

EXAMINATION REPORT OF
BROOKWOOD INSURANCE COMPANY
CORALVILLE, IOWA
AS OF DECEMBER 31, 2020

Coralville, Iowa
May 25, 2022

HONORABLE DOUG OMMEN
Commissioner of Insurance
State of Iowa
Des Moines, Iowa 50315

Commissioner Ommen:

In accordance with your respective authorizations and pursuant to Iowa statutory provisions, an examination has been made of the records, business affairs and financial condition of

BROOKWOOD INSURANCE COMPANY

CORALVILLE, IOWA

AS OF DECEMBER 31, 2020

at the Company's administrative office, 1314 Douglas Street, Omaha, NE.

INTRODUCTION

Brookwood Insurance Company, hereinafter referred to as the "Company", was last examined as of December 31, 2016. The examination reported herein was part of a coordinated examination of the Berkshire Hathaway Group of insurance companies. The state insurance departments of California, Colorado, Connecticut, Iowa, Nebraska, and New York participated in this coordinated examination, with Nebraska as the lead state.

SCOPE OF EXAMINATION

This is the regular comprehensive financial examination of the Company covering the period from January 1, 2017 to the close of business on December 31, 2020, including any material transactions and/or events occurring and noted subsequent to the examination period.

The examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. The Handbook requires that we plan and perform the examination to evaluate the financial condition, identify current and prospective risks of the company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

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.

This examination report includes significant findings of fact and general information about the insurer and its financial condition.

HISTORY

The Company was incorporated on December 23, 1999 under the provisions of Chapter 490 of the Iowa Code as a capital stock corporation and commenced business on December 31, 1999.

