

JUL 01 2021

FILED

CERTIFICATION

July 1, 2021

I, Eric Dunning, Director of Insurance of the State of Nebraska, do hereby certify that the attached is a full and correct copy of the Financial Examination Report of

HAYMARKET INSURANCE COMPANY

AS OF

DECEMBER 31, 2019

The report is now on file and forming a part of the records of this Department.

I hereto subscribe my name under the seal of my office at Lincoln, Nebraska.





DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

Notice of the proposed report for the financial examination of

HAYMARKET INSURANCE COMPANY

49 WEST 23RD STREET, 8TH FLOOR

NEW YORK, NY 10010

dated as of December 31, 2019, verified under oath by the examiner-in-charge on
June 9, 2021, and received by the company on June 9, 2021, has been adopted
with modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3) (a).

Dated this 21st day of June 2021.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

A handwritten signature in black ink, appearing to read 'Justin C. Schrader', is written over a horizontal line.

Justin C. Schrader, CFE
Chief Financial Examiner

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

HAYMARKET INSURANCE COMPANY

as of

December 31, 2019

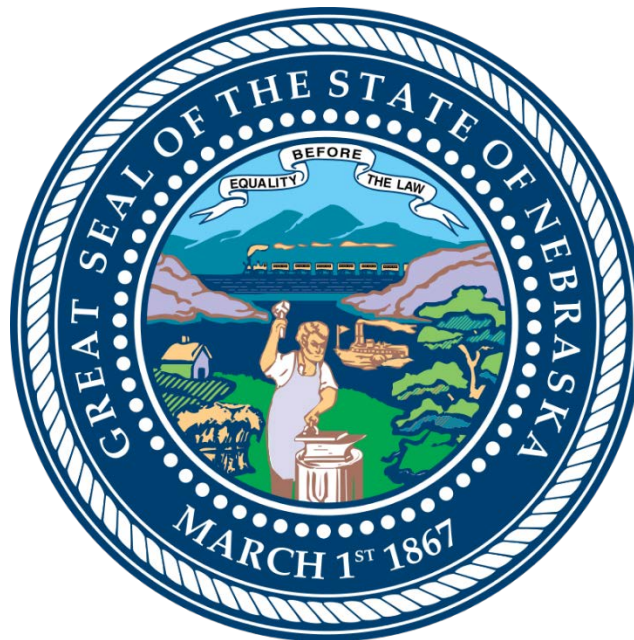


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New York City, New York
June 3, 2021

Honorable Eric Dunning
Director of Insurance
Nebraska Department of Insurance
1526 K Street, Suite 200
Lincoln, Nebraska 68508

Dear Sir:

Pursuant to your instruction and authorizations, and in accordance with statutory requirements, an examination has been conducted of the financial condition and business affairs of:

HAYMARKET INSURANCE COMPANY

which has its Statutory Home Office located at

**222 South 15th Street, Suite 1202S
Omaha, NE 68102**

with its Principal Executive Office located at

**49 West 23rd Street, 8th Floor
New York, NY 10010**

(hereinafter also referred to as the “Company”), and the report of such examination is respectfully presented herein.

INTRODUCTION

The State of Nebraska last examined the Company as of December 31, 2016. The current financial condition examination covers the intervening period to and includes the close of business on December 31, 2019 and such subsequent events and transactions as were considered pertinent to this report. The States of Nebraska, South Carolina, and Utah participated in this examination and assisted in the preparation of this report.

The same examination staff conducted concurrent financial condition examinations of the Company’s affiliates, Ability Insurance Company (AIC), Atlantic Coast Life Insurance

Company (ACL), Foxtrot Re, LLC (FOX), Jazz Reinsurance Company (JZR), Sentinel Security Life Insurance Company (SSL), and Southern Atlantic Re, Inc. (SAR).

SCOPE OF EXAMINATION

This examination was conducted pursuant to and in accordance with both the NAIC Financial Condition Examiners Handbook (Handbook) and Section §44-5904(1) of the Nebraska Insurance Statutes. The Handbook requires that examiners plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including but not limited to corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and Annual Statement Instructions, when applicable to domestic state regulations.

