STONETRUST COMMERCIAL INSURANCE COMPANY AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

Postlethwaite & Netterville

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C O N T E N T S

P&N
Postlethwaite & Netterville

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A Professional Accounting Corporation

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Stonetrust Commercial Insurance Company and Subsidiary

We have audited the accompanying consolidated financial statements of Stonetrust Commercial Insurance Company and Subsidiary (the Company), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, the related consolidated statements of operations and comprehensive income (loss), changes in stockholder's equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated 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 consolidated 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated 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 Company'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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Stonetrust Commercial Insurance Company and Subsidiary as of December 31, 2019 and 2018, and the consolidated results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information about short-duration insurance contracts on pages 27 and 28 be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Postlethwaite & Netterville

Baton Rouge, Louisiana
March 20, 2020

STONETRUST COMMERCIAL INSURANCE COMPANY AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
Fixed income securities - available for sale:		
Bonds - at fair value	$ 81,905,333	$ 54,210,138
Equity securities:		
Preferred stocks - at fair value	5,814,206	9,213,445
Common stocks - at fair value	62,245,239	47,064,978
Other invested assets	-	443,600
Total investments	149,964,778	110,932,161
Cash and cash equivalents	22,467,487	32,806,465
Receivable for securities	1,304	4,852,374
Premium receivable	16,437,691	17,007,457
Reinsurance receivables and recoverables	4,470,207	3,478,368
Deferred policy acquisition costs	1,451,953	1,626,141
Income taxes receivable	-	1,123,754
Accrued investment income	857,716	971,272
Property and equipment	1,212,854	1,213,166
Other	1,558,615	1,730,503
Total assets	$ 198,422,605	$ 175,741,661
LIABILITIES		
Losses and loss adjustment expenses	$ 78,544,723	$ 76,579,928
Unearned premiums	19,018,957	19,117,928
Advanced premiums	689,460	778,259
Insurance related taxes and assessments	3,577,280	4,031,922
Commission payable	1,530,510	1,501,762
Deferred tax liabilities	2,606,476	207,998
Income taxes payable	215,466	-
Accounts payable and other liabilities	2,114,550	1,870,076
Due to parent company	246,185	239,214
Security deposits	1,229,295	1,371,260
Note payable	3,909,124	3,903,763
Total liabilities	113,682,026	109,602,110
STOCKHOLDER'S EQUITY		
Common stock, $0.625 and $2,500 par value, with 40,000,000 and 10,000 shares authorized and 4,000,000 and 1,000 issued and outstanding at December 31, 2019 and 2018, respectively	2,500,000	2,500,000
Additional paid-in-capital	32,500,000	32,500,000
Retained earnings	48,513,479	25,329,101
Accumulated other comprehensive income - net	1,227,100	5,810,450
Total stockholder's equity	84,740,579	66,139,551
Total liabilities and stockholder's equity	$ 198,422,605	$ 175,741,661

The accompanying notes are an integral part of these consolidated financial statements.

STONETRUST COMMERCIAL INSURANCE COMPANY AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
REVENUES		
Net premiums earned	$ 43,753,081	$ 47,026,342
Net investment income	4,173,499	2,917,159
Net realized capital gains	145,443	541,888
Net holding gains on equity securities	10,477,489	-
Rental income	-	387,114
Other income	224,713	259,658
Total revenues	58,774,225	51,132,161
EXPENSES AND LOSSES		
Losses and loss adjustment expenses	23,713,107	27,493,896
Underwriting and operating expenses	15,495,606	18,204,748
Loss on impairment of investment securities	-	159,698
Bad debt expense	237,174	332,084
Interest expense	257,227	264,708
Total expenses and losses	39,703,114	46,455,134
INCOME BEFORE INCOME TAXES	19,071,111	4,677,027
Income tax expense	3,841,498	922,084
NET INCOME	15,229,613	3,754,943
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized holding gains (losses) arising during the period	4,481,163	(11,281,194)
Reclassification adjustment for realized gains included in net income	(145,443)	(382,190)
Change in derivative instrument	(68,106)	50,382
Other comprehensive income (loss) before taxes	4,267,614	(11,613,002)
Income tax benefit (expense) related to other comprehensive income (loss)	(896,199)	2,438,731
Other comprehensive income (loss)	3,371,415	(9,174,271)
COMPREHENSIVE INCOME (LOSS)	$ 18,601,028	$ (5,419,328)

The accompanying notes are an integral part of these consolidated financial statements.

STONETRUST COMMERCIAL INSURANCE COMPANY AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY
YEARS ENDED DECEMBER 31, 2019 AND 2018

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, January 1, 2018	$ 2,500,000	$ 32,500,000	$ 21,574,158	$ 14,984,721	$ 71,558,879
Net income	-	-	3,754,943	-	3,754,943
Other comprehensive (loss) - net	-	-	-	(9,174,271)	(9,174,271)
Balance, December 31, 2018	$ 2,500,000	$ 32,500,000	$ 25,329,101	$ 5,810,450	$ 66,139,551
Cumulative effect of change in accounting principle - initial adoption of ASU 2016-01	-	-	7,954,765	(7,954,765)	-
Net income	-	-	15,229,613	-	15,229,613
Other comprehensive income - net	-	-	-	3,371,415	3,371,415
Balance, December 31, 2019	$ 2,500,000	$ 32,500,000	$ 48,513,479	$ 1,227,100	$ 84,740,579

The accompanying notes are an integral part of these consolidated financial statements.

STONETRUST COMMERCIAL INSURANCE COMPANY AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 20108

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 15,229,613	$ 3,754,943
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	558,312	828,173
Net amortization of investment securities	39,525	289,361
Amortization of debt issuance costs	5,361	5,361
Bad debt expense	237,174	332,084
Deferred income tax	1,502,279	170,710
Loss on impairment of investment securities	-	159,698
Loss on sale of building	-	610,682
Net realized and unrealized capital gains	(10,622,932)	(1,152,570)
Changes in operating assets and liabilities:		
Premiums receivable	332,593	103,614
Reinsurance receivables and recoverables	(991,839)	(921,208)
Deferred policy acquisition costs	174,188	42,710
Income taxes receivable	1,339,220	(648,626)
Accrued investment income	113,556	(230,216)
Other assets	171,888	479,662
Losses and loss adjustment expenses	1,964,795	3,789,397
Unearned and advance premiums	(187,770)	(227,028)
Insurance related taxes and assessments	(454,642)	(451,143)
Commissions and other liabilities	70,120	(642,271)
Net cash provided by operating activities	9,481,441	6,293,333
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments available-for-sale	(35,899,248)	(14,107,398)
Proceeds from sales, maturities and prepayments of investments available-for-sale	10,675,177	5,183,291
Purchases of other invested assets	(1,122,211)	(475,743)
Purchases of equity securities	(14,306,984)	(15,341,687)
Proceeds from sales of equity securities	21,390,847	23,062,698
Proceeds from sale of building	-	4,630,692
Purchases of property, plant and equipment	(558,000)	(137,658)
Net cash (used in) provided by investing activities	(19,820,419)	2,814,195
CASH FLOWS FROM FINANCING ACTIVITIES	-	-
Net cash provided by (used in) financing activities	-	-
NET CHANGE IN CASH AND CASH EQUIVALENTS	(10,338,978)	9,107,528
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	32,806,465	23,698,937
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 22,467,487	$ 32,806,465