CAPITAL STOCK

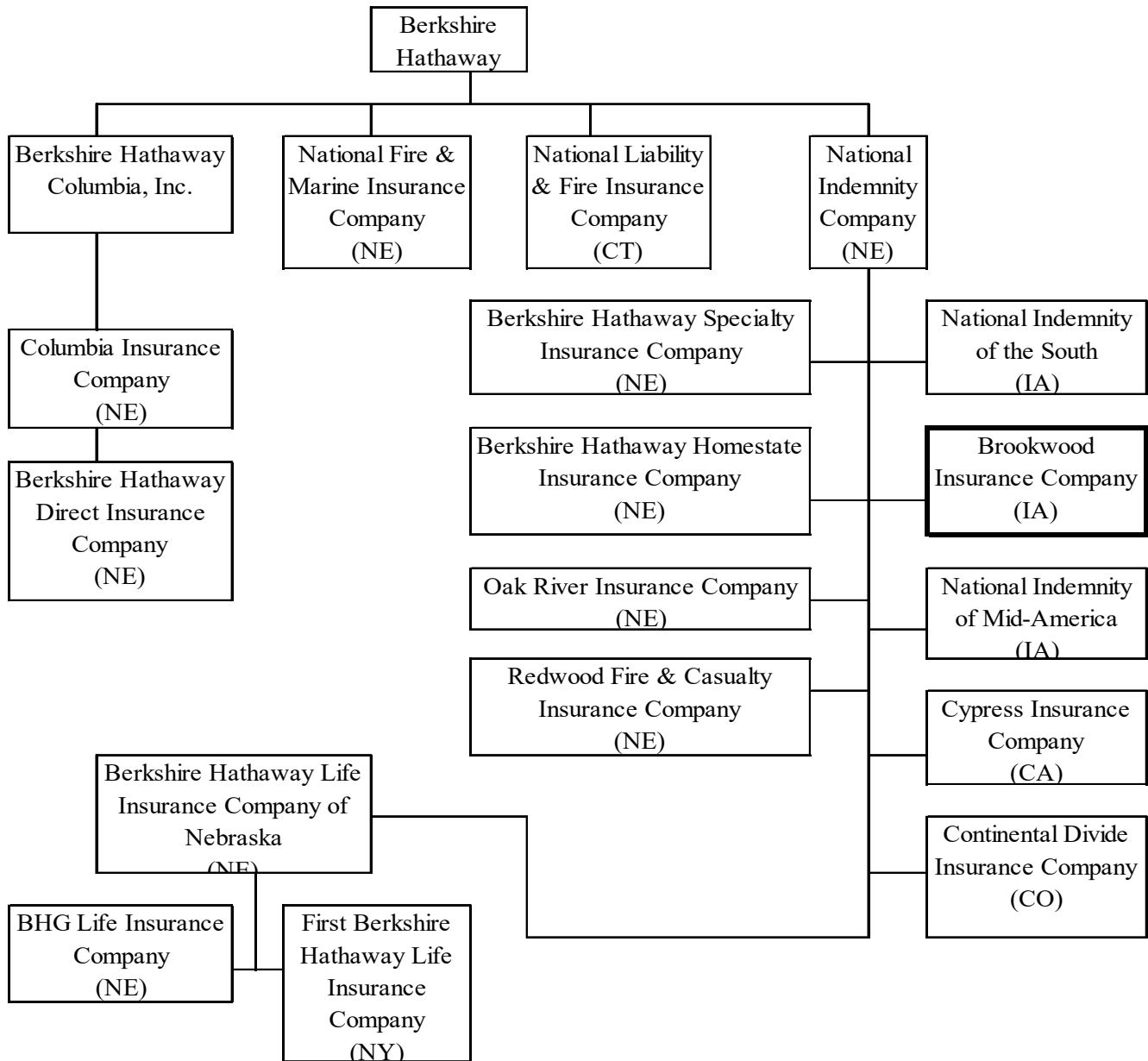
The Amended Articles of Incorporation provide that the authorized capital of the Company is \$2,500,000 consisting of 5,000 shares of common stock at \$500 par value each. As of December 31, 2020, the Company had 5,000 shares of common stock issued and outstanding with a total par value of \$2,500,000 and \$42,500,000 of gross paid in and contributed surplus. Effective July 1, 2016, the Company became a wholly owned subsidiary of National Indemnity Company (NICO) as a result of a capital contribution from its prior direct owner Berkshire Hathaway Inc. (BHI) to NICO. The Company remains an indirect, wholly owned subsidiary, of BHI.

The Company did not pay any stock dividends during the examination period.

INSURANCE HOLDING COMPANY SYSTEM

The Company is a member of an insurance holding company system as defined by Chapter 521A, Code of Iowa.

A simplified organizational chart as of December 31, 2020, reflecting the ultimate parent and holding company system, is shown below:



**Berkshire Hathaway Inc. is 31.45% owned by Warren E. Buffett

MANAGEMENT AND CONTROL

SHAREHOLDERS

The annual meeting of shareholders shall be held each year at a location, at a time and on a date set by the President, during the first five months of the calendar year. The meeting shall be for the purpose of the election of Directors, and for the transaction of such other business as may properly come before the meeting.

Notice of the time and place of the annual meeting of Shareholders shall be given to each Shareholder of record of the Corporation by mailing notice to each Shareholder at least ten days prior to said meeting. Such notice may also be provided via electronic means such as email.

A majority of interest of the Shareholders shall constitute a quorum for any matter of business, but fewer than a majority in interest of the Shareholders may adjourn any duly held annual or special meeting from time to time or dispose of any matter or transact any business at any duly held annual or special meeting commenced with a quorum.

BOARD OF DIRECTORS

The Bylaws state the business and affairs of the Company shall be managed by a Board of Directors consisting of not less than five (5) nor more than 21 as may be fixed by the shareholders at each annual meeting or, if no number is so fixed, of five (5) directors, all of whom shall be Shareholders, and each of whom shall be elected annually by the Shareholders at each annual meeting to serve for a term of one year or until a successor has been elected and qualified.

