

JAN 10 2022

FILED

CERTIFICATION

January 10, 2022

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

STONETRUST PREMIER CASUALTY INSURANCE COMPANY

AS OF

DECEMBER 31, 2020

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.



A handwritten signature in blue ink, appearing to read "Eric Dunning".

DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

Notice of the proposed report for the financial examination of

STONETRUST COMMERCIAL INSURANCE COMPANY

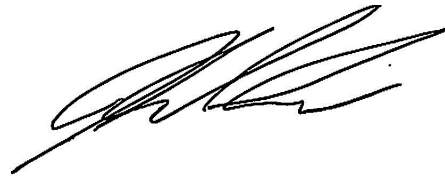
5615 CORPORATE BOULEVARD, SUITE 800

BATON ROUGE, LOUISIANA 70808

dated as of December 31, 2020, verified under oath by the examiner-in-charge on January 7, 2022, and received by the company on January 7, 2022, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3) (a).

Dated this 10th day of January 2022.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

A handwritten signature in black ink, appearing to read 'Justin C. Schrader', written in a cursive style.

Justin C. Schrader, CFE
Chief Financial Examiner

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

STONETRUST COMMERCIAL INSURANCE COMPANY

as of

December 31, 2020

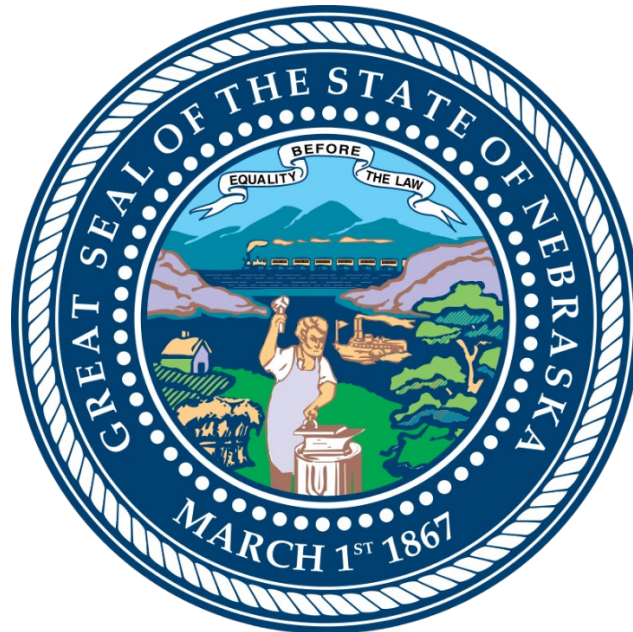


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Baton Rouge, Louisiana
January 5, 2022

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:

STONETRUST COMMERCIAL INSURANCE COMPANY

which has its Statutory Home Office located at

**13810 FNB Pkwy, Suite 200
Omaha, Nebraska 68154**

with its Principal Executive Office located at

**5615 Corporate Boulevard, Suite 800
Baton Rouge, Louisiana 70808**

(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, 2020 and such subsequent events and transactions as were considered pertinent to this report. The State of Nebraska participated in this examination and assisted in the preparation of this report.

The same examination staff conducted a concurrent financial condition examination of the Company's subsidiary, Stonetrust Premier Casualty Insurance Company (Stonetrust Premier).

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 Nebraska Department of Insurance made a general review 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 Shareholders, Board of Directors, and committees held during the examination period were read and noted. Attendance

at meetings, proxy information, election of Directors and Officers, approval of investment transactions, and authorizations of salaries were also noted.

The fidelity bond and other insurance coverages protecting the Company's property and interests were reviewed, as were plans for employee welfare and pension. 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 Postlethwaite & Netterville, Professional Accounting Corporation (P&N), the Company's external auditors, during their audit of the Company's accounts for the year ended December 31, 2020. 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 organized under the laws of the State of Louisiana as Amicus Mutual Insurance Company in March 2000. The Company received a Certificate of Authority to write workers' compensation insurance in Louisiana on June 30, 2000 and began operations on July 1, 2000.

