

STATE OF MISSOURI



DEPARTMENT OF COMMERCE & INSURANCE

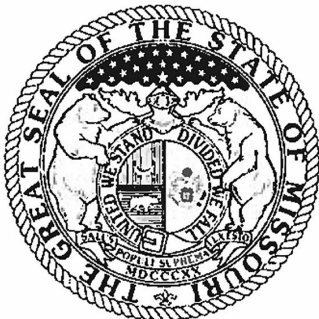
P.O. Box 690, Jefferson City, Mo. 65102-0690

ORDER

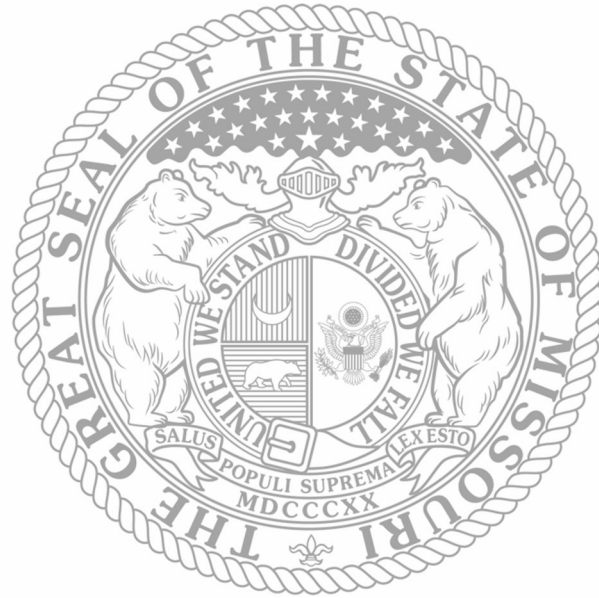
After full consideration and review of the report of the financial examination of Fletcher Reinsurance Company for the period ended December 31, 2019, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director of the Missouri Department of Commerce and Insurance pursuant to section 374.205.3(3)(a), RSMo, adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant finding, company history, management and control, territory and plan of operation, growth of company and loss experience, reinsurance, accounts and records, financial statements, comments on financial statement items, financial statement changes resulting from examination, and summary of recommendations.

Based on such findings and conclusions, I hereby ORDER that the report of the financial examination of Fletcher Reinsurance Company as of December 31, 2019 be and is hereby ADOPTED as filed and for Fletcher Reinsurance Company to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 23rd day of February, 2021.



Chlora Lindley Myers
Chlora Lindley-Myers, Director
Department of Commerce and Insurance



REPORT OF
FINANCIAL EXAMINATION OF

FLETCHER REINSURANCE COMPANY

AS OF
DECEMBER 31, 2019

STATE OF MISSOURI
DEPARTMENT OF COMMERCE & INSURANCE

JEFFERSON CITY, MISSOURI

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St. Louis, MO
January 22, 2021

Honorable Chlora Lindley-Myers, Director
Missouri Department of Commerce and Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Director Lindley-Myers:

In accordance with your financial examination warrant, a full-scope financial examination has been made of the records, affairs, and financial condition of

Fletcher Reinsurance Company (NAIC #11054)

hereinafter referred to as such, as Fletcher Re, or as the Company. Its administrative office is located at 475 Kilvert Street, Suite 330, Warwick, RI 02886, telephone number (401) 453-7000. The fieldwork for this examination began on July 16, 2020, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The Missouri Department of Commerce and Insurance (Department) has performed a multi-state financial examination of Fletcher Re. The last examination of the Company by the Department covered the period of January 1, 2011 through December 31, 2014. The current examination covers the period of January 1, 2015 through December 31, 2019, as well as a review of any material transactions and events occurring subsequent to the examination period through the date of this report.

Procedures

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (Handbook), except where practices, procedures, and applicable regulations of the Department or statutes of the state of Missouri prevailed. The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes the identification and evaluation of significant risks that could cause the Company's surplus to be materially misstated, both on a current and prospective basis.

