STONETRUST COMMERCIAL INSURANCE COMPANY AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

Postlethwaite & Netterville

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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

Opinion

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, 2022 and 2021, 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.

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, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Postlethwaite & Netterville

Auditors' Responsibility for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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 30 and 31 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 17, 2023

STONETRUST COMMERCIAL INSURANCE COMPANY AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2022 AND 2021

	2022	2021
ASSETS		
Fixed income securities - available for sale:		
at fair value	$ 64,773,715	$ 56,579,498
Equity securities - at fair value:		
Preferred stocks	-	1,148,400
Common stocks	64,299,088	96,495,101
Derivatives	-	4,179,000
Collateral loan	30,000,000	-
Total investments	159,072,803	158,401,999
Cash and cash equivalents	47,166,323	79,776,289
Receivable for securities	3,104,795	-
Premium receivable	17,127,612	15,143,697
Reinsurance receivables and recoverables	3,133,057	3,541,570
Deferred policy acquisition costs	1,587,060	1,497,427
Income taxes receivable	302,771	790,472
Accrued investment income	1,153,866	682,160
Property, equipment and leasehold improvements	1,046,549	1,382,254
Right of use asset - leases	1,167,022	-
Other	1,264,048	1,607,284
Total assets	$ 236,125,906	$ 262,823,152
LIABILITIES		
Losses and loss adjustment expenses	$ 67,382,990	$ 74,875,388
Unearned premiums	20,957,604	19,144,998
Derivatives	26,399	4,953,044
Advanced premiums	1,051,614	847,871
Insurance related taxes and assessments	3,190,510	3,207,713
Commission payable	1,375,316	1,193,982
Deferred tax liabilities	2,255,113	8,843,159
Income taxes payable	581,083	698,298
Accounts payable and other liabilities	3,202,533	2,822,944
Lease liability	1,175,818	-
Due to parent company	271,969	347,265
Security deposits	990,297	993,964
Note payable	-	3,919,846
Total liabilities	102,461,246	121,848,472
STOCKHOLDER'S EQUITY		
Common stock, $0.625 par value; 40,000,000 shares		
authorized and 4,000,000 outstanding	2,500,000	2,500,000
Additional paid-in-capital	32,500,000	32,500,000
Retained earnings	100,861,437	104,224,087
Accumulated other comprehensive income (loss) - net	(2,196,777)	1,750,593
Total stockholder's equity	133,664,660	140,974,680
Total liabilities and stockholder's equity	$ 236,125,906	$ 262,823,152

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, 2022 AND 2021

	2022	2021
REVENUES		
Net premiums earned	$ 48,074,432	$ 44,777,401
Net investment income	3,687,714	8,405,400
Net realized capital gains (losses)	(1,198,335)	9,117,456
Net holding gains (losses) on equity securities	(24,436,148)	21,778,935
Other income	222,079	209,316
Total revenues	26,349,742	84,288,508
EXPENSES AND LOSSES		
Losses and loss adjustment expenses	10,726,678	11,214,434
Underwriting and operating expenses	19,330,550	18,441,121
Bad debt expense	211,760	220,115
Interest expense	143,472	231,410
Total expenses and losses	30,412,460	30,107,080
(LOSS) INCOME BEFORE INCOME TAXES	(4,062,718)	54,181,428
Income tax (benefit) expense	(700,068)	11,750,287
NET (LOSS) INCOME	(3,362,650)	42,431,141
OTHER COMPREHENSIVE (LOSS) INCOME		
Unrealized holding gains (losses) arising during the period	(6,496,776)	2,492,687
Reclassification adjustment for realized gains (losses) included in net income	1,500,106	(6,097,672)
Change in derivative instrument	-	62,287
Other comprehensive (loss) before income taxes	(4,996,670)	(3,542,698)
Income tax benefit related to other comprehensive (loss)	1,049,300	743,967
Other comprehensive (loss)	(3,947,370)	(2,798,731)
COMPREHENSIVE (LOSS) INCOME	$ (7,310,020)	$ 39,632,410

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, 2022 AND 2021

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total
Balance, December 31, 2020	$ 2,500,000	$ 32,500,000	$ 61,792,946	$ 4,549,324	$ 101,342,270
Net income	-	-	42,431,141	-	42,431,141
Other comprehensive loss - net	-	-	-	(2,798,731)	(2,798,731)
Balance, December 31, 2021	$ 2,500,000	$ 32,500,000	$ 104,224,087	$ 1,750,593	$ 140,974,680
Net loss	-	-	(3,362,650)	-	(3,362,650)
Other comprehensive loss - net	-	-	-	(3,947,370)	(3,947,370)
Balance, December 31, 2022	$ 2,500,000	$ 32,500,000	$ 100,861,437	$ (2,196,777)	$ 133,664,660

