RURAL COMMUNITY INSURANCE COMPANY

(A Wholly Owned Subsidiary of Rural Community Insurance Agency, Inc.)

Statutory Financial Statements and Schedules

December 31, 2014 and 2013

(With Independent Auditors' Report Thereon)

RURAL COMMUNITY INSURANCE COMPANY
(A Wholly Owned Subsidiary of Rural Community Insurance Agency, Inc.)

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KPMG

KPMG LLP
4200 Wells Fargo Center
90 South Seventh Street
Minneapolis, MN 55402

Independent Auditors' Report

The Board of Directors
Rural Community Insurance Company

Report on the Financial Statements

We have audited the accompanying financial statements of Rural Community Insurance Company, which comprise the statutory statements of admitted assets, liabilities, and capital and surplus as of December 31, 2014 and 2013, and the related statutory statements of operations and changes in capital and surplus, and cash flow for the years then ended, and the related notes to the statutory financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with statutory accounting practices prescribed or permitted by the Minnesota Department of Commerce. 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 auditors' 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 the entity'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 the entity'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 opinions.

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

As described in Note 2 to the financial statements, the financial statements are prepared by the Company using statutory accounting practices prescribed or permitted by the Minnesota Department of Commerce, which is a basis of accounting other than U.S. generally accepted accounting principles. Accordingly, the financial statements are not intended to be presented in accordance with U.S. generally accepted accounting principles.

The effects on the financial statements of the variances between the statutory accounting practices and U.S. generally accepted accounting principles also are described in Note 2.

Qualified Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, except for the effects of the variances between statutory accounting practices and U.S. generally accepted accounting principles discussed in the Basis for Qualified Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Example Insurance Company as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Opinion on Statutory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus of the Company as of December 31, 2014 and 2013, and the results of its operations and its cash flow for the years then ended, in accordance with statutory accounting practices prescribed or permitted by the Minnesota Department of Commerce described in Note 2.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included in the accompanying schedule of supplemental investment risk interrogatories, schedule of supplemental reinsurance disclosures, and summary schedule of investments is presented for purposes of additional analysis and is not a required part of the financial statements but is supplementary information required by the Minnesota Department of Commerce. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

/s/ KPMG LLP

Minneapolis, Minnesota
May 28, 2015

RURAL COMMUNITY INSURANCE COMPANY

(A Wholly Owned Subsidiary of Rural Community Insurance Agency, Inc.)

Statutory Statements of Admitted Assets, Liabilities, and Capital and Surplus

December 31, 2014 and 2013

	2014	2013
Investments:		
Bonds	$ 304,211,447	308,498,585
Other invested assets related to Wells Fargo	100,000,000	100,000,000
Short-term investments	203,989,475	169,836,879
Total investments	608,200,922	578,335,464
Cash and cash equivalents	2,883,556	3,128,570
Premiums receivable	2,223,830,093	2,830,440,028
Reinsurance recoverable on paid losses and loss adjustment expenses	765,279,372	1,659,300,752
Receivable from the Federal Crop Insurance Corporation	155,054,945	168,495,077
Deferred tax asset, net	2,270,238	3,994,904
Goodwill and intangible assets	—	710,384
Interest income due and accrued	633,217	675,878
Receivable from other invested assets related to Wells Fargo	87,990	141,589
Total admitted assets	$ 3,758,240,333	5,245,222,646

Liabilities and Capital and Surplus

	2014	2013
Liabilities:		
Loss and loss adjustment expense reserves	$ 91,739,237	64,364,367
Reinsurance premiums payable, net of ceding commissions	1,813,287,249	2,291,818,225
Funds held under reinsurance treaties	1,188,510,178	2,219,512,948
Federal income tax payable to affiliate	15,942,279	14,036,667
Unearned premium reserve	30,067,582	55,496,180
Ceding commissions payable	169,200	163,700
Payable to parent, subsidiaries and affiliates	38,372	—
Total liabilities	3,139,754,097	4,645,392,087
Capital and surplus:		
Common stock ($50 par value. Authorized 100,000 shares; issued and outstanding 100 shares in 2014 and 2013)	3,000,000	3,000,000
Paid-in capital	127,775,000	127,775,000
Unassigned surplus	487,711,236	469,055,559
Total capital and surplus	618,486,236	599,830,559
Total liabilities and capital and surplus	$ 3,758,240,333	5,245,222,646

See accompanying notes to statutory financial statements.

RURAL COMMUNITY INSURANCE COMPANY

(A Wholly Owned Subsidiary of Rural Community Insurance Agency, Inc.)

Statutory Statements of Operations

Years ended December 31, 2014 and 2013

		2014	**2013**
Underwriting gain:			
Net premiums earned	$	405,557,506	502,970,524
Losses and loss adjustment expenses incurred		369,871,979	467,041,897
Underwriting expenses		14,425,450	16,284,670
Profit share income		(917,927)	(1,134,609)
Total underwriting deductions		383,379,502	482,191,958
Net underwriting gain		22,178,004	20,778,566
Net investment income		3,091,549	2,913,369
Interest income from other invested assets related to Wells Fargo		1,397,361	1,657,815
Service fee income		3,127,027	5,503,987
Income before income taxes		29,793,941	30,853,737
Income tax expense		8,703,214	9,935,577
Net income	$	21,090,727	20,918,160

See accompanying notes to statutory financial statements.

RURAL COMMUNITY INSURANCE COMPANY
(A Wholly Owned Subsidiary of Rural Community Insurance Agency, Inc.)

Statutory Statements of Changes in Capital and Surplus

Years ended December 31, 2014 and 2013

	Common stock	Paid-in capital	Unassigned surplus	Total
Balance as of December 31, 2012	$ 3,000,000	127,775,000	449,541,465	580,316,465
Net income	—	—	20,918,160	20,918,160
Change in accumulated amortization	—	—	(852,461)	(852,461)
Change in provision for reinsurance	—	—	312,000	312,000
Change in deferred tax assets, net	—	—	(863,605)	(863,605)
Balance as of December 31, 2013	3,000,000	127,775,000	469,055,559	599,830,559
Net income	—	—	21,090,727	21,090,727
Change in accumulated amortization	—	—	(710,384)	(710,384)
Change in deferred tax assets, net	—	—	(1,724,666)	(1,724,666)
Balance as of December 31, 2014	$ 3,000,000	127,775,000	487,711,236	618,486,236

See accompanying notes to statutory financial statements.

RURAL COMMUNITY INSURANCE COMPANY
(A Wholly Owned Subsidiary of Rural Community Insurance Agency, Inc.)