Effective January 1, 2006, Amicus Mutual Insurance Company converted from a mutual insurance company to a stock insurance company, which was wholly owned by a mutual holding company parent, Stonetrust Commercial Mutual Insurance Holding Company. The Company amended its Articles of Incorporation and By-Laws and changed its name to Stonetrust Commercial Insurance Company. The conversion from a mutual insurer to a stock insurer with a mutual holding company parent was approved by the policyholders and the Louisiana Department of Insurance.

Effective January 3, 2014, the Company formed a 100% owned subsidiary company, Stonetrust Realty, LLC (Stonetrust Realty). During 2014, the Company contributed \$5,350,000 to Stonetrust Realty to fund its operations. Stonetrust Realty ceased operations on December 31, 2018 and was subsequently dissolved effective July 18, 2019.

Effective December 31, 2014, with approval from the Louisiana Department of Insurance and its policyholders, the immediate parent of the Company, Stonetrust Commercial Mutual Insurance Holding Company, demutualized and was renamed as Stonetrust Holding Company (Stonetrust Holding). Immediately following the demutualization, Stonetrust Holding and its

subsidiaries, as well as Stonetrust Management Services, LLC (the Company's MGA, which was wholly owned by the Company's President and his wife), were purchased by Dhandho Holdings Corporation (Dhandho Holdings). Stonetrust Management Services, LLC was dissolved effective December 20, 2016.

Effective August 30, 2016, the Company redomesticated from the State of Louisiana to the State of Nebraska. Effective December 31, 2016, the Company's former parent company, Stonetrust Holding was merged into the Company leaving Dhandho Holdings as the Company's direct parent.

Effective January 1, 2018, the Company was acquired by Wintaai Holdings Ltd. (Wintaai Holdings) for a purchase price of \$40,000,000, among other payments, on the anniversary of the closing. Wintaai Holdings is a unit of the Toronto-based investment advisory firm, Chou Associates Management Inc. and is the ultimate controlling person.

Effective November 30, 2018, Stonetrust Premier was formed as a wholly-owned insurance company subsidiary of the Company. Stonetrust Premier is authorized to issue 1,000 shares of common stock with a par value of \$2,500 per share, all of which are issued and owned by the Company. The Company purchased Stonetrust Premier's outstanding shares for \$5,500 per share on December 15, 2018 pursuant to a stock subscription agreement.

On May 7, 2019, the Company performed a 4,000:1 stock split, resulting in an increase in the number of authorized shares from 10,000 to 40,000,000 and the outstanding shares from 1,000 to 4,000,000 with a par value of \$0.625 per share, all of which were owned by Wintaai Holdings.

Effective June 14, 2019, Wintaai Holdings sold 10,600 of its 4,000,000 shares to various board members and employees of the Company, and effective July 28, 2020, Wintaai Holdings sold 7,100 of its 3,989,400 shares to various board members.

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 2020 Annual Statement, is represented by the following (subsidiaries are denoted through the use of indentations, and unless otherwise indicated, all subsidiaries are 100% owned):

Francis Chou (Manager & Owner)

2665411 Ontario Inc (an Ontario Corporation)

Chou America Management Inc. (an Ontario Corporation)

Chou Associates Management Inc. (an Ontario Corporation)

Wintai Holdings Ltd. (an Ontario Corporation) – 72.1% owned by Chou

Associates Management Inc.; 12.4% by Francis Chou; 1.2% by 2665411

Ontario Inc.; and 14.3% by individual investors

Stonetrust Commercial Insurance Company (a Nebraska

Corporation) – 99.6% owned by Wintai Holdings Ltd. and

0.44% by certain Officers and Directors of the Company

Stonetrust Premier Casualty Insurance Company (a

Nebraska Corporation)

Shareholders

Per Article V of the Articles of Incorporation, as amended effective May 7, 2019, “the aggregate number of shares which this Corporation shall have authority to issue Forty Million (40,000,000) shares, having a par value of Six Hundred Twenty-Five Thousandths 00/100 Dollars (\$0.625) each.” As of the examination date, 4,000,000 shares were issued and outstanding.

