BEFORE ALLAN L. MCVEY, INSURANCE COMMISSIONER
OF THE STATE OF WEST VIRGINIA

In the Matter of:

FIRST SURETY CORPORATION (NAIC #38504)

ADMINISTRATIVE PROCEEDING NO. 24-IC-174726

ORDER ADOPTING REPORT OF FINANCIAL EXAMINATION

NOW COMES, Allan L. McVey, Insurance Commissioner of the State of West Virginia (hereinafter, "Commissioner"), who, after consideration of the Report of Financial Examination (hereinafter, the "Examination Report") of First Surety Corporation (hereinafter referred to as the "Company" or "FSC"), as of December 31, 2022, made the following findings of fact, conclusions of law and order.

FINDINGS OF FACT

1. The Company was incorporated and began business on November 19, 1979 as West Virginia Fire and Casualty Company, owned by its parent Celina Mutual Insurance Company. On December 31, 2005, all of the stock of West Virginia Fire and Casualty Company was acquired by JFGI. The acquisition was approved by the WVOIC by its Consent Order dated December 23, 2005.

2. Following the acquisition, the name of the Company was changed to First Surety Corporation. The Company operates as a surety targeting the energy industries in the eastern United States. Currently the Company is licensed in Ohio, Indiana, Utah and West Virginia.

3. The Company operates as a surety targeting the energy industries in the eastern United States. Currently, the Company is licensed in Ohio, Indiana, Utah and West Virginia.

4. An examination of the financial condition and operational affairs of the Company for the period beginning January 1, 2020, and ending December 31, 2022, was conducted in accordance with *West Virginia Code* §33-2-9(c) by the Insurance Commissioner.

6. On June 12, 2024, the examiner filed a Report of Financial Examination with the Insurance Commissioner pursuant to *West Virginia Code* §33-2-9(j)(2). A copy of the Report of Financial Examination is attached hereto as Exhibit A and incorporated herein as if set forth in full.

7. On or about June 28, 2024, a true and accurate copy of the Report of Financial Examination was sent to Brad Tuckwiller. A copy of the letter dated June 28, 2024, is attached hereto as Exhibit B.

8. Pursuant to *West Virginia Code* §33-2-9(j)(2), the Company, by letter dated June 28, 2024, Exhibit B, was notified and afforded a period of ten (10) days, after receipt of the Report of Financial Examination, to make a submission, rebuttal, or objection concerning any matter contained in the Report.

9. By letter dated July 10, 2024, Brad Tuckwiller acknowledged that he had reviewed and accepted the Report of Financial Examination and did not materially dispute the findings of the examination. A copy of the Company's letter of July 10, 2024, is attached hereto as Exhibit C.

CONCLUSIONS OF LAW

1. The Insurance Commissioner is charged with the duty of administering and enforcing the provisions of Chapter 33, of the West Virginia Code of 1931, as amended.

2. The Company was organized pursuant to the provisions of Article 5, Chapter 33 of the *West Virginia Code* and licensed pursuant to Article 3, Chapter 33 of the *West Virginia Code*.

3. *West Virginia Code* § 33-2-9(j)(2) provides that no later than sixty (60) days following completion of the examination, the examiner in charge shall file with the Insurance Commissioner a verified, written Report of Financial Examination under oath, and, upon receipt of the verified report, the Insurance Commissioner shall transmit the Report of Financial Examination to the Company with a notice that shall afford the Company a reasonable opportunity, of not more than thirty (30) days, to make a written submission or rebuttal.

4. *West Virginia Code* § 33-2-9(j)(3) provides that within thirty (30) days of the end of the period allowed for the receipt of written submissions or rebuttals the Insurance Commissioner shall fully consider and review the Report of Financial Examination, together with any written submissions or rebuttals, and shall enter an ORDER adopting the Report of Financial Examination as filed, or with modifications or corrections, enter an ORDER rejecting the Report of Financial Examination with directions to the examiners to reopen the examination or call for an investigatory hearing.

ORDER

It is therefore **ORDERED** as follows:

1. The Report of Financial Examination of the Company, attached hereto as Exhibit A, is hereby **ADOPTED** and **APPROVED** by the Insurance Commissioner.

2. A copy of this *Order Adopting Report of Financial Examination* and the Report of Financial Examination shall be mailed to the Company via certified mail, return receipt requested, upon entry by the Insurance Commissioner.