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, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	$ (3,362,650)	$ 42,431,141
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation	335,705	509,366
Net accretion of discount on investment securities	(297,437)	(3,445,547)
Amortization of debt issuance costs	80,154	5,361
Bad debt expense	211,760	220,115
Deferred income tax	(5,538,746)	4,497,377
Net realized and unrealized capital losses (gains)	25,634,483	(30,896,391)
Changes in operating assets and liabilities:		
Premiums receivable	(2,195,675)	(382,575)
Reinsurance receivables and recoverables	408,513	976,782
Deferred policy acquisition costs	(89,634)	(10,268)
Income taxes receivable	370,486	223,340
Accrued investment income	(471,706)	374,096
Other assets	343,236	(629,831)
Losses and loss adjustment expenses	(7,492,398)	(6,325,637)
Unearned and advance premiums	2,016,349	335,777
Insurance related taxes and assessments	(17,203)	(135,339)
Lease liability - net	8,796	-
Commissions and other liabilities	481,960	(132,045)
Net cash provided by operating activities	10,425,993	7,615,722
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments available-for-sale	(42,143,912)	(27,586,477)
Proceeds from sales, maturities and prepayments of investments available-for-sale	26,590,288	47,824,081
Proceeds from derivatives - net	2,346,574	1,762,208
Purchases of equity securities	(8,225,998)	(22,377,915)
Proceeds from sales of equity securities	12,397,089	9,521,158
Investment in collateral loan	(30,000,000)	-
Net cash (used in) provided by investing activities	(39,035,959)	9,143,055
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on debt	(4,000,000)	-
Net cash used in financing activities	(4,000,000)	-
NET CHANGE IN CASH AND CASH EQUIVALENTS	(32,609,966)	16,758,777
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	79,776,289	63,017,512
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 47,166,323	$ 79,776,289

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

STONETRUST COMMERCIAL INSURANCE COMPANY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Stonetrust Commercial Insurance Company provides workers' compensation coverage primarily to employers within the states of Alabama, Arkansas, Georgia, Kansas, Iowa, Louisiana, Mississippi, Missouri, Nebraska, Oklahoma, Tennessee and Texas. It is also licensed to write workers' compensation coverage in a total of 18 states.

During 2018, Stonetrust Commercial Insurance Company formed Stonetrust Premier Casualty Insurance Company as a wholly owned subsidiary. During 2019 Premier was capitalized with a $5.5 million capital contribution made by its parent. It has certificates of authority to write workers' compensation coverage in the states of Arkansas, Louisiana, Mississippi, Missouri, Nebraska, Oklahoma, Tennessee and Texas but had not begun to write policies until January 1, 2022.

On January 1, 2018, all issued and outstanding shares of the Company were purchased by Wintaai Holdings, Ltd., an Ontario, Canada corporation. Effective December 31, 2022, the outstanding shares of the Company owned by Wintaai Holdings, Ltd, were contributed to its wholly owned subsidiary, Wintaai America Inc., a Delaware corporation. At that time, Wintaai America Inc. became the Company's direct parent with a 99.6% ownership stake.

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. 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). 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, 2022 and 2021, totaled $26,458 and $25,763, 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

The Company's equity investments including exchange-traded and mutual funds, except those accounted for under the equity method of accounting, that have readily determinable fair values are measured at fair value with changes in fair values recognized in net income. Equity investments that do not have readily determinable fair values are remeasured at fair value either upon the occurrence of an observable price change or upon identification of impairment. A qualitative assessment for impairment is made for equity investments without readily determinable fair values.

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.

Derivatives

The Company accounts for its derivatives in accordance with FASB ASC 815: *Derivatives and Hedging*. Accordingly, the Company's derivatives, assets and liabilities, are carried at fair value. See Note 4 for additional information.

Premiums

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 $1,748,879 and $1,473,391 at December 31, 2022 and 2021, 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 premium 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, 2022 and 2021, the Company recorded an allowance for doubtful accounts of $508,770 and $511,057, 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, Equipment, Furniture, Fixtures and Leasehold Improvements

Property, equipment, furniture, fixtures and leasehold improvements acquired are stated at cost less accumulated depreciation. Depreciation is computed by the use of straight-line methods over the estimated useful lives of the respective assets or in the case of leasehold improvements, over the life of the related lease, which range from three to seven 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

The Company files a consolidated federal income tax return that includes Stonetrust Commercial Insurance Company and its wholly owned subsidiary, Stonetrust Premier Casualty Insurance Company. 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 premiums, 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, 2022 and 2021, the Company has an accrued liability recorded for unpaid compensated absences of $150,091 and $148,461, 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 and Cash Equivalents

Cash and cash equivalents include demand deposits with financial institutions, 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).