The annual meeting of the Board of Directors shall be held immediately following the annual meeting of the Shareholders. Regular and Special meetings of the Board of Directors may be held as directed upon call by the President or a majority of the Board of Directors.

A majority and not fewer than three (3) Directors shall constitute a quorum for any matter of business, but a number of Directors less than a quorum may adjourn any duly held annual, regular or special meeting from time to time.

Qualified directors serving on the Board as of December 31, 2020 were:

<u>Name And Address</u>	<u>Principal Occupation</u>	<u>Term Expires</u>
Donald F. Wurster Omaha, Nebraska	President National Indemnity Company	2021
Tracy L. Gulden Council Bluffs, IA	Vice President National Indemnity Company	2021
Andrew R. Linkhart Omaha, Nebraska	Chief Claims Officer and Chief Financial Officer Berkshire Hathaway Homestate Companies	2021
Jeffrey W. Morris Omaha, Nebraska	Vice President Berkshire Hathaway Homestate Companies	2021
Nancy F. Peters Omaha, Nebraska	Vice President and General Counsel National Indemnity Company	2021

COMMITTEES

The Board of Directors may designate an Executive Committee, an Investment Committee and one or more other committees from among the Directors. Committees designated as of December 31, 2020 were as follows:

<u>Executive Committee</u>	<u>Audit Committee</u>
Andrew R. Linkhart	Tracy L. Gulden
Donald F. Wurster	Nancy F. Peters

The Corporate Minutes noted the Board of Directors reviews and approves investments on a quarterly basis.

OFFICERS

The officers shall be a President, one or more Vice Presidents, a Secretary, a Treasurer. The Company may have one or more Assistant Secretaries, one or more Assistant Treasurers, and such other officers as may be appointed in accordance with Iowa law. None of the Officers shall be required to be shareholders or directors. Each officer shall be elected annually by the Board of Directors at each annual meeting to serve a term of office of one year or until a successor has been elected and qualified.

Officers elected and serving as of December 31, 2020 were as follows:

<u>Name</u>	<u>Title</u>
Donald F. Wurster	President
Andrew R. Linkhart	Chief Financial Officer and Treasurer
Nancy F. Peters	Secretary
Tracy L. Gulden	Senior Vice President
Thomas J. Mortland	Vice President
Brian P. Hall	Vice President
Brian T. Wesselman	Vice President
Robert N. Darby, Jr.	Vice President
Jeffrey W. Morris	Vice President

The Company does not have any salaried officers or employees. Services and costs are shared under an inter-company service agreement.

CONFLICT OF INTEREST STATEMENTS

The Company has an established procedure for disclosure to its Board of Directors of any material interest or affiliation on the part of any of its officers or key employees which is in or likely to conflict with their official duties. Conflict of interest statements are circulated and reviewed annually. No conflicts were disclosed.

CORPORATE RECORDS

The unanimous written consent of the shareholder and Board of Directors meetings were reviewed for the period under examination. The unanimous written consents of the Board adequately documented its meetings and approval of Company transactions and events.

The Board minutes and written consents reviewed did not document the receipt or approval of the prior exam report dated as of December 31, 2016 as required by Iowa Code Section 507.10.4a.

The Articles of Incorporation were amended July 30, 2018 to note the duration of the Corporation shall be perpetual, to change the registered office and registered agent, to expand on the purpose of the organization and appoint a slate of Directors.

The Bylaws were amended on June 15, 2018 to update the registered office of the Company, to allow the Board to take action by way of written consent in lieu of a meeting and removed the ability of Directors to participate via telephone in meetings.