3. The Company shall file with the Insurance Commissioner, within thirty (30) days of the issuance of this Order, affidavits executed by each of its directors stating under oath that they have received a copy of the Report of Financial Examination and a copy of this *Order*

Adopting Report of Financial Examination in accordance with *West Virginia Code* § 33-2-9(j)(4).

4. The Company shall take whatever actions are required to comply with the recommendations set forth in the Report of Financial Examination, if any, and shall demonstrate compliance to the satisfaction of the Insurance Commissioner, if necessary.

5. Inasmuch as orders entered by the Insurance Commissioner are subject to judicial review as set forth in *West Virginia Code* §§ 33-2-14 and 51-11-4(b)(4), any person aggrieved by any this order may, within 30 days after the order has been mailed or delivered to the persons entitled to receive the same, file an appeal in and with the Intermediate Court of Appeals of West Virginia.

Entered this 12th day of July 2024.

Allan L. McVey
CPCU, ARM, AAI, AAM, AIS
West Virginia Insurance Commissioner

REPORT OF EXAMINATION

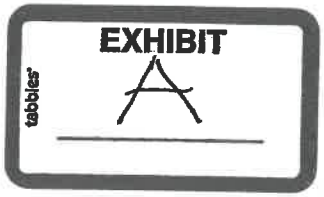
OF

FIRST SURETY CORPORATION

CHARLESTON, WEST VIRGINIA

NAIC #38504

AS OF DECEMBER 31, 2022



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SALUTATION

June 12, 2024
Charleston, West Virginia

The Honorable Allan L. McVey
West Virginia Insurance Commissioner
900 Pennsylvania Ave.
Charleston, West Virginia 25302

Pursuant to the authority vested in the West Virginia Offices of the Insurance Commissioner ("WVOIC"), as well as rules, regulations and procedures promulgated by the National Association of Insurance Commissioners ("NAIC"), an examination has been made of the administrative affairs, books, records, and financial condition of:

First Surety Corporation

179 Summers Street, Suite 307
Charleston, WV 25301

hereinafter referred to as the "Company" or "FSC". The following Report of Examination is respectfully submitted.

SCOPE OF EXAMINATION

The Company was last examined as of December 31, 2019. The current examination commenced on August 7, 2023, and is a multi-state, full scope, three-year examination pursuant to W.Va. Code §33-2-9(a), as amended, covering the period from January 1, 2020, through December 31, 2022, including any material transactions or events occurring subsequent to the examination date and noted during the course of the examination.

The purpose of this examination is to assess the financial condition of the Company and set forth findings of fact (together with citations of pertinent laws, regulations and rules) with regard to any material adverse findings disclosed by the examination.

The general procedures of the examination followed rules and standards as set forth in the NAIC Financial Condition Examiners Handbook (Handbook) and West Virginia Laws, Regulations, and Directives of the WVOIC. The examination was conducted to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risk within the Company and evaluating system controls and procedures used to mitigate those risks. In addition, the principles used, and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statements of Statutory Accounting Principles (SSAP) and annual statement instructions were assessed.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating 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.

The report is presented on an exception basis. It is designed to set forth the facts with regard to any material adverse findings disclosed during the examination. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such

cases, these matters were discussed with responsible Company officials during the course of the examination.

SUMMARY OF SIGNIFICANT FINDINGS

As a result of the current examination period and review of the subsequent events, the following findings were noted:

1. **Appointed Actuary Reporting** – The Appointed Actuary did not present to the Board of Directors (Board) each year on the items within the scope of the Actuarial Opinion in accordance with the NAIC Annual Statement Instructions.

2. **Investment Policy Compliance** – The Company is not compliant with the investment allocations in the investment policy approved by the Board. The Company consistently exceeded the limitations for equity holdings during the examination period. As of 12/31/22 the Company held over 50% of the portfolio in equity securities despite the investment policy limiting the Company to 30%. The Board resolved to reduce the amount of equity holdings allowed further to 25% during July of 2022, however implementation of that change had not occurred as of 12/31/22.