Leases

In February 2016, the Financial Accounting Standards Board ("FASB") issued guidance as Accounting Standards Codification ("ASC") 842, *Leases,* to increase transparency and comparability among organizations by requiring the recognition of right-of-use ("ROU") assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. The Company adopted the standard and recognized and measured leases existing at, or entered into after, January 1, 2022, using the modified retrospective approach, with certain practical expedients available. The adoption of ASC 842 did not result in any adjustments to stockholders' equity or changes in the timing or amounts of lease costs. Comparable periods continue to be presented under the guidance of the previous standard.

The Company determines if an arrangement is a lease at the inception of the contract. For leases with terms greater than twelve months, right-of-use assets and lease liabilities are recognized at the contract commencement date based on the present value of lease payments over the lease term. Right-of-use assets represent the Company's right to use the underlying asset for the lease term. Lease liabilities present the Company's obligation to make lease payments arising from these contracts. The Company uses a risk-free rate, which is derived from information available at the least commencement date, in determining the present value of lease payments. Lease terms may include options to extend or terminate the lease when it is reasonably certain that such options will be exercised. The Company's operating leases in effect prior to January 1, 2022, were recognized at the present value of the remaining payments on the remaining lease term as of January 1, 2022.

Lease agreements may include rental escalation clauses or renewal options that are factored into management's determination of lease payments, when appropriate. The estimated useful life of right-of-use assets is limited by the expected lease term unless there is a transfer of title or purchase option reasonably certain of exercise. The Company's lease agreements generally do not contain any material residual value guarantees, restrictions, or covenants.

The Company has elected the practical expedient that allows lessees to choose to not separate lease and non-lease components by class of underlying asset and are applying this practical expedient to all relevant asset classes. Additionally, the Company elected transition provisions which allowed the carryforward of the Company's historical assessments of whether contracts contain leases, the lease classification, and the treatment of initial direct costs.

2. INVESTMENTS

The amortized cost, gross unrealized gains, gross unrealized losses, and estimated fair value of investment securities as of December 31, 2022 and 2021, were as follows:

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. Government Corporations and Agencies	$ 35,391,160	$ 55,841	$ (185,769)	$ 35,261,232
State and political subdivisions	920,170	-	(26,871)	893,299
Industrial and miscellaneous	31,243,116	367,528	(2,991,460)	28,619,184
Total bonds	67,554,446	423,369	(3,204,100)	64,773,715
Common stocks	42,089,512	26,463,649	(4,254,073)	64,299,088
Collateral loan	30,000,000	-	-	30,000,000
Total	$ 139,643,958	$ 26,887,018	$ (7,458,173)	$ 159,072,803

During 2022, the Company invested in a note receivable in the amount of $30,000,000 from a related party which is secured by the pledge of a surplus note issued by an insurance company (See Note 13). The note bears interest at 9.0% and matures on October 14, 2032. The payment of interest and principal is subject to regulatory approval. The collateral loan is carried at its cost basis.

	December 31, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. Government Corporations and Agencies	$ 5,795,961	$ 21,499	$ (21,173)	$ 5,796,287
State and political subdivisions	954,581	-	(3,979)	950,602
Industrial and miscellaneous	47,613,015	2,272,025	(52,431)	49,832,609
Total bonds	54,363,557	2,293,524	(77,583)	56,579,498
Common stocks	47,408,483	49,608,731	(522,113)	96,495,101
Preferred stocks	1,122,795	25,605	-	1,148,400
Derivatives	1,696,424	2,482,576	-	4,179,000
Total	$ 104,591,259	$ 54,410,436	$ (599,696)	$ 158,401,999

Information pertaining to investment securities with gross unrealized losses at December 31, 2022 and 2021, aggregated by investment category and length of time that individual securities have been in a continuous loss position follows:

	December 31, 2022			
	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	$ (18,648)	$ 2,386,270	$ (167,121)	$ 2,921,061
State and political subdivisions	-	-	(26,871)	893,299
Industrial and miscellaneous	(2,644,884)	20,930,505	(346,576)	1,653,460
Total bonds	(2,663,532)	23,316,775	(540,568)	5,467,820
Common stocks	(1,772,898)	5,704,372	(2,481,175)	1,487,700
Total	$ (4,436,430)	$ 29,021,147	$ (3,021,743)	$ 6,955,520

	December 31, 2021			
	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	$ (21,173)	$ 3,065,492	$ -	$ -
State and political subdivisions	(1,150)	636,499	(2,829)	314,103
Industrial and miscellaneous	(52,431)	1,947,600	-	-
Total bonds	(74,754)	5,649,591	(2,829)	314,103
Common stocks	(471,332)	3,912,452	(50,781)	1,547,173
Total	$ (546,086)	$ 9,562,043	$ (53,610)	$ 1,861,276

The amortized cost of bonds and notes, including short-term bonds and bonds classified as cash equivalents has been increased by net accretion income of $297,437 and $3,446,151 during the years ended December 31, 2022 and 2021, respectively.