The examination was completed under coordination of the holding company group approach with the Nebraska Department of Insurance (NDOI), as the coordinating state, the South Carolina Department of Insurance (SCDOI), and the Utah Insurance Department (UID). The companies examined under this approach benefit to a large degree from common management, systems and processes, and internal control and risk management functions that are administered at the consolidated or business unit level.

The coordinated examination applies procedures sufficient to comprise a full scope financial examination of each of the companies in accordance with the examination procedures and standards promulgated by the NAIC and by the respective state insurance departments where the companies are domiciled. The objective is to enable each domestic state to report on their

respective companies' financial condition and to summarize key results of examination procedures.

A general review was made of the Company's operations and the manner in which its business has been conducted in order to determine compliance with statutory and charter provisions. The Company's history was traced and has been set out in this report under the caption "Description of Company." All items pertaining to management and control were reviewed, including provisions for disclosure of conflicts of interest to the Board of Directors and the departmental organization of the Company. The Articles of Incorporation and By-Laws were reviewed, including appropriate filings of any changes or amendments thereto. The minutes of the meetings of the Shareholder, Board of Directors, and committees held during the examination period were read and noted. Attendance at meetings, proxy information, election of Directors and Officers, and approval of investment transactions were also noted.

The fidelity bond and other insurance coverages protecting the Company's property and interests were reviewed. Certificates of Authority to conduct the business of insurance in the various states were inspected, and a survey was made of the Company's general plan of operation.

Data reflecting the Company's growth during the period under review, as developed from the Company's filed annual statements, is reflected in the financial section of this report under the caption "Body of Report."

The Company's reinsurance facilities were ascertained and noted and have been commented upon in this report under the caption "Reinsurance." Accounting records and procedures were tested to the extent deemed necessary through the risk-focused examination

process. The Company's method of claims handling and procedures pertaining to the adjustment and payment of incurred losses were also noted.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This included a review of workpapers prepared by Larson & Company, the Company's external auditors, during their audit of the Company's accounts for the year ended December 31, 2019. Portions of the auditor's workpapers have been incorporated into the workpapers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination. This utilization was performed pursuant to Title 210 (Rules of the Nebraska Department of Insurance), Chapter 56, Section 013.

Any failure of items to add to the totals shown in schedules and exhibits appearing throughout this report is due to rounding.

DESCRIPTION OF COMPANY

HISTORY

The Company was incorporated under the laws of the State of Nebraska on August 25, 2015 as a reinsurer of certain fixed annuity and deposit fund contracts.

The Company is wholly-owned by Haymarket Holdings I, LLC (Haymarket Holdings), a Delaware limited liability company. Haymarket Holdings is wholly-owned by Advantage Capital Holdings, LLC (A-CAP), formed in July 2012 to serve as an insurance holding company.

Additional capital came from a surplus note issued for \$17,500,000 on September 30, 2015, to SQN Asset Finance Income Fund Limited, a corporation organized under the laws of Guernsey. The Company issued additional surplus notes for \$5,000,000 on May 30, 2018, each to SQN Asset Finance Income Fund Limited, which was subsequently sold to Aureum

Reinsurance Company LTD, SQN IF IV, L.P, a corporation organized under the laws of Delaware and on December 26, 2019, to SQN Asset Finance Income Fund Limited.

In March 2016, the Company purchased FOX, a special purpose financial captive originally formed by AIC in December 2014 that assumes ordinary annuities on a funds withheld basis. The Company paid AIC \$250,000, which was the initial investment AIC made into FOX.

MANAGEMENT AND CONTROL

Holding Company

The Company is a member of an insurance holding company system as defined by Nebraska Statute. An organizational listing flowing from the ‘Ultimate Controlling Person,’ as reported in the 2019 Annual Statement, is represented by the following (subsidiaries are denoted through the use of indentations, and unless otherwise indicated, all subsidiaries are 100% owned):

- Kenneth King
 - Royal Cap LLC
 - PACA-K LLC
 - PACA-HUD LLC
 - Advantage Capital Partners, LLC
 - Advantage Capital Holdings, LLC (87%)¹
 - Ability Insurance Company
 - RPM Indianapolis (67%)
 - Lough Shore Road, LLC
 - Lough Shore Road, Ltd. (85%)
 - Sancus Capital Credit Partners, LP (78.79%)
 - Sancus Capital Select Partners, LP (12.74%)
 - TCW 2019-1A (78.79%)
 - CRMN 2014-1A (52.82%)
 - Haymarket Holdings I, LLC
 - Haymarket Insurance Company
 - Foxtrot Re, LLC
 - Sancus Capital Credit Partners, LP (21.21%)
 - TCW 2019-1A (21.21%)
 - CRMN 2014-1A (14.22%)

¹ Ownership amount changed to 80% as of December 31, 2020.