The accompanying notes are an integral part of these consolidated financial statements.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Stonetrust Commercial Insurance Company (the Company), formerly known as Amicus Mutual Insurance Company, was formed in March 2000, as a Louisiana-domiciled mutual insurance company. The Company received its Certificate of Authority effective June 30, 2000, to write workers' compensation business in Louisiana. Operations began July 1, 2000, as the successor to Louisiana Associated Commercial Employers Self Insurers Fund (LACE-SIF).

Effective January 1, 2006, after a vote of approval by its members, the Company converted from a mutual insurance company to a stock insurance company wholly owned by a mutual insurance holding company parent (Stonetrust Commercial Mutual Insurance Holding Company). Pursuant to the conversion, Stonetrust Commercial Mutual Insurance Holding Company was owned by the Company's policyholders. In addition, effective January 1, 2006, the Company's name was changed from Amicus Mutual Insurance Company to Stonetrust Commercial Insurance Company. The Company provides workers' compensation coverage primarily to employers within the states of Arkansas, Louisiana, Mississippi, Missouri, Nebraska, Oklahoma, Tennessee and Texas. However, the Company is licensed to write workers' compensation coverage in a total of 28 states.

Effective December 31, 2014, Stonetrust Commercial Mutual Insurance Holding Company entered into a sponsored demutualization transaction and was renamed Stonetrust Holding Company and converted to a stock company. Immediately following the demutualization, Stonetrust Holding Company and its subsidiaries were acquired by Dhando Holdings Corporation.

Effective December 31, 2017, Stonetrust Holding Company merged into Stonetrust Commercial Insurance Company.

Effective January 1, 2018, with the approval of the Nebraska Department of Insurance, all issued and outstanding shares of the Company were purchased by Wintaai Ltd., an Ontario, Canada corporation.

During 2018, the Company formed a wholly owned insurance company subsidiary named Stonetrust Premier Casualty Insurance Company (Premier). The articles of incorporation were filed with and were approved by the Nebraska Department of Insurance effective November 30, 2018. Premier was capitalized during 2019 with a $5.5 million capital contribution made by the Company. As of December 31, 2019, Premier held certificates of authority to write workers' compensation coverage in Arkansas, Mississippi and Nebraska but had not begun to write policies.

Principles of Consolidation and Basis of Accounting

The accompanying consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (US GAAP) using the accrual basis of accounting. For 2019, the accompanying consolidated financial statements of Stonetrust Commercial Insurance Company and Subsidiary include the accounts of Stonetrust Commercial Insurance Company (Commercial) and its wholly owned subsidiary, Stonetrust Premier Casualty Insurance Company (Premier), (collectively referred to hereafter as the Company). For 2018, the accompanying consolidated financial statements included the accounts of Commercial and its wholly owned subsidiary, Stonetrust Realty, LLC. Stonetrust Realty, LLC ceased operations on December 31, 2018, and has since been dissolved. All intercompany accounts and transactions among the consolidated companies have been eliminated.

Loss Portfolio Transfer

Under the terms of a Loss Portfolio Transfer (LPT) agreement, the Company acquired the outstanding amounts due under the claim reserves of LACE-SIF for all loss years as valued by LACE-SIF's independent actuary as of December 31, 2000. In addition, the transfer agreement moved all loss-related liabilities (such as the liability for assessments by the Second Injury Fund and the Office of Workers' Compensation) and placed the Company into the place of LACE-SIF to settle all claims and estimated excess policy recoveries. Estimated amounts remaining to be paid under the LPT as of December 31, 2019 and 2018, totaled $34,453 and $13,936, respectively.

Use of Estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, as well as reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

The most significant estimates susceptible to change are those used in determining the reserves for losses and loss adjustment expenses. Although considerable variability is inherent in these estimates, management believes that the reserves are adequate. The estimates are continually reviewed and adjusted as necessary. Such adjustments are reflected in current operations.

Investments

Effective January 1, 2019, the Company adopted the Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* to address the recognition, measurement, presentation, and disclosure of certain financial instruments. This ASU requires equity investments, except those accounted for under the equity method of accounting, that have readily determinable fair values to be measured at fair value with changes in fair values recognized in net income. Equity investments that do not have readily determinable fair values may be remeasured at fair value either upon the occurrence of an observable price change or upon identification of impairment. A qualitative assessment for impairment is required for equity investments without readily determinable fair values. Upon adoption, the Company recorded a cumulative effect adjustment of $7,954,765, which is net of taxes of $2,114,558. The cumulative effect adjustment represents the amount of after tax net unrealized gains on equity securities that was recorded as part of accumulated other comprehensive income at December 31, 2018.

The Company classifies its investments in debt securities as available-for-sale or held-to-maturity based upon its intent and ability to hold the investment, and the nature of the securities purchased. The classification is made at the acquisition date of the security and reassessed each year. Debt securities for which the Company classifies as held-to-maturity are reported at amortized cost, adjusted for amortization of premiums or discounts and other-than-temporary declines in fair value. Debt securities classified as available-for-sale are reported at estimated fair value, adjusted for other-than-temporary declines in fair value, with unrealized gains and losses reported as a separate component of stockholder's equity. Realized gains and losses are determined on the specific identification method.

Management evaluates securities for other-than-temporary impairment (OTTI) on a continuous basis. The accounting guidance on OTTI specifies that 1) if an entity does not have the intent to sell a debt security prior to recovery and 2) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss. When an entity does not intend to sell the security and it is more likely than not that the entity will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an OTTI of a debt security in earnings and the remaining portion in other comprehensive income. The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected based on cash flow projections.