RELATED PARTY AGREEMENTS

Effective December 23, 1999, the Company became a party to an Intercompany Service Agreement with affiliates Berkshire Hathaway Homestate Insurance Company, Oak River Insurance Company, Continental Divide Insurance Company, Redwood Fire and Casualty Insurance Company (RFC), and Cypress Insurance Company. Services and facilities include, but are not limited to, data processing, equipment, business property, whether owned or leased, and communication equipment. Additional services such as accounting, tax and auditing, underwriting, claims, investment, and functional support services may be provided. Charges for such services and facilities shall include all direct and directly allocable expenses, reasonably and equitably determined to be attributable to the Company, plus a reasonable charge for direct overhead. This agreement may be terminated by any party by giving a thirty-day written notice.

Effective December 31, 2014, the Company entered into an Intercompany Allocation Agreement with a number of its affiliates. The purpose of the agreement is to document the companies' understanding of how reinsurance recoveries would be allocated if the limits under property excess reinsurance agreements to which each company participates, were ever to be exhausted. The agreement calls for the participating companies to allocate reinsurance recoveries on a pro rata basis, based on the total recoveries under the respective reinsurance agreements as of the date of the companies' balance sheet at each quarter end.

Effective March 27, 2018, the Company entered into an Intercompany Services Agreement with General Reinsurance Corporation (GRC) for internal audit services.

Effective October 1, 2013, the Company's parent, Berkshire Hathaway, Inc. (BHI), entered into an Investment Services Agreement with New England Asset Management (NEAM). Effective March 1, 2018, the Company entered into an Investment Services Agreement with BHI. Subject to a July 20, 2017 amendment, all insurers under BHI began receiving investment services from NEAM. The 2013 Investment Services Agreement between BHI and NEAM stipulates that NEAM would bill BHI; however, it was determined during the exam period that all the individual insurers were receiving invoices for services provided. Going forward, the stipulations of the agreement will be followed and all invoices for services provided will be billed to BHI.

FIDELITY BONDS AND OTHER INSURANCE

The Company is named as a joint insured with other named affiliates on a blanket fidelity bond. The individual loss limit is \$6,000,000 with a \$12,000,000 aggregate loss limit. This policy is placed with a company authorized to transact business in the State of Iowa.

EMPLOYEES' WELFARE

The Company does not have any salaried employees and is provided services from an inter-company service agreement.

REINSURANCE

The Company's current reinsurance program consists of the following:

The Company has a reinsurance agreement with affiliate, Redwood Fire and Casualty Insurance Company to cede 100% of the net insurance business written after facultative reinsurance. The agreement was effective July 1, 2001 and is still in effect.

The Company, and other Berkshire Hathaway Homestate Group (BHHC) companies, have an excess of loss reinsurance agreement with affiliate, Columbia Insurance Company (CIC), to cede all liability except business derived from pool, association syndicate, exchange, plan or other facility directly as a member, subscriber or participant, or indirectly by way of reinsurance. The company shall retain net no less than \$10,000,000 per occurrence and maximum aggregate limit of liability shall be \$1,000,000,000 per calendar year.

The Company is a party to the 100 Percent Quota Share Reinsurance Treaty with Factory Mutual Insurance Company for Equipment Breakdown Coverage. The Company became a party to the agreement effective January 2, 2007. The Company agrees to cede 100% of Equipment Breakdown endorsements on Commercial Property insurance policies. The Agreement was amended on February 1, 2017 to update the rates and rules permissible. The agreement was further amended on January 1, 2018 to update the rates and rules permissible.

The Company has a reinsurance agreement with CIC to cede 100% of the Company's collective liabilities which arise from the issuance of automobile liability policies with coverage above \$1 million limits and up to \$5 million limits on commercial risks. The contract became effective on October 1, 1985 and the Company was added to the agreement with an addendum effective July 1, 2010. The agreement shall remain continuously in force unless otherwise cancelled by either party.

The Company has an excess loss reinsurance agreement with Munich Reinsurance America Inc. to cede workers compensation and employers' liability. The company shall retain net no less than \$1 million per occurrence and maximum liability policy limit shall be \$1 million per occurrence. The agreement was effective July 1, 2007.