Advantage Capital Management, LLC
 Advantage West, LLC
 Sentinel Security Life Insurance Company
 Sancus Capital Select Partners, LP (32.54%)
 Jazz Reinsurance Company
 Secure Administrative Solutions²
 PACA – D LLC
 PACA – E LLC
 Ensurem LLC (70.4%)³
 Ensurem II LLC
 Secure Marketing Partners LLC (75%)
 Secure Financial Services LLC
 Advantage South LLC (69.99%)
 Atlantic Coast Life Insurance Co
 Southern Atlantic Re Inc.
 Atlantic Coast General Agency
 Atlantic Coast Burial Agency
 Sancus Capital Select Partners, LP (32.54%)
 PACA – WCR LLC
 WCR Holdings LLC (50%)
 Caprice Capital Partners LLC
 PACA – MCC LLC
 MCC Investors, LLC (50%)
 PACA – Halsey LLC
 HalseyPoint Holdco LLC (50%)
 HalseyPoint Asset Management, LLC
 A-CAP Agency Services, LLC
 PACA – EFS LLC
 PrimeHealth Group LLC
 PrimeHealth of Illinois, Inc.
 PrimeHealth of Indiana LLC
 PrimeHealth of Illinois LLC
 PrimeHealth of Michigan LLC
 PrimeHealth of Ohio LLC
 PrimeHealth of Kentucky LLC
 Seniorwell of Iowa, LLC
 Seniorwell of Missouri, LLC
 Seniorwell of Wisconsin, LLC
 Seniorwell POD of Iowa, LLC
 Seniorwell POD of Missouri, LLC
 Seniorwell POD of Ohio, LLC
 Seniorwell POD of Wisconsin, LLC
 Seniorwell of Virginia LLC
 Seniorwell POD of Virginia LLC

² Secure Administrative Solutions was sold on August 14, 2020.

³ Ensurem LLC was sold on December 31, 2020.

SeniorWell of Pennsylvania LLC
SeniorWell of Minnesota LLC
SeniorWell of Florida LLC
SeniorWell of Texas LLC
SeniorWell POD of Minnesota LLC
SeniorWell POD of Florida LLC
SeniorWell POD of Texas LLC
Seniorwell of Massachusetts LLC
SeniorWell POD of Massachusetts, LLC
SeniorWell of North Carolina LLC
SeniorWell POD of North Carolina LLC
SeniorWell of Tennessee LLC
SeniorWell POD of Tennessee LLC
SeniorWell of Washington LLC
SeniorWell POD of Washington LLC

Shareholder

The Articles of Incorporation state that, “the aggregate number of shares which the Corporation shall have the authority to issue three million shares of common stock, and the par value of each said share is to be one dollar.” As of December 31, 2019, Company records indicated that 3,000,000 shares were issued and outstanding, and all shares were owned by Haymarket Holdings.

Article II of the Company’s By-Laws states that, “annual meetings of the Shareholders of the Corporation for the purpose of electing Directors and for the transaction of such other proper business as may come before such meetings may be held at such time, date and place as the Board shall determine by resolution on or before June 30 of each calendar year.” The minutes for the annual meeting of the Shareholders documented that the meeting was held prior to June 30 during each year under examination.

Surplus Notes

As noted in the “History” section above, several surplus notes have been issued. The first note was issued for \$17,500,000, bearing a 10% interest rate, on September 30, 2015 with a

maturity date of September 30, 2026. The note was issued to SQN Asset Finance Income Fund Limited, a corporation organized under the laws of Guernsey.

The next two surplus notes were issued on May 30, 2018 for \$5,000,000 each. One bearing a 10% interest rate with a maturity date of May 30, 2028 to SQN Asset Finance Income Fund Limited and then subsequently sold to Aureum Reinsurance Company LTD and the other was issued on May 30, 2018 for \$5,000,000, bearing a 9% interest rate with a maturity date of May 30, 2028 to SQN IF IV, L.P., a corporation organized under the laws of Delaware.