Premiums

Effective January 1, 2019, the Company adopted the FASB ASU 2014-09 *Revenue from Contracts with Customers (Topic 606)* and all subsequent ASU's that modified Topic 606. The guidance revises the criteria for revenue recognition and requires that the revenue recognized reflect the transfer of promised goods or services to customers in an amount that represents the consideration to which the entity expects to be entitled in exchange for those goods or services. The adoption of the new guidance had no impact on the Company's reporting and disclosure of net premiums earned, net investment income or net realized gains and losses, as these items are not within the scope of this new guidance. The remaining revenue sources are immaterial.

Premiums are recognized as earned over the premium paying period of the related workers' compensation policies. Unearned premiums are established to cover the unexpired portion of premiums written. Premiums are billed and collected according to policy terms predominantly in the form of installments during the policy period. Workers' compensation premiums are determined based upon the payroll of the insured, the applicable premium rates and, where applicable, an experience-based modification factor, debits, credits, and discounts applied by the Company's underwriters based upon individual risk characteristics. Audits of policyholders' records are conducted after policy expiration to make a final determination of applicable premiums. Included in premiums receivable was $1,806,691 and $2,079,835 at December 31, 2019 and 2018, respectively, for estimated additional amounts of premiums to be billed to the Company's policyholders.

Premiums collected in advance of the next succeeding policy year are deferred from income recognition and are recorded as a liability on the Company's consolidated balance sheets under the caption "advance premiums".

Premium receivables consist of amounts due in the normal course of collection from policyholders located within the states the company serves. Receivables for premiums are not secured, other than by security deposits received by the Company. The portion of premium that is unbilled and will be earned in the future are reported as deferred premiums.

The Company routinely assesses the collectability of its receivables. At December 31, 2019 and 2018, the Company recorded an allowance for doubtful accounts of $654,409 and $565,246, respectively. The potential for additional loss is not believed to be material to the Company's financial position.

Deferred Policy Acquisition Costs

Deferred policy acquisition costs represent the costs of writing business that vary with, and are primarily related to, the successful production of insurance business (principally commissions and premium taxes). Policy acquisition costs are deferred and recognized as expense as related premiums are earned. Amortization of deferred policy acquisition costs is included in other underwriting expenses in the consolidated statements of operations.

Losses and Loss Adjustment Expenses Incurred and Payable

Unpaid losses and loss adjustment expenses include an amount determined from individual case estimates and loss reports and an amount, based on past experience, for losses incurred but not reported (IBNR). Such liabilities are necessarily based on assumptions and estimates, and, while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liabilities are continually reviewed, and any adjustments are reflected in the period determined. The Company does not discount its liabilities for unpaid losses and loss adjustment expenses.

Reinsurance

The Company seeks to reduce the loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with reinsurers. All reinsurance contracts in place transfer underwriting risks to the reinsurers.

Property and Equipment

Property and equipment acquired are stated at cost less accumulated depreciation. Depreciation is computed primarily by the use of straight-line methods over the estimated useful lives of the respective assets, which range from three to thirty-nine years.

Maintenance and repairs are charged to expense as incurred, while the cost of additions and improvements which extend the useful like of a particular asset are capitalized. When an item is retired or otherwise disposed of, the cost is removed from the asset account and the related depreciation allowance is adjusted with the difference being charged or credited to operations.

Income Taxes

For years ended December 31, 2019 and 2018, federal income tax returns included the Company and its wholly owned subsidiaries. Current federal income tax expense (benefit) is computed on a separate return basis and provides that members shall make payments or receive reimbursements to the extent their income (loss) contributes to or reduces consolidated federal income tax expense.

Income tax provisions are based on the asset and liability method, which recognizes deferred income taxes for differences between the tax bases of assets and liabilities and their reported amounts in the consolidated financial statements. These temporary differences are related primarily to policy acquisition costs, unearned and advance premiums and loss reserves. Deferred taxes are also recognized for operating losses that are available to offset future taxable income. Valuation allowances are established to reduce deferred tax assets to the amount expected to be realized.

Under accounting guidance related to accounting for uncertainty in income taxes, deferred tax assets are recognized if it is more-likely-than-not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more-likely-than-not means a likelihood of more than 50 percent. The terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management’s judgment. Deferred tax assets are reduced by a valuation allowance, if based on the weight of evidence available, it is more-likely-than-not that some portion or all of the deferred tax asset will not be realized.

Postemployment Benefits and Compensated Absences

The Company does not offer postemployment benefits other than the payment of earned and unused accrued paid time off upon employment termination. At December 31, 2019 and 2018, the Company has an accrued liability recorded for unpaid compensated absences of $176,275 and $289,195, respectively.

Concentration of Credit Risk

The Company provides workers' compensation insurance primarily to employers and individuals within the states it serves. The Company extends credit to policyholders using practices common to the insurance industry.

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash deposits, investment securities, reinsurance recoverables and receivables, and balances due from insureds. The Company invests in various types of investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in values of investment securities will change in the near term and those changes could be significant. Management continually evaluates its investment portfolio to manage concentrations in individual securities, issuers of securities, and types of securities, industries, and geographic regions. The Company generally limits its exposure to credit risk from balances on deposit in financial institutions in excess of the federally insured limits. Management believes the credit risk associated with these deposits is minimal.

Cash, Cash Equivalents and Short-Term Investments

Cash and cash equivalents include demand deposits with banks, money market funds and short-term liquid investments with original maturities of ninety days or less and are stated at amortized cost.

Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in the equity of a business enterprise during a period of transactions and other events and circumstances, except those resulting from investment by owners and distributions to owners. Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale debt securities, and derivative instruments, are reported as a separate component of the stockholder's equity section in the balance sheet, such items, along with net income, are components of comprehensive income (loss).

Recently Issued Accounting Guidance Not Yet Adopted

The FASB issued ASU 2015-02, *Leases* (Topic 842), on February 25, 2016. It is effective for periods beginning after December 15, 2020 for nonpublic entities. Early application is permitted. The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. All leases create an asset and a liability for the lessee in accordance with FASB Concepts Statement No. 6, *Elements of Financial Statements*, and, therefore recognition of those lease assets and lease liabilities represents an improvement over previous US GAAP, which did not require lease assets and lease liabilities to be recognized for most leases. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. Lessor accounting remains substantially unchanged with the exception that no leases entered into after the effective date will be classified as leveraged leases. For example, the vast majority of operating leases should remain classified as operating leases, and lessors should continue to recognize lease income for those leases on a generally straight-line basis over the lease term. This guidance is not expected to have a material impact on the Company's consolidated financial statements.