Statutory Statements of Cash Flow

Years ended December 31, 2014 and 2013

		2014	2013
Cash from operations:			
Premiums collected, net of reinsurance	$	508,213,367	400,305,180
Losses paid, net of recoveries		565,002,775	(934,912,663)
Net change in funds held under reinsurance treaties		(1,031,002,772)	519,634,603
Profit share		917,927	1,134,609
Federal income taxes paid		(6,797,602)	7,632,951
Underwriting expenses paid		(14,425,450)	(16,284,670)
Investment income received		3,415,168	2,990,273
Interest income from affiliate		1,397,361	1,657,815
Service fee		3,127,027	5,503,987
Net cash provided by (used in) operations		29,847,801	(12,337,915)
Cash from investments:			
Proceeds from bonds called		55,825,000	53,450,000
Proceeds from bond pay downs		3,455,176	211,928
Proceeds from bonds matured		30,000,000	40,249,545
Proceeds from bonds sold		10,503,688	2,628,850
Cost of bonds acquired		(95,777,682)	(62,734,395)
Net cash provided from investments		4,006,182	33,805,928
Cash from financing activities:			
Net change in funds receivable from other invested assets related to Wells Fargo		53,599	392,171
Net cash provided from financing activities		53,599	392,171
Increase in cash and short-term investments		33,907,582	21,860,184
Cash and short-term investments:			
Beginning of year		172,965,449	151,105,265
End of year	$	206,873,031	172,965,449

See accompanying notes to statutory financial statements.

(1) Organization and Nature of Operations

Rural Community Insurance Company (the Company) is a wholly owned subsidiary of Rural Community Insurance Agency, Inc. (RCIA), which is an indirect wholly owned subsidiary of Wells Fargo & Company (Wells Fargo). The Company, which has an "A" (Excellent) stable rating from A.M. Best and is domiciled in Minnesota, underwrites multi-peril crop insurance (MPCI) written with the United States Department of Agriculture's Federal Crop Insurance Corporation (FCIC), as well as livestock and crop-hail and named-peril coverages for crops assumed from another insurer. The Company markets and sells MPCI and other coverages through RCIA, doing business as Rural Community Insurance Services. The Company is licensed to write business in all fifty states, with 12% and 12% of 2014 and 2013 premiums, respectively, written in Minnesota, 10% and 10% of 2014 and 2013 premiums, respectively, written in North Dakota, and 7% and 9% of 2014 and 2013 premiums, respectively, written in Kansas.

The Company expects that a majority of its revenue will continue to be derived from MPCI business for the foreseeable future. Therefore, the Company's statutory results of operations and financial condition are substantially dependent upon the MPCI program and federal regulation of crop insurance.

RCIA provides all administrative and claims-related services on business sold. For the MPCI business, RCIA receives an administrative fee from the FCIC for performing such services. Therefore, the Company does not incur or provide for acquisition and claims settlement costs related to MPCI products.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying statutory financial statements of the Company have been prepared in accordance with accounting practices prescribed or permitted by the Minnesota Department of Commerce (Commerce Department). The Commerce Department recognizes statutory accounting practices (SAP) prescribed or permitted by the State of Minnesota for determining and reporting the financial condition and results of operations of an insurance company and for determining its solvency under the Minnesota insurance law.

Prescribed SAP are those practices that are incorporated directly or by reference in the state laws, regulations, and general administrative rules applicable to all insurance enterprises domiciled in a particular state. Permitted SAP include practices not prescribed by the domiciliary state, but allowed by the domiciliary state regulatory authority. The NAIC *Accounting Practices and Procedures Manual* (NAIC SAP) has been adopted as a component of prescribed or permitted practices by the State of Minnesota. The State of Minnesota has adopted all of the prescribed accounting practices as stated in the NAIC SAP without modification. The Company has no material SAP that differ from those of the State of Minnesota or the NAIC SAP. These practices comprise a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). The more significant differences are as follows:

(1) Certain assets designated as "nonadmitted assets" are charged directly to unassigned surplus, which is not permitted by GAAP.

(2) Certain assets and liabilities relating to reinsured contracts are recorded net of the effects of reinsurance, primarily reinsurance recoverable on unpaid loss and loss adjustment expense reserves, and unearned premium reserve, which is not permitted by GAAP.

(3) Changes in deferred income taxes are recorded directly to surplus as opposed to being an item of income tax benefit or expense for GAAP financial reporting purposes. Admittance testing may result in a charge to surplus for nonadmitted portions of the deferred tax asset, which is not required for GAAP.

(4) The statutory statements of cash flow do not include classifications consistent with GAAP, and a reconciliation of net income to net cash provided by operating activities is not provided.

(5) Bonds are carried at values prescribed by the NAIC, generally amortized cost. For GAAP, bonds classified as available-for-sale are carried at estimated fair value, with unrealized gains and losses recorded in stockholder’s equity.

(6) A statement of comprehensive income is not provided as required by GAAP.

(7) A provision is made for losses recoverable in excess of funds held on business reinsured with unauthorized reinsurers. This provision for reinsurance is charged directly to unassigned surplus, which is not permitted by GAAP.

(8) Under the MPCI program, premiums are deposited and losses and loss adjustment expenses are paid into and from an escrow account maintained by the FCIC. A separate receivable from the FCIC is established for the amount of underwriting gain, or a liability is established for the amount of underwriting loss, associated with these premiums and losses and loss adjustment expenses, which is not permitted by GAAP.

(9) The amount of goodwill allowed as an admitted asset is limited to 10% of capital and surplus and is amortized on a straight-line basis not to exceed 10 years as a component of the change in net unrealized gains or losses in capital and surplus. For GAAP, goodwill is the excess of the amount paid to acquire a company over the fair value of the assets and liabilities acquired and is not amortized, but evaluated annually for impairment. Additionally, certain acquisitions result in identifiable intangible assets for GAAP, while for the NAIC SAP, these amounts are recorded as goodwill.

(Continued)

A reconciliation of the Company's net income and capital and surplus between statutory accounting principles and GAAP is shown below:

	Capital and surplus		Net income (loss)	
	2014	**2013**	**2014**	**2013**
Statutory basis	$ 618,486,236	599,830,559	21,090,728	20,918,160
Differences:				
Deferred income taxes	—	—	(1,724,666)	(863,605)
Goodwill, net of tax	5,062,921	4,552,894	(179,713)	(215,656)
Intangible Asset	(196,917)	(236,300)	(196,917)	(236,300)
Bond valuation, net of tax	(61,078)	(680,458)	—	—
Other	3,405,860	3,405,860	—	—
Total differences	8,210,786	7,041,996	(2,101,296)	(1,315,561)
GAAP basis	$ 626,697,022	606,872,555	18,989,432	19,602,599

(b) Premiums Earned and Unearned Premiums

Premiums are recognized as written premiums on the effective date or as soon as an estimate can be made, but no later than the processing date of the policy. Revenue from such premiums is recorded as earned over the coverage period; premiums applicable to coverage periods in the future are recorded as an unearned premium reserve. The Company computes unearned premiums associated with MPCI on a daily pro rata method over the period of loss covered by the policies.

(c) Reinsurance

Premiums ceded and reinsurance recoverable on paid losses and loss adjustment expenses are reflected as reductions of the respective revenue and expense accounts. Estimates of amounts recoverable from reinsurers on unpaid losses and loss adjustment expenses are recorded as reductions to the loss and loss adjustment expense reserves. Reinsurance transactions are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts.

Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk to minimize its exposure to significant losses from reinsurer insolvencies. A contingent liability exists on such insurance ceded to the extent the Company's reinsurers are unable to meet their contractual obligations. Management is of the opinion that no liability exists with respect to this contingency.

(d) Premium Receivable and Receivable from the Federal Crop Insurance Corporation

As part of the MPCI program, the FCIC utilizes an escrow account to distribute or collect funds. Premiums collected from policyholders by the Company are deposited into this escrow account and are available to pay claims arising under the MPCI program. The Company shares underwriting risk with the FCIC and can earn or lose money according to the claims it must pay policyholders for crop losses. The Company earns an underwriting profit when net retained premiums exceed net incurred losses, and it incurs an underwriting loss when net incurred losses exceed net retained premiums. For purposes of this calculation, the determination of an underwriting gain or loss does not include underwriting expenses or profit share income.

Premium is defined as the contractually determined cost, as specified by the FCIC, to the policyholder for an MPCI policy. As previously mentioned, the MPCI program requires that all premiums collected from policyholders be deposited into the escrow account. The Company does not receive premium payments from the escrow account until a settlement occurs in the fourth quarter of the calendar year following the end of the respective reinsurance year ending June 30. Until this settlement with the FCIC, the Company presents the premium balance within the escrow account as premiums receivable on the statutory statements of admitted assets, liabilities, and capital and surplus.

Under SSAP No. 78, the Company is required to establish a separate asset or liability for the underwriting gain or loss implicit in the escrow account. As of December 31, 2014 and 2013, the Company recorded a receivable from the FCIC of $155,054,945 and $168,495,077, respectively, which is the estimated net underwriting gain of the Company, for each respective year.

(e) Loss and Loss Adjustment Expense Reserves

The liability for loss and loss adjustment expense reserves is based upon estimates for losses reported but not yet paid and losses incurred but not yet reported. These estimates consider past claim payment experience modified for current trends. The estimate of losses incurred but not yet reported includes a provision for losses based on the ultimate anticipated underwriting gain or loss by crop year or growing season. The estimate of loss adjustment expenses incurred but not reported includes provision for loss adjustment expenses based on expected ultimate claim counts. These amounts are recorded net of amounts recoverable on reinsurance placed with reinsurers. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy.

The loss and loss adjustment expense reserves associated with revenue-protection policies include harvest price and crop yield components. The harvest price component is primarily driven by changes in commodity prices, while the crop yield component is primarily driven by weather conditions or other natural events. The harvest prices for the reinsurance year ending June 30 of the current calendar year are published by the USDA prior to December 31, and as such, the harvest price component of the loss and loss adjustment expense reserves as of December 31 is based on final commodity market data and is not subject to future variability. The crop yield component is based on current estimates of crop yields subject to the estimation process described in the preceding paragraph.

(Continued)

(f) Funds Held under Reinsurance Treaties

Loss claims are paid directly to farmers participating in the MPCI program by RCIA and the FCIC. Upon settlement of the crop year and the related escrow account, funds from the escrow account will be used to reimburse RCIA and the FCIC for these paid claims in accordance with the terms of the MPCI program. Until the settlement of the crop year is finalized, the Company accrues these paid claims payable to RCIA and the FCIC on the statutory statements of admitted assets, liabilities, and capital and surplus.

(g) Federal Income Taxes

SSAP No. 101 has: 1) limited admissibility to either zero years and zero percent, one year and ten percent, or three years and fifteen percent based on Realization Threshold Limitation Tables, 2) changed the recognition threshold for recording tax contingency reserves from a probable liability standard to a more-likely than-not liability standard, and 3) required consideration of reversal pattern of deferred tax assets and deferred tax liabilities in determining the extent to which deferred tax liabilities could offset deferred tax assets on the statutory statements of admitted assets, liabilities and capital and surplus.

The Company utilizes the asset and liability method of accounting for taxes. Deferred tax assets and liabilities, net of any nonadmitted portion, are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Gross deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled and are considered for a valuation allowance and admitted asset status according to the admissibility tests as set forth by the NAIC. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Management has determined that all tax assets will be realized and therefore will not be reduced by a valuation allowance. Changes in deferred tax assets and liabilities, including changes attributable to changes in tax rates, are recognized as a component of unassigned surplus.

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. The Company does not have any unrecognized tax benefits as of December 31, 2014 and 2013.

The Company's federal income tax return is consolidated with other subsidiaries of Wells Fargo. Generally, the taxable income of each affiliate within the consolidated group is reduced to the lowest possible amount. However, in certain circumstances, elections may be made and transactions structured or timed differently than what might have been made on a separate-company basis in order to maximize tax benefit on a consolidated basis. These methods, which cannot be changed without the express permission of the Commissioner of the Internal Revenue Service, require the group to allocate to loss members the consolidated tax benefits to the member generating the tax credit of income, subject to special rates in the year the benefits are realized by the consolidated group. The alternative minimum tax is prorated on the basis of separate company alternative minimum taxable income.

(h) Investments

Bonds, with a NAIC rating of 1 or 2, are carried at amortized cost, adjusted for amortization of premiums, accretion of discounts, and any impairments. Premiums and discounts are amortized and accreted over the estimated lives of the related bonds based on the interest yield method. NAIC rating designations are provided by the Securities Valuation Office (SVO). It is the investment policy of the Company to invest only in bonds with a NAIC rating designation of 1.

Investment fair values are based on prices published by the pricing service of Interactive Data Corp.

As described in note 9, the Company holds a $100,000,000 on demand promissory note from Wells Fargo. This instrument is carried at face value and interest, as described in note 9, is accrued monthly.

Investments that will mature within one year from the date of purchase are classified as short-term investments. These investments are carried at cost, which approximates fair value.

Realized investment gains and losses are recorded on the trade date and are determined using the specific-identification method and included within net investment income in the statutory statement of operations.

Impairments in the value of investments held by the Company, considered to be other-than-temporary, are recorded as a reduction of the cost of the security, and a corresponding realized loss is recognized in the statutory statements of operations. The Company reviews all investments on a quarterly basis and recognizes other-than-temporary impairment after evaluating various subjective and objective factors, such as the financial condition of the issuer, market, and industry.

The Company recognizes interest income as earned. The Company also recognizes interest income as earned on the other invested assets related to Wells Fargo balance. Investment income is reported net of related investment expenses.

Interest rate risk is the risk that interest rates will change and cause a decrease in the value of the Company's investments relative to the value of its liabilities, and/or unfavorable changes in prepayment activity, resulting in compressed interest margins. For example, if liabilities come due more quickly than assets mature, an insurer could potentially have to borrow funds or sell assets prior to maturity and potentially recognize a gain or a loss. In some investments that contain borrower options, this risk may be realized through unfavorable cash flow patterns, e.g., increased principal repayment when interest rates have declined. In some investments that permit prepayment at the borrower option, make-whole provisions are required such that if the borrower prepays in a lower-rate environment, the Company is compensated for the loss of future income. In other situations, the Company accepts some interest rate risk in exchange for higher yield on the investment.