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 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, 2022 or 2021.

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, 2022 and 2021, the Company recorded impairment charges of $173,436 and $0, respectively, related to debt securities.

The amortized cost and estimated fair values of bonds at December 31, 2022, 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	$ 11,998,897	$ 11,988,039
Due after 1 year through 5 years	35,519,021	34,801,347
Due after 5 years through 10 years	19,684,203	17,493,109
Due after 10 years through 20 years	-	-
Due after 20 years	352,325	491,220
	$ 67,554,446	$ 64,773,715

In accordance with regulatory provisions, the Company has pledged bonds with a fair value of $3,155,867 and $4,709,126 to various regulatory agencies at December 31, 2022 and 2021, respectively.

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

	2022	2021
Interest on bonds	$ 2,243,643	$ 6,250,443
Interest on cash & cash equivalents	578,677	442,669
Interest on collateral loan	592,500	-
Dividends on equity securities	1,617,739	3,351,582
	5,032,559	10,044,694
Less: investment expenses	(1,344,845)	(1,639,294)
Net investment income	$ 3,687,714	$ 8,405,400

Proceeds from sales, maturities and prepayments of bonds, common stocks and preferred stocks were $38,987,377 and $57,345,239 for the years ended December 31, 2022 and 2021, respectively.

The table below presents an analysis of realized gains (losses) recognized during the years ended December 31, 2022 and 2021:

	2022	2021
Realized gains:		
Bonds	$ 791,539	$ 6,148,241
Common stocks	3,968,493	2,879,938
Derivatives	2,920,095	2,417,107
	7,680,127	11,445,286
Realized losses:		
Debt securities	(2,291,645)	(50,569)
Preferred stocks	(339,238)	-
Common stocks	(5,157,205)	(502,274)
Derivatives	(1,090,374)	(1,774,987)
	(8,878,462)	(2,327,830)
Net realized capital gains (losses)	$(1,198,335)	$ 9,117,456

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 and Liabilities Measured at Fair Value on Report Date

The following tables provide information as of December 31, 2022 and 2021, about the Company's financial assets measured and carried at fair value at the reporting date:

	December 31, 2022				
	Level 1	Level 2	Level 3	Net Asset Value (NAV)	Total
Assets at Fair Value:					
Bonds	$ -	$ 64,773,715	$ -	$ -	$ 64,773,715
Common stocks	57,718,795	-	2,811,587	3,768,706	64,299,088
	$ 57,718,795	$ 64,773,715	$ 2,811,587	$ 3,768,706	$ 129,072,803
Liabilities at Fair Value:					
Derivatives	$ (26,399)	$ -	$ -	$ -	$ (26,399)

	December 31, 2021				
	Level 1	Level 2	Level 3	Net Asset Value (NAV)	Total
Assets at Fair Value:					
Bonds	$ -	$ 56,579,498	$ -	$ -	$ 56,579,498
Common stocks	91,261,004	-	1,547,173	3,686,924	96,495,101
Preferred stocks	-	1,148,400	-	-	1,148,400
Derivatives	4,179,000	-	-	-	4,179,000
	$ 95,440,004	$ 57,727,898	$ 1,547,173	$ 3,686,924	$ 158,401,999
Liabilities at Fair Value:					
Derivatives	$ (4,953,044)	$ -	$ -	$ -	$ (4,953,044)

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, 2022 and 2021, all of the Company's investments in common and preferred stocks and derivatives 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. At December 31, 2022 and 2021, the Company has no unfunded commitments related to this investment and there are no significant restrictions on the Company's ability to redeem its equity interest.

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 investment in privately traded common stock is valued by an independent third-party using inputs which meet Level 3 criteria.