2. INVESTMENTS

The amortized cost, gross unrealized gains, gross unrealized losses, and estimated fair value of investment securities as of December 31, 2019 and 2018, were as follows:

	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. Government Corporations and Agencies	$ 35,013,036	$ 46,471	$ (205)	$ 35,059,302
State and political subdivisions	3,377,264	24,528	-	3,401,792
Industrial and miscellaneous	40,646,639	1,883,797	(279,196)	42,251,240
Mortgage-backed securities	1,267,377	4,029	(78,407)	1,192,999
Total bonds	80,304,316	1,958,825	(357,808)	81,905,333
Common stocks	41,901,543	20,489,574	(145,878)	62,245,239
Preferred stocks	5,611,088	214,613	(11,495)	5,814,206
Total	$ 127,816,947	$ 22,663,012	$ (515,181)	$ 149,964,778

	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. Government Corporations and Agencies	$ 1,515,735	$ 2,448	$ (6,092)	$ 1,512,091
State and political subdivisions	4,935,889	24,290	(4,544)	4,955,635
Industrial and miscellaneous	49,019,097	41,235	(2,622,836)	46,437,496
Mortgage-backed securities	1,441,976	1,656	(138,716)	1,304,916
Total bonds	56,912,697	69,629	(2,772,188)	54,210,138
Common stocks	36,838,002	10,996,398	(769,422)	47,064,978
Preferred stocks	9,371,098	24,573	(182,226)	9,213,445
Other invested asset	475,743	-	(32,143)	443,600
Total	$ 103,597,540	$ 11,090,600	$ (3,755,979)	$ 110,932,161

Information pertaining to investment securities with gross unrealized losses at December 31, 2019 and 2018, aggregated by investment category and length of time that individual securities have been in a continuous loss position follows:

	December 31, 2019			
	Less Than 12 Months		Over 12 Months	
	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. Government corporations and Agencies	$ (205)	$ 798,240	$ -	$ -
State and political subdivisions	-	-	-	-
Industrial and miscellaneous	(141,510)	2,164,500	(137,686)	2,298,591
Mortgage-backed securities	(32,205)	273,989	(46,202)	844,942
Total bonds	(173,920)	3,236,729	(183,888)	3,143,533
Common stocks	(27,721)	536,606	(118,157)	1,117,511
Preferred stocks	(11,495)	858,229	-	-
Total	$ (213,136)	$ 4,631,564	$ (302,045)	$ 4,261,044

	December 31, 2018			
	Less Than 12 Months		Over 12 Months	
	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. Government corporations and Agencies	$ -	$ -	$ (6,092)	$ 918,265
State and political subdivisions	(4,438)	2,552,071	(106)	399,944
Industrial and miscellaneous	(1,811,986)	23,418,090	(810,850)	16,267,702
Mortgage-backed securities	(2,382)	366,681	(136,334)	887,869
Total bonds	(1,818,806)	26,336,842	(953,382)	18,473,780
Common stocks	(769,422)	7,795,339	-	-
Other invested assets	(32,143)	443,600	-	-
Preferred stocks	(182,226)	5,766,827	-	-
Total	$ (2,802,597)	$ 40,342,608	$ (953,382)	$ 18,473,780

The amortized cost of bonds and notes has been reduced by net amortization expense of $39,525 and $289,361, respectively, during the years ended December 31, 2019 and 2018.

The assessment of other-than-temporary impairment is performed periodically. Factors considered in determining whether a loss is temporary include the following:

- The length of time and the extent to which fair value has been below cost;
- The severity of the impairment;
- The cause of the impairment and the financial condition and near-term prospects of the issuer;
- Activity in the market of the issuer which may indicate adverse credit conditions; and
- The Company’s ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

The Company’s review for impairment generally entails the following:

- Identification and evaluation of investments that have indications of possible impairment;
- Analysis of individual investments that have fair values less than amortized cost, including consideration of the length of time the investment has been in an unrealized loss position and the expected recovery period;

- Discussion of evidential matter, including an evaluation of factors or triggers that could cause individual investments to qualify as having other-than-temporary impairment and those that would not support other-than-temporary impairment; and
- Documentation of the results of these analyses.

For equity securities, management considers the various factors described above, including its intent and ability to hold the equity security for a period of time sufficient for recovery to amortized cost. Where management lacks the intent or ability, the security's decline in fair value is deemed to be other-than-temporary and is recorded in earnings. No other-than-temporary impairment adjustments in equity securities were recorded during the years ended December 31, 2019 or 2018.

For debt securities that are not deemed to be credit impaired, management performs additional analysis to assess whether it intends to sell or more likely than not would be required to sell the investment before the expected recovery of the amortized cost basis. In most cases, management has asserted that it has no intent to sell and that it believes it is more likely than not that it will not be required to sell the investments before recovery of its amortized cost basis.

For debt securities, a critical component of the evaluation for other-than-temporary impairments is the identification of credit impaired securities where management does not expect to receive cash flows sufficient to recover the entire amortized cost basis of the security. During the years ended December 31, 2019 and 2018, the Company recorded an impairment charge of $0 and $159,698, respectively, related to certain debt securities.

The amortized cost and estimated fair values of investment securities at December 31, 2019, 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	Estimated Fair Value
Due in 1 year or less	$ 2,415,508	$ 2,425,493
Due after 1 year through 5 years	59,962,029	60,465,767
Due after 5 years through 10 years	16,599,797	17,759,491
Due after 10 years through 20 years	-	-
Due after 20 years	59,605	61,583
	79,036,939	80,712,334
Mortgage-backed securities	1,267,377	1,192,999
	$ 80,304,316	$ 81,905,333

In accordance with regulatory provisions, the Company has pledged bonds with a fair value of $4,638,166 and $3,934,733 to various regulatory agencies at December 31, 2019 and 2018, respectively. Additionally, at December 31, 2019 and 2018, the Company has pledged bonds with a fair value of $238,796 and $255,692, respectively, as collateral as required by the Company's counterparty in relation to the interest rate swap transaction described in Note 16.

