NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

FINANCIAL CONDITION REPORT ON EXAMINATION

OF THE

FIRST BERKSHIRE HATHAWAY LIFE INSURANCE COMPANY

CONDITION: DECEMBER 31, 2016

DATE OF REPORT: MARCH 15, 2018

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

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AS OF

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EXAMINER:	BARRY LUPUS, CFE

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

April 18, 2018

Honorable Maria T. Vullo
Superintendent of Financial Services
New York, New York 10004

Madam:

In accordance with instructions contained in Appointment No. 31566, dated January 25, 2017, and annexed hereto, an examination has been made into the condition and affairs of First Berkshire Hathaway Life Insurance Company, hereinafter referred to as "the Company," at its administrative office located a 1314 Douglas Street, Suite 1400, Omaha, NE 68102. The Company's home office is located at Marine Air Terminal, LaGuardia Airport, Flushing, New York 11371.

Wherever "Department" appears in this report, it refers to the New York State Department of Financial Services.

The report indicating the results of this examination is respectfully submitted.

1. EXECUTIVE SUMMARY

The material recommendation contained in this report is summarized below.

The examiner recommends that the Company continues to compute reserves using the assumptions and methodology agreed upon with the Department. (See item 7 of this report.)

2. SCOPE OF EXAMINATION

The examination of the Company was a full scope examination as defined in the NAIC *Financial Condition Examiners Handbook, 2017 Edition* (the "Handbook"). The examination covers the three-year period from January 1, 2014, through December 31, 2016. The examination was conducted observing the guidelines and procedures in the Handbook and, where deemed appropriate by the examiner, transactions occurring subsequent to December 31, 2016, but prior to the date of this report (i.e., the completion date of the examination) were also reviewed.

The examination was conducted on a risk focused basis in accordance with the provisions of the Handbook published by the National Association of Insurance Commissioners ("NAIC"). The Handbook guidance provides for the establishment of an examination plan based on the examiner's assessment of risk in the insurer's operations and utilizing that evaluation in formulating the nature and extent of the examination. The examiner planned and performed the examination to evaluate the current financial condition as well as identify prospective risks that may threaten the future solvency of the insurer. The examiner identified key processes, assessed the risks within those processes and evaluated the internal control systems and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, evaluating the overall financial statement presentation, and determining management's compliance with New York statutes and Department guidelines, Statutory Accounting Principles as adopted by the Department and annual statement instructions.

This examination was led by the State of Nebraska, with participation from the states of California, Colorado, Connecticut, Iowa and New York. Since the lead and participating states are all accredited by the NAIC, all states deemed it appropriate to rely on each other's work.

Information about the Company's organizational structure, business approach and control environment were utilized to develop the examination approach. The Company's risks and management activities were evaluated incorporating the NAIC's nine branded risk categories. These categories are as follows:

- Pricing/Underwriting
- Reserving
- Operational
- Strategic
- Credit
- Market

- Liquidity
- Legal
- Reputational

The Company was audited annually, for the years 2014 through 2016 by the accounting firm of Deloitte & Touche LLP ("D&T"). The Company received an unqualified opinion in all years. Certain audit workpapers of the accounting firm were reviewed and relied upon in conjunction with this examination. The National Indemnity Company ("NICO") has an internal audit department and a separate internal control department which was given the task of assessing the internal control structure and compliance with the Sarbanes-Oxley Act of 2002 ("SOX") and the Model Audit Rule ("MAR") of its subsidiaries, including the Company. The internal audit and compliance function was performed by Ernst & Young LLP. Where applicable, SOX and MAR workpapers and reports were reviewed and portions were relied upon for this examination.

The examiner reviewed the corrective actions taken by the Company with respect to the violations and recommendations contained in the prior report on examination. The results of the examiner's review are contained in item 8 of this report.

This report on examination is confined to financial statements and comments on those matters which involve departure from laws, regulations or rules, or which require explanation or description.

3. DESCRIPTION OF COMPANY

A. History

The Company was incorporated as a stock life insurance company under the laws of New York on September 22, 1998, and was licensed and commenced business on March 21, 2003. Initial resources of $8,000,000, consisting of common capital stock of $2,000,000 and paid in and contributed surplus of $6,000,000, were provided through the sale of 2,000 shares of common stock (with a par value of $1,000 each) for $4,000 per share.