The change in carrying values associated with Level 3 financial instruments for the years ended December 31, 2022 and 2021 are as follows:

	Only Level 3 Financial Instruments - December 31, 2022						
	Balance at January 1, 2022	Purchases	Redemptions	Realized Gain/(Loss)	Unrealized Gain/(Loss)	Transfers In & Out	Balance at December 31, 2022
Common Stock	$ 1,547,173	$ -	$ -	$ -	$ 1,264,414	$ -	$ 2,811,587
	$ 1,547,173	$ -	$ -	$ -	$ 1,264,414	$ -	$ 2,811,587

	Only Level 3 Financial Instruments - December 31, 2021						
	Balance at January 1, 2021	Purchases	Redemptions	Realized Gain/(Loss)	Unrealized Gain/(Loss)	Transfers In & Out	Balance at December 31, 2021
Common Stock	$ 1,097,026	$ -	$ -	$ -	$ 450,147	$ -	$ 1,547,173
Interest Rate Swap	(62,287)		-	-	62,287	-	-
	$ 1,034,739	$ -	$ -	$ -	$ 512,434	$ -	$ 1,547,173

4. DERIVATIVES

The Company takes positions from time to time in derivative financial instruments to hedge against interest rate risk, to generate additional investment income and to reduce the common stock leverage recognized on the Company's balance sheet. Following are details on the derivatives by the Company.

Written covered call options:

During the years ended December 31, 2022 and 2021, the Company wrote (sold) covered call options on several equity positions held in its common stock portfolio in order to generate additional investment income. These written covered call options give the option holder (purchaser) the right, in return for a premium, to purchase the underlying security from the writer at a specified exercise price at any time during the term of the option contract. When the Company writes a covered call option, the premium received from the purchaser is initially recorded as a derivative liability. The liability is subsequently carried at fair value with any adjustments being recorded through earnings.

Purchased call and put options:

During the years ended December 31, 2022 and 2021, the Company purchased call options on several equity securities giving it the right to purchase the underlying securities at a specified price at any time during the term of the option contract. The Company purchases these call options in order to obtain the right to participate in increases in the underlying securities value without leveraging its balance sheet by actually owning the security. The premium paid for these options is initially recorded as a derivative asset. The asset is subsequently carried at fair value with adjustments being recorded through earnings. Additionally, during 2021, the Company purchased and sold put options in an equity security.

Transactions in option contracts for the years ending December 31, 2022 and 2021 were as follows:

	2022		2021	
	# of Contracts	Premium	# of Contracts	Premium
Call Options Written				
Options outstanding - beginning of year	7,344	$ 2,243,809	6,990	$ 1,199,586
Options written	14,154	2,942,528	11,950	2,670,341
Options purchased	-	-	(6,956)	(1,029,268)
Options exercised	(6,850)	(2,174,822)	(140)	(295,362)
Options expired	(3,739)	(745,273)	(4,500)	(301,488)
Options oustanding - end of year	10,909	$ 2,266,242	7,344	$ 2,243,809

	# of Contracts	Premium	# of Contracts	Premium
Call Options Purchased				
Options outstanding - beginning of year	(1,750)	$ (1,696,424)	(2,350)	$ (1,772,290)
Options purchased	(2,075)	(1,421,985)	(260)	(987,575)
Options exercised	1,600	1,202,004	-	-
Options sold	2,225	1,916,405	860	1,063,441
Options oustanding - end of year	-	$ -	(1,750)	$ (1,696,424)

	# of Contracts	Premium	# of Contracts	Premium
Put Options Purchased				
Options outstanding - beginning of year	-	$ -	-	$ -
Options purchased			100	972,005
Options sold			(100)	(972,005)
Options oustanding - end of year	-	$ -	-	$ -

The following table sets forth the fair value of the Company's derivative instruments on the balance sheet which are not accounted for as hedging instruments:

Derivatives Not Accounted for as Hedging Instruments	Balance Sheet Location	Fair Value as of December 31, 2022	Fair Value as of December 31, 2021
Call options written	Derivatives - liability	$ (26,399)	$ (4,953,044)
Call options purchased	Derivatives - asset	$ -	$ 4,179,000

The following table sets forth the effect of the Company's derivative instruments which are not accounted for as hedging instruments on the statement of operations:

		2022	
Derivatives Not Accounted for as Hedging Instruments	**Location of Gains/(Losses) on Derivatives Recognized in Income**	**Net Realized Gains/(Losses) on Derivatives Recognized in Income**	**Change in Unrealized Gains/(Losses) on Derivatives Recognized in Income**
Call options written	Net realized capital gains	$ 2,920,095	$ -
Call options written	Net holding gains on equity securities	-	4,949,078
Call options purchased	Net realized capital gains	(1,090,374)	-
Call options purchased	Net holding gains on equity securities	-	(2,482,576)
Put options purchased	Net realized capital gains	-	
		$ 1,829,721	$ 2,466,502

		2021	
Derivatives Not Accounted for as Hedging Instruments	**Location of Gains/(Losses) on Derivatives Recognized in Income**	**Net Realized Gains/(Losses) on Derivatives Recognized in Income**	**Change in Unrealized Gains/(Losses) on Derivatives Recognized in Income**
Call options written	Net realized capital gains	$ (685,761)	$ -
Call options written	Net holding gains on equity securities	-	(2,576,697)
Call options purchased	Net realized capital gains	1,162,067	-
Call options purchased	Net holding gains on equity securities	-	1,289,866
Put options purchased	Net realized capital gains	165,814	-
		$ 642,120	$ (1,286,831)

5. CASH AND CASH EQUIVALENTS

At December 31, 2022 and 2021, cash, and cash equivalents consisted of the following:

	2022	2021
Demand deposits in financial institutions	$ 47,166,323	$ 79,776,289
Total	$ 47,166,323	$ 79,776,289

All demand deposits are insured by the Federal Deposit Insurance Corporation up to $250,000.