The last surplus note was issued on December 26, 2019 for \$5,000,000, bearing a 10% interest rate with a maturity date of May 30, 2030. The note was issued to SQN Asset Finance Income Fund Limited.

The surplus notes have the following repayment conditions and restrictions: All payments of principal or interest are payable quarterly in arrears and upon prior authorization by the Director of the NDOI. Principal or interest shall be paid only if the Company maintains its reserves and its minimum capital and surplus as required by the NDOI. Payments toward Note principal and interest subordinated to the prior payment of all other obligations of the Company, including but not limited to claims of insureds. Payments of interest on this note may be made in accordance with the foregoing and subject to applicable laws and regulations.

Board of Directors

Article III, Section 2 of the Company's By-Laws states that, "the number of Directors of the Corporation shall be not less than five or more than nine. The first Board of Directors shall be elected by the Shareholders, and thereafter the Board of Directors shall be elected by the Shareholders at the annual meeting of the Shareholders of the Corporation. Each Director shall hold office until the next annual meeting of Shareholders and until his successor shall have been

elected and qualified. Directors need not be Shareholders of the Corporation. One Director shall be resident of the State of Nebraska.”

The following persons were serving as Directors at December 31, 2019:

<u>Name and Residence</u>	<u>Principal Occupation</u>
Anna Elliott Omaha, Nebraska	Chief Risk Officer, Advantage Capital Holdings, LLC
Kenneth King Pleasantville, New York	Chairman, President and Chief Executive Officer, Ability Insurance Company; President, Advantage Capital Partners, LLC
Michael R. Saliba Lake Forest, Illinois	Chief Operating Officer, Advantage Capital Holdings, LLC
Jeremiah J. Silkowski New York, New York	President and Chief Executive Officer, SQN Capital Management, LLC
Yuan Zhou Brooklyn, New York	Chief Investment Officer, Advantage Capital Holdings, LLC

Officers

Article IV, Section 1, of the Company’s By-Laws states that, “the Officers of the Corporation shall be a Chief Executive Officer, a President, a Vice President, and a Secretary/Treasurer; one or more Vice-Presidents may also be (sic) appointed from time-to-time by the Board of Directors, each of whom shall be elected by the Board of Directors.”

The following is a listing of Officers elected and serving the Company at December 31, 2019:

<u>Name</u>	<u>Office</u>
Kenneth King	Chief Executive Officer & President
Anna Elliott	Secretary & Treasurer
Yuan Zhou	Vice President

Committees

The Company does not have its own committees of the Board of Directors, but does utilize the Credit and Reinsurance Committees of A-CAP.

The following persons were serving on the Credit Committee of A-CAP at December 31, 2019:

Anthony Contessa	Michael Saliba
Kenneth King	Yuan Zhou
Frank Mayer (non-voting)	

The following persons were serving on the Reinsurance Committee of A-CAP at December 31, 2019:

Dan Cathcart	Douglas George
David Charsky	Kenneth King
Anna Elliott	Sabrina Lemos

TRANSACTIONS WITH AFFILIATES

Administrative Services Agreement

Effective September 30, 2015, the Company entered into an agreement with its parent, Haymarket Holdings. Haymarket Holdings will provide various services, including but not limited to overall management, operational assistance, monthly budgeting, and development of the reinsurance program. The Company will compensate Haymarket Holdings based on who performs the service and an established hourly rate for that employee. This agreement was amended and restated effective September 30, 2016, to account for reasonable travel and general office expenses attributable to the performance of management services. The amount reimbursed by the Company to Haymarket Holdings in 2019 was \$4,010,338.

Investment Management Agreement

Effective September 30, 2015, the Company entered into an Investment Management Agreement with its affiliate, Advantage Capital Management LLC (ACM), a New York limited

liability company, for the management of certain assets held by the Company in its general account. ACM will provide investment management and advisory services for the general account, and this agreement is not applicable to any assets held in the trust account. The Company will compensate ACM according to a base fee of 0.5% of the principal amount of investments in the portfolio, as well as incentive management fees based upon approved asset classes included in the agreement. This agreement was amended and restated effective June 1, 2016 to change the base management fee for assets over \$300 million to 1.0%.