This examination also included a review of significant estimates made by management and evaluation of management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. Those activities considered in the examination as key to Fletcher Re included Investments, Claims, Reinsurance, Related Party, and Capital and Surplus. The examination also included a review and evaluation of information technology general controls.

This examination report includes significant findings of fact, as mentioned in Section 374.205 RSMo (Examination, director may conduct, when...) and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but are separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, significant non-compliance issues, or material changes to the financial statements noted during the examination.

COMPANY HISTORY

General

On December 27, 2018, Maiden Reinsurance North America, Inc. (Maiden Re) was acquired by Enstar Holdings (US) LLC (Enstar US), a subsidiary of the ultimate Bermuda parent, Enstar Group Limited (Enstar), and placed into run-off. As part of the acquisition approval by the Department, a Capital Maintenance Agreement was established between Maiden Re and Enstar US. Effective year-end 2019, Maiden Re changed its name to Fletcher Reinsurance Company.

Mergers, Acquisitions, and Major Corporate Events

Other than the acquisition by Enstar US, there were no additional mergers, acquisitions or major corporate events involving Fletcher Re during the examination period.

Dividends and Capital Contributions

On March 14, 2019, the Company received a capital contribution of \$135 million from Enstar US to ensure compliance with the Capital Maintenance Agreement.

There were no dividends paid during the period under examination; however, two dividends were paid subsequently in 2020. A \$100 million extraordinary dividend consisting of cash and investments occurred in July, and a \$70 million extraordinary cash dividend was paid in December.

Surplus Notes

There were no surplus notes issued or outstanding during the examination period.

MANAGEMENT AND CONTROL

Board of Directors

The management of the Company is vested in a Board of Directors that are elected by the shareholders. The Company's Articles of Incorporation specify that there shall be nine members. The Board of Directors elected and serving as of December 31, 2019, were as follows:

<u>Name and Address</u>	<u>Principal Occupation and Business Affiliation</u>
Paul Brockman, Chairman St. Petersburg, FL	Group Chief Claims Officer Enstar Group Limited
Sharon Fletcher Warwick, RI	Assistant Vice President Enstar Holdings (US) LLC
Vyacheslav (Steve) Kolker Jersey City, NJ	Vice President & Tax Officer Enstar Holdings (US) LLC
Jennifer Miu New York, NY	Chief Financial Officer Enstar Holdings (US) LLC
Steven Norrington St. Petersburg, FL	Executive Vice President Enstar Holdings (US) LLC
Teresa Reali Warwick, RI	Vice President & Treasurer Enstar Holdings (US) LLC
Robert Redpath New York, NY	Senior Vice President Enstar Holdings (US) LLC
Richard Seelinger Seattle, WA	Senior Vice President Enstar Holdings (US) LLC
Michael Sheehan New York, NY	Senior Vice President Enstar Holdings (US) LLC

Senior Officers

The officers elected and serving, as of December 31, 2019, were as follows:

<u>Name</u>	<u>Office</u>
Paul Brockman *	President & Chief Executive Officer
Jennifer Miu	Chief Financial Officer
Robert Redpath	Senior Vice President
Richard Seelinger *	Senior Vice President
Michael Sheehan	Senior Vice President
Teresa Reali	Vice President & Treasurer
Thomas Balkan	Corporate Secretary
Sharon Fletcher	Assistant Vice President
Steven Calvitto	Assistant Treasurer
Nadja Stavenhagen	Assistant Secretary
Vyacheslav (Steve) Kolker	Vice President & Tax Officer

* Effective October 23, 2020, Paul Brockman resigned as a Director. Richard Seelinger replaced him as President, Chairman & CEO of Fletcher Re. See the Subsequent Events section for more details.

Principal Committees

The Bylaws grant the Board of Directors the ability to appoint various committees. The Company's only standing committee is the Investment Committee.

Investment Committee

Paul Brockman **
Jennifer Miu
Teresa Reali
Michael Sheehan

Fletcher Re does not maintain a standing Audit Committee. The Company appointed the Audit Committee of its ultimate parent, Enstar Group Limited, to act on its behalf. The appointed Audit Committee is made up of three independent members of the Enstar Group Limited Board.