6. PROPERTY, EQUIPMENT, FURNITURE, FIXTURES AND LEASEHOLD IMPROVEMENTS

Property and equipment consisted of the following at December 31:

	2022	2021
Information systems	$ 799,583	$ 6,036,446
Office and computer equipment	72,089	149,179
Furniture and fixtures	227,790	227,790
Leasehold improvements	760,436	760,436
Less: accumulated depreciation	(813,349)	(5,791,597)
Net depreciable assets	$ 1,046,549	$ 1,382,254

Depreciation expense was $335,705 and $509,366 for 2022 and 2021, respectively.

7. UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

Unpaid losses and loss adjustment expenses at December 31, 2022 and 2021, consisted of the following:

	2022	2021
Unpaid losses	$ 57,460,663	$ 65,364,093
Unpaid loss adjustment expenses	9,922,327	9,511,295
Total	$ 67,382,990	$ 74,875,388

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

	2022	2021
Reserves for loss and LAE - gross - at January 1	$ 74,875,388	$ 81,201,025
Amounts recoverable from reinsurers on unpaid losses	3,541,570	4,329,171
Reserve for loss and LAE - net at Janaury 1	71,333,818	76,871,854
Net incurred related to:		
Current year	27,768,307	26,886,863
Prior years	(17,041,629)	(15,672,429)
Total incurred	10,726,678	11,214,434
Net paid related to:		
Current year	7,021,413	6,697,409
Prior years	10,789,150	10,055,061
Total paid	17,810,563	16,752,470
Reserves for loss and LAE - net - at December 31	64,249,933	71,333,818
Amounts recoverable from reinsurers on unpaid losses	3,133,057	3,541,570
Reserve for loss and LAE - gross at December 31	$ 67,382,990	$ 74,875,388

The estimated cost of loss and loss adjustment expenses (LAE) attributable to insured events of prior years decreased by $17,041,629 and $15,672,429 during 2022 and 2021, 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 $4,910,000 and $5,030,000 at December 31, 2022 and 2021, respectively. The Company estimates that is contingently liable for approximately $3,600,000 at December 31, 2022, should the insurers of these annuities fail to perform under the terms of the annuities.

8. 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 2020 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, 2022, 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, 2022

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
2013	$30,309	$28,740	$1,191	1,489
2014	30,583	28,974	1,525	1,544
2015	27,195	24,626	2,022	1,284
2016	23,596	22,462	1,109	1,133
2017	22,614	20,081	2,092	1,057
2018	18,360	15,374	2,672	1,010
2019	17,738	12,422	4,627	868
2020	23,092	13,859	7,927	861
2021	24,145	11,314	9,998	921
2022	23,979	5,180	11,403	880
	$241,611	$183,032		
	All outstanding liabilities before 2013, net of reinsurance	2,921		
	Liabilities for claims and allocated claims adjustment expenses, net of reinsurance	$61,500		

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, 2022.

	December 31, 2022 (in $000's)
Net liability for unpaid losses and allocated loss adjustment expenses	$ 61,500
Reinsurance recoverable on unpaid losses and loss adjustment expenses	3,133
Liability for unallocated loss adjustment expenses	2,750
Gross liability for unpaid losses and loss adjustment expenses	$ 67,383

9. 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
1/01/13 - 12/31/13	$750,000	-	$29,250,000 xs. $750,000
1/01/14 - 12/31/14	$750,000	-	$39,250,000 xs. $750,000
1/01/15 - 12/31/15	$750,000	$500,000	$39,250,000 xs. $750,000
1/01/16 - 12/31/16	$2,000,000	-	$38,000,000 xs. $2,000,000
1/01/17 - 12/31/17	$2,000,000	-	$38,000,000 xs. $2,000,000
1/01/18 - 12/31/18	$750,000	$500,000	$39,250,000 xs. $750,000
1/01/19 - 12/31/19	$750,000	$750,000	$39,250,000 xs. $750,000
1/01/20 - 12/31/20	$750,000	$1,000,000	$39,250,000 xs. $750,000
1/01/21 - 12/31/21	$750,000	$1,000,000	$39,250,000 xs. $750,000
1/01/22 - 12/31/22	$750,000	$1,000,000	$39,250,000 xs. $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, 2022 and 2021, the Company has $3,133,057 and $3,541,570, respectively, of reinsurance recoverables based on its actuarially determined ultimate loss and loss adjustment expenses payable. As of December 31, 2022 and 2021, no amounts were due from reinsurers for claims actually paid.