Effective June 30, 2016, the Company entered into an agreement with ACM to provide investment management and advisory services with respect to any assets in the portfolio attributable to the reinsurance agreement with Sentinel Security. ACM is paid a monthly base management fee at the rate of 0.75% of the principal amount of investments in the portfolio, as well as an incentive management fee based on the percentage of approved asset classes included within the agreement. The agreement was amended and restated in its entirety effective March 31, 2019 following the amended and restated reinsurance agreement effective the same date.

Effective February 22, 2017, the Company entered into another agreement with ACM to manage certain assets held in the trust with ACL. The assets held in the trust pertain to reinsurance premiums related to certain annuity policies issued by ACL and reinsured by the Company. ACM is paid a monthly base management fee at the rate of 0.75% of the principal amount of investments in the portfolio, as well as an incentive management fee based on the percentage of approved asset classes included within the agreement. The amount reimbursed by the Company to ACM in 2019 was \$10,768,282.

TERRITORY AND PLAN OF OPERATIONS

As evidenced by current or continuous Certificates of Authority, the Company is licensed to transact business in Nebraska, South Carolina, and Utah.

The Company is a Nebraska-domiciled insurer that currently reinsures certain fixed annuity and deposit fund contracts from affiliates. As of December 31, 2019, the Company maintains “flow” agreements with SSL and ACL, whereby the Company assumes 80% from each entity with termination provisions which allow the Company to terminate the agreement for new business in the event capital adequacy becomes a concern. Prior to December 31, 2018, AIC was also retroceding several blocks of annuity business assumed from SSL to the Company on a funds withheld basis. The business had been retroceded to the Company quarterly on a block-by-block basis as capital was raised. Effective December 31, 2018, the Company terminated the retrocession agreements with AIC, and the original reinsurance agreement between SSL and AIC was novated to the Company. The ultimate effect of the transaction was to remove AIC from the reinsurance arrangement; the Company retained the business previously assumed from AIC, as well as an additional block of annuities previously retained by AIC. The Company’s invested assets significantly increased as a result of this novation, as well as an amendment to a separate reinsurance agreement between SSL and the Company to transition from a funds withheld to traditional coinsurance arrangement. The Company retains the majority of all business assumed but does retrocede a small block to its wholly owned captive, FOX; the group does not plan to cede any additional business to the captive.

REINSURANCE

Assumed

As of December 31, 2019, the Company's business primarily consists of 5, 7, and 10-year Multi-Year Guaranteed Annuities (MYGAs) assumed from two affiliates, SSL and ACL.

Pursuant to an arrangement with SSL, effective September 30, 2015, the Company assumes a block of business with reserves of approximately \$1.20 billion at December 31, 2019.

Under the second of the Company's two primary blocks of business, effective December 31, 2016, the company assumed a block of business from ACL having reserves totaling approximately \$511 million at December 31, 2019.

These two arrangements account for 100% of the Company's assumed business at the examination date.

Ceded

Under terms of an arrangement effective March 31, 2016, the Company entered into a retrocession agreement with its subsidiary, FOX, whereby the Company reinsures certain annuity contracts that were directly written by SSL and assumed by the Company pursuant to the September 30, 2015 assumption treaty discussed above. As of December 31, 2019, this cession accounted for ceded reserves of approximately \$43.7 million.

In addition, the Company entered into two individual modified coinsurance with funds withheld arrangements, each effective April 1, 2019, covering specified blocks of fixed annuity business. The first of these arrangements is with 777 Re Ltd., a Bermuda domiciled reinsurer, covering modified coinsurance reserves totaling approximately \$310 million at December 31, 2019. The second arrangement, which is substantially similar in terms, involves Aureum Reinsurance Company Ltd., a Cayman Islands domiciled reinsurer, and covers modified

coinsurance reserves of approximately \$179 million as of December 31, 2019. In each instance, the Company retained assets equal to the modified coinsurance reserves as of December 31, 2019.

The Company had no other material reinsurance in effect as of the examination date.

General

All contracts reviewed contained standard insolvency, arbitration, errors and omissions, and termination clauses where applicable. All contracts contained the clauses necessary to assure reinsurance credits could be taken.