** Replaced by Richard Seelinger on October 23, 2020. See the Subsequent Events section for more details.

Corporate Records

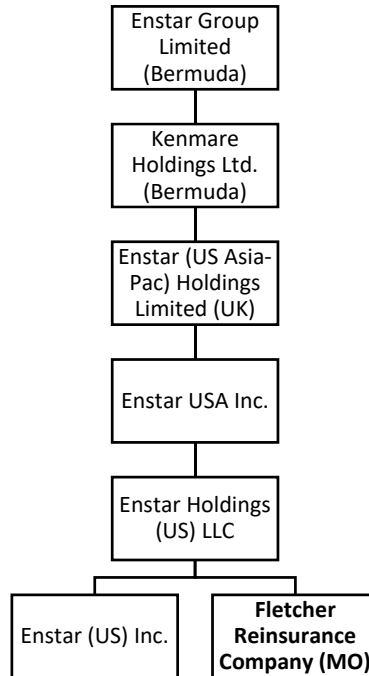
The Company's Articles of Incorporation and Bylaws were reviewed. Both documents were revised to reflect the Company's name change from Maiden Re to Fletcher Re. No other revisions occurred during the period under examination. The minutes of the Sole Shareholder, Board of Directors and Investment Committee meetings were reviewed for the period under examination.

Holding Company, Subsidiaries, and Affiliates

Fletcher Re is a member of an Insurance Holding Company System, as defined by Section 382.010 RSMo (Definitions). The Company's direct parent is Enstar Holdings (US) LLC. The ultimate controlling entity is Enstar Group Limited. Enstar is publicly traded on the NASDAQ under the ticker symbol "ESGR".

Organizational Chart

The following organizational chart depicts an abbreviated section of the holding company group showing ownership and relationships to companies with affiliated agreements as of December 31, 2019.



Intercompany Transactions

The following agreements represent significant contracts executed with affiliated entities that were in effect as of December 31, 2019. A brief description of these agreements are as follows:

Services Agreement: Agreement between Fletcher Re and Enstar (US) Inc. whereby Enstar (US) Inc. provides executive and various administrative services. Fletcher Re pays a quarterly fee equal to the amount determined for those services.

Capital Maintenance Agreement: Agreement between Fletcher Re and Enstar whereby Enstar commits to maintain Fletcher Re’s Authorized Control Level RBC of 300%.

Tax Sharing Agreement: Agreement between Fletcher Re, Enstar (US), Enstar USA, Inc. and other affiliates. The agreement states that any tax liabilities or refunds arising from the filing of a consolidated tax return are allocated to the appropriate parties as if each had filed on a separate return basis.

TERRITORY AND PLAN OF OPERATION

Fletcher Re is licensed in 44 states and the District of Columbia and is an accredited reinsurer in six states. During the period under examination, Fletcher Re provided reinsurance to property and casualty insurers writing automobile, commercial multiple-peril, workers compensation, and minimal amounts of accident and health business. Effective August 29, 2018, the Company stopped assuming new and renewal business.

GROWTH OF COMPANY AND LOSS EXPERIENCE

The table below summarizes the Company’s premium writings and writing ratios for the period under examination:

(\$000s omitted)

Year	Net Premiums Written	Change in Net Premiums	Benefit and Loss Payments	Capital and Surplus	Ratio of Net Premiums to Surplus
2015	\$ 416,427	\$ (20,098)	\$ 243,299	\$ 294,338	141.5%
2016	433,214	16,787	255,453	291,103	148.8%
2017	468,265	35,052	287,698	301,661	155.2%
2018	560,210	91,945	355,966	353,428	158.5%
2019	(19,950)	(580,160)	284,481	401,278	(5.0%)

The table below summarizes the Company's incurred losses and loss ratios for the period under examination:

(\$000s omitted)