The effects of reinsurance on premiums written and earned for 2022 and 2021 are as follows:

	2022		2021	
	Written	Earned	Written	Earned
Direct	$ 51,744,062	$ 49,946,728	$ 46,739,143	$ 46,515,445
Assumed - assigned risk pools	797,646	782,374	693,882	691,458
Ceded	(2,654,670)	(2,654,670)	(2,429,502)	(2,429,502)
Net	$ 49,887,038	$ 48,074,432	$ 45,003,523	$ 44,777,401

10. 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, 2022	December 31, 2021
Agents' commissions	$ 875,848	$ 829,021
Premium related taxes and assessments	711,212	668,406
	$ 1,587,060	$ 1,497,427

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

	December 31, 2022	December 31, 2021
Balance, beginning of year	$ 1,497,427	$ 1,487,159
Policy acquisition costs deferred	5,778,336	5,464,314
Amortization during the year	(5,688,703)	(5,454,046)
Balance, end of year	$ 1,587,060	$ 1,497,427

11. 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, 2022 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. For the years ended December 31, 2022 and 2021, the Louisiana Insurance Guaranty Fund (LIGA) imposed assessments of 1% of prior years' written premium. The Company has paid $415,442 in relation to these assessments and expects further assessments to be made in the future. Accordingly, the Company has an accrued liability of $229,029 and $0 for the years ending December 31, 2022 and 2021, respectively. This liability is included in taxes, licenses and fees payable.

The Company has accrued a liability for loss-based assessments of $2,590,669 and $2,971,982 at December 31, 2022 and 2021, 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.

12. POLICYHOLDER SECURITY DEPOSITS

Policyholder security deposits are $990,297 and $993,964 as of December 31, 2022 and 2021, 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.

13. 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, 2022 and 2021, the Company incurred $1,045,127 and $1,311,159, respectively, in fees under these agreements.

The Company entered into a services agreement with its ultimate parent, Chou Associates Management Inc., whereby the Company pays a fixed amount per month for certain services provided to the Company. The Company recognized expense of $215,004 in both 2022 and 2021 in relation to this agreement.

At December 31, 2022 and 2021, the Company owed Chou Associates Management Inc. $271,969 and $347,265 respectively, in relation to these agreements.

As further described in Note 2, on October 14, 2022, the Company entered into a $30 million secured non-recourse note receivable from an entity related by common ownership. The Company has recorded a receivable which is due from this related party of $592,500 at December 31, 2022.

14. INCOME TAXES

The components of deferred tax assets and liabilities as of December 31, 2022 and 2021 are as follows:

	2022	2021
Deferred tax assets:		
Discounting of unpaid losses and LAE	$ 1,780,607	$ 2,123,465
Unearned and advance premium	924,206	839,701
Allowance for doubtful accounts	106,842	107,322
Accrued compensated absences	31,519	31,177
Guaranty fund accrual	47,223	-
Lease liability - net of ROU asset	1,847	-
Capital loss carryforward	210,667	-
Reserve for state income tax	158,635	98,902
Cost basis differences for invested assets	127,713	16,624
Gross deferred tax assets	3,389,259	3,217,191
Less: valuation allowance	-	-
Gross deferred tax assets	3,389,259	3,217,191
Deferred tax liabilities:		
Property and equipment	203,594	273,651
Accrued dividends	1,378	-
Deferred policy acquisition costs	333,283	314,460
Unrealized capital gains	4,550,425	10,731,316
Loss reserves transition adjustment	555,692	740,923
Gross deferred tax liabilities	5,644,372	12,060,350
Net deferred tax (liabilities)	$ (2,255,113)	$ (8,843,159)

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, 2022 and 2021, no valuation allowance was recorded.