Components of net investment income were as follows for each of the years ended December 31:

	2019	2018
Interest on bonds	$ 2,854,111	$ 2,364,276
Dividends on equity securities	2,139,798	1,461,294
Interest on short-term investments, cash, and other	242,970	153,076
	5,236,879	3,978,646
Less: investment expenses	(1,063,380)	(1,061,487)
Net investment income	$ 4,173,499	$ 2,917,159

Proceeds from sales, maturities and prepayments of bonds and common and preferred stocks were $32,066,024 and $28,245,989 for the years ended December 31, 2019 and 2018, respectively. The Company realized capital gains of $145,443 in 2019 and $1,152,570 in 2018, in relation to disposals of investment securities.

3. FAIR VALUE MEASUREMENTS

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. US GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date. Fair value is best determined based upon quoted market prices. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. US GAAP also establishes a fair value hierarchy for valuation inputs. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. These levels are as follows:

- Level 1 – inputs are based upon adjusted quoted prices for identical instruments traded in active markets.
- Level 2 – inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of assets or liabilities.
- Level 3 – inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

Fair Value of Financial Assets Measured at Fair Value on Report Date

The following tables provide information as of December 31, 2019 and 2018, about the Company's financial assets measured and carried at fair value at the reporting date:

	December 31, 2019				
	Level 1	Level 2	Level 3	Net Asset Value (NAV)	Total
Bonds	$ -	$ 81,905,333	$ -	$ -	$ 81,905,333
Common stocks	57,938,732	-	1,612,194	2,694,313	62,245,239
Preferred stocks	5,814,206	-	-	-	5,814,206
	$ 63,752,938	$ 81,905,333	$ 1,612,194	$ 2,694,313	$ 149,964,778
Derivative - liability	$ -	$ -	$ (47,728)	$ -	$ (47,728)

	December 31, 2018				
	Level 1	Level 2	Level 3	Net Asset Value (NAV)	Total
Bonds	$ -	$ 54,210,138	$ -	$ -	$ 54,210,138
Common stocks	46,560,146	-	-	504,832	47,064,978
Preferred stocks	9,213,445	-	-	-	9,213,445
Other invested asset	-	-	443,600	-	443,600
Derivative - asset	-	-	20,378	-	20,378
	$ 55,773,591	$ 54,210,138	$ 463,978	$ 504,832	$ 110,952,539

With the exception of two investments, ownership in a private foreign mutual fund (Fund) and ownership of a privately traded common stock, at December 31, 2019 and 2018, all of the Company's investments in common and preferred stocks are exchange-listed and are actively traded. Unadjusted quoted prices for these securities are provided principally by independent pricing services that meet Level 1 criteria. The Company's investment in the private foreign mutual fund, which is classified as a common stock, is valued using net asset value as a practical expedient of the Fund as there is no readily determinable fair value, there is no actively traded market and purchases and redemptions are made using the net asset value. The Company's investment in the privately traded common stock is valued by an independent third party using inputs which meet Level 1 criteria.

The Company's available-for-sale debt securities are carried at estimated fair value and are obtained from independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. These securities are considered Level 2.

The Company's derivative instrument is measured through a model used by the primary lender. The fair value of this instrument is estimated by using a discounted cash flow model and therefore, falls in the Level 3 category.

The change in carrying values associated with Level 3 financial instruments for the years ended December 31, 2019 and 2018 are as follows:

Only Level 3 Financial Instruments - December 31, 2019

	Balance at January 1, 2019	Purchases	Redemptions	Realized Gain/(Loss)	Unrealized Gain/(Loss)	Transfers In & Out	Balance at December 31, 2019
EXCO Stock	$ 443,600	$ 1,122,211	$ -	$ -	$ 46,383	$ -	$ 1,612,194
Interest Rate Swap	20,378	-	-	-	(68,106)	-	(47,728)
	$ 463,978	$ 1,122,211	$ -	$ -	$ (21,723)	$ -	$ 1,564,466

Only Level 3 Financial Instruments - December 31, 2018

	Balance at January 1, 2018	Purchases	Redemptions	Realized Gain/(Loss)	Unrealized Gain/(Loss)	Transfers In & Out	Balance at December 31, 2018
Term Loan	$ -	$ 475,743	$ -	$ -	$ (32,143)	$ -	$ 443,600
Interest Rate Swap	(30,004)	-	-	-	50,382	-	20,378
	$ (30,004)	$ 475,743	$ -	$ -	$ 18,239	$ -	$ 463,978

4. CASH AND CASH EQUIVALENTS

At December 31, 2019 and 2018, cash, and cash equivalents consisted of the following:

	2019	2018
Demand deposits in banks	$ 22,457,412	$ 32,796,418
Money market funds	10,075	10,047
Total	$ 22,467,487	$ 32,806,465

All demand deposits are insured by the Federal Deposit Insurance Corporation up to $250,000. The money market funds are not insured by the Federal Deposit Insurance Corporation. However, these funds are backed by the underlying securities.

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2019	2018
Information systems	$ 6,329,630	$ 5,771,630
Office and computer equipment	335,662	335,662
Less: accumulated depreciation	(5,452,438)	(4,894,126)
Net depreciable assets	$ 1,212,854	$ 1,213,166

Depreciation expense was $558,312 and $828,173 for 2019 and 2018, respectively.

6. UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

Unpaid losses and loss adjustment expenses at December 31, 2019 and 2018, consisted of the following:

		2019		2018
Unpaid Losses	$	69,217,306	$	68,076,444
Unpaid loss adjustment expenses		9,327,417		8,503,484
Total	$	78,544,723	$	76,579,928

Activity in the liability for unpaid losses and loss adjustment expenses (LAE) is summarized as follows at December 31:

		2019		2018
Reserves for loss and LAE - gross - at January 1	$	76,579,928	$	72,790,531
Amounts recoverable from reinsurers on unpaid losses		3,478,368		2,557,160
Reserve for Loss and LAE - net at Janaury 1		73,101,560		70,233,371
Net incurred related to:				
Current year		27,238,886		29,999,167
Prior years		(3,525,779)		(2,505,271)
Total incurred		23,713,107		27,493,896
Net paid related to:				
Current year		6,542,412		7,325,363
Prior years		16,197,739		17,300,344
Total paid		22,740,151		24,625,707
Reserves for Loss and LAE - net - at December 31		74,074,516		73,101,560
Amounts recoverable from reinsurers on unpaid losses		4,470,207		3,478,368
Reserve for Loss and LAE - gross at December 31	$	78,544,723	$	76,579,928

The estimated cost of loss and loss adjustment expenses (LAE) attributable to insured events of prior years decreased by $3,525,779 and $2,505,271 during 2019 and 2018, respectively. Increases or decreases of this nature occur as the result of claim settlements during the current year and as additional information is received regarding individual claims, causing changes from the original estimates of the cost of these claims. Recent loss development trends are also taken into account in evaluating the overall adequacy of unpaid losses and LAE.