BODY OF REPORT

GROWTH

The following comparative data reflects the growth of the Company during the period covered by this examination:

	<u>2017</u>	<u>2018</u>	<u>2019</u>
Bonds	\$ 140,334,094	\$ 392,705,126	\$ 730,705,126
First lien mortgage loans	12,309,855	191,855,675	402,001,893
Funds held by or deposited with reinsured companies	670,138,418	392,929,506	
Other amounts receivable under reinsurance contracts	537,052	501,718	59,296,531
Admitted assets	858,768,380	1,245,942,254	1,788,022,142
Aggregate reserves for life contracts	253,387,613	392,756,120	600,833,363
Liability for deposit-type contracts	509,587,484	752,395,617	1,062,461,985
Total liabilities	830,845,550	1,214,277,381	1,755,270,406
Capital and surplus	27,922,829	31,664,873	32,751,736
Premium income	69,092,154	141,304,874	227,004,778
Net investment income	(260,769)	3,321,177	74,763,490
Annuity benefits	6,637,283	11,509,401	14,844,288
Surrender benefits	711,024	1,570,936	18,471,717
Net income	1,598,955	(3,343,426)	(11,299,500)

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the State of Nebraska Department of Insurance and present the financial condition of the Company for the period ending December 31, 2019. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements. A reconciliation of the capital and surplus account for the period under review is also included.

FINANCIAL STATEMENT
December 31, 2019

Assets

	<u>Net Assets</u>	<u>Assets Not Admitted</u>	<u>Admitted Assets</u>
Bonds	\$ 730,208,928		\$ 730,208,928
Preferred stocks	6,082,270		6,082,270
Common stocks	2,724,312		2,724,312
First lien mortgage loans	402,001,893		402,001,893
Cash, cash equivalents, and short-term investments	193,098,874		193,098,874
Other invested assets	268,740,878	\$ 250,000	268,490,878
Receivables for securities	32,647,084		32,647,084
Subtotals, cash and invested assets	<u>\$1,635,504,239</u>	<u>\$ 250,000</u>	<u>\$1,635,254,239</u>
Investment income due and accrued	\$ 40,482,640	\$ 215,587	\$ 40,267,053
Uncollected premiums and agents' balances in the course of collection	39,493,389		39,493,389
Other amounts receivable under reinsurance contracts	59,296,531		59,296,531
Current federal and foreign income tax recoverable and interest thereon	6,013,630		6,013,630
Net deferred tax asset	5,163,761	3,456,461	1,707,300
Receivables from parent, subsidiaries and affiliates	4,000,000		4,000,000
Prepaid expenses	2,731	2,731	
State income tax recoverable	<u>1,990,000</u>		<u>1,990,000</u>
Totals	<u>\$1,791,946,921</u>	<u>\$ 3,924,779</u>	<u>\$1,788,022,142</u>

Liabilities, Surplus, and Other Funds

Aggregate reserve for life contracts	\$ 600,833,363
Liability for deposit-type contracts	1,062,461,985
Life contract claims	9,770,701
Other amounts payable on reinsurance	1,944,219
Interest maintenance reserve	5,697,535
Commissions and expense allowances payable on reinsurance assumed	10,150,207
General expenses due or accrued	5,033,348
Asset valuation reserve	9,860,042
Payable to parent, subsidiaries, and affiliates	579,719
Funds held under coinsurance	45,124,336
Payable for securities	<u>3,814,951</u>
Total liabilities	\$ 1,755,270,406
Common capital stock	\$ 3,000,000
Surplus notes	32,500,000
Gross paid in and contributed surplus	30,498,192
Unassigned funds (surplus)	<u>(33,246,456)</u>
Total surplus	\$ 29,751,736
Total capital and surplus	<u>\$ 32,751,736</u>
Total liabilities, surplus, and other funds	<u>\$ 1,788,022,142</u>