The Company is party to a property facultative reinsurance agreement between the BHHC Companies and Wellington Underwriting Inc. for and on behalf of Syndicate 2020 at Lloyd's. The company as part of the contract can bind up to two times the net and treaty retention to a max of \$2 million. Lines covered are fire, allied lines, inland marine, commercial multiple peril (property coverages), homeowners multiple peril (property coverages), or farm owners multiple peril (property coverages), commercial auto physical damage.

The Company is included in the group for the reinsurance agreement No. 8176 with Cypress Insurance Company and General Reinsurance Corporation for workers compensation claims of the group. The novation of the contract states that the Reinsurer's duties and obligations under the Agreement shall run directly to the Group in place of Cypress. The endorsement was signed December 2012. Brookwood has never ceded premium under this contract.

The Company is included in the group for the reinsurance agreement No. 7135 with Cypress Insurance Company and General Reinsurance Corporation for workers compensation claims of the group. The novation of the contract states that the Reinsurer's duties and obligations under the Agreement shall run directly to the Group in place of Cypress. The endorsement was signed December 2012. Brookwood has never ceded premium under this contract.

STATUTORY DEPOSIT

The statement value of securities held in a custodial account and vested in the Insurance Commissioner of Iowa for the benefit of all policyholders totaled \$610,955.

The statement value of special deposits, not held for the protection of all policyholders, held in the jurisdiction of Oregon totaled \$277,707.

TERRITORY AND PLAN OF OPERATION

The Company is authorized to transact business in Iowa, Oregon, and Tennessee. During the examination period the Company did not write any business or have any appointed agents in Iowa.

The Company distributes its products through retail producers or independent agents using the agency network of BHHC. Commercial coverage provided includes retail, service, construction, restaurants, and light manufacturing risks.

Underwriting services are provided by local field underwriters and loss control is provided by local engineers. Claims presented against the Company are handled in Omaha. These functions are performed by an affiliate via the inter-company service agreement.

Advertising for the Company is primarily in the form of direct contact with insurance agents by Company personnel. The Company is considered to be a member of BHHC, which is a group for advertising purposes only.

ACCOUNTS AND RECORDS

The Company's general ledgers are maintained on an accrual basis. Trial balances were prepared for the examination years under review. Amounts from the general ledger accounts were reconciled and found to be in agreement with balances reported on the annual statements for assets, liabilities, income or disbursements.

During the course of the examination, no material aggregate surplus difference was identified from the amount reflected in the financial statements, as presented in the annual statement at December 31, 2020.

SUBSEQUENT EVENTS

Effective January 6, 2021 the Company changed its name to BHHC Special Risks Insurance Company.

COVID-19 Pandemic

In March 2020, the World Health Organization declared Coronavirus disease (COVID-19) a pandemic. As of the date of this report, there is significant uncertainty as to the impact the pandemic will have on the economy, insurance industry and the Company. In addition, this uncertainty has contributed to extreme volatility in the financial markets. As such, the Iowa Insurance Division will continue to monitor COVID-19 developments.

FINANCIAL STATEMENTS
AND COMMENTS THEREON

NOTE: The following financial statements are based on the statutory financial statements filed by the Company with the Iowa Insurance Division and present the financial condition of the Company for the period ending December 31, 2020.

STATEMENT OF ASSETS AND LIABILITIES

ASSETS

<u>Ledger</u>	<u>Admitted</u>	Not <u>Admitted</u>	<u>Total</u>
Bonds	\$ 901,097	\$ -	\$ 901,097
Common stocks	4,043,048	1,342,342	2,700,706
Cash & short-term investments	43,007,936		43,007,936
Investment income due and accrued	53		53
Premiums and considerations:			
Uncollected premium	759		759
Reinsurance			
Amounts recoverable	4,946		4,946
Current federal income tax recoverable	18,846		18,846
Net deferred tax asset	276,838		276,838
Guaranty funds receivable or on deposit	<u>300</u>	<u> </u>	<u>300</u>
 Total assets	 <u>\$ 48,253,822</u>	 <u>\$ 1,342,342</u>	 <u>\$ 46,911,480</u>