Federal income tax expense (benefit) differs from the amount computed by applying the statutory federal income tax rate of 21% for the years ended December 31, 2022 and 2021, respectively, to earnings for the following reasons:

	2022		2021	
Income (loss) before income taxes	$ (4,062,718)	100.0%	$ 54,181,428	100.0%
Federal and state income taxes:				
Computed at statutory rate	$ (853,171)	21.0%	$ 11,378,100	21.0%
Tax-exempt interest and proration	29,977	-0.7%	30,328	0.1%
Dividends received deduction	(122,172)	3.0%	(123,635)	-0.2%
Non-deductible expenses	20,159	-0.5%	29,892	0.1%
Effect of foreign tax credit taken	(56,889)	1.4%	(114,954)	-0.2%
State income taxes	277,278	-6.8%	551,671	1.0%
Other	4,750	-0.1%	(1,115)	0.0%
Total	$ (700,068)	17.2%	$ 11,750,287	21.7%
Income tax expense (benefit):				
Current	$ 4,838,678	-119.1%	$ 7,252,910	13.4%
Deferred	(5,538,746)	136.3%	4,497,377	8.3%
Total	$ (700,068)	17.2%	$ 11,750,287	21.7%

15. 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 (loss):		
Year ended December 31, 2022	$ (3,362,650)	$ 15,337,896
Year ended December 31, 2021	$ 42,431,141	$ 25,340,321
Total equity/capital and surplus:		
December 31, 2022	$ 133,664,660	$ 132,840,517
December 31, 2021	$ 140,974,680	$ 140,802,393

16. 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 surplus note and all outstanding accrued interest were paid in full on September 15, 2022. 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 were as follows:

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

Notes payable consisted of the following:

	December 31, 2022	December 31, 2021
Note payable	$ -	$ 4,000,000
Less: deferred loan costs	-	(80,154)
	$ -	$ 3,919,846

17. LEASES

The Company's operating leases are primarily for office space and office equipment. Amounts recognized at January 1, 2022, related to right-of-use (ROU) assets and related lease liabilities were approximately $1,335,000. There was no significant impact to the 2022 statement of operations as a result of the adoption of this standard.

At December 31, 2022, the Company's consolidated balance sheet included ROU assets totaling approximately $1,167,000 and lease liabilities totaling approximately $1,176,000. Other information related to leases is as follows as of December 31, 2022:

Operating cash flows from operating leases	$ 179,447
ROU assets obtained in exchange for lease obligations	$ 1,331,636
Amortization of ROU assets	$ 164,614
Weighted average remaining lease term	7.5 years
Weight average discount rate	1.57%

As lessee, operating lease liabilities under non-cancellable leases are as follows:

Years ending December 31,	Amount
2023	$ 170,842
2024	167,973
2025	160,573
2026	162,800
2027	159,044
Thereafter	425,785
Total lease payments	1,247,017
Less: interest	(71,199)
	$ 1,175,818

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 employees' compensation into the plan and has the option to contribute additional amounts if so decided. For the plan years ended December 31, 2022 and 2021, the Company contributed $402,983 and $374,052, respectively, to the plan.

19. SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date that the financial statements were available to be issued, March 17, 2023, and determined that one matter required additional disclosure in the financial statements. The Company declared and paid a dividend in the amount of $10,044,447 to its stockholders of record in January, 2023.

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, 2022	
Accident Year	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**Total of Incurred but not reported plus expected development on reported claims**	**Cumulative number of reported claims**
2013	30,893	29,503	30,638	30,596	30,832	31,184	30,726	30,722	30,467	30,309	$1,191	1,489
2014		34,805	36,049	35,981	35,896	34,871	33,840	32,633	31,383	30,583	1,525	1,544
2015			34,874	34,538	33,775	31,613	30,592	29,562	28,302	27,195	2,022	1,284
2016				32,270	31,681	31,653	31,220	29,191	23,988	23,596	1,109	1,133
2017					30,124	30,390	29,920	28,843	26,563	22,614	2,092	1,057
2018						27,162	26,816	26,107	23,832	18,360	2,672	1,010
2019							24,979	24,746	22,704	17,738	4,627	868
2020								23,410	23,156	23,092	7,927	861
2021									23,871	24,145	9,998	921
2022										23,979	11,403	880
									Total	241,611		

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

	For The Years Ended December 31,									
Accident Year	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
2013	7,083	17,684	22,287	25,949	27,387	28,043	28,102	28,638	28,687	28,740
2014		8,928	19,609	25,900	27,544	28,329	28,757	29,133	28,890	28,973
2015			7,448	16,844	20,978	23,126	24,364	24,687	24,613	24,627
2016				6,538	15,870	20,202	22,024	22,204	22,448	22,462
2017					7,041	15,344	18,654	19,921	19,923	20,080
2018						5,630	13,332	14,457	15,199	15,373
2019							4,981	9,974	11,865	12,423
2020								4,615	11,303	13,859
2021									4,949	11,315
2022										5,180
									Total	183,032
					All outstanding liabilities before 2013, net of reinsurance					2,921
		Liabilities for claims and allocated claims adjustment expenses, net of reinsurance								$61,500

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	21.6%	28.3%	12.7%	10.0%	8.2%	7.4%	2.6%	1.2%	2.5%