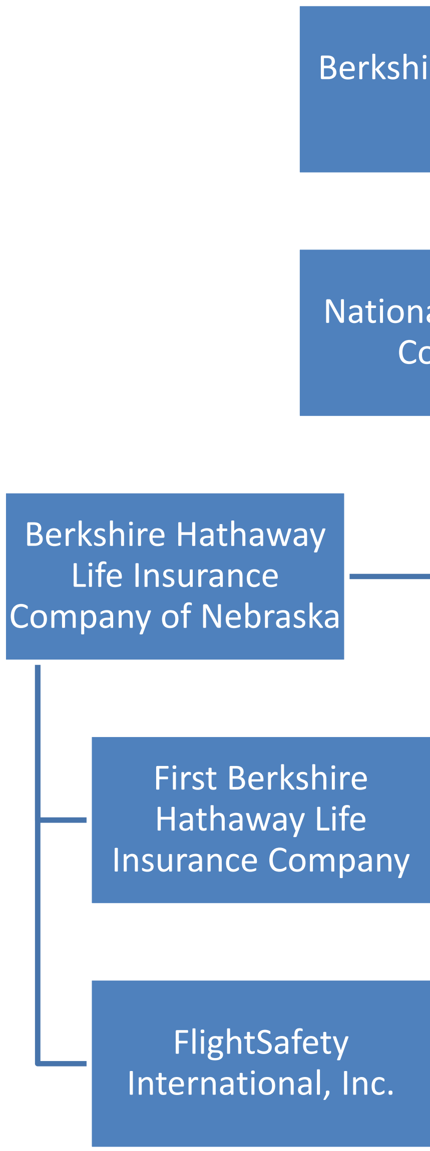
The Company received $10 million and $5 million capital contributions from its parent company, Berkshire Hathaway Life Insurance Company of Nebraska ("BHLN") on September 30, 2014, and on December 30, 2016, respectively.

B. Holding Company

The Company is a wholly owned subsidiary of BHLN, a Nebraska domiciled life insurer and a New York accredited reinsurer. BHLN is, in turn, a wholly owned subsidiary of NICO, a Nebraska domiciled property and casualty insurance company. The Company's ultimate parent company is Berkshire Hathaway Inc., a Delaware corporation. FlightSafety International Inc., located in LaGuardia Airport, New York, is a non-insurance affiliate of the Company that provides professional aviation training services.

C. Organizational Chart

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2016, follows:



D. Service Agreements

The Company had two service agreements in effect with affiliates during the examination period.

Type of Agreement and Department File Number	Effective Date	Provider of Service(s)	Recipient of Service(s)	Specific Service(s) Covered	Expense* For Each Year of the Examination
Rent Sublease File No. 0036093	12/01/2002	FlightSafety International Inc.	The Company	Office space	2014 $ (631) 2015 $ (729) 2016 $ (751)
Investment Services Agreement File No. 0025287A	12/01/2002	NICO	The Company	Investment portfolio management, accounting, tax, internal and premium auditing, underwriting, claims, information technology and support services	2014 $ (387,167) 2015 $ (261,335) 2016 $ (255,125)

* Amount of Expense Incurred by the Company

The Company participates in a federal income tax allocation agreement with its parent company and affiliates.

E. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than 7 and not more than 13 directors. Directors are elected for a period of one year at the annual meeting of the stockholders held in May of each year. As of December 31, 2016, the board of directors consisted of eight members. Meetings of the board are held quarterly.