3. **Board Oversight of Investments** - The Board shall evidence by formal resolution, at least annually, that it has determined whether all investments were made in accordance with the investment limitations and investments objectives prescribed by the Board as required by §33-8-4(b) of the West Virginia Code. The Board is also required to receive and review a summary report on the investment portfolio and activity on a quarterly basis to determine whether the investment activity is consistent with its written plan per §33-8-4(c)(1) of the West Virginia Code.

   The Board made formal resolutions at each meeting regarding the investment portfolio being compliant with the Corporation's guidelines and West Virginia Code Requirement, however the resolutions were not accurate because the Board was aware the Company was not compliant with the equity limitations in their Investment Guidelines.

4. **Deferred Tax Asset** – The Company did not record an adjustment to their financial statements that was recommended by their external auditors as of December 31, 2022. The external auditor found the 2022 Annual Statement filed with the WVOIC materially overstated admitted assets and surplus per guidance in SSAP 101. The Company overstated the admissibility of its deferred tax asset (DTA) by $417,015 and thus the Company's filed Annual Statement did not reconcile to the Audited Financial Statements. The overstatement increased admitted assets and Surplus by $417,015.

5. **Preferred Stock Sale Accounting** – The Company issued shares of Preferred Stock in June of 2022 for a total amount of $2,400,000. The Company received $1,700,000 in 2022 related to the sale and recorded the remaining amount of $700,000 as an admitted asset receivable in the 2022 Annual Statement. SSAP 72(4) requires that in order for a stock sale receivable to be considered an admitted asset, the Company must receive cash or readily marketable securities prior to the filing of the statutory statement. Examiners determined the receivable should have been recorded as a non-admitted asset which would have decreased admitted assets and surplus by $700,000, respectively.

6. **Affiliated Agreement** - SSAP No. 25 indicates that transactions between affiliates must in the form of written agreement and provide for timely settlement of amounts owed, with a specified due date. The Company's agreement with Triangle Surety Agency (TSA) Agreement indicates that TSA shall furnish an accounting of commissions due for each policy written and provide details of all transactions and information to support the billing to the policyholder and the commission due to the Agent. It further states that the FSC shall pay the commission due when payment has been received, but doesn't specify a timeframe for that to be accomplished.

7. **Premium Deficiency Reserve** – SSAP 53 requires the establishment of a liability for a premium deficiency reserve (PDR) when the anticipated losses, loss adjustment expenses, commissions and other acquisition costs exceed the recorded unearned premium reserve, and any future installment premiums on existing policies. The examining actuary determined that no PDR was required as of December 31, 2022.

However, at each of the other four year-end dates from 2019 to 2023, a non-zero PDR is indicated.

In addition, the NAIC Annual Statement Instructions for Note #30 to Financials, requires insurers to disclose the amount of the PDR, the date of the evaluation for a PDR, and whether anticipated investment income was utilized as a factor in the premium deficiency calculation. The Company's response to Note 30 in the annual statements filed during the examination period only noted there was none to report.

8. **Holding Company Financial Statements** – The Company has not provided the WVOIC with annual financial statements of the ultimately control entity within their annual Form B and C filing. Jacobs Financial Group (JFGI) owns 50.75% of the Company and is the ultimate controlling entity. JFGI has not provided the WVOIC with audited financial statements since May 31, 2018, making it impossible to assess the financial stability or potential liabilities of the Parent. The most recent unaudited financial statements provided were as of May 31, 2020.

HISTORY

The Company was incorporated and began business on November 19, 1979 as West Virginia Fire and Casualty Company, owned by its parent Celina Mutual Insurance Company. On December 31, 2005, all of the stock of West Virginia Fire and Casualty Company was acquired by JFGI. The acquisition was approved by the WVOIC by its Consent Order dated December 23, 2005.

Following the acquisition, the name of the Company was changed to First Surety Corporation. The Company operates as a surety targeting the energy industries in the eastern United States. Currently the Company is licensed in Ohio, Indiana, Utah and West Virginia.

Capitalization

As of December 31, 2022, the Company had issued 1,000 shares of common stock with an aggregate par value of $1,000,000 and issued 10,400 shares of preferred stock with an aggregate par value of $10,400,000. A total of 50,000 shares of preferred stock are authorized. The

Company issued 2,400 shares of preferred stock in 2022, however as of 2022 year end only $1,700,000 was received and $700,000 remained outstanding.

Dividends to Stockholders

The Company did not pay dividends to stockholders during the examination period.