SUMMARY OF OPERATIONS – 2019

Premiums and annuity considerations for life and accident and health contracts	\$ 227,004,778
Net investment income	74,763,490
Amortization of interest maintenance reserve	427,939
Commissions and expense allowances on reinsurance ceded	6,393,809
Reserve adjustment on reinsurance ceded	(6,574,772)
Funds held income and capital gains	<u>6,130,780</u>
Total	\$ 308,146,024
Annuity benefits	\$ 14,844,288
Surrender benefits and withdrawals for life contracts	18,471,717
Interest and adjustments on contract or deposit-type contract funds	29,310,962
Increase in aggregate reserves for life and accident and health contracts	<u>208,077,243</u>
Totals	\$ 270,704,210
Commissions and expense allowances on reinsurance assumed	\$ 40,348,984
General insurance expenses and fraternal expenses	4,230,144
Insurance taxes, licenses and fees, excluding federal income taxes	617,196
Funds held expense	<u>3,384,657</u>
Totals	\$ 319,285,191
Net gain from operations before federal income taxes and realized capital gains	\$ (11,139,167)
Federal and foreign income taxes	(1,051,498)
Net realized capital losses less capital gains tax	<u>(1,211,831)</u>
Net income	<u><u>\$ (11,299,500)</u></u>

CAPITAL AND SURPLUS ACCOUNT

	<u>2017</u>	<u>2018</u>	<u>2019</u>
Capital and surplus, beginning	\$ 27,347,271	\$ 27,922,829	\$ 31,664,873
Net income	1,598,955	(3,343,426)	(11,299,500)
Change in net unrealized foreign exchange capital gain (loss)	21,188	(2,807)	751,388
Change in net deferred income tax	(3,062,041)	1,357,416	774,541
Change in nonadmitted assets	3,076,552	(1,360,892)	717,175
Change in asset valuation reserve	(818,672)	(2,667,824)	(5,971,601)
Change in surplus notes		10,000,000	5,000,000
Surplus adjustment paid in			6,500,000
Change in surplus as a result of reinsurance	<u>(240,423)</u>	<u>(240,423)</u>	<u>4,614,860</u>
Net change for the year	<u>\$ 575,558</u>	<u>\$ 3,742,044</u>	<u>\$ 1,086,863</u>
Capital and surplus, ending	<u>\$ 27,922,829</u>	<u>\$ 31,664,873</u>	<u>\$ 32,751,736</u>

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of \$(33,246,456), as reported in the Company's 2019 Annual Statement, has been accepted for examination purposes. Examination findings in the aggregate were considered to have no material effect on the Company's financial condition.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

The recommendations appearing in the previous report of examination are reflected below together with the remedial actions taken by the Company to comply therewith:

Shareholder Meeting Minutes – The Company was unable to provide the minutes from all of the Shareholder meetings that were conducted during the examination period. The Company's By-Laws, Article II, Section 1 describes an annual meeting of the Shareholder for the purpose of electing Directors and the transaction of such other proper business. Without these records, the exam team was not able to determine if the Company was compliant with its By-Laws. It is recommended that the Company, or the Shareholder retain minutes of each Shareholder meeting to document the actions taken by the Shareholder, including the appointment or election of Directors.

Action: The Company has complied with this recommendation.

Custodial Agreement - It was noted that the Company's custodial agreement with The Bank of New York Mellon, effective September 2015, is not in compliance with Nebraska Rules and Regulations, Title 210, Chapter 81. It is recommended that the Company amend its custodial agreement to comply with Nebraska Rules and Regulations, Title 210, Chapter 81.

Action: The Company did not maintain a custodial agreement with The Bank of New York Mellon as of the examination date. Recommendation no longer applicable.

Actuarial Presentation to the Board - The Actuarial Specialist reviewed the Board of Director minutes for all insurers within the group and was not able to determine that a qualified actuary made an actuarial presentation regarding asset adequacy analysis of the annuity business that the Company assumes from its affiliate. It is recommended that the Company work with its affiliated ceding reinsurer to ensure that presentations are given by the Appointed Actuary to the Board of Directors, pursuant to NAIC Annual Statement Instructions that state, "the Appointed Actuary must report to the Board of Directors or the Audit Committee each year on the items within the scope of the Actuarial Opinion. The minutes of the Board of Directors shall indicate that the Appointed Actuary has presented such information to the Board of Directors or the Audit Committee." The presentation conducted by the Appointed Actuary should be robust and include a discussion of all relevant risks.

Action: The Company has complied with this recommendation.

