

CERTIFICATION

March 22, 2013

I, Bruce R. Ramage, Director of Insurance of the State of Nebraska, do hereby certify that the attached is a full and correct copy of

Financial Examination Report of

Great West Casualty Company

as of

December 31, 2011

and is now on file and forming a part of the records of this Department.

I hereto subscribe my name under the seal of my office at Lincoln, Nebraska.



Bruce R. Ramage

DIRECTOR OF INSURANCE

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

Great West Casualty Company

as of

December 31, 2011



STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

MAR 22 2013

FILED

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South Sioux City, Nebraska
February 22, 2013

Honorable Joseph Torti, III
Chairman, Financial Condition (E) Committee, NAIC
Deputy Director and Superintendent of Insurance
Rhode Island Division of Insurance
1511 Pontiac Avenue, Bldg #69-2
Cranston, Rhode Island 02920

Honorable John M. Huff
Chair, Midwestern Zone, NAIC
Director of Insurance
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Honorable Bruce R. Range
Director of Insurance
Nebraska Department of Insurance
941 "O" Street, Suite 400
Lincoln, Nebraska 68508

Dear Sirs,

Pursuant to your instructions and authorizations, and in accordance with statutory requirements, an examination has been conducted of the financial condition and business affairs of:

GREAT WEST CASUALTY COMPANY
1100 West 29th Street
South Sioux City, Nebraska 68776

(hereinafter also referred to as the "Company") and the report of such examination is respectfully presented herein.

INTRODUCTION

The Company was last examined as of December 31, 2006 by the State of Nebraska. The current financial condition examination covers the intervening period to, and including, the close of business on December 31, 2011, and includes such subsequent events and transactions as were considered pertinent to this report. The State of Nebraska participated in this examination and assisted in the preparation of this report.

SCOPE OF EXAMINATION

This examination was conducted pursuant to and in accordance with both the NAIC Financial Condition Examiners Handbook (Handbook) and Section §44-5904(1) of the Nebraska Insurance statutes. The Handbook requires that examiners plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including, but not limited to: corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and Annual Statement Instructions, when applicable to domestic state regulations.

A general review was made of the Company's operations and the manner in which its business has been conducted in order to determine compliance with statutory and charter provisions. The Company's history was traced and has been set out in this report under the caption "Description of Company". All items pertaining to management and control were reviewed, including provisions for disclosure of conflicts of interest to the Board of Directors

and the departmental organization of the Company. The Articles of Incorporation and By-Laws were reviewed, including appropriate filings of any changes or amendments thereto. The minutes of the meetings of the stockholder, Board of Directors, and committees held during the examination period were read and noted. Attendance at meetings, proxy information, election of Directors and Officers, approval of investment transactions and authorizations of salaries were also noted.

The fidelity bond and other insurance coverages protecting the Company's property and interests were reviewed, as were plans for employee welfare and pension. Certificates of Authority to conduct the business of insurance in the various states were inspected and a survey was made of the Company's general plan of operation.

Data reflecting the Company's growth during the period under review, as developed from the Company's filed annual statements, is reflected in the financial section of this report under the caption "Body of Report".

The Company's reinsurance facilities were ascertained and noted, and have been commented upon in this report under the caption "Reinsurance". Accounting records and procedures were tested to the extent deemed necessary through the risk-focused examination process. The Company's method of claims handling and procedures pertaining to the adjustment and payment of incurred losses were also noted.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This included a review of workpapers prepared by KPMG, LLP, the Company's external auditors, during their audit of the Company's accounts for the years ended December 31, 2009 and 2010. Portions of the auditor's workpapers have been incorporated into the workpapers of the examiners and have been utilized in determining the

scope and areas of emphasis in conducting the examination. This utilization was performed pursuant to Title 210 (Rules of the Nebraska Department of Insurance), Chapter 56, Section 013.

Any failure of items to add to the totals shown in schedules and exhibits appearing throughout this report is due to rounding.