The Company has purchased annuities from life insurers under which claimants are payees under structured settlement agreements. These annuities have been used to reduce unpaid losses by approximately $4,658,519 and $4,561,595 at December 31, 2019 and 2018, respectively. The Company estimates that is contingently liable for $2,520,687 at December 31, 2019, should the insurers of these annuities fail to perform under the terms of the annuities.

7. SHORT-DURATION CONTRACTS

The Company's reserves for loss and loss adjustment expenses represent the estimated cost of all reported and unreported loss and loss adjustment expenses incurred and unpaid at any given point in time based on known facts and circumstances. In establishing its reserves, the Company does not use loss discounting, which would involve recognizing the time value of money and offsetting estimates of future payments by future expected investment income. The Company estimates its reserves for loss and loss adjustment expenses using case by case valuations and actuarial analysis. The allocated loss adjustment expenses included in this disclosure are also referred to as DCC expenses.

The Company utilizes a combination of generally accepted and standard actuarial methods including paid and incurred loss development factor approaches, expected loss ratio methods and other paid and incurred approaches to estimate its reserves for loss and loss adjustment expenses. Embedded within these actuarial methods are loss development assumptions selected by either a review of the Company's specific loss development history, industry loss development characteristics, or a combination of both depending on the maturity of the loss experience to date.

Loss development factors are a key assumption underlying many of the actuarial methods utilized. Loss development factors are the ratio of losses at successive evaluations for a defined group of claims (e.g., accident year, accident quarter, etc.). Loss development factors may be dependent on a number of elements, including frequency and severity of claims, length of time to achieve ultimate settlement of claims, case reserving practices, projected inflation of medical costs and wages, judicial determinations and existing laws and regulations. The predictive ability of loss development factors is dependent on consistent underwriting, claims handling, and inflation, among other factors, and predictable legislatively and judicially imposed legal requirements.

The Company does not have any material changes to the actuarial methodologies utilized since year-end 2018 to disclose. The Company only writes workers' compensation coverage. The incurred claims information below also includes the cumulative number of claims reported in each accident year. The number of claims reported are aggregated on a per claimant basis and are included to help measure claim frequency.

The following is information about the incurred and paid claims for the year ended December 31, 2019, net of reinsurance, as well as cumulative claim frequency and the total of incurred but not reported liabilities plus expected development on reported claims included within the net incurred claims amounts.

Workers' Compensation
Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance
(Amounts in Thousands, Except Claim Counts)
As of December 31, 2019

Accident Year	Incurred claims and allocated claim adjustment expenses, net of reinsurance	Cumulative Paid	Incurred but not reported plus expected development on reported claims	Cumulative number of claims reported
2010	$17,337	$16,770	$478	983
2011	18,082	17,167	852	908
2012	22,765	21,075	1,360	1,292
2013	30,726	28,102	1,656	1,489
2014	33,840	28,757	4,452	1,544
2015	30,592	24,364	5,147	1,284
2016	31,220	22,024	7,747	1,133
2017	29,920	18,654	8,992	1,057
2018	26,816	13,332	9,932	1,007
2019	24,979	4,981	10,236	807
	$266,277	$195,226		
	All outstanding liabilities before 2010, net of reinsurance	1,274		
	Liabilities for claims and allocated claims adjustment expenses, net of reinsurance	$72,325		

The following table presents the reconciliation of net incurred and paid claims development tables above to the liability for losses and loss adjustment expenses as of December 31, 2019.

	December 31, 2019 (in thousands)
Net liability for unpaid losses and allocated loss adjustment expenses	$ 72,325
Reinsurance recoverable on unpaid losses and loss adjustment expenses	4,470
Liability for unallocated loss adjustment expenses	1,750
Gross liability for unpaid losses and loss adjustment expenses	$ 78,545

8. REINSURANCE ACTIVITY

In the normal course of business, the Company cedes insurance business to unrelated third parties in order to limit its maximum loss, to provide greater diversification of risk and to minimize exposures on larger risks. A summary of the Company's reinsurance programs for the last ten years is as follows:

Period Covered	Company Retention	Annual Aggregate Deductible	Excess Per Loss Occurrence Coverage
1/01/10 - 12/31/10	1,000,000	-	$99,000,000 in excess of $1,000,000
1/01/11 - 12/31/11	1,000,000	-	$49,000,000 in excess of $1,000,000
1/01/12 - 12/31/12	1,000,000	-	$29,000,000 in excess of $1,000,000
1/01/13 - 12/31/13	750,000	-	$29,250,000 in excess of $750,000
1/01/14 - 12/31/14	750,000	-	$39,250,000 in excess of $750,000
1/01/15 - 12/31/15	750,000	500,000	$39,250,000 in excess of $750,000
1/01/16 - 12/31/16	2,000,000	-	$38,000,000 in excess of $2,000,000
1/01/17 - 12/31/17	2,000,000	-	$38,000,000 in excess of $2,000,000
1/01/18 - 12/31/18	750,000	500,000	$39,250,000 in excess of $750,000
1/01/19 - 12/31/19	750,000	500,000	$39,250,000 in excess of $750,000

The reinsurance contracts do not relieve the Company from its obligations to policyholders. The Company remains liable to the extent a reinsurer is unable to meet its obligations. The Company evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. Amounts recoverable from reinsurers are based upon assumptions consistent with those used in establishing the liabilities related to the underlying reinsured policies and are continuously reviewed. As of December 31, 2019 and 2018, the Company has $4,470,207 and $3,478,368, respectively, of reinsurance recoverables based on its actuarially determined ultimate loss and loss adjustment expenses payable. As of December 31, 2019 and 2018, amounts due from reinsurers for claims actually paid were $0.