The eight board members and their principal business affiliation, as of December 31, 2016, were as follows:

Name and Residence	Principal Business Affiliation	Year First Elected
John D. Arendt Norwalk, CT	Vice President First Berkshire Hathaway Life Insurance Company	1999
Bruce J. Byrnes New City, NY	Vice President First Berkshire Hathaway Life Insurance Company	2014
Norman H. Denenberg* Omaha, NE	Attorney Self Employed	2002
Arvind Krishnamurthy Cambridge, MA	Assistant Vice President First Berkshire Hathaway Life Insurance Company	1998
Robert M. LeBlanc* Newton, CT	Managing Director Onex Investment Corporation	1998
Brian G. Snover Stamford, CT	Vice President and Secretary First Berkshire Hathaway Life Insurance Company	2013
Kevin G. Snover* West Babylon, NY	Attorney Self Employed	1998
Sandra J. Wilson* Avon, CT	Comptroller A&A Surplus, Inc.	2007

* Not affiliated with the Company or any other company in the holding company system

The examiner's review of the minutes of the meetings of the board of directors and its committees indicated that meetings were well attended and that each director attended a majority of meetings.

The following is a listing of the principal officers of the Company as of December 31, 2016:

Name	Title
Donald F. Wurster	President
Ajit Jain	Executive Vice President
Bruce J. Byrnes	Vice President
Brian G. Snover	Vice President and Secretary
John D. Arendt *	Vice President and Assistant Secretary
Dale D. Geistkemper	Treasurer and Controller

* Designated consumer services officer per Insurance Regulation No. 64, 11 NYCRR Section 216.4(c)

4. TERRITORY AND PLAN OF OPERATIONS

The Company is authorized to write life insurance, annuities and accident and health insurance as defined in paragraphs 1, 2 and 3 of Section 1113(a) of the New York Insurance Law.

The Company is licensed to transact business in three states, namely Missouri, Nebraska and New York. During the examination period, all annuity considerations and deposit-type funds were received from Missouri.

A. Statutory and Special Deposits

As of December 31, 2016, the Company had $1,200,000 (par value) of United States Treasury Bonds on deposit with the State of New York, its domiciliary state, for the benefit of all policyholders, claimants and creditors of the Company. An additional $631,790, which was reported in Schedule E of the 2016 filed annual statement, was being held for the State of Missouri.

B. Direct Operations

The Company markets structured settlement annuities, individual immediate annuities, and deposit-type contracts. Annuities are established principally to fund structured settlements to New York settlement recipients and to provide for retirement income and asset diversification. The deposit-type contracts are non-life contingent fixed annuity obligations, primarily issued in conjunction with structured settlements for third-party claims.

The Company primarily sells life contingent and non-life contingent fixed annuities to its affiliate BHG Structured Settlements, Inc. (“BHGSS”), a Missouri corporation, to fund BHGSS structured settlement business. However, the optional payees of these contracts are mostly New York residents or plaintiffs in a New York lawsuit. As of December 31, 2016, the Company had 619 structured settlements and 7 immediate annuities in force.

The Company offers property-casualty insurers and defendants the opportunity to purchase annuities issued by the Company to fund structured settlements that have a guaranteed payout pattern. BHGSS directly purchases the qualified funding asset from the Company; therefore, the Company does not pay commissions. The Company also offers individual annuities with a guaranteed payout pattern directly to individual consumers, although it is presently not engaged in this business**.** The Company has no agency operations.

C. Reinsurance

As of December 31, 2016, the Company had two reinsurance agreements in effect with its parent, BHLN, an authorized reinsurer. The Company's annuity business is reinsured on a coinsurance basis. Reinsurance is provided on an automatic basis.

Effective December 31, 2014, the Company entered into a Portfolio Transfer Reinsurance Agreement under which the Company ceded to BHLN 80% of statutory reserve liabilities from the issuance of life contingent annuities and single premium annuity certain contracts from the Company during the period from the date the Company commenced business to December 31, 2014.

Effective January 1, 2015, the Company entered into a Quota Share Reinsurance Agreement under which the Company ceded to BHLN on an 80% indemnity coinsurance basis all liabilities arising from the issuance of life contingent and certain single premium annuity contracts on or after January 1, 2015, and continuing until termination.

5. SIGNIFICANT OPERATING RESULTS

Indicated below is significant information concerning the operations of the Company during the period under examination as extracted from its filed annual statements. Failure of items to add to the totals shown in any table in this report is due to rounding.