MANAGEMENT AND CONTROL

BOARD OF DIRECTORS

The corporate powers of the Company are vested in the Board of Directors consisting of not less than five nor more than nine members in compliance with Article II of the Company's Bylaws and in compliance with W. Va. Code §33-5-3. The individuals serving as members of the Board of Directors on December 31, 2022, were as follows:

Name	Title
Linda J. Aguilar Ansted, West Virginia	Retired Senior Vice President City National Bank
Timothy A. Maddox Charleston, West Virginia	President Silverstein & Maddox Insurance, Inc.
Philip B. Robertson Clendenin, West Virginia	Retired Banker Poca Valley Bankshares
James R. Stout Mineral Wells, West Virginia	Dealer/Principal All Seasons Powersports
Bradley W. Tuckwiller Lewisburg, West Virginia	President First Surety Corporation

*During 2023 Mr. Roberston passed away. On November 2, 2023 the Board elected Stephanie Roberston and Donald Kesterson to the Board.

OFFICERS

The Board of Directors shall elect a Chairman of the Board, a President, a Secretary, and a Treasurer. The Board may also elect a General Manager, Senior Vice Presidents, Assistant Secretaries, and Assistant Treasurers as it may see fit to perform such duties as may from time to time be assigned by the Board.

Officers elected at the July 28, 2022, Board of Directors Meeting and serving as of December 31, 2022, were as follows:

Name	Title
Linda J. Aguilar	Chair of the Board
Bradley W. Tuckwiller	President
Philip B. Robertson*	Secretary
Jason M. McCoy	Treasurer/Assistant Secretary

*During 2023 Mr. Robertson passed away and Robert Kenney was elected to serve as Secretary.

COMMITTEES

The Board by resolution may designate from among its members an Executive Committee and one or more other committees each of which to the extent provided in the resolution, shall have and may exercise all the authority of the Board of Directors which may be lawfully delegated by said Board.

On December 7, 2017, the Board established an Underwriting Committee, Investment Committee and Compensation Committee. On June 29, 2021, the Board resolved that the Audit Committee of the Company would consist of all members of the Board of Directors.

As of December 31, 2022, members serving on the Committees of the Company Board were as follows:

Audit Committee:
Linda J. Aguilar
Timothy A. Maddox
Philip B. Robertson*
Bradley W. Tuckwiller
James R. Stout

Compensation Committee:
Linda J. Aguilar
Timothy A. Maddox

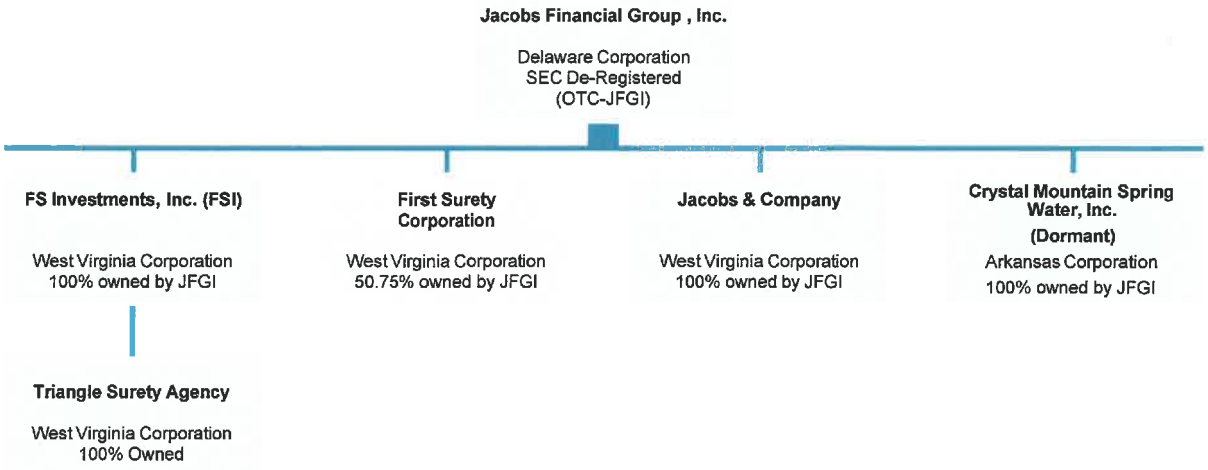
Investment Committee:
Linda J. Aguilar
Timothy A. Maddox

Underwriting Committee:
Philip B. Robertson*
James R. Stout

*During 2023 Mr. Roberston passed away. On November 2, 2023 the Board elected Stephanie Roberston and Donald Kesterson to the Board.