The Company paid one dividend in 2020 in the amount of \$3,000,000. No other dividends were paid during the period under examination.

Per Article II of the By-Laws, “the annual meeting of Shareholders shall be held on or before the 30th day of June in each and every calendar year...” The 2020 joint meeting of the Company and Stonetrust Premier was held on June 4, 2020 at the Company’s home office.

The 2017 annual meeting of the Company was held on December 7, 2017, in violation of Section § 44-210 of the Nebraska Insurance Statutes and the Company's By-Laws, which both require the Shareholder meeting to be held prior to June 30th. The Company was in compliance with its By-Laws and § 44-210 all other years under exam.

Surplus Note

The Company has a \$4,000,000 surplus debenture outstanding as of December 31, 2020. The note has a floating interest rate based on the three-month LIBOR rate plus 4%. The floating interest will continue until the surplus debenture's maturity date of December 15, 2036. Interest paid in 2020 totaled \$194,591 with additional interest of \$8,272 unapproved at year end. Total interest paid on the debenture is \$3,588,333 as of December 31, 2020.

Each payment of principal and/or interest may be made only with the prior approval of the Nebraska Department of Insurance and only to the extent the Company has sufficient policyholders' surplus to make such payment. The Company obtained the necessary approval for all payments made during the period under examination.

Interest Rate Swap

The Company had an interest rate swap with FTN Financial Capital Markets that was originally entered into on November 21, 2011. The interest rate swap has an effective date of December 15, 2011 and a termination date of September 15, 2021. The purpose of this interest rate swap was to hedge the Company's exposure to interest rate risk in relation to its floating rate \$4,000,000 surplus debenture discussed above. The swap calls for the exchange of adjustable rate interest payments for fixed rate interest payments with the Company's counterparty on a net basis each quarter. Effectively this has allowed the Company to fix its interest rate for the swap agreement.

Under the provisions of the Interest Rate Swap, the Company has pledged two US Treasury securities and two residential mortgage-backed securities with an aggregate par value of \$302,158 as collateral.

Board of Directors

Per Article III of the By-Laws, “the business and affairs of the Corporation shall be managed by its Board of Directors.” The Company’s By-Laws also provide that, “the number of Directors of the Corporation shall be no fewer than five (5), the exact number to be determined by the Shareholders. Each Director shall hold office until the next annual meeting of Shareholders, and until his or her successor shall have been elected and qualified, or until his or her death, resignation or removal. Each Director shall qualify as a Director of the Corporation under applicable insurance laws of the State of Nebraska, and at least one Director shall be a resident of the State of Nebraska. Subject to the laws of the State of Nebraska, the permissible number of Directors may be increased or decreased from time to time by amendment to these By-Laws, but no decrease shall have the effect of shortening the term of any incumbent Director.” In addition, the By-Laws state, “a regular meeting of the Board of Directors shall be held without other notice than this By-Law immediately after and at the same place as the annual meeting of Shareholders.”

The following persons were serving as Directors at December 31, 2020:

<u>Name and Residence</u>	<u>Principal Occupation</u>
Francis Chou Toronto, ON Canada	President, Chief Executive Officer, Chou Associates Management Inc.
Michael Dileo Baton Rouge, LA	President, Chief Executive Officer Stonetrust Commercial Insurance Company, and Stonetrust Premier Casualty Insurance Company
David A. Fluker Port Allen, LA	President/Owner, Fluker’s Farm

Name and Residence

Principal Occupation

Lawrence Harr
Omaha, NE

Attorney,
Lamson Dugan & Murray LLP

Grady R. Hazel, Chairman
Baton Rouge, LA

Certified Public Accountant,
Grady R. Hazel CPA

Officers

Article IV of the By-Laws provides that, “the Officers of the Corporation shall be a President, a Secretary, and a Treasurer, each of whom shall be elected by the Board of Directors. Such other Officers and assistant Officers as may be deemed necessary, including Chair of the Board or one or more Vice Presidents, may be elected or appointed by the Board of Directors. All executive Officers shall be persons who are known to be capable of running the affairs of an insurance company and who otherwise qualify as executive Officers of an insurance company under Nebraska insurance law. Any two (2) or more offices may be held by the same person except as may otherwise be required by law.”