Credit risk is the risk of the Company's investments becoming of less value or of no worth if the issuing entity's creditworthiness is impaired or if the entity is no longer a going concern. Over 47%

of the Company's investments are issued by U.S. government-sponsored agencies, 16% is other invested assets in an affiliate, 33% are short term investments, 2% are investments in corporate debt securities, and less than 1% is cash or cash equivalents.

(i) Cash and Short-Term Investments

For purposes of the statutory statements of cash flow, short-term investments are considered cash equivalents.

(j) Use of Estimates

The preparation of statutory financial statements in conformity with SAP requires management to make certain estimates that affect admitted assets and liabilities, including reporting or disclosure of contingent assets and liabilities as of the statutory statements of admitted assets, liabilities, and capital and surplus date, and the reported amounts of revenues and expenses during the reporting period. Future events, including changes in weather patterns, timing of harvest, interest rates, credit conditions, and asset valuations, could cause actual results to differ from the estimates used in the statutory financial statements.

The most significant estimates include those used in determining the liability for loss and loss adjustment expense reserves. The estimation method for the liability for loss and loss adjustment expense reserves is continually reviewed and revised to reflect current conditions and trends. The resulting adjustments are reflected in operations in the periods in which they are determined. Other estimates, such as the recoverability of reinsurance balances, are continually monitored, evaluated, and adjusted. Although some variability is inherent in these estimates, the recorded amounts reflect management's best estimates based on facts and circumstances as of the statutory statements of admitted assets, liabilities, and capital and surplus date. Management believes the amounts provided are appropriate.

(k) Profit Sharing

For 2014 and 2013, RCIC entered into MPCI and livestock profit sharing agreements with Empire Fire and Marine Insurance Company (Empire), Fireman's Fund Insurance Company (Fireman's), Munchener Ruckversicherung-Geselischaft (Munchener), and Partner Reinsurance Company of the U.S. (Partner Re). The terms of the agreements with Empire and Fireman's call for a 40.0% profit share on underwriting gains between 16.0% and 18.0%, inclusive, on the Company's retained premium and a profit share of 50.0% on underwriting gains above 18.0% on the reinsurer's share of ceded premium. The terms of the agreement with Munchener call for a 65.0% profit share on underwriting gains above 15.5% on the reinsurers share of ceded premium less amounts paid by the reinsurer for compliance expense, extra-contractual obligations or loss adjustment expense for a prior reinsurance year less 25.0% of net loss by the reinsurer under the crop hail named peril quota share contract for the same reinsurance year less 25.0% of net loss by the reinsurer under the crop hail named peril quota share contract from the prior reinsurance year. The terms of the agreement with Partner Re call for a profit share of 50.0% on underwriting gains above 16.0% on the reinsurer's share of ceded premium. The terms of the profit sharing agreement call for a monthly settlement of the profit share income.

Profit share income is included in underwriting gains (loss) in the statutory statements of operations. The amount of profit share income recognized in 2014 and 2013 was $917,927 and $1,134,609, respectively.

(l) Service fee income

The Company has a service agreement with RCIA granting RCIA access to the policyholder data purchased from The Hartford Company for the 2008 and 2009 reinsurance year. The Company was paid $1,500,000 for the service in 2014 and 2013, included in service fee income in the statutory statements of operations.

For the flood line of business, the Company has an agreement with Torrent Technologies, Inc., a third party service provider, (Torrent) in which Torrent is responsible for administration services including the collecting of all flood premium, and ensuring all cash is routed to the appropriate source, as well as claim adjusting and any required reporting. The Company receives service fee income for writing flood insurance policies on RCIC paper, net of servicing fee expenses that are retained by Torrent. The Company was paid $1,627,027 and $4,003,987 for services fees in 2014 and 2013, respectively.

(3) Investments

The admitted asset value, gross unrealized gains, gross unrealized losses, and estimated fair value of investments in bonds were as follows:

		2014												
		Less than 12 months				12 months or more				Total				
December 31, 2014	Amortized cost	No.		Unrealized losses	Unrealized gains	Fair Value	No.	Unrealized losses	Unrealized gains	Fair Value	No.	Unrealized losses	Unrealized gains	Fair Value
U.S. government	9,053,794	4	$	(6,515)	2,518	9,049,797	-	-	-	-	4	(6,515)	2,518	9,049,797
U.S. government sponsered agencies	244,919,427	20		(85,518)	394,866	195,236,835	5	(577,840)	-	49,414,100	25	(663,358)	394,866	244,650,935
Corporate	14,511,884	5		(6,568)	88,382	12,083,877	1	(14,438)	-	2,495,383	6	(21,006)	88,382	14,579,260
U.S. Treasury-mortgage backed	35,726,342	3		(71,622)	182,769	35,837,489	-	-	-	-	3	(71,622)	182,769	35,837,489
Total	304,211,447	32	$	(170,223)	668,535	252,207,998	6	(592,278)	-	51,909,483	38	(762,501)	668,535	304,117,481

		2013												
		Less than 12 months				12 months or more				Total				
December 31, 2013	Amortized cost	No.		Unrealized losses	Unrealized gains	Fair Value	No.	Unrealized losses	Unrealized gains	Fair Value	No.	Unrealized losses	Unrealized gains	Fair Value
U.S. government	4,051,785	3	$	(2,757)	2,378	4,051,406	-	-	-	-	3	(2,757)	2,378	4,051,406
U.S. government sponsered agencies	244,951,153	26		(1,603,898)	601,268	253,948,423	0	-	-	-	26	(1,603,898)	601,268	253,948,423
Corporate	20,142,908	8		(70,666)	49,243	20,121,484	0	-	-	-	8	(70,666)	49,243	20,121,484
U.S. Treasury-mortgage backed	39,352,739	3		(50,379)	27,955	39,330,314	-	-	-	-	3	(50,379)	27,955	39,330,314
Total	308,498,585	40	$	(1,727,700)	680,844	317,451,627	0	-	-	-	40	(1,727,700)	680,844	317,451,627

The length of time the bonds with gross unrealized losses at December 31, 2014 and 2013 had been in a continuous loss position is less than 20 and 8 months, respectively. The Company has no intent to sell and has the intent and ability to retain these investments until recovery, which may be maturity.

As of December 31, 2014 and 2013, the number of investment holdings that were in an unrealized loss position was 16 and 15 bonds, respectively. The investments held by the Company were not deemed to be other-than-temporarily impaired in 2014 and 2013. The declines in the fair value of these securities solely reflect the direct and indirect effects of changes in the interest rate environment. The financial condition of the entities backing these securities has not deteriorated. All securities have held investment grade AAA or AA ratings from Moody's since inception.

To the extent unrealized losses are not due to changes in interest rates, securities in an unrealized loss position are reviewed quarterly for other-than-temporary declines in value. Factors considered in determining whether a decline is other-than-temporary include the length of time a security has been in an unrealized loss position, reasons for the decline in value, and expectations for the amount and timing of a recovery in value.

Proceeds from calls/sales of investments in bonds during 2014 and 2013 were $66,328,688 and $56,078,850, respectively. In 2014 and 2013, gains of $0 and $1,247, respectively, were realized on the call/sale of bonds.