ORGANIZATIONAL CHART

The Company is a member of an insurance holding company system. The following is an abbreviated organizational chart as of December 31, 2022:



AGREEMENTS

As of December 31, 2022, the Company had the following agreements in force:

Agency Agreement

Effective June 1, 2007, the Company entered a General Agency Agreement with its affiliate, Triangle Surety Agency, Inc. ("TSA"), whereby TSA receives commission on premium written in the amount of fifteen percent (15%) on renewal business and thirty percent (30%) on new business written. All policies are directly underwritten by the Company. The agreement was last amended on October 19, 2018. The Company incurred commission expense in the aggregate amount of $677,441 and $692,274 under the General Agency Agreement in 2022 and 2021 respectively.

Investment Management Agreement

Effective December 31, 2007, the Company entered an Investment Management Agreement with its affiliate, Jacobs & Company ("J&C"), whereby J&C receives investment advisory fees based on established fee schedules. The agreement was last amended on January 25, 2022. The Company incurred investment management expenses pursuant to the Investment Management Agreement in the amount of $107,790 and $113,573 in 2022 and 2021 respectively.

Expense Sharing Agreement

Effective June 1, 2007, the Company entered an Expense Sharing Agreement with its parent and affiliates that specifically addresses costs allocations and reimbursement of expenses including postage, payroll, and shared office equipment. The agreement was last amended on January 1, 2017. Amounts paid by the Company under the Expense Sharing Agreement amounted to $41,085 and $40,538 in 2022 and 2021 respectively.

Information Technology Services Agreement

Effective June 10, 2020, the Company entered an Information Technology Services Agreement with its affiliate, J&C, whereby J&C's wholly owned subsidiary, BITS, provides thirty-five (35) hours each month of Information Technology services and J&C receives fees based on approved fee schedules. The Company incurred information technology expenses in the amounts of $40,320 and $40,320 in 2022 and 2021 respectively. The agreement was terminated in February of 2023.

TERRITORY AND PLAN OF OPERATION

The Company writes surety bond coverage primarily in the coal reclamation industry in West Virginia. The Company is also licensed in Indiana, Ohio, and Utah. All of the Company's written premium as of December 31, 2022 has been in West Virginia and Ohio and Coal reclamation bonds accounted for approximately 88% of written premium in 2022. The Company is licensed in Indiana, but it does not have authority to write surety bonds in Indiana.

REINSURANCE

Assumed

During 2020, FSC entered a 100% quota share agreement with Continental Indemnity Company whereby FSC assumed the risk for certain coal reclamation bonds to be produced by Triangle Surety Agency (TSA). The program allowed FSC to offer reclamation bonds in states where it was not licensed. New placements were terminated by mutual agreement effective December 31, 2021, with existing assumed risks continuing to be renewed and reinsured.

During 2021, the Company entered a quota share agreement with Lexington National Insurance Corporation whereby FSC assumed 90% of certain coal reclamation bonds and 50% of certain

contract bonds to be produced by TSA. The program allowed FSC to offer reclamation bonds in states where it was not licensed. The TSA agreement was terminated by Lexington on September 14, 2021.

Ceded

At December 31, 2022, the Company was party to the following ceded reinsurance agreement:

Effective April 1, 2009, FSC entered into an excess of loss reinsurance contract with various syndicates at Lloyds of London for its coal reclamation surety bonding programs. The agreement has been renewed annually for expanded surety bond business coverage. The agreement provides coverage with the following limits:

Layer 1

The Reinsurer shall pay up to $1,000,000 for each loss excess of $1,000,000, plus collateral held.

Layer 2

The Reinsurer shall pay up to $3,000,000 for each loss in excess of $2,000,000, plus the collateral held.

Layer 3

The Reinsurer shall pay up to $5,000,000 for each loss in excess of $5,000,000, plus the collateral held.