The following table indicates the Company's financial growth (decline) during the period under review:

	December 31, 2013	December 31, 2016	Increase (Decrease)
Admitted assets	$286,582,938	$186,071,187	$(100,511,751)
Liabilities	$261,047,651	$ 76,462,800	$(184,584,851)
Common capital stock	$ 2,000,000	$ 2,000,000	$ 0
Gross paid in and contributed surplus	107,000,000	122,000,000	15,000,000
Unassigned funds (surplus)	(83,464,713)	(14,391,613)	69,073,100
Total capital and surplus	$ 25,535,287	$109,608,387	$ 84,073,100
Total liabilities, capital and surplus	$286,582,938	$186,071,187	$(100,511,751)

The Company's invested assets as of December 31, 2016, were mainly comprised of bonds (57.4%), stocks (5.2%), and cash and short-term investments (37.4%).

The following table indicates the change in the mix of the Company's invested assets during the examination period:

	December 31, 2013	December 31, 2016	Increase (Decrease)
Bonds	3.9%	57.4%	53.5%
Stocks	1.7%	5.2%	3.5%
Cash and short-term investments	94.4%	37.4%	(57.0%)

The majority (66.6%) of the Company's bond portfolio, as of December 31, 2016, was comprised of investment grade obligations and (33.3%) was comprised of medium grade obligations.

Admitted assets decreased during the exam period because the Company entered into two reinsurance agreements with its parent, BHLN, effective December 31, 2014, and January 1, 2015, resulting in the Company ceding 80% of its reserve liabilities and premiums generated from the issuance of annuity contracts to BHLN.

Liabilities decreased during the exam period primarily because of the decrease in amounts payable on reinsurance resulting from the Company's reinsurance agreements with its parent company, BHLN.

Gross paid in and contributed surplus increased by $15 million due to capital contributions received from BHLN in 2014 and 2016 in the amounts of $10 million and $5 million, respectively.

Unassigned funds increased by approximately $69 million due to considerable fluctuations in total capital and surplus over the examination period. The Company also recorded net income of approximately $80 million in 2014 resulting from a reduction in additional reserves of $85 million following an asset adequacy analysis by the Company in consideration of BHLN reinsurance agreements.

The following has been extracted from the Exhibits of Annuities in the filed annual statements for each of the years under review:

	Group Annuities		
	2014	2015	2016
Outstanding, end of previous year	186	260	269
Issued during the year	81	9	24
Other net changes during the year	(7)	0	(1)
Outstanding, end of current year	260	269	292

The following has been extracted from the Exhibits of Deposit Funds and Dividend Accumulations in the filed annual statements for each of the years under review:

	Deposit Funds		
	2014	2015	2016
Outstanding, end of previous year	195	298	309
Issued during the year	103	11	18
Other net changes during the year	0	0	0
Outstanding, end of current year	298	309	327

The following is the net gain (loss) from operations by line of business after federal income taxes but before realized capital gains (losses) reported for each of the years under examination in the Company's filed annual statements:

	2014	2015	2016
Individual annuities	$ 857,398	$ 5,529	$ 1,201
Group annuities	$81,722,876	$1,871,321	$1,359,048
All other lines	$ (2,304,586)	$ 518,493	$ 900,799
Total	$80,275,688	$2,395,343	$2,261,044

The decrease in the gain on group annuity between 2014 and 2015 is attributed to the reinsurance agreement with BHLN, effective December 31, 2014.

6. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2016, as contained in the Company's 2016 filed annual statement, a condensed summary of operations and a reconciliation of the capital and surplus account for each of the years under review. The examiner's review of a sample of transactions did not reveal any differences which materially affected the Company's financial condition as presented in its financial statements contained in the December 31, 2016 filed annual statement.

A. Independent Accountants

The firm of D&T was retained by the Company to audit the Company's combined statutory basis statements of financial position as of December 31st of each year in the examination period, and the related statutory-basis statements of operations, capital and surplus, and cash flows for the year then ended.

D&T concluded that the statutory financial statements presented fairly, in all material respects, the financial position of the Company at the respective audit dates. Balances reported in these audited financial statements were reconciled to the corresponding years' annual statements with no discrepancies noted.