At December 31, 2014 and 2013, bonds and short-term investments with a carrying value of $4,694,279 and $4,941,427, respectively, were on deposit with various regulatory authorities, as required by law.

The amortized cost and estimated fair value of bonds as of December 31, 2014, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

		Amortized cost	Fair value
Due in one year or less	$	54,998,837	55,202,615
Due after one year through five years		208,486,268	208,083,770
Due after five years through ten years		16,379,288	16,538,450
Due after ten years		24,347,054	24,292,524
	$	304,211,447	304,117,359

Net investment income includes interest and dividends from the following sources and realized gains (losses):

		2014	2013
Bonds	$	3,078,978	2,851,053
Realized gain (loss) on calls/sales of bonds		—	1,247
Cash and short-term investments		16,955	65,350
Total investment income		3,095,933	2,917,650
Investment expenses		4,384	4,281
Net investment income	$	3,091,549	2,913,369

(4) Fair Value of Financial Instruments

The carrying value and estimated fair value of financial instruments, which were classified as assets and liabilities, are as follows:

	December 31, 2014		December 31, 2013	
	Carrying value	**Estimated fair value**	**Carrying value**	**Estimated fair value**
Admitted assets:				
Bonds	$ 304,211,447	304,117,359	308,498,585	307,450,961
Other invested assets related to Wells Fargo	100,000,000	100,000,000	100,000,000	100,000,000
Short-term investments	203,989,475	203,989,475	169,836,879	169,836,969
Cash and cash equivalents	2,883,556	2,883,556	3,128,570	3,128,570
Receivable from other invested assets related to Wells Fargo	87,990	87,990	141,589	141,589

The carrying value of cash and cash equivalents, short-term investments, receivable for securities, and payable for securities approximates fair value due to the short duration of these instruments. The carrying value of other invested assets related to Wells Fargo and receivable from affiliate approximates fair value due to the variable interest rate of the note.

The fair value of the Company’s bonds has been determined using available market information as of December 31, 2014 and 2013. Although management is not aware of any factors that would significantly affect the estimated fair value, such amounts have not been comprehensively revalued since those dates. Therefore, estimates of fair value subsequent to the valuation dates may differ significantly from the amounts presented herein. Considerable judgment is required to interpret market data to develop the estimates of fair value. There are no bonds carried at fair value.

Fair value represents the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date.

The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Company determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.

Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

The following table summarizes by level of fair value hierarchy the aggregate fair value of all financial assets held by the Company as of December 31, 2014 and 2013.

		December 31, 2014	
	Level 1	**Level 2**	**Level 3**
Bonds:			
U.S. government	$ 9,049,797	—	—
U.S. government sponsored agencies	—	244,650,935	—
Corporate debt securities	—	14,579,138	—
U.S. treasury mortgage backed	—	35,837,489	—
Total	$ 9,049,797	295,067,562	—

		December 31, 2013	
	Level 1	**Level 2**	**Level 3**
Bonds:			
U.S. government	$ 4,051,406	—	—
U.S. government sponsored agencies	—	243,947,755	—
Corporate debt securities	—	20,121,485	—
U.S. treasury mortgage backed	—	39,330,315	—
Total	$ 4,051,406	303,399,555	—

There were no asset transfers between Level 1 and Level 2 during 2013 and 2014.

(5) Income Taxes

The provision for federal income taxes is comprised of two components, current income taxes and deferred income taxes. Deferred federal income taxes arise from changes during the year in cumulative temporary differences between statutory basis and tax basis of assets and liabilities. SSAP No. 101 limits the admissibility of deferred tax assets (DTAs) based on an insurer's Risk-Based Capital and the ratio of its adjusted DTAs to adjusted capital and surplus. The guidance also rejects the GAAP guidance from Financial Interpretation No. 48, *Accounting of Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (ASC 740 in codification)*, and instead modifies SSAP No. 5R, *Liabilities, Contingencies and Impairments of Assets-Revised*, requiring that a "more likely than not" rather than a "probable" standard to be applied in determining federal and foreign income tax loss contingencies.

(a) Deferred Tax Assets/(Liabilities)

Components of Net Deferred Tax Asset/(Liability)

	2014			2013			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Gross deferred tax assets (DTAs)	$ 3,221,516	—	3,221,516	4,827,585	—	4,827,585	(1,606,069)	—	(1,606,069)
Statutory valuation allowance adjustment	—	—	—	—	—	—	—	—	—
Adjusted gross deferred tax assets	3,221,516	—	3,221,516	4,827,585	—	4,827,585	(1,606,069)	—	(1,606,069)
Deferred tax assets non-admitted	—	—	—	—	—	—	—	—	—
Subtotal net deferred tax assets	3,221,516	—	3,221,516	4,827,585	—	4,827,585	(1,606,069)	—	(1,606,069)
Deferred tax liabilities (DTLs)	951,278	—	951,278	832,681	—	832,681	118,597	—	118,597
Net admitted deferred tax assets	$ 2,270,238	—	2,270,238	3,994,904	—	3,994,904	(1,724,666)	—	(1,724,666)

Admission Calculation Components

	2014			2013			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Federal income taxes paid in prior years recoverable through loss carry backs	$ 3,221,516	—	3,221,516	4,827,585	—	4,827,585	(1,606,069)	—	(1,606,069)
Adjusted gross deferred tax assets expected to be realized excluding the amount of deferred tax assets from above after application of the threshold limitation.	—	—	—	—	—	—	—	—	—
Adjusted gross deferred tax assets expected to be realized following the balance sheet date	3,221,516	—	3,221,516	4,827,585	—	4,827,585	(1,606,069)	—	(1,606,069)
Adjusted gross deferred tax assets allowed per limitation threshold	—	—	92,432,400	—	—	89,268,791	—	—	3,163,609
Adjusted gross deferred tax assets excluding the amount of deferred tax assets from above offset by gross deferred tax liabilities	—	—	—	—	—	—	—	—	—
Deferred tas assets admitted as the result of application SSAP No. 101	$ 3,221,516	—	3,221,516	4,827,585	—	4,827,585	(1,606,069)	—	(1,606,069)

Other Admissibility Criteria

		2014	2013
a. Ratio percentage used to determine recovery period and threshold limitation amount		495%	392%
b. Amount of adjusted capital and surplus used to determine recovery period and threshold limitation in 2(b)2 above	$	616,215,997	595,125,271

Impact of Tax Planning Strategies

There were no tax planning strategies as of December 31, 2014 and 2013.

(b) ***Deferred Tax Liabilities Not Recognized***

There are no temporary differences for which deferred tax liabilities are not recognized.