The premium rate for the agreement is 29.25%. Premiums ceded are subject to a minimum premium of $771,191 for the period of July 1, 2022 to June 30, 2023. The Company ceded $420,650 of ceded unearned premium for the year ended December 31, 2022.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the WVOIC and present the financial condition of the Company for the period ending December 31, 2022. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

STATEMENT OF ASSETS
DECEMBER 31, 2022

	Per Annual Statement	Statutory Examination Adjustments	Per Statutory Examination
Bonds	$ 9,595,374	$ -	$ 9,595,374
Common stocks	12,267,710		12,267,710
Mortgage loans on real estate			
First liens	839,837		839,837
Cash, cash equivalents, and short-term investments	410,398		410,398
Subtotals, cash and invested assets	$ 23,113,319	$ -	$ 23,113,319
Investment income due and accrued	38,865		38,865
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	825,300		825,300
Reinsurance:			
Funds held by or deposited with reinsured companies	812,207		812,207
Net deferred tax asset	688,490	(417,015)	271,475
Electronic data processing equipment and software	6,411		6,411
Other income due and accrued	756,350	(700,000)	56,350
Collateral indemnity funds held	3,836,413		3,836,413
Total assets	**$ 30,077,355**	**$ (1,117,015)**	**$ 28,960,340**

STATEMENT OF LIABILITIES, CAPITAL AND SURPLUS
DECEMBER 31, 2022

	Per Annual Statement	Statutory Examination Adjustments	Per Statutory Examination
Losses	$ 4,109,881	$ -	$ 4,109,881
Loss adjustment expenses	193,080		193,080
Other expenses	940,506		940,506
Taxes, licenses and fees	24,692		24,692
Unearned premium	1,549,746		1,549,746
Advance premium	2,635		2,635
Ceded reinsurance premiums payable	192,798		192,798
Amounts withheld or retained by company for account of others	13,671,690		13,671,690
Payable to parent, subsidiaries and affiliates	128,767		128,767
Derivatives	142,311		142,311
Aggregate write-ins for liabilities	3,836,413	-	3,836,413
Total liabilities	**$ 24,792,519**	**$ -**	**$ 24,792,519**
Common capital stock	1,000,000		1,000,000
Preferred capital stock	10,400,000	(700,000)	9,700,000
Gross paid in and contributed surplus	4,522,086		4,522,086
Unassigned funds (surplus)	(10,637,250)	(417,015)	(11,054,265)
Surplus as regards policyholders	5,284,836	(1,117,015)	4,167,821
Total liabilities and surplus	**$ 30,077,355**	**$(1,117,015)**	**$ 28,960,340**

STATEMENT OF REVENUE AND EXPENSES
DECEMBER 31, 2022

	Per Annual Statement	Statutory Examination Adjustments	Per Statutory Examination
UNDERWRITING INCOME			
Premiums earned	$ 2,029,472		$ 2,029,472
Deductions			
Losses incurred	790,236		790,236
Loss adjustment expenses incurred	23,127		23,127
Other underwriting expenses incurred	1,557,340		1,557,340
Total underwriting deductions	2,370,703		2,370,703
Net underwriting loss	(341,231)		(341,231)
INVESTMENT INCOME			
Net investment income earned	106,632		106,632
Net realized capital losses	(725,271)		(725,271)
Net investment loss	(618,639)		(618,639)
OTHER INCOME			
Aggregate write-ins for miscellaneous income	(409,335)		(409,335)
Total other income	(409,335)		(409,335)
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(1,369,205)		(1,369,205)
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(1,369,205)		(1,369,205)
Federal and foreign income taxes incurred	192,794	$ -	192,794
Net income	**$(1,561,999)**	**$ -**	**$ (1,561,999)**

RECONCILIATION OF SURPLUS
DECEMBER 31, 2022

	2022	2021	2020
Surplus as regards policyholders, December 31 prior year	$ 8,711,814	$ 9,012,922	$ 11,492,221
Net income	(1,561,999)	1,149,290	(778,484)
Change in net unrealized capital gains or (losses) less capital gains tax	(3,826,173)	(1,724,896)	(485,129)
Change in net deferred income tax	1,153,695	175,999	598,638
Change in nonadmitted assets	(2,009,516)	98,499	(1,814,324)
Capital changes:			
Paid in:	1,700,000	-	-
Change in surplus as regards policyholders for the year	(4,543,993)	(301,108)	(2,479,299)
Surplus as regards policyholders	**$ 4,167,821**	**$ 8,711,814**	**$ 9,012,922**

SUMMARY OF EXAMINATION CHANGES

The following adjustments were made to the Company's financial statements as a result of this examination:

1. The Company's Deferred Tax Asset was reduced by $417,015. The impact of the adjustment was a reduction in Admitted Assets and Capital and Surplus.

