Ohio, and its principal lines of business are commercial multiple peril, homeowners, farmowners and personal and commercial property. Lebanon writes property and liability insurance exclusively in the Commonwealth of Pennsylvania. Lebanon's primary lines of business are commercial multiple peril, homeowners and commercial automobile.

Tuscarora owns 90.1% of Keystone National Insurance Company (Keystone). Keystone is a property and casualty insurance company domiciled in the Commonwealth of Pennsylvania and writing business in twelve states for agent/owners of Keystone Insurers Group, Inc. Its primary lines of business are commercial multiple peril, homeowners and commercial and personal property.

Tuscarora holds a \$1,500,000 surplus note from its acquisition of Lebanon in 2010.

MCH owns 51% Glacier Capital Holdings, LLC (GCH), which owns 100% of Capitol Insurance Company (Capitol), a non-standard personal automobile insurance company located and doing business in the Commonwealth of Pennsylvania.

During 2019, MCH and MCG formed and incorporated a non-insurance subsidiary company, Mutual Capital Analytics, Inc. (MCA). During 2020, MCH and MCG formed and incorporated a non-insurance subsidiary company, Mutual Capital Partners, Inc. (MCP).

MCG's members consist of all current policyholders of Tuscarora and Lebanon. The Insurance Department of the Commonwealth of Pennsylvania exercises regulatory authority over the insurance companies.

Principles of accounting:

The financial statements of MCG are presented on the basis of accounting practices prescribed by the Insurance Department of the Commonwealth of Pennsylvania.

MUTUAL CAPITAL GROUP, INC.

NOTES TO STATUTORY FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2020 AND 2019

1. Nature of business and summary of significant accounting policies (continued):

Principles of accounting:

The Insurance Department of the Commonwealth of Pennsylvania recognizes only statutory accounting practices prescribed or permitted by the Commonwealth of Pennsylvania for determining and reporting the financial condition and results of operations of an insurance company for determining its solvency under Pennsylvania Insurance Laws. The National Association of Insurance Commissioners' *Accounting Practices and Procedures Manual* (NAIC SAP) has been adopted as a component of prescribed practices by the Commonwealth of Pennsylvania. During 2020 and 2019, MCG did not have any permitted accounting practices.

Statutory accounting practices prescribed by the Insurance Department of the Commonwealth of Pennsylvania vary in some respects from generally accepted accounting principles (GAAP) in the United States of America. The most significant of these differences is:

- (a) MCG's investment in its subsidiary is reported using the equity method of accounting based on statutory accounting principles, rather than on a consolidated basis in accordance with GAAP, with earnings or losses credited or charged to members' equity as an unrealized capital gain or loss.

Use of estimates:

Management of MCG has made estimates and assumptions related to the reporting of admitted assets and liabilities to prepare these financial statements in accordance with accounting practices prescribed by the Insurance Department of the Commonwealth of Pennsylvania. Actual results could differ from those estimates.

MUTUAL CAPITAL GROUP, INC.

NOTES TO STATUTORY FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2020 AND 2019

2. Mutual Capital Holdings, Inc.:

The following is a summary of investments held by MCH which ultimately comprises the investments of MCG:

	<u>2020</u>	<u>2019</u>
Investment in Tuscarora	\$ 69,320,022	\$ 71,614,388
Investment in Lebanon (excluding surplus note from Tuscarora)	14,419,383	12,823,500
Investment in GCH	4,603,546	3,874,027
Investment in MCA	320,251	944,361
Investment in MCP	237,441	
Cash	11,555,973	5,378,262
Other assets (liabilities), net	(283,437)	20,898
Noncontrolling interest	(189,718)	(179,269)
	<u>\$ 99,983,461</u>	<u>\$ 94,476,167</u>

MCH values its investments using the equity method of accounting. The 2020 and 2019 investments in Tuscarora and Lebanon are valued using the 2020 and 2019 audited statutory equity of the respective insurance company. The 2020 investment in GCH is valued using the 2019 audited GAAP equity of GCH and is reported on a one-year lag. The 2019 investment in GCH is valued using a statutory look-through approach whereby MCG limited its value of its investment in GCH to the 2019 audited statutory equity of Capitol and 2019 unaudited net assets that are not material to GCH. The investment in MCA is valued using the unaudited GAAP equity of MCA for 2020 and 2019. The investment in MCP is valued using the 2020 unaudited GAAP equity of MCP.

All investments held at unaudited equity values are not considered material to MCG and are admitted assets at December 31, 2020 and 2019, respectively.

Dividend payments from the insurance subsidiaries are restricted by the insurance laws of the Commonwealth of Pennsylvania. At December 31, 2020, the maximum amount of dividends that may be paid without prior approval of the insurance commissioner is approximately \$8,524,000.

3. Income taxes:

MCG files a consolidated federal income tax return with its subsidiaries, including MCH, Lebanon, MCA, MCP, Tuscarora and its subsidiary, Keystone. MCG is party to a tax allocation agreement, whereby current income taxes are allocated based on separate return computations. Balances due under the current tax allocation agreement are settled quarterly.

MUTUAL CAPITAL GROUP, INC.

NOTES TO STATUTORY FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2020 AND 2019

4. Impact of COVID-19 pandemic on financial statements:

The coronavirus (COVID-19) pandemic which began in March 2020 minimally impacted MCG's investments.

The extent to which the COVID-19 pandemic impacts MCG's investments, results of operations and financial condition will depend on future developments, which are highly uncertain and cannot be predicted. These factors include, but are not limited to, the duration, spread, severity, reemergence or mutation of the COVID-19 pandemic; development and wide-scale distribution of medicines or vaccines that effectively treat the virus; the loss environment; the healthcare industry; the actions and stimulus measures taken by governments and governmental agencies and to what extent normal economic and operating conditions can resume. Even after the COVID-19 pandemic has subsided, the Group may experience an impact to its investments as a result of any economic recession that has occurred or may occur in the future.

5. Subsequent events:

MCG has evaluated subsequent events through May 14, 2021, the date which the financial statements were available to be issued.