Year	Net Premiums Earned	Net Losses and Loss Adjustment Expenses	Loss Ratio
2015	\$ 407,863	\$ 284,896	69.9%
2016	406,405	323,671	79.6%
2017	474,551	374,338	78.9%
2018	612,804	512,320	83.6%
2019	83,106	33,744	40.6%

REINSURANCE

General

The Company's premium activity on a direct written, assumed, and ceded basis for the period under examination is detailed below:

(\$000s omitted)

Premium Type	2015	2016	2017	2018	2019
Direct Premiums Written	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Reinsurance Assumed:					
Affiliates	0	0	0	10,933	0
Non-Affiliates	697,591	742,619	737,713	482,622	(17,233)
Reinsurance Ceded:					
Affiliates	276,319	291,410	263,484	(81,273)	(205)
Non-Affiliates	4,846	14,336	5,964	14,619	2,922
Net Premiums Written	\$ 416,426	\$ 436,873	\$ 468,265	\$ 560,209	\$ (19,950)

Assumed Reinsurance

Fletcher Re assumed property and casualty insurance through three main underwriting groups: broker treaty, direct treaty and facultative. The two largest groups, broker treaty and direct treaty, focused mainly on insurers writing personal and commercial automobile, commercial multiple-peril and workers compensation business. Business generated on a facultative basis was primarily commercial automobile and workers compensation. Effective August 29, 2018, the Company ceased assuming new and renewal business and is currently in runoff.

Ceded Reinsurance

The Company historically purchased several types of reinsurance coverage to protect from catastrophic losses. The most significant coverage consisted of quota share and excess of loss agreements with Maiden Reinsurance Ltd (MRL), formerly an affiliated company.

Effective December 23, 2008, Fletcher Re entered into a quota share agreement with MRL whereby Fletcher Re ceded 70% of its business, net of external reinsurance, to MRL. Later, Fletcher Re reduced its cession rate to 40% for contracts effective from January 1, 2012 through December 31, 2016. As of January 1, 2017, the Company terminated this agreement on a runoff basis.

Effective January 1, 2017, Fletcher Re entered into a quota share agreement with MRL to cede 35% of business with effective dates January 1, 2017 and thereafter. Effective January 1, 2018, this quota share agreement was terminated on a cut-off basis.

Effective December 27, 2018, along with the change of ownership, Fletcher Re's reinsurance agreements with MRL were novated to Cavello Bay Reinsurance Limited (Cavello Bay), an affiliated company. As a result of the novation agreement, Cavello Bay assumes all of MRL's rights, obligations, duties and liabilities under the 2008 and 2017 quota share reinsurance agreements.

Effective December 27, 2018, Fletcher Re and Cavello Bay entered into an excess of loss agreement with MRL. The terms of the agreement state Fletcher Re and Cavello Bay will cede to MRL certain business written or assumed, subject to a \$100 million retention, and excess loss limit of \$25 million.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance contract.

ACCOUNTS AND RECORDS

Independent Auditor

The certified public accounting (CPA) firm, KPMG LLP, in New York, NY, performed the statutory audit of the Company in 2019. In 2017 and 2018, the statutory audit was performed by Deloitte in Hamilton, Bermuda, while BDO USA, LLP of New York, NY performed the statutory audit in 2015 and 2016. Reliance was placed upon the CPA workpapers as deemed appropriate.

Actuarial Opinion

The Company's 2019 actuarial opinion regarding loss reserves, loss adjustment expense (LAE) reserves, and other actuarial items was issued by David Foley, FCAS, MAAA. Mr. Foley is employed by Enstar in St. Petersburg, FL.

Consulting Actuary

Pursuant to a contract with the Department, Jon Michelson, FCAS, MAAA, of Expert Actuarial Services, LLC, reviewed the underlying actuarial assumptions and methodologies used by Fletcher Re to determine the adequacy of loss reserves and LAE reserves. Mr. Michelson determined that the Company made a reasonable provision for the loss and LAE reserves that were reported in the statutory financial statements, as of December 31, 2019.