2. The Company's preferred stock receivable of $700,000 was considered non-admitted. The impact of the adjustment was a reduction to Admitted Assets and Capital and Surplus.

SUBSEQUENT EVENTS

The following findings was noted during the completion of the standard subsequent events procedures as part of the financial examination:

1. The examining actuary observed that based on development acknowledged by the Company in the 2023 Annual Statement, indicated loss and loss adjustment expense reserves as of December 31, 2022 were materially deficient by $1,378,000.

2. Jacobs Financial Group (JFGI) owns 50.75% of the Company stock and pledged 42.5% of the stock as collateral against three (3) notes payable. The notes matured as of December 31, 2023, have not been paid in full and are now in default. John Jacobs indicated that no formal action has been taken by the noteholders to collect or take possession of the Company's stock and discussions are ongoing. According to Mr. Jacobs, the current balances of the notes are $1,467,805, $1,452,37 and $421,162 respectively.

3. The Company settled the Preferred Stock receivable in May of 2023 through a transfer of funds from collateral held.

4. The Company brought their investment portfolio into compliance with the Board approved investment policy as of December 31, 2023.

SUMMARY OF EXAMINATION RECOMMENDATIONS

As a result of the traditional scope financial examination, the following recommendations are made:

1. It is recommended the Company comply with the NAIC Annual Statement Instructions with regards to Appointed Actuary reporting to the Board or Audit Committee.

2. It is recommended the Company comply with the provisions of the investment policy that has been approved by the Board.

3. It is recommended that the Board comply with the provisions of §33-8-4 of the West Virginia Code by ensuring that all investments are made in accordance with the standards, limitations and investments objectives prescribed by the Board or the Investment Committee.

   If the Board observes the Company is not operating within the prescribed guidelines, it is recommended the Board prepare a corrective action plan to address the issue and mandate compliance within a reasonable timeframe.

4. It is recommended the Company calculate and record their DTA in accordance with SSAP 101, and ensure the non-admitted portion is recorded properly.

5. It is recommended that the Company record Capital Stock transactions in accordance with SSAP 72 to ensure that amounts not received prior to the filing of the statutory financial statement are properly classified as admitted, or non-admitted assets.

6. It is recommended the Company amend the agreement with TSA to provide for specific settlement terms as required by SSAP 25.

7. It is recommended the Company perform a PDR analysis on an annual basis and complete Note 30 with the proper disclosures when a non-zero PDR is indicated. Best practice would be to have a qualified actuary perform the analysis.

8. It is recommended that the Company provide the WVOIC with financial statements of the ultimate controlling entity for the years ended 2021, 2022, and 2023.

ACKNOWLEDGEMENT AND SIGNATURE

This is to certify that the undersigned is a duly qualified Examiner appointed by the West Virginia Offices of the Insurance Commissioner. In addition to the undersigned, William O'Connell, CPA, CFE, CFE (fraud), Exam Supervisor, Brad Myers, CISA, CISM, CISSP, Information Technology Specialist, Stefan Obereichholz-Bangert, AES, CISA, CISM, Information Technology Specialist, all of Noble Consulting Services, Inc. and Riley Phillips, Actuarial Specialist, and Brent Sallay, ACAS, MAAA, Actuarial Specialist, both of Taylor-Walker Consulting, LLC, participated in the examination.

The examination was performed in accordance with those procedures authorized by the NAIC Financial Condition Examiner's Handbook and other procedures appropriate for this examination. The attached report of examination is a true and complete report of the financial condition of the Company as of December 31, 2022, as determined by this examination.