DESCRIPTION OF COMPANY

HISTORY

The Company was incorporated under the laws of the State of Nebraska on March 22, 1956, as Great West Insurance Company, with its Home Office located in South Sioux City, Nebraska. It was licensed to commence business as a capital stock casualty insurance company on April 16th of that same year, and continued to operate under the name Great West Insurance Company until August 17, 1962, when its present name was adopted.

Majority ownership of the Company was maintained by its original incorporators until December 28, 1970; at which time such control transferred to Greater Nebraska Corporation, an insurance holding company, through an exchange of stock. The holding company subsequently changed its name to First Greatwest Corporation on December 4, 1972.

Ownership of First Greatwest Corporation was acquired by Pullman Incorporated on March 24, 1978. Wheelabrator-Frye, Inc. subsequently acquired financial control of Pullman Incorporated and its subsidiaries, including the Company, on November 6, 1980. On July 10, 1981, Wheelabrator-Frye, Inc. sold First Greatwest Corporation and some of its subsidiaries, including the Company, to Bitco Corporation, an insurance holding company located in Rock Island, Illinois. This transaction, and a subsequent realignment of subsidiaries, resulted in the Company becoming a wholly-owned subsidiary of Bitco Corporation.

On March 11, 1985, control of the Company was acquired by Old Republic International Corporation, a Delaware holding company (Old Republic). The acquisition of control took place pursuant to an Agreement and Plan of Merger dated December 21, 1984, between ROI, Inc. (a Delaware wholly-owned subsidiary of Old Republic) and Bitco Corporation, and a Supplemental Agreement of the same date between Old Republic, ROI, Inc. and Bitco Corporation. The merger contemplated by these Agreements was consummated on March 11, 1985, with Bitco being merged into ROI, Inc. Upon the effectiveness of the merger, the name of ROI, Inc. was changed to Bitco Corporation. Following the merger, Old Republic contributed all of the outstanding shares of Bitco Corporation to its wholly-owned mid-stream holding company, Old Republic General Insurance Group, Inc. (Delaware).

During August 1990, Bitco Corporation was merged into Old Republic General Insurance Group Inc. (ORGIG) for the purpose of simplifying the organizational structure. With the merger, all of the Company's common stock was issued in the name of ORGIG and its preferred stock was divided among five companies, all of which are ultimately owned by Old Republic International Corporation. On October 2, 1993 the outstanding common stock of the Company was reissued to ORI Great West Holdings, Inc. On December 15, 1996, the Company redeemed its outstanding preferred stock for cash.

Under provisions of its amended charter and in conformity with Nebraska statutes, the Company is presently authorized to write those lines of business usual to a multiple line property and casualty insurance company.

MANAGEMENT AND CONTROL

Holding Company

The Company, a subsidiary of ORI Great West Holdings, Inc., is a member of an insurance holding company system as defined by Nebraska Statutes. An organizational chart is attached to this report as an addendum.

Stockholder

Effective December 10, 2010, the Stockholder and the Board of the Directors of the Company declared a capital stock dividend of \$500,000, for the purpose of bringing the Company into compliance with new State of Texas capital requirements. In conjunction with this, the Board of Directors approved an amendment to the Fourth Article of the Company's Articles of Amendment to Articles of Incorporation to state that, "the authorized capital stock of said corporation shall be Seven Million Five Hundred Thousand Dollars (\$7,500,000), consisting of One Million (1,000,000) shares of Common Stock of the par value of Two and 50/100 Dollars (\$2.50) per share and Fifty Thousand (50,000) shares of Preferred Stock of the par value of One Hundred Dollars (\$100.00) per share". As of December 31, 2011, Company records indicated that 1,000,000 shares of common stock were issued and outstanding for a total of \$2,500,000, and all were owned by ORI Great West Holdings Inc.

The gross paid-in and contributed surplus of \$56,130,928 as of December 31, 2011 represents a small decrease since the previous examination, due to the \$500,000 Stock Dividend previously noted.