Information Systems

In conjunction with this examination, Kimberly Dobbs, MBA, CFE, AES, CISA, Information Systems Financial Examiner with the Department, conducted a review of the Company's information systems.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of Fletcher Reinsurance Company for the period ending December 31, 2019. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the financial statements and should be considered an integral part of the financial statements. The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Comments on Financial Statement Items." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual key activity.

ASSETS

As of December 31, 2019

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 712,937,642	\$	\$ 712,937,642
Cash, Cash Equivalents, and Short- Term Investments	68,897,904		68,897,904
Other Invested Assets	58,768,202		58,768,202
Receivables for Securities	266,439		266,439
Investment Income Due and Accrued Premiums and Considerations:	5,703,377		5,703,377
Uncollected Premiums and Agents' Balances in the Course of Collection	(9,062,494)		(9,062,494)
Deferred Premiums, Agents' Balances, and Installments Booked but Deferred and Not Yet Due	3,924,373		3,924,373
Accrued Retrospective Premiums	6,267,400	53,157	6,214,243
Reinsurance:			
Amounts Recoverable from Reinsurers	1,544,545		1,544,545
Funds Held by or Deposited with Reinsured Companies	15,622,061	3,347,770	12,274,291
Current Federal and Foreign Income Tax Recoverable and Interest Thereon	884,091		884,091
Net Deferred Tax Asset	20,366,123	3,690,510	16,675,613
Aggregate Write-Ins for Other-Than- Invested Assets	395,490		395,490
TOTAL ASSETS	\$ 886,515,153	\$ 7,091,437	\$ 879,423,716

LIABILITIES, SURPLUS AND OTHER FUNDS

As of December 31, 2019

Losses	\$ 418,713,396
Reinsurance Payable on Paid Losses and Loss Adjustment Expenses	3,089,672
Loss Adjustment Expenses	9,678,909
Commissions Payable, Contingent Commissions, and Other Similar Charges	(14,630,508)
Other Expenses	1,696,770
Taxes, Licenses, and Fees	40,756
Ceded Reinsurance Premiums Payable (Net of Ceding Commissions)	128,141
Funds Held by Company Under Reinsurance Treaties	46,126,259
Provision for Reinsurance	2,759,000
Payable to Parent, Subsidiaries, and Affiliates	1,584,741
Aggregate Write-Ins for Liabilities	8,958,616
TOTAL LIABILITIES	\$ 478,145,752
Common Capital Stock	4,000,000
Gross Paid In and Contributed Surplus	440,983,304
Unassigned Funds (Surplus)	(43,705,340)
TOTAL CAPITAL AND SURPLUS	\$ 401,277,964
TOTAL LIABILITIES AND SURPLUS	\$ 879,423,716

STATEMENT OF INCOME
For the Year Ended December 31, 2019

Premiums Earned	\$ 83,105,851
DEDUCTIONS:	
Losses Incurred	16,933,596
Loss Adjustment Expenses Incurred	16,809,904
Other Underwriting Expenses Incurred	20,915,926
Total Underwriting Deductions	<u>\$ 54,659,426</u>
Net Underwriting Gain (Loss)	\$ 28,446,425
Net Investment Income Earned	34,343,058
Net Realized Capital Gains	1,865,278
Net Investment Gain (Loss)	\$ 36,208,336
Net Gain (Loss) from Agents' or Premium Balances Charged Off	125,255
Aggregate Write-Ins for Miscellaneous Income	<u>(4,392,695)</u>
NET INCOME (LOSS)	<u>\$ 60,387,321</u>

RECONCILIATION OF CAPITAL AND SURPLUS
Changes from January 1, 2015 to December 31, 2019

(\$000s omitted)