LIABILITIES, CAPITAL, AND SURPLUS

Loss adjustment expenses	\$ 288,550
Taxes, licenses and fees	110,050
Ceded reinsurance premium payable	5
Drafts outstanding	10,000
Payable to parent and affiliates	3,921
Aggregate write-ins for liabilities	<u>1,391</u>
 Total liabilities	 <u>\$ 413,917</u>
 Common capital stock	 \$ 2,500,000
Gross paid in and contributed surplus	42,500,000
Unassigned Funds (Surplus)	<u>1,497,563</u>
 Surplus as regards policyholders	 <u>\$ 46,497,563</u>
 Total liabilities and surplus	 <u>\$ 46,911,480</u>

STATEMENT OF INCOME

Underwriting Income

Premiums earned		\$ <u> -</u>
 <u>Deductions</u>		
Loss adjustment expenses incurred	\$ 200,000	
Other underwriting expenses incurred	<u>28,367</u>	
Total underwriting deductions		<u>228,367</u>
 Net underwriting gain (loss)		 \$ (228,367)

Investment Income

Net investment income earned	\$ <u>128,033</u>	
Net investment gain		128,033

Other Income

Net income before federal income tax		\$ (100,334)
Federal and foreign income taxes incurred		<u>(18,486)</u>
 Net income		 <u><u>\$ (81,488)</u></u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December prior year		\$ <u>17,602,556</u>
 <u>Gains and (Losses) in Surplus</u>		
Net income		\$ (81,488)
Change in net unrealized capital gain		33,890
Change in net deferred income tax		284,116
Change in nonadmitted assets		(1,341,510)
Paid in surplus		<u>30,000,000</u>
 Change in surplus as regards policyholders for the year		 <u>\$ 28,895,007</u>
 Surplus as regards policyholders, December 31, 2020		 <u><u>\$ 46,497,563</u></u>

CASH FLOW STATEMENT

Cash from Operations

Premiums collected net of reinsurance	\$ (129)	
Net investment income	<u>130,358</u>	
Total		\$ 130,229
Benefit and loss related payments	\$ 2,892	
Commissions, expenses paid and aggregate write-ins	34,434	
Federal income taxes paid (recovered)	<u>69,101</u>	
Total		<u>\$ 106,427</u>
Net cash from operations		<u>\$ 23,802</u>

Cash from Investments

Cost of investments acquired (long-term only):		
Stock	\$ 4,000,148	
Total investment proceeds		\$ 4,000,148
Net cash from investments		<u>\$ (4,000,148)</u>

Cash from Financing and Miscellaneous Sources

Cash provided (applied)		
Capital and paid in surplus, less treasury stock	\$ 30,000,000	
Other Cash provided (applied)	<u>(32,323)</u>	
Net cash from financing and miscellaneous sources		<u>\$ 29,967,677</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash, cash equivalents and short-term investments	\$ 25,991,331
Cash, cash equivalents and short-term investments:	
Beginning of year	<u>17,016,605</u>
End of period	<u>\$ 43,007,936</u>

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Brookwood Insurance Company as of December 31, 2020, consistent with the insurance laws of the State of Iowa.

In addition to the undersigned, the following participated in the examination for the Iowa Insurance Division: James Menck, CPA,CFE of Eide Bailly LLP.

Respectfully submitted,

/s/ Joseph Hofmeister
Joseph Hofmeister, CFE
Examiner in Charge
Eide Bailly LLP on behalf of the
Iowa Insurance Division

/s/ Amanda Theisen
Amanda Theisen, CFE
Supervisor and Assistant Chief Examiner
Iowa Insurance Division
State of Iowa