B. Net Admitted Assets

Bonds	$104,467,193
Stocks:	
Common stocks	9,486,825
Cash, cash equivalents and short term investments	68,034,368
Investment income due and accrued	1,525,325
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	997,292
Reinsurance:	
Amounts recoverable from reinsurers	1,502,805
Net deferred tax asset	55,799
Prepaid federal withholding	921
Other assets	659
Total admitted assets	$186,071,187

C. Liabilities, Capital and Surplus

Aggregate reserve for life policies and contracts	$ 36,831,121
Liability for deposit-type contracts	25,595,971
Contract claims:	
Life	23,433
Contract liabilities not included elsewhere:	
Other amounts payable on reinsurance	10,630,116
Interest maintenance reserve	5,062
General expenses due or accrued	39,740
Taxes, licenses and fees due or accrued, excluding federal income taxes	25,000
Current federal and foreign income taxes	8,013
Miscellaneous liabilities:	
Asset valuation reserve	3,181,337
Payable to parent, subsidiaries and affiliates	113,007
Outstanding deposit-type contract payments due	10,000
Total liabilities	$ 76,462,800
Common capital stock	2,000,000
Gross paid in and contributed surplus	122,000,000
Unassigned funds (surplus)	(14,391,613)
Surplus	107,608,387
Total capital and surplus	$109,608,387
Total liabilities, capital and surplus	$186,071,187

D. Condensed Summary of Operations

	2014	2015	2016
Premiums and considerations	$ (79,442,981)	$2,007,742	$3,470,259
Net investment income	884,334	5,838,579	5,234,146
Amortization of interest maintenance reserve	925	3,141	453
Commissions and reserve adjustments on reinsurance ceded	0	315,294	241,601
Miscellaneous income	(858)	(1,256)	(291)
Total income	$ (78,558,580)	$8,163,500	$8,946,168
Annuity benefits	$ 3,740,576	$1,105,607	$1,017,786
Interest and adjustments on contract or deposit-type contract funds	3,778,905	1,346,424	736,408
Increase in reserves	(163,517,747)	1,703,226	3,444,447
Commissions	44,672	0	0
General expenses and taxes	473,765	319,448	232,718
Total deductions	$(155,479,829)	$4,474,705	$5,431,359
Net gain	$ 76,921,249	$3,688,795	$3,514,809
Federal and foreign income taxes incurred	(3,354,439)	1,293,452	1,253,765
Net gain from operations before net realized capital gains	$ 80,275,688	$2,395,343	$2,261,044
Net realized capital gains	0	0	276,979
Net income	$ 80,275,688	$2,395,343	$2,538,023

The net decrease in premiums and considerations of $77.4 million and aggregate life reserves of $163.5 million in 2014 was primarily due to the reinsurance agreement with BHLN.

The $77.9 million decrease in net income between 2014 and 2015 was mainly due to an increase in the change in aggregate reserves of $165.2 million, partially offset by increases of $81.4 million in net premiums and $5 million in net investment income.

E. Capital and Surplus Account

	2014	2015	2016
Capital and surplus, December 31, prior year	$ 25,535,287	$114,582,555	$ 99,558,949
Net income	$ 80,275,688	$ 2,395,343	$ 2,538,023
Change in net unrealized capital gains (losses)	400,865	(429,013)	532,485
Change in net deferred income tax	(30,276,505)	6,047,142	(845,025)
Change in non-admitted assets and related items	29,847,018	(22,907,944)	3,739,496
Change in asset valuation reserve	(1,199,798)	(129,134)	(915,545)
Surplus adjustments:			
Paid in	10,000,000	0	5,000,000
Net change in capital and surplus for the year	$ 89,047,268	$ (15,023,606)	$ 10,049,434
Capital and surplus, December 31, current year	$114,582,555	$ 99,558,949	$109,608,383

In 2015, capital and surplus decreased by $15 million mainly due to a $22.9 million increase in non-admitted assets, partially offset by a $6.0 million increase in net deferred income tax. The Company did not admit $17.2 million in bonds because New York Insurance Law limits investment on corporate bonds of any one issuer to no more than 10% of the prior year's admitted assets.