The following is a listing of Officers elected and serving the Company at December 31, 2020:

Name

Office

Michael G. Dileo

President, Chief Executive Officer

Michael Shane Treigle

Treasurer and Chief Financial Officer

Cathy B. Gauthier*

Assistant Treasurer and Controller

Melanie J. Forbes

Secretary and Vice President of Claims

Robert F. Wolf

Vice President and Appointed Actuary

Jeffrey Skaggs Sr.

Senior Vice President of Underwriting and Marketing

* Cathy Gauthier resigned on March 5, 2021, and had not been replaced as of the date of this report.

Committees

The Company's Articles of Incorporation and By-Laws do not address required or allowed Board Committees. As of the examination date, the Company had an Audit Committee and Investment Committee.

The following persons were serving on the Audit Committee at December 31, 2020:

David A. Fluker	Grady R. Hazel
Lawrence Harr	

The following persons were serving on the Investment Committee at December 31, 2020:

Michael G. Dileo	Francis Chou
Michael Shane Treigle	

TRANSACTIONS WITH AFFILIATES

Investment Management Agreement

Effective July 1, 2019, the Company became a participant in an agreement with Chou Associates Management Inc., whereby Chou Associates Management Inc. provides investment supervision and direction for all investments to the Company. The agreement was not disapproved by the Nebraska Department of Insurance on July 17, 2019. The Company reported investment management expenses of \$971,953 in 2020.

Services Agreement

Effective September 2, 2020, the Company became a participant in an agreement with Chou Associates Management Inc. where Tracy Chou, an employee of Chou Associates Management Inc., will provide professional services to the Company. Tracy Chou is responsible for developing, maintaining, and providing overview of the Company's claims, actuarial, and investment operations, as detailed in the agreement. The Company will reimburse Chou Associates Management Inc. for the services provided pursuant to the agreement in the amount of

\$215,000 annually, plus reasonable travel expenses. The agreement was not disapproved by the Nebraska Department of Insurance on September 2, 2020. The Company reported professional services expenses of \$85,106 in 2020.

RBC Maintenance Agreement

Effective January 1, 2018, the Company entered into an RBC Maintenance Agreement with Chou Associates Management Inc., whereby Chou Associates Management Inc. agrees to contribute capital to the Company in the event its RBC ratio falls below 350%. The agreement was a requirement of the Nebraska Department of Insurance approval of Wintaai's purchase of the Company. No Nebraska Department of Insurance approval was necessary of this agreement.

Intercompany Management Cost Sharing and Cost Allocation Agreement

Effective, January 1, 2020, the Company and Stonetrust Premier entered into a Cost Sharing Agreement. Under the agreement, the Company provides certain goods, third party services, management, and other direct services to Stonetrust Premier since it has no employees. Stonetrust Premier is charged for its allocable share of the Company's actual costs, and a monthly Management Services charge. The charge is based on the greater of monthly direct gross earned premium times net expense ratio plus 5% or \$5,000. The agreement was not disapproved by the Nebraska Department of Insurance on October 30, 2019. The Company received fees of \$45,000 under this agreement in 2020.

Tax Sharing and Allocation Agreement

Effective January 1, 2019, the Company's federal income tax return was consolidated with Stonetrust Premier and Stonetrust Realty, LLC. Stonetrust Realty, LLC was dissolved effective July 18, 2019. Under terms of the agreement, the Company files consolidated federal tax returns for the consolidated group. The consolidated tax liability is allocated among affiliates on a

separate return basis with current credit for any net operating losses or other items utilized in the consolidated tax return. The agreement was not disapproved by the Nebraska Department of Insurance on July 1, 2019.