Respectfully Submitted,

Joseph Hofmeister, CFE
Examiner-in-Charge
Noble Consulting Services, Inc.
Representing the WV Offices of the Insurance Commissioner

Mary Jo Lewis, CPA
Director/Chief Financial Examiner
Financial Conditions Division
WV Offices of the Insurance Commissioner

STATE OF WEST VIRGINIA
Offices *of the* Insurance Commissioner

Allan L. McVey
Insurance Commissioner

June 28, 2024

Brad Tuckwiller, President
First Surety Corporation
179 Summers Street, Suite 307
Charleston, WV 25301

RE: Report of Financial Examination as of December 31, 2022
First Surety Corporation – NAIC #: 38504

Dear Mr. Tuckwiller:

Please find enclosed a copy of the Report of Examination of First Surety Corporation. This examination was performed in accordance with the provisions of Chapter 33, Article 2, Section 9 of the West Virginia Code, as amended. The Report of Examination reflects the financial affairs and condition of First Surety Corporation, as of December 31, 2022.

You are hereby notified that you have ten (10) working days from receipt of this letter to make written submission or rebuttals with respect to any matter contained in the Report of Examination. If no exception is taken, please respond accordingly by the end of the ten (10) day comment period

Sincerely,

Allan L. McVey
CPCU, ARM, AAI, AAM, AIS
Insurance Commissioner

ALM/mjl

Enclosure: Copy of Report of Examination

EXHIBIT
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FIRST SURETY CORPORATION

179 Summers Street, Suite 307
Charleston, WV 25301
Telephone (304) 720-1985

brad@firstsuretycorp.com

July 10, 2024

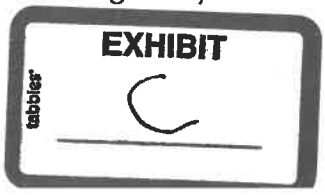
The Honorable Allan L. McVey
West Virginia Insurance Commissioner
900 Pennsylvania Ave.
Charleston, West Virginia 25302

Dear Commissioner McVey,

We received your department's Report of Examination on June 28, 2024, and appreciate the opportunity to respond on sections of that report. Your third-party examiners were cordial and professional in our email and video exchanges.

Herewith are comments on the Report's *SUMMARY OF SIGNIFICANT FINDINGS*:

1. *Appointed Actuary Reporting* – We have corresponded with the Appointed Actuary to schedule a conference with our Board of Directors, planned for the Board's September meeting.
2. *Investment Policy Compliance* – The Company's Investment Advisor has been admonished to comply with policy and has done so during 2024.
3. *Board Oversight of Investments* - The Board was reminded it is to have adhered to the West Virginia Code and internal policy when issuing its quarterly resolution regarding investment compliance and has done so during 2024.
4. *Deferred Tax Asset* – The Company acknowledges an adjustment should have been made to its December 31, 2022, filing (and 1st Quarter 2023 filing after discovery in May 2023). The Deferred Tax Asset admitted amount is correct for the December 31, 2023, Annual Statement and the Company will make better effort to monitor its Risk Based Capital metric, the contributing source of 2022's misstatement.
5. *Preferred Stock Sale Accounting* – The Company was unaware of specific treatment required for its partial receivable for the sale of non-voting Preferred Stock. The exception was cured by full collection in June 2023.
6. *Affiliated Agreement* – With few exceptions, Triangle Surety Agency is paid commission when premium is received. The Company will review the Agency agreement for insertion of payment period and other updates that may be beneficial.
7. *Premium Deficiency Reserve* – The Company has discussed with its Appointed Actuary to include a Premium Deficiency Reserve analysis for the Actuarial engagement for calendar year-end 2024.
8. *Holding Company Financial Statements* – The Company has no control over this issue, while re-stating that the ultimate controlling entity has never been considered a source of



support. However, we will encourage the entity and assist in any regulatory approved manner to obtain current financial information.

In addition, we note events subsequent to the examination period that we believe address the examination's *SUMMARY OF EXAMINATION CHANGES:*

1. The Company's Deferred Tax Asset overstatement of admissibility by $417,015 on December 31, 2022, and concurrent effect on Capital and Surplus was negated by the Company's improved RBC during the normal course of business of 2023.

2. The Company's reserve for Losses on December 31, 2023, had increased $1,584,000 over YE 2022. Losses and Loss Adjustment Expenses, combined, were 39% higher than the examining actuary's analysis of December 31, 2022.

Acknowledging the above, we find the report fairly represents the examination. I and our staff appreciate the Commissioner's staff and associated persons for the effective manner in which the examination was conducted.

Sincerely,

Brad Tuckwiller
President

cc: Joseph Hofmeister
Mary J. Lewis
Melinda Kiss
Bill O'Connell