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Capital and Surplus, Beginning of Year	\$ 289,224	\$ 294,338	\$ 291,103	\$ 301,661	\$ 353,428
Net Income (Loss)	17,439	(11,752)	16,866	(82,877)	60,387
Change in Net Unrealized Capital Gains (Losses)					
Less Capital Gains Tax	(12,569)	4,873	1,003		46
Change in Net Unrealized Foreign Exchange Capital Gain (Loss)					
Change in Net Deferred Income Tax	753	2,246	(10,671)	18,618	(11,639)
Change in Nonadmitted Assets	(381)	1,271	3,359	(17,916)	11,271
Change in Provision for Reinsurance	(127)	128		(1,058)	(1,701)
Capital Changes: Paid In				135,000	
Aggregate Write-Ins for Gains and Losses in Surplus					(10,515)
Net Change in Capital and Surplus	<u>5,114</u>	<u>(3,235)</u>	<u>10,558</u>	<u>51,767</u>	<u>47,849</u>
Capital and Surplus, End of Year	<u>\$ 294,338</u>	<u>\$ 291,103</u>	<u>\$ 301,661</u>	<u>\$ 353,428</u>	<u>\$ 401,278</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

None.

FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION

None.

SUMMARY OF RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

Effective October 23, 2020, Paul Brockman resigned as a Director. Richard Seelinger replaced him as President, Chairman and CEO of Fletcher Re. It was necessary for Mr. Brockman to relinquish his leadership position with Fletcher Re after a promotion to Group Chief Claims Officer of Enstar.

Two dividends were paid subsequently in 2020. A \$100 million extraordinary dividend consisting of cash and investments occurred in July, and a \$70 million extraordinary cash dividend was paid in December.

On March 11, 2020, the World Health Organization declared the spreading coronavirus (COVID-19) outbreak a pandemic. On March 13, 2020, U.S. President Donald J. Trump declared the coronavirus pandemic a national emergency in the United States. The epidemiological threat posed by COVID-19 is having disruptive effects on the economy, including disruption of the global supply of goods, reduction in the demand for labor, and reduction in the demand for U.S. products and services, resulting in a sharp increase in unemployment. The economic disruptions caused by COVID-10 and the increased uncertainty about the magnitude of the economic slowdown has also caused extreme volatility in the financial markets.

The full effect of COVID-19 on the U.S. and global insurance and reinsurance industry is still unknown at the time of releasing this report. The Department is expecting the COVID-19 outbreak to impact a wide range of insurance products resulting in coverage disputes, reduced liquidity of insurers, and other areas of operations of insurers. The Department and all insurance regulators, with the assistance of the NAIC, are monitoring the situation through a coordinated effort and will continue to assess the impacts of the pandemic on U.S. insurers. The Department has been in communication with Fletcher Re regarding the impact of COVID-19 on its business operations and financial position.

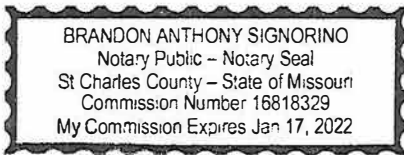
ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Fletcher Reinsurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Douglas Daniels, CPA, CFE; Scott Reeves, CPA, CFE, CAMS, MBA; Mandy Luckenbach, CPA, CFE, CPCU; James Le, CPA, CFE, CPCU, ARe; and Conner Nilges, examiners for the Missouri Department of Commerce and Insurance, also participated in this examination.

VERIFICATION

State of Missouri)
) ss
County of St. Charles)

I, Karen Milster, CPA, CFE, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records, or other documents of Fletcher Reinsurance Company, its agents or other persons examined, or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs, and such conclusions and recommendations as the examiners find reasonably warranted from the facts.



Karen Milster

Karen Milster, CPA, CFE
Examiner-In-Charge
Missouri Department of Commerce and
Insurance

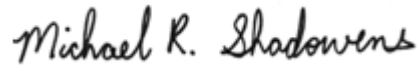
Sworn to and subscribed before me this 1 day of February , 2021.

My commission expires: 01/17/2022 *[Signature]*

Notary Public

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the *Financial Condition Examiners Handbook* has been confirmed, except where practices, procedures, and applicable regulations of the Missouri Department of Commerce and Insurance and statutes of the state of Missouri prevailed.



Michael R. Shadowens, CFE
Assistant Chief Financial Examiner
Missouri Department of Commerce and
Insurance