The effects of reinsurance on premiums written and earned for 2019 and 2018 are as follows:

	2019		2018	
	Written	Earned	Written	Earned
Direct	$ 45,117,865	$ 45,178,477	$ 48,225,119	$ 48,525,527
Assumed - assigned risk pools	764,899	803,258	953,586	925,150
Ceded	(2,228,654)	(2,228,654)	(2,424,335)	(2,424,335)
Net	$ 43,654,110	$ 43,753,081	$ 46,754,370	$ 47,026,342

9. DEFERRED POLICY ACQUISITION COSTS

Deferred policy acquisition costs represent those costs that are incremental and directly related to the successful acquisition of new or renewal of existing policies. These costs are deferred and expensed over the life of the related policies. Major categories of the Company's deferred policy acquisition costs are as follows:

	December 31, 2019	December 31, 2018
Agents' commissions	$ 811,583	$ 773,296
Premium related taxes and assessments	640,370	852,845
	$ 1,451,953	$ 1,626,141

The following summarizes the activity in the deferred policy acquisition costs:

	December 31,	
	2019	2018
Balance, beginning of year	$ 1,626,141	$ 1,668,851
Policy acquisition costs deferred	5,387,145	6,206,589
Amortization during the year	(5,561,333)	(6,249,299)
Balance, end of year	$ 1,451,953	$ 1,626,141

10. COMMITMENTS AND CONTINGENCIES

Losses and loss adjustment expenses payable consist of case-based estimates of the likely loss exposure to the Company from all known and open claims, including incurred but not reported (IBNR) attributable to open years. Such estimates are made by the Company and an actuarial study prepared for the Company by its internal actuary. These estimates are continually revised as additional information becomes available.

Management believes the provision for losses and loss adjustment expenses payable at December 31, 2019 is adequate to cover the ultimate liabilities. However, it is more than reasonably possible that a change in these estimates will occur in the near term and that the amount ultimately paid may prove to be more or less than the current estimates of liability and that difference may be significant.

Lawsuits arise against the Company in the normal course of business. Contingent liabilities arising from litigation and other matters are not considered material in relation to the financial position of the Company.

The Company is subject to guaranty fund and other assessments in the states in which it writes business. In the case of premium based assessments, accrual of the assessment is made at the time the related premiums are written. In the case of loss-based assessments, accrual of the assessment is made at the time the related loss is incurred. Currently, the Company is not aware of any pending guaranty fund assessments or recent insolvencies which would require it to record a liability for guaranty fund assessments in any of the states the Company conducts business.

The Company has accrued a liability for loss-based assessments of $3,286,908 and $3,348,913 at December 31, 2019 and 2018, respectively. The amounts recorded represent management’s best estimates based on past and present assessment rate information and an estimate of the applicable assessable base. This liability is included in taxes, licenses and fees payable.

11. POLICYHOLDER SECURITY DEPOSITS

Policyholder security deposits are $1,229,295 and $1,371,260 as of December 31, 2019 and 2018, respectively. Policyholder security deposits are additional funds available to satisfy policyholder obligations to the Company, if necessary, and are non-interest bearing and refundable upon termination from the Company after all expenses are settled for the policyholder.

12. RELATED PARTY TRANSACTIONS

The Company, through investment management agreements, contracted with its ultimate parent, Chou Associates Management Inc., to receive investment management services. For the years ended December 31, 2019 and 2018, the Company incurred $1,017,504 and $1,000,470, respectively, in fees under these agreements. At December 31, 2019 and 2018, the Company owed its parent $246,185 and $239,214, respectively, related to these agreements.

13. INCOME TAXES

For years ending December 31, 2019 and 2018, federal income tax returns included the Company and its wholly owned subsidiaries. Current federal income tax expense (benefit) is computed on a separate return basis and provides that members shall make payments or receive reimbursements to the extent their income (loss) contributes to or reduces consolidated federal income tax expense.

The components of deferred tax assets and liabilities as of December 31, 2019 and 2018 are as follows:

	2019	2018
Deferred tax assets:		
Discounting of unpaid losses and LAE	$ 2,232,193	$ 2,268,464
Unearned and advance premium	827,753	835,640
Other-than-temporary impairment loss	-	33,537
Allowance for doubtful accounts	137,426	118,702
Accrued compensated absences	37,018	60,731
Cost basis differences for invested assets	362,358	-
Gross deferred tax assets	3,596,748	3,317,074
Less: valuation allowance	-	-
Gross deferred tax assets	3,596,748	3,317,074
Deferred tax liabilities:		
Property and equipment	134,407	214,464
Deferred policy acquisition costs	304,910	341,490
Unrealized capital gains	4,641,021	1,544,549
Accrued dividends	11,502	22,124
Loss reserves transition adjustment	1,111,384	1,402,445
Gross deferred tax liabilities	6,203,224	3,525,072
Net deferred tax (liabilities)	$ (2,606,476)	$ (207,998)

US GAAP requires the Company to evaluate the recoverability of its deferred tax assets and establish a valuation allowance, if necessary, to reduce the deferred tax asset to an amount that is more likely than not to be realized (a likelihood of more than 50%). In making this evaluation, the Company is required to consider all available evidence, both positive and negative, including objectively verifiable evidence of taxable income in the immediate ensuing years. At December 31, 2019 and 2018, no valuation was recorded.

Federal income tax expense differs from the amount computed by applying the statutory federal income tax rate of 21% for the years ended December 31, 2019 and 2018, respectively, to earnings for the following reasons:

	2019		2018	
Income before income taxes	$ 19,071,111	100.0%	$ 4,677,027	100.0%
Federal and state income taxes:				
Computed at statutory rate	$ 4,004,932	21.0%	$ 982,176	21.0%
Tax-exempt interest and proration	9,447	0.0%	8,147	0.2%
Dividends received deduction	(85,223)	-0.4%	(87,701)	-1.9%
Non-deductible expenses	41,201	0.2%	17,340	0.4%
Effect of foreign tax credit taken	(115,211)	-0.6%	-	0.0%
Other	(13,648)	-0.1%	2,122	0.0%
Total	$ 3,841,498	20.1%	$ 922,084	19.7%
Income tax expense:				
Current	$ 2,339,219	12.3%	$ 751,374	16.1%
Deferred	1,502,279	7.9%	170,710	3.6%
Total	$ 3,841,498	20.1%	$ 922,084	19.7%

At December 31, 2019, the Company had no protective tax deposits on deposit with the Internal Revenue Service under Section 6603 of the Internal Revenue Code.