TERRITORY AND PLAN OF OPERATION

As evidenced by current or continuous Certificates of Authority, the Company is licensed to transact business in the following 28 states:

Alabama	Kentucky	North Dakota
Alaska	Louisiana	Oklahoma
Arizona	Maryland	South Carolina
Arkansas	Mississippi	South Dakota
Delaware	Missouri	Tennessee
Georgia	Montana	Texas
Hawaii	Nebraska	Utah
Indiana	Nevada	West Virginia
Iowa	North Carolina	Wyoming
Kansas		

The Company is a mono-line insurer writing workers' compensation insurance. As of the date of this examination, the Company is actively writing in the States of Arkansas, Louisiana, Mississippi, Missouri, Nebraska, Oklahoma, Tennessee, and Texas.

The Company writes its business under the independent agent model and has contracts with approximately 425 agencies as of December 31, 2020.

REINSURANCE

Assumed

Workers' Compensation Pools

The Company assumes reinsurance through its participation in two mandatory workers' compensation pools in the state of Mississippi: the Mississippi Workers' Compensation Reinsurance Pool, and the National Workers' Compensation Reinsurance Pool.

Intercompany Quota Share Reinsurance Contract

Effective April 1, 2020, the Company and Stonetrust Premier are parties to an Intercompany Quota Share Reinsurance Contract. Under the agreement, Stonetrust Premier will cede 100% of its gross premium, losses and expenses to the Company when it begins writing business. The agreement was not disapproved by the Nebraska Department of Insurance on February 18, 2020.

Ceded

Excess of Loss Reinsurance

The Company obtains Excess of Loss reinsurance through a reinsurance intermediary utilizing a reinsurance program comprised of five layers. During the examination period, the Company ceded the excess of loss business through a series of one year agreements, each of which reinsure one accident year.

For 2020, after consideration of an annual aggregate deductible of \$750,000, the Company retained the first \$750,000 of loss for any one loss occurrence with the reinsurers assuming 100% of the loss in excess of \$750,000 based upon their participation in the specific excess of loss layer up to a maximum of \$40,000,000. The retention by reinsurer and by layer is provided in the table below:

Reinsurer	\$1.25M XS	\$3M XS	\$5M XS	\$10M XS	\$20M XS
	\$750K (\$750K AAD)	\$2M	\$5M	\$10M	\$20M
Safety National Casualty Corporation	45.0%	87.5%	75.0%	52.5%	
Partner Re	15.0%	10.0%	15.0%		
Waypoint – Insurance Co of the West	40.0%	2.5%	10.0%		7.5%
Arch Reinsurance				10.0%	20.0%
Munich Reinsurance America				10.0%	15.0%
Markel Re				15.0%	22.5%
BGS Services				10.0%	10.0%
Houston Casualty Company					5.0%
Lloyd's Underwriters				2.5%	20.0%
	100.0%	100.0%	100.0%	100.0%	100.0%

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>	<u>2020</u>
Bonds	\$ 48,395,404	\$ 55,352,237	\$ 79,098,749	\$ 59,728,726
Preferred stocks	12,281,223	9,194,139	5,664,088	0
Common stocks	64,173,888	47,064,978	67,729,066	65,263,239
Cash and short-term investments	23,698,937	32,806,465	17,917,142	59,073,923
Admitted assets	174,173,969	170,276,349	188,465,220	207,986,882
Loss reserves	64,109,745	64,598,076	64,747,099	66,866,387
Total liabilities	102,113,875	102,000,674	104,018,965	110,260,988
Capital and surplus	72,060,094	68,275,675	84,446,255	97,725,894
Premium earned	52,131,907	47,026,342	43,753,081	42,732,998
Net investment income	703,523	2,636,747	3,883,728	5,454,503
Losses incurred	27,172,988	20,966,854	19,031,995	14,472,894
Net income	4,591,847	4,537,345	6,394,589	11,252,120

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, 2020. 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, 2020