(c) ***Current and Deferred Income Taxes***

Current Income Tax

		2014	2013	Change
Federal	$	8,703,214	9,935,577	(1,232,363)
Foreign		—	—	—
Subtotal		8,703,214	9,935,577	(1,232,363)
Federal and foreign income taxes incurred	$	8,703,214	9,935,577	(1,232,363)

Deferred Tax Assets

		2014	2013	Change
Ordinary:				
Discounting of unpaid losses	$	1,057,565	885,557	172,008
Unearned premium reserve		2,104,731	3,884,733	(1,780,002)
Other		59,220	57,295	1,925
Subtotal		3,221,516	4,827,585	(1,606,069)
Statutory valuation allowance adjustment		—	—	—
Nonadmitted		—	—	—
Admitted ordinary deferred tax assets		3,221,516	4,827,585	(1,606,069)
Capital		—	—	—
Admitted deferred tax assets	$	3,221,516	4,827,585	(1,606,069)

Deferred Tax Liabilities

		2014	2013	Change
Ordinary:				
Other	$	951,278	832,681	118,597
Subtotal		951,278	832,681	118,597
Capital		—	—	—
Deferred tax liabilities	$	951,278	832,681	118,597
Net deferred tax assets	$	2,270,238	3,994,904	(1,724,666)

The change in the net deferred income taxes is comprised of the following (this analysis is exclusive of the nonadmitted DTAs as the Change in Nonadmitted Assets is reported separately from the Change in Net Deferred Income Taxes in the surplus section of the Annual Statement);

		2014	2013	Change
Total deferred tax assets	$	3,221,516	4,827,585	(1,606,069)
Total deferred tax liabilities		(951,278)	(832,681)	(118,597)
Change in net deferred income tax	$	2,270,238	3,994,904	(1,724,666)

(d) Reconciliation of Federal Income Tax Rate to Actual Effective Rate

Among the more significant book to tax adjustments were the following:

		2014	2013
Permanent differences:			
Provision computed at statutory rate	$	10,427,880	10,798,808
Other		—	374
Totals		10,427,880	10,799,182
Federal and foreign income taxes incurred		8,703,214	9,935,577
Change in net deferred income taxes		1,724,666	863,605
Total statutory income taxes	$	10,427,880	10,799,182

(e) Operating Loss and Tax Credit Carryforwards and Protective Tax Deposits

At December 31, 2014, the Company did not have any unused operating loss carryforwards available to offset against future taxable income.

The Company did not have any protective tax deposits under Section 6603 of the Internal Revenue Code.

The amount of Federal income taxes incurred that are available for recoupment in the event of future net losses are:

		Ordinary	Capital	Total
2014	$	8,703,213	—	8,703,213
2013		10,022,878	—	10,022,878
2012		—	—	—

(f) Consolidated Federal Income Tax Return

The Company is included in the consolidated federal income tax return of Wells Fargo.

In general, the amount of federal income tax paid by or refunded to each Wells Fargo affiliate for each tax year is determined on the basis of the tax allocation methods elected by Wells Fargo in its consolidated federal income tax return as set forth in Internal Revenue Code Section 1552(a)(2) and Treasury Regulations Section 1.1502-33(d)(2)(ii). These methods which cannot be changed without the express permission of the Commissioner of the Internal Revenue Service, require the group to allocate to loss members the consolidated tax benefits to the member generating the tax credit of income subject to special rates in the year the benefits are realized by the consolidated group. The alternative minimum tax is prorated on the basis of separate company alternative minimum taxable income.

(Continued)

The Company's income tax returns that remain open for examination are for the years 2011 and subsequent.

(g) Federal or Foreign Federal Income Tax Loss Contingencies

The Company does not have any tax loss contingencies for which it is reasonably possible that the total liability will significantly increase within twelve months of the reporting date.

(6) Loss and Loss Adjustment Expense Reserves

The net loss and loss adjustment expense reserve balances presented in the following table are shown net of third-party reinsurance activity, and net of activity with the FCIC. For the years ended December 31, 2014 and 2013, loss and loss adjustment expenses were $369,871,979 and $467,041,897, respectively.

Activity in the liability for loss and loss adjustment expense reserves is summarized as follows:

		2014	2013
Net balance at January 1, net of reinsurance recoverable on loss and LAE	$	64,364,367	41,765,973
Incurred related to:			
Current year		387,810,002	485,721,174
Prior years		(17,938,023)	(18,679,277)
Total incurred		369,871,979	467,041,897
Paid related to:			
Current year		344,791,229	444,922,119
Prior years		(2,294,120)	(478,616)
Total paid		342,497,109	444,443,503
Net balance at December 31, net of reinsurance recoverable on loss and LAE	$	91,739,237	64,364,367

As a result of changes in estimates of incurred losses in prior years, the loss and loss adjustment expenses incurred, net of third-party reinsurance and FCIC activity for 2014 and 2013, decreased $17,938,023 and $18,679,277 in 2014 and 2013, respectively. The primary factor was favorable loss development in the prior crop years for the MPCI line. The current year's incurred loss and loss adjustment expense increased due to adverse weather conditions in the Midwest United States. Loss reserves are established using accepted actuarial techniques, but are subject to variability due to the inherent nature of MPCI coverage and the impact that weather activity has on actual loss experience.

(7) Reinsurance

In the ordinary course of business, the Company reinsures certain risks with other insurance companies. The Company has various reinsurance agreements with third-party insurance companies whereby the Company assumes MPCI, livestock, crop-hail, and named-peril premiums written. The Company has entered into a Standard Reinsurance Agreement (SRA) with the FCIC, pursuant to which the Company cedes a percentage of its direct and assumed MPCI premiums to the FCIC. The Company also cedes a percentage of its retained MPCI business to third-party insurance companies and private market reinsurers.

The effect of reinsurance transactions on premiums earned, losses and loss adjustment expenses incurred, and loss and loss adjustment expense reserves for the respective years ended December 31 is as follows:

		2014	2013
Premiums written:			
Direct	$	2,024,662,088	2,530,898,816
Assumed		12,780,762	10,294,135
Ceded		(1,657,313,942)	(2,049,699,693)
	$	380,128,908	491,493,258
Premiums earned:			
Direct	$	2,112,415,615	2,608,326,289
Assumed		12,780,762	10,294,135
Ceded		(1,719,638,871)	(2,115,649,900)
	$	405,557,506	502,970,524
Losses and loss adjustment expenses incurred:			
Direct	$	1,900,175,207	2,790,166,022
Assumed		11,074,542	68,497,733
Ceded		(1,541,377,770)	(2,391,621,858)
	$	369,871,979	467,041,897
Loss and loss adjustment expense reserves:			
Direct	$	802,704,151	542,298,424
Ceded		(710,964,914)	(477,934,057)
	$	91,739,237	64,364,367

For the respective years ended December 31, the Company had significant aggregate reinsurance recoverables on paid and unpaid losses (including those incurred but not reported) and loss adjustment expenses, and ceded unearned premiums that exceeded 3% of capital and surplus, as follows:

	A.M. Best rating		2014	2013
FCIC	Not rated	$	378,845,000	859,843,000
Fireman’s Fund Insurance Company	A		342,010,000	405,567,000
Empire Fire and Marine Insurance Company	A+		427,512,000	506,947,000
Munchener Ruckversicherungs-Gesellschaft	A+		342,010,000	405,549,000
Partner Reinsurance Company of the U.S.	A+		171,006,000	202,774,000

All other reinsurers are not considered significant to the financial statements and all have an A.M. Best rating of A or better.

Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk to minimize its exposure to significant losses from reinsurer insolvencies. A contingent liability exists on such insurance ceded to the extent the Company's reinsurers are unable to meet their contractual obligations. Management is of the opinion that no liability exists with respect to this contingency.

The Company has no contingent commissions due if all reinsurance was canceled.

(8) Minimum Capital and Surplus Requirements and Dividend Restriction

An insurance enterprise's state of domicile imposes minimum risk-based capital requirements that were developed by the NAIC to ensure the Company meets minimum statutory capital and surplus requirements. The formulas for determining the amount of risk-based capital specify various weighting factors that are applied to financial balances or various levels of activity based on the perceived degree of risk. Regulatory compliance is determined by a ratio of an enterprise's regulatory total adjusted capital to its authorized control level risk-based capital, as defined by the NAIC. The Company exceeded its risk-based capital requirements as of December 31, 2014 and 2013.

Dividend payments by the Company cannot exceed the greater of 10% of statutory capital and surplus or the statutory net income for the preceding year-end without prior approval from the Commerce Department. Based on these limitations and 2013 statutory results, the maximum amount available for the payment of dividends during 2014 by the Company without prior regulatory approval is $61,848,624. The Company paid no dividends in 2014 and 2013.

(9) Related-Party Transactions

The Company's direct premiums are written by RCIA, the Company's parent, 3501 Thurston Avenue, Anoka, MN 55303, Federal ID 41-1708414. RCIA holds an exclusive contract and has the authority to produce, underwrite, negotiate, bind, and administer (including collection of premiums, payment of claims, and accounting) business on behalf of the Company. In 2014 and 2013, $2,024,662,088 and $2,530,898,816, respectively, of direct premiums were written by RCIA.

The Company's investments are held by Wells Fargo Securities, LLC, a subsidiary of Wells Fargo. A nominal fee is paid to Wells Fargo Securities, LLC for this service.

The Company does not have any employees; therefore, under the terms of a Service Fee Agreement, the Company pays RCIA a semi-annual fee for services rendered by RCIA, which totaled $650,000 and $500,000 for the years ended December 31, 2014 and 2013 respectively, included in underwriting expenses in the statutory statements of operations.

Under the terms of the General Agency Crop Insurance Agreement, RCIA agrees to pay on behalf of the Company all expenses related to conducting and supervising the MPCI business. Such expenses include, but are not limited to, agent licensing, agency supplies, advertising, and sub-agent commissions. The Company pays RCIA agent commissions plus 11% on all gross crop-hail and named-peril premiums, which were approximately $13,429,615 and $13,466,398 for the years ended December 31, 2014 and 2013, respectively, reported as part of underwriting expenses in the statutory statements of operations.

The Company has a service agreement with RCIA granting RCIA access to the policyholder data purchased from The Hartford Company for the 2008 and 2009 reinsurance year. The Company was paid $1,500,000 for the service in 2014 and 2013, included in service fee income in the statutory statements of operations.

The Company has a loan to Wells Fargo of $100,000,000, which is due on demand and is presented in the statutory statements of admitted assets, liabilities, and capital and surplus as other invested assets related to Wells Fargo. The promissory note bears a variable monthly interest rate defined as a one calendar month average of the three-month LIBOR. The interest rate as of December 31, 2014 and 2013 was 1.37% and 1.66%, respectively. Accrued interest receivable from other invested assets related to Wells Fargo as of December 31, 2014 and 2013 was $87,990 and $141,589, respectively. Total interest earned for the years ended December 31, 2014 and 2013 was $1,397,361 and $1,657,815, respectively, all of which represented payments of interest.

(10) Contingencies

The Company is subject to claims, disputes, and litigation arising in the normal course of business activities. It is management's opinion that any such actions can be defended with no material adverse effect on the Company's surplus or are adequately covered by insurance. In some instances, management has established accruals in RCIA for potential losses associated with asserted litigation. Management considers these accruals to be adequate to cover any potential exposure.

(11) Goodwill

Effective October 2004, the Company acquired the renewal rights for MPCI business previously written by The Hartford. The cost of the renewal rights was $7,408,717 resulting in an intangible asset and goodwill totaling $7,408,717 being recorded by the Company. This intangible asset and goodwill balance is included in the goodwill and intangible assets caption on the statutory statements of admitted assets, liabilities, and capital and surplus. The Company is amortizing this intangible asset and goodwill over 10 years using the straight-line method. In 2014 and 2013 respectively, amortization of $710,384 and $852,461 was recorded as an adjustment in unassigned surplus resulting in a goodwill and intangible balance of $0 and $710,384 in 2014 and 2013 repectively.

(12) Subsequent Events

There were no subsequent events requiring adjustment to the statutory financial statements or disclosures through May 28, 2015, the date the Company's statutory financial statements were issued.

Schedule 1

RURAL COMMUNITY INSURANCE COMPANY

(A Wholly Owned Subsidiary of Rural Community Insurance Agency, Inc.)

Schedule of Supplemental Investment Risks Interrogatories

December 31, 2014

(1) The total admitted assets of the Company are $3,758,240,333.

(2) The five largest exposures to a single issuer/borrower/investment, excluding U.S. government, U.S. government-sponsored agency securities, and those U.S. government money market funds listed in the Appendix to the SVO Practices and Procedures Manual as exempt, property occupied by the Company, and policy loans are:

Issuer	Amount	Percentage of total admitted assets
Wells Fargo & Company	$ 100,000,000	2.66%
Berkshire Hathaway Fin	2,527,940	0.07
Microsoft Corp	2,521,329	0.07
3M Company	2,509,820	0.07
IBM Corp	2,502,306	0.07

(3) The total admitted assets held in bonds and preferred stocks, by NAIC rating, are:

Bonds			Preferred stocks		
NAIC–1	$ 508,200,922	1.00%	P/RP–1	$	—%
NAIC–2		—	P/RP–2		—
NAIC–3		—	P/RP–3		—
NAIC–4		—	P/RP–4		—
NAIC–5		—	P/RP–5		—
NAIC–6		—	P/RP–6		—

(4) The total admitted assets held in foreign investments (regardless of whether there is any foreign currency exposure) and unhedged foreign currency exposure (defined as the statement value of investments denominated in foreign currencies that are not hedged by financial instruments qualifying for hedge accounting as specified in SSAP No. 31, *Derivative Instruments*) are $0, including foreign currency-denominated investments of $0 supporting insurance liabilities denominated in that same foreign currency of $0, and excluding Canadian investments and currency exposure of $0.

(5) The total admitted assets held in Canadian investments and unhedged Canadian currency exposure are $0, including Canadian currency-denominated investments of $0 supporting Canadian-denominated insurance liabilities of $0.

(6) The total admitted assets held in investments with contractual sales restrictions are $0 (defined as investments having restrictions that prevent investments from being sold within 90 days).