14. EQUITY AND STATUTORY RESULTS

A comparison of US GAAP and Statutory basis net income and total equity is as follows:

	US GAAP	Statutory
Net income:		
Year ended December 31, 2019	$ 15,229,613	$ 6,378,416
Year ended December 31, 2018	$ 3,754,943	$ 4,537,345
Total equity/capital and surplus:		
December 31, 2019	$ 84,740,579	$ 84,446,255
December 31, 2018	$ 66,139,551	$ 68,275,675

15. NOTE PAYABLE

On December 14, 2006, the Company issued a surplus note (note payable) in the amount of $4,000,000 in exchange for cash. The note was underwritten by FTN Financial Capital Markets and is administered by Wilmington Trust Company as registrar/paying agent. Each payment of principal and interest may be made only with the prior approval of the Nebraska Insurance Department and only to the extent the Company has sufficient policyholders' surplus to make such payment. In the event of a liquidation proceeding, holders of indebtedness, policy claims and prior claims would have greater priority under both the Liquidation Act and terms of the note and, accordingly, would have the right to be paid in full before any payments of interest and principal are made to note holders.

The terms of the note are as follows:

Date Issued:	December 14, 2006
Interest Rate:	3 month LIBOR + 4.0%
Par Value of Note:	$4,000,000
Carrying Value of Note:	$4,000,000
Date of Maturity:	December 15, 2036

Notes payable consisted of the following:

	December 31,	
	2019	**2018**
Note payable	$ 4,000,000	$ 4,000,000
Less: deferred loan costs	(90,876)	(96,237)
	$ 3,909,124	$ 3,903,763

16. DERIVATIVE INSTRUMENTS

For the purposes of hedging a portion of its variable interest rate risk on the note payable, the Company entered into an interest rate swap agreement (cash flow hedge) effective December 15, 2011 with a bank whereby the variable interest rate described above was exchanged for a fixed interest rate on a $4,000,000 notional balance for a period of ten years. This agreement resulted in a liability of $47,728 at December 31, 2019, and an asset of $20,378 at December 31, 2018. If the swap is terminated prior to maturity, proceeds are exchanged equal to the fair value of the contract.

17. LEASES

The Company leases office equipment under various non-cancelable operating agreements that expire through 2025 and incurred expense of $42,419 and $42,452 in 2019 and 2018, respectively, related to these agreements. Additionally, the Company leases office space from an unrelated third party under a non-cancelable operating agreement.

At December 31, 2019, the minimum aggregate lease commitments are as follows:

Years ending December 31,	Amount
2020	$ 218,514
2021	216,148
2022	211,415
2023	201,743
2024	11,713
Thereafter	2,927
Total	$ 862,460

18. EMPLOYEES' SAVINGS PLAN

The Company sponsors a defined contribution 401(k) plan, which covers all employees who are at least 21 years of age and has six months of service with the Company. The Company contributes 3% of eligible employee's compensation into the plan and has the option to contribute additional amounts if so decided. For the plan years ended December 31, 2019 and 2018, the Company contributed $327,098 and $328,301, respectively, to the plan.

19. STOCK SPLIT

Effective May 7th, 2019, with the approval of the Nebraska Department of Insurance, Stonetrust Commercial Insurance Company performed a 4,000 to 1 stock split. Accordingly, at December 31, 2019, the Company had 40,000,000 shares of common stock with a par value of $0.625 per share authorized, and 4,000,000 shares issued and outstanding.

20. SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date that the financial statements were available to be issued, March 20, 2020, and determined that the following matter required additional disclosure in the financial statements. No other events occurring after this date have been evaluated for inclusion in these consolidated financial statements.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a global pandemic, which continues to spread throughout the United States. The COVID-19 pandemic has negatively impacted the global economy and created significant volatility and disruption of financial markets. The extent of the impact of the COVID-19 pandemic on the Company's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and the impact on policyholders, employees and vendors, all of which are uncertain and cannot be predicted. The extent to which the COVID-19 pandemic may impact financial markets and the Company's financial condition or results of operations cannot be reasonably estimated at this time.

REQUIRED SUPPLEMENTARY INFORMATION

STONETRUST COMMERCIAL INSURANCE COMPANY AND SUBSIDIARY
SHORT-DURATION CONTRACTS
REQUIRED SUPPLEMENTARY INFORMATION

Workers' Compensation
Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance
(Amounts in Thousands, Except Claim Counts)

	For The Years Ended December 31,										As of December 31, 2019	
Accident Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total of Incurred but not reported plus expected development on reported claims	Cumulative number of reported claims
2010	17,360	15,923	15,305	16,597	16,850	17,335	17,335	17,336	17,340	$17,337	$478	983
2011		17,524	16,252	17,868	17,634	18,209	18,091	18,086	18,086	18,082	852	908
2012			19,406	19,983	21,278	22,747	22,735	22,976	22,972	22,765	1,360	1,292
2013				30,893	29,503	30,638	30,596	30,832	31,184	30,726	1,656	1,489
2014					34,805	36,049	35,981	35,896	34,871	33,840	4,452	1,544
2015						34,874	34,538	33,775	31,613	30,592	5,147	1,284
2016							32,270	31,681	31,653	31,220	7,747	1,133
2017								30,124	30,390	29,920	8,992	1,057
2018									27,162	26,816	9,932	1,007
2019										24,979	10,236	807
									Total	$266,277		

Workers' Compensation
Cumulative Paid Claims & Allocated Claim Adjustment Expenses, Net of Reinsurance
(Amounts in Thousands)

	For The Years Ended December 31,									
Accident Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
2010	4,127	9,393	12,612	14,399	15,472	16,171	16,430	16,740	16,763	$16,770
2011		3,924	10,341	13,659	15,294	16,294	16,771	17,140	17,150	17,167
2012			4,304	11,985	16,194	18,574	20,140	20,492	20,568	21,075
2013				7,083	17,684	22,287	25,949	27,387	28,043	28,102
2014					8,928	19,609	25,900	27,544	28,329	28,757
2015						7,448	16,844	20,978	23,126	24,364
2016							6,538	15,870	20,202	22,024
2017								7,041	15,344	18,654
2018									5,630	13,332
2019										4,981
									Total	$195,226
All outstanding liabilities before 2010, net of reinsurance										1,274
Liabilities for claims and allocated claims adjustment expenses, net of reinsurance										$ 72,325

STONETRUST COMMERCIAL INSURANCE COMPANY AND SUBSIDIARY
SHORT-DURATION CONTRACTS
REQUIRED SUPPLEMENTARY INFORMATION

Average Annual Percentage Payout of Incurred Loss and Allocated Claim Adjustment Expense
By Age, Net of Reinsurance

Years	1	2	3	4	5	6	7	8	9
Workers' Compensation	22.3%	32.9%	15.9%	9.1%	6.5%	3.4%	2.6%	2.0%	1.2%