Reinsurance Agreement Compliance - During review of intercompany reinsurance agreement compliance, it was noted that the settlement reports related to the assumption of Sentinel Security's annuity business provided were done on a net basis that illustrated the net result of the impact of Sentinel Security's cessions to the Company and Ability, and the retrocessions to Haymarket, Foxtrot, and unaffiliated reinsurers. Based on the materials provided, the exam team was unable to discern that the monthly reports are provided on a contract basis as prescribed by the reinsurance agreements. Also, it was noted during the review that the statement of funding requirement or the statement of the book value of assets in the trust accounts, as required under each respective agreement, were not able to be provided. It is recommended that the Company take the necessary steps to ensure that monthly reinsurance reporting complies with underlying reinsurance agreements.

Action: The Company has complied with this recommendation.

Intercompany Reinsurance Accounting - The exam team noted there are four established accounts for the Sentinel Security business ceded or retroceded to the Company, Ability, and Foxtrot. In order to take credit for reinsurance, Nebraska Rules and Regulations, Title 210, Chapter 57, Section 004.01(g)(i) requires assets to be legally

segregated in a trust or escrow account, or otherwise establish a mechanism satisfactory to the Director which legally segregates, by contract or contract provision, the underlying assets. Spreadsheets were provided identifying assets by contract using information from the investment accountants that labeled assets by entity but did not create a legal segregation by contract. It is recommended that the Company work with its affiliates to establish separate custodial accounts to legally segregate the assets by reinsurance contract pursuant to Nebraska Rules and Regulations, Title 210, Chapter 57, Section 004.01(g)(i), in order to take credit for reinsurance, or simplify the existing contracts to reduce the number of custodial accounts required.

Action: The Company has complied with this recommendation.

Reinsurance Settlement - The exam team noted during review of the reinsurance settlement spreadsheets provided by A-CAP, that business ceded directly from Sentinel Security to the Company was being settled in an Ability account. It is recommended that the Company work with A-CAP to ensure that amounts are being settled between parties of each reinsurance agreement appropriately.

Action: The Company has complied with this recommendation.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

There are no comments or recommendations that have been made as a result of this examination.

SUBSEQUENT EVENTS

FOX RECAPTURE

On November 6, 2020, the NDOI issued a non-disapproval letter in response to a Form D filing proposing a Recapture Agreement between the Company and its subsidiary, FOX. The recapture was effective July 1, 2020. As of the recapture date, FOX no longer writes or assumes any business.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

There are no comments or recommendations that have been made as a result of this examination.

ACKNOWLEDGEMENT

The courteous cooperation extended by the Officers and employees of the Company during this examination is hereby acknowledged.

In addition to the undersigned, Lori Brock, CFE, ALMI, and Chris Schutte, CFE, Financial Examiners; Jim Hattaway, CFE, CIA, CIE, AMCM, ARC, Examination Supervisor; Stefan Obereichholz-Bangert, AES, CISA, CISM, and Brad Myers, CISA, CISM, CISSP, Information Systems Specialists; all with Noble Consulting Services, Inc., participated in this examination and assisted in the preparation of this report.

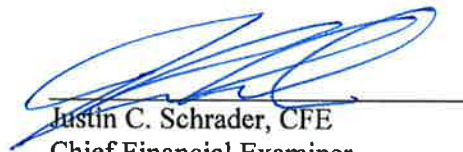
Andy Rarus, ASA, MAAA; Lisa Parker, ASA, MAAA; and Tricia Matson, ASA, MAAA; of Risk & Regulatory Consulting (RRC), were appointed by the NDOI to conduct a review of statutory reserves as of December 31, 2019.

The NDOI contracted with Gordian Group to serve as the Investment Specialists on the examination and to prepare a separate report.

Respectfully submitted,



William A. O'Connell, CFE, CPA
Examiner-in-Charge
Noble Consulting Services, Inc.
Representing the
Department of Insurance
State of Nebraska



Justin C. Schrader, CFE
Chief Financial Examiner
Department of Insurance
State of Nebraska

State of Georgia,

County of Cobb,

William A. O'Connell, being duly sworn, states as follows:

1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of Haymarket Insurance Company.
2. The Department of Insurance of the State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of the Haymarket Insurance Company was performed in a manner consistent with the standards and procedures required by the Department of Insurance of the State of Nebraska.


The affiant says nothing further.



Examiner-in-Charge's Signature

Subscribed and sworn before me by William A O'Connell on this 9th day of June, 2021.

(SEAL)



Notary Public

My commission expires 1/15/2025 [date].