RURAL COMMUNITY INSURANCE COMPANY
(A Wholly Owned Subsidiary of Rural Community Insurance Agency, Inc.)

Schedule of Supplemental Investment Risks Interrogatories

December 31, 2014

(7) The Company holds no equity interests (including investments in the shares of mutual funds, preferred stocks, publicly traded equity securities, and other equity securities, and excluding money market and bond mutual funds listed in the Appendix to the SVO Practices and Procedures Manual as exempt or Class 1).

(8) The total admitted assets held in nonaffiliated, privately placed equities (included in other equity securities) and excluding securities eligible for sale under Securities and Exchange Commission (SEC) Rule 144a or SEC Rule 144 without volume restrictions are $0.

(9) The total admitted assets held in general partnership interests (included in other equity securities) are $0.

(10) The Company does not have any aggregate mortgage loan interests (defined as the combined value of all mortgages secured by the same property or same group of properties).

(11) The Company does not have any interests in one parcel or group of contiguous parcels of real estate, as reported in schedule A.

(12) The Company has no admitted assets held subject to the following types of agreements: securities lending, repurchase agreements, reverse repurchase agreements, dollar repurchase agreements, and dollar reverse repurchase agreements.

(13) The Company does not hold warrants not attached to other financial statements, options, caps, and floors.

(14) The Company does not hold admitted assets as potential exposure (defined as the amount determined in accordance with the NAIC Annual Statement Instructions) for collars, swaps, and forwards.

(15) The Company does not hold admitted assets as potential exposure (defined as the amount determined in accordance with the NAIC Annual Statement Instructions) for futures contracts.

(16) The Company does not have any admitted assets included in the Write-ins for Invested Assets category included in the Summary Investment Schedule.

See accompanying independent auditors’ report.

RURAL COMMUNITY INSURANCE COMPANY
(A Wholly Owned Subsidiary of Rural Community Insurance Agency, Inc.)

Schedule of Supplemental Reinsurance Disclosures

December 31, 2014

There are no quota share reinsurance contracts containing provisions for limiting the reinsurer's losses below the stated quota share percentage, and the amount of reinsurance credit taken does not reflect the reduction of quota share coverage caused by the applicable limiting provisions.

The Company has not reinsured any risk with another entity and agreed to release the entity from liability, in whole or in part, from any loss that may occur on the risk, or portion thereof.

The Company has not ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statutory financial statements: (i) the Company recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders, reported calendar year written premium ceded, or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) the Company accounted for the contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:

(a) A contract term longer than two years and the contract is noncancelable by the reporting entity during the contract term;

(b) A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or affiliate of the reinsurer;

(c) Aggregate stop-loss reinsurance coverage;

(d) An unconditional or unilateral right by either party to commute the reinsurance contract except for such provisions, which are only triggered by a decline in the credit status of the other party;

(e) A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or

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

The Company has not, during the period covered by the statutory financial statements, ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), excluding cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member where:

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

(b) 25% or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates.

(Continued)

Schedule 2

RURAL COMMUNITY INSURANCE COMPANY
(A Wholly Owned Subsidiary of Rural Community Insurance Agency, Inc.)

Schedule of Supplemental Reinsurance Disclosures

December 31, 2014

Except for the transactions meeting the requirements of paragraph 30 of SSAP No. 62R, *Property and Casualty Reinsurance*, the Company has not ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the statutory financial statements, and either:

(a) Accounted for that contract as reinsurance (either prospective or retroactive) under SAP and as a deposit under GAAP or

(b) Accounted for the contract as reinsurance under GAAP and as a deposit under SAP.

See accompanying independent auditors' report.

Schedule 3

RURAL COMMUNITY INSURANCE COMPANY

(A Wholly Owned Subsidiary of Rural Community Insurance Agency, Inc.)

Summary Investment Schedule

December 31, 2014

	Gross investment holdings		Admitted assets as reported in the Annual Statement	
	Amount	**Percentage**	**Amount**	**Percentage**
Bonds:				
U.S. Treasury securities	$ —	—	$ —	—
U.S. government agency and corporate obligations (excluding mortgage-backed securities):				
Issued by U.S. government agencies	9,053,794	0.01%	9,053,794	0.01%
Issued by U.S. government-sponsored agencies	244,919,427	0.40%	244,919,427	0.40%
Foreign government (including Canada, excluding mortgage-backed securities)	—	—	—	—
Securities issued by state, territories, and possessions and political subdivisions in the U.S.:				
State, territories, and possessions general obligations	—	—	—	—
Political subdivisions of states, territories, and possessions and political subdivisions general obligations	—	—	—	—
Revenue and assessment obligations	—	—	—	—
Industrial development and similar obligations	—	—	—	—
Mortgage-backed securities (includes residential and commercial MBS):				
Pass-through securities:				
Guaranteed by GNMA	—	—	—	—
Issued by FNMA and FHLMC	16,379,288	0.03%	16,379,288	0.03%
Privately issued	—	—	—	—
CMOs and REMICs:				
Issued by GNMA and FHLMC	19,347,054	0.03%	19,347,054	0.03%
Privately issued and collateralized by MBS or guaranteed by GNMA, FNMA, or FHLMC	—	—	—	—
All other privately issued	—	—	—	—
Other debt and other fixed-income securities (excluding short-term):				
Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	12,087,400	0.02%	12,087,400	0.02%
Unaffiliated foreign securities	2,424,484	0.01%	2,424,484	0.01%
Affiliated securities	—	—	—	—
Equity interests:				
Investments in mutual funds	—	—	—	—
Preferred stocks:				
Affiliated	—	—	—	—
Unaffiliated	—	—	—	—
Publicly traded equity securities:				
Affiliated	—	—	—	—
Unaffiliated	—	—	—	—
Other equity securities:				
Affiliated	—	—	—	—
Unaffiliated	—	—	—	—
Other equity interests, including tangible personal property under lease:				
Affiliated	—	—	—	—
Unaffiliated	—	—	—	—
Mortgage loans:				
Construction and land development	—	—	—	—
Agricultural	—	—	—	—
Single-family residential properties	—	—	—	—
Multifamily residential properties	—	—	—	—
Commercial loans	—	—	—	—

Schedule 3

RURAL COMMUNITY INSURANCE COMPANY

(A Wholly Owned Subsidiary of Rural Community Insurance Agency, Inc.)

Summary Investment Schedule

December 31, 2014

	Gross investment holdings		Admitted assets as reported in the Annual Statement	
	Amount	**Percentage**	**Amount**	**Percentage**
Real estate investments:				
Property occupied by the Company	$ —	—	$ —	—
Property held for production of income (includes $0 of property acquired in satisfaction of debt)	—	—	—	—
Property held for sale ($0, including property acquired in satisfaction of debt)	—	—	—	—
Policy loans	—	—	—	—
Receivable for securities	—	—	—	—
Cash and short-term investments	206,873,031	33.85%	206,873,031	33.85%
Other invested assets	100,000,000	16.36%	100,000,000	16.36%
Total invested assets	$ 611,084,478	1.00%	$ 611,084,478	1.00%

See accompanying independent auditors' report.