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 59,728,726		\$ 59,728,726
Common stocks	65,263,239		65,263,239
Cash and short-term investments	59,073,923		59,073,923
Derivatives	2,965,000		2,965,000
Receivables for securities	<u>3,704,688</u>	<u> </u>	<u>3,704,688</u>
Subtotal, cash and invested assets	\$190,735,576		\$190,735,576
Investment income due and accrued	1,051,468		1,051,468
Uncollected premiums and agents' balances in the course of collection	853,736	\$ 12,422	841,314
Deferred premiums, agents' balances and installments booked but deferred and not yet due	14,245,974	136,165	14,109,809
Amounts recoverable from reinsurers	189,181		189,181
Current federal income tax recoverable	331,042		331,042
Guaranty funds receivable or on deposit	112,122		112,122
Electronic data process equipment and software	964,937	964,937	
Furniture and equipment, including health care delivery assets	926,683	926,683	
Prepaid expenses	207,570	207,570	
Receivables from second injury fund	616,370		616,370
Funds on deposit with NCCI	<u>89,741</u>	<u>89,741</u>	<u> </u>
Totals	<u>\$210,324,400</u>	<u>\$2,337,518</u>	<u>\$207,986,882</u>

Liabilities, Surplus, and Other Funds

Losses	\$ 66,866,387
Loss adjustment expenses	10,005,467
Commissions payable	1,424,956
Other expenses	2,446,521
Taxes, licenses and fees	3,369,602
Net deferred tax liability	3,128,496
Unearned premiums	18,918,876
Advance premium	738,216
Ceded reinsurance premiums payable	(63,772)
Remittances and items not allocated	47,386
Payable to parent, subsidiaries and affiliates	298,979
Derivatives	1,332,125
Payable for securities	488,490
Policyholder security deposits	1,232,696
Liability on amounts due under loss portfolio transfer	<u>26,563</u>
Total liabilities	<u>\$110,260,988</u>
Common capital stock	\$ 2,500,000
Surplus notes	4,000,000
Gross paid in and contributed surplus	32,500,000
Unassigned funds	<u>58,725,894</u>
Total capital and surplus	<u>\$ 97,725,894</u>
Totals	<u>\$207,986,882</u>

STATEMENT OF INCOME – 2020

Underwriting Income

Premiums earned	\$42,732,998
Losses incurred	\$14,472,894
Loss adjustment expenses incurred	4,275,116
Other underwriting expenses incurred	<u>18,201,572</u>
Total underwriting deductions	<u>\$36,949,582</u>
Net underwriting gain	<u>\$ 5,783,416</u>

Investment Income

Net investment income earned	\$ 5,454,503
Net realized capital gain	<u>2,509,094</u>
Net investment gain	<u>\$ 7,963,597</u>

Other Income

Net gain from agents' or premium balances charged off	\$ (218,330)
Finance and service charges not included in premiums	<u>203,656</u>
Total other income	<u>\$ (14,674)</u>
Net income before federal income taxes	\$13,732,339
Federal income taxes incurred	<u>2,480,216</u>
Net income	<u>\$11,252,120</u>

CAPITAL AND SURPLUS ACCOUNT

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Capital and surplus, beginning	\$56,217,215	\$72,060,094	\$68,275,675	\$84,446,255
Net income	\$ 4,591,847	\$ 4,537,345	\$ 6,394,589	\$11,252,120
Change in net unrealized capital gains	12,530,221	(8,137,245)	9,169,900	5,349,968
Change in net deferred income tax	(1,978,263)	(294,409)	680,381	(108,642)
Change in nonadmitted assets	699,074	720,572	(74,290)	(213,807)
Dividends to stockholders				(3,000,000)
Sale/leaseback adjustment for real- ized loss on sale of real estate	_____	_____(610,682)	_____	_____
Net change for the year	<u>\$15,842,879</u>	<u>\$ (3,784,419)</u>	<u>\$16,170,580</u>	<u>\$13,279,639</u>
Capital and surplus, ending	<u>\$72,060,094</u>	<u>\$ 68,275,675</u>	<u>\$84,446,255</u>	<u>\$97,725,894</u>

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of \$58,725,894, as reported in the Company's 2020 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:

Election of Officers – It was recommended that the Company elect Officers in compliance with its By-Laws and Nebraska Insurance Statutes.