Cash dividends paid to the common stockholder during the examination period are as follows:

<u>Date</u>	<u>Amount</u>
2007	\$18,750,000
2008	40,000,000
2009	37,000,000
2010	43,000,000
2011	45,500,000

Board of Directors

The Ninth Article of the Articles of Incorporation provides that, “the management of this corporation shall be vested in a board of not less than five (5) nor more than twenty-one (21) Directors”. Members of the Company’s Board of Directors at December 31, 2011 were as follows:

<u>Name and Residence</u>	<u>Principal Occupation</u>
James C. Hellauer Palm Beach, Florida	Owner, James C. Hellauer and Associates
Harrington Bischof Barrington, Illinois	President, Pandora Capital Corporation
Charles F. Titterton Pleasantville, New York	Retired Director of Insurance Group, Standard & Poor’s Corporation
John M. Dixon Winnetka, Illinois	Retired, Chief Executive Partner, Chapman and Cutler Law Firm
James A. Kellogg Hartland, Wisconsin	Vice Chairman of Old Republic International Corporation, Chairman of Old Republic Risk Management, Inc.
R. Scott Rager Oak Brook, Illinois	Chairman of the Board, Great West Casualty Company, President and Chief Operating Officer Old Republic General Insurance Group, Inc.
Arnold L. Steiner Birmingham, Alabama	Retired President, Steiner Bank

<u>Name and Residence</u>	<u>Principal Occupation</u>
Hugh H. Fugleberg Homer, Nebraska	President and Chief Operating Officer of Great West Casualty Company
Leo E. Knight, Jr. Fremont, Indiana	Retired Chairman and Chief Executive Officer, National City Mortgage Company
Fredericka Taubitz San Diego, California (Summer) Sarasota, Florida (Winter)	Retired Executive Vice President and Chief Financial Officer, Zenith National Insurance Corporation
Stephen R. Walker Oakland, California	Retired Senior Counsel and Partner, Leland, Parachini, Steinberg, Matzger & Melnick, LLP
A.C. Zucaro Barrington, Illinois	Chairman of the Board and Chief Executive Officer, Old Republic International Corporation
Dennis P. Van Mieghem Park Ridge, Illinois	Retired Partner, KPMG, LLP Accountants

Officers

According to the By-Laws, “the Officers of the Company shall be a Chairman, a President, one or more Senior Vice Presidents, one or more Executive Vice Presidents, one or more Vice Presidents, a Secretary and a Treasurer, all of whom shall be selected by the Board of Directors and shall hold their respective offices for such a period as designated by the Board or until their successors are elected and qualified... The Board may select a Vice Chairman, one or more Assistant Vice Presidents, Assistant Secretaries or Assistant Treasurers with terms of office and duties designated by resolution.” The Officers are selected at the Annual Board of Directors Meeting immediately following each annual meeting of the Stockholder.

Officers elected and serving the Company at December 31, 2011 were as follows:

<u>Name</u>	<u>Office</u>
R. Scott Rager	Chairman of the Board
James D. Jensen	Chief Executive Officer & Secretary
Hugh H. Fugleberg	President & Chief Operating Officer

<u>Name</u>	<u>Office</u>
Gaylen L. TenHulzen	Senior Vice President & Chief Financial Officer
James E. Arends	Executive Vice President
Catherine B. Bishop	Executive Vice President
Ronald O. Honken	Executive Vice President
Terry J. Keime	Executive Vice President
Patrick D. Kuehl	Executive Vice President
Raymond A. Lawson III	Executive Vice President
Richard R. Lehr	Executive Vice President
Phillip J. Mahoney	Executive Vice President
Paul Mazzaglia	Executive Vice President
Steven J. Olson	Executive Vice President
Eric A. Rosenbaum	Executive Vice President
Jeffrey S. Allen	Vice President
Mary E. Anderson	Vice President, Treasurer
Charles E. Bean	Vice President
Robert E. Brodersen	Vice President
Dena M Cochran	Vice President
Galen H. Esslinger	Vice President
John A. Fitzgerald	Vice President
Leonel H. Herrera, M.D.	Vice President, Medical Director
Tim J. Hummel, Sr.	Vice President
Marshall J. Hunzelman	Vice President
Mari Beth