In 2016, surplus increased by $10 million mainly due to a $5 million capital contribution from BHLN and a decrease in non-admitted asset of $3.7 million, mostly from non-admitted bonds.

7. RESERVES

The Department conducted an examination of the formulaic reserves and the asset adequacy analysis in accordance with 11 NYCRR 99 (Insurance Regulation 151) and 11 NYCRR 95 (Insurance Regulation 126). During the review, concerns were raised regarding the methodology for the formulaic reserves and the asset adequacy analysis for certain structured settlement contracts. In response, the Company agreed to refine its reserving methodology and to strengthen reserves in a manner acceptable to the Department.

The examiner recommends that the Company continues to compute reserves using the assumptions and methodology agreed upon with the Department.

8. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the violations and recommendations contained in the prior report on examination and the subsequent actions taken by the Company in response to each citation:

Item	Description
A	The Company violated Section 4211(a) of the New York Insurance Law by failing to file a copy of the notice of election with the Superintendent at least ten days before the day of such election.
	The examiner obtained evidence that notices of elections were filed with the Department for each year of the examination period.
B	The Company violated Section 4211(b) of the New York Insurance Law by electing successors to the board without filing written notice of their election with the Department.
	The examiner obtained evidence that notices of elections were filed with the Department for each year of the examination period.
C	The examiner recommends that the Company remain on course with the revised business plan, with updated business plans being automatically submitted to the Department, for review and for determination of capital adequacy, to the extent there are any material changes.
	The examiner obtained evidence that the Company submitted a revised business plan in response to this recommendation and that the Department had no additional concerns.
D	The examiner recommends that the Company develop a disaster recovery plan and such plan should address hardware and system recovery, data retrieval procedures, emergency contact information, hardware/software vendor information, telecommunications recovery procedures, disaster declaration approval procedures and physical recovery location.
	The review revealed that the Company developed a business continuity plan that addresses hardware and system recovery, data retrieval procedures, emergency contact information, hardware/software vendor information, telecommunications recovery procedures, disaster declaration approval procedures and physical recovery location.

Item	Description
E	The examiner recommends that the Company develop a business continuity plan and such plan should identify the recovery of critical business processes. The review revealed that the Company developed a business continuity plan that identifies the recovery of critical business processes.
F	The Company violated Section 243.3(c) of Department Regulation No. 152 when it failed to establish and maintain a records retention plan that included a description of the types of records being retained, the method of retention, and the safeguards established to prevent alteration of the records. The review revealed that the Company's record retention plan includes a description of the types of records being retained, the method of retention, and the safeguards established to prevent alteration of the records.
G	The examiner recommends that the Company establish a formal written records retention plan and have such plan reviewed and approved by its board of directors. The examiner obtained evidence that the records retention plan was approved by the board of directors.

9. SUMMARY AND CONCLUSIONS

Following is the recommendation contained in this report:

Item	Description	Page No(s).
A	The examiner recommends that the Company continues to compute reserves using the assumptions and methodology agreed upon with the Department.	19

Respectfully submitted,

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Barry Lupus, CFE
INS Regulatory Insurance Services, Inc.

STATE OF NEW YORK)
)SS:
COUNTY OF NEW YORK)

Barry Lupus, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

____
Barry Lupus

Subscribed and sworn to before me

this 7th day of MAY, 2018

Charles T. Lovejoy

CHARLES T LOVEJOY
NOTARY PUBLIC, STATE OF NEW YORK
Registration No. 01LO4798952
Qualified in New York County
Commission Expires January 26, 2022

APPOINTMENT NO. 31566

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

*I, **MARIA T. VULLO**, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:*

BARRY LUPUS
(INS REGULATORY INSURANCE SERVICES, INC.)

as a proper person to examine the affairs of the

FIRST BERKSHIRE HATHAWAY LIFE INSURANCE COMPANY

and to make a report to me in writing of the condition of said

COMPANY

with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed my name and affixed the official Seal of the Department at the City of New York

this 25th day of January, 2017

MARIA T. VULLO
Superintendent of Financial Services

By:

MARK MCLEOD
DEPUTY CHIEF - LIFE BUREAU