Action: The Company has complied with this recommendation.

Corporate Records – It was recommended that custodial agreements be amended to reference and state compliance with Title 210, Chapter 81 of the Nebraska Rules and Regulations.

Action: During the examination period, the Company entered into custodial agreements which reference and state compliance with Title 210, Chapter 81 of the Nebraska Rules and Regulations.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

Custodial Agreements

The Company did not obtain Board or Committee authorization for custodial agreements as required by Title 210, Chapter 81, Section 003.02 of the Nebraska Rules and Regulations. It is recommended that the Company's Board of Directors or Investment Committee authorize the custodial agreements by resolution.

Actuarial Reporting

The narrative component of the Actuarial Report, as required by the Annual Statement Instructions, "...should provide sufficient detail to clearly explain to Company management, the Board of Directors, **the regulator** or other authority the (actuary's) findings, recommendations and conclusions, as well as their significance." The opining actuary did not provide the required narrative component. The actuary's documents are less focused on the actuary's analysis than the Annual Statement Instructions require and include considerable out-of-scope content. As an example, the narrative component should explain methods, assumptions and problems overcome as the actuary developed conclusions and recommendations from basic data, but the Summary Narrative only lists methods without descriptions, refers the reader to a subset of the exhibits, and leaves the reader to trace methods' inconsistent indications to underlying assumptions and judgments. The exhibits are not self-explanatory. The narrative component should complement the technical component, and together they should support the second and third assertions in the opinion paragraph of the Statement of Actuarial Opinion (SAO). The documents provided are not narrowly focused on their statutory accounting purpose, and instead, appear disjointed. It is

recommended that the Actuarial Report complies with the narrative component requirement of the Annual Statement Instructions.

In addition to a narrative component of the Actuarial Report, there is a technical component that "...must show the analysis from the basic data (e.g., loss triangles) to the conclusions." Certain supporting exhibits fail to differentiate the actuary's recommendations from carried reserves and do not document analysis from alternative methods' indications to the carried reserves. It is recommended that the Actuarial Report complies with the technical component requirement of the Annual Statement Instructions.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

The following comments and recommendations have been made as a result of this examination.

Custodial Agreements - It is recommended that the Company's Board of Directors or Investment Committee authorize the custodial agreements by resolution.

Actuarial Reporting - It is recommended that the Actuarial Report complies with the narrative component and technical component requirements of the Annual Statement Instructions.

ACKNOWLEDGMENT

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

In addition to the undersigned, Jamesia Burford, CFE, Brian Sewell, CFE, David Habony, CFE, Financial Examiners with the firm Eide Bailly LLP; Michael Nadeau, AES, CFE, Information Systems Specialist, all with the firm Eide Bailly LLP; and Gordon Hay, MAAA, CPCU; with the Nebraska Department of Insurance, participated in this examination and assisted in the preparation of this report.

Respectfully submitted,



James W. Menck, CFE
Examiner-in-Charge
Eide Bailly LLP
Representing the Department of Insurance
State of Nebraska



Andrea Johnson, CFE
Assistant Chief Examiner - Field
Department of Insurance
State of Nebraska

State of Nebraska,

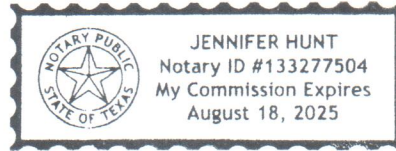
County of Lancaster,

James W Menck, 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 Stonetrust Commercial 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 Stonetrust Commercial Insurance Company was performed in a manner consistent with the standards and procedures required by the Department of Insurance of the State of Nebraska.

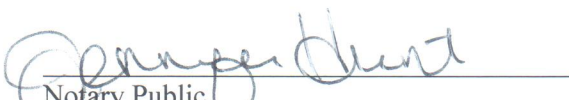
The affiant says nothing further.


 Examiner-in-Charge's Signature



Subscribed and sworn before me by James Menck on this 7 day of January, 2022

(SEAL)


 Notary Public

My commission expires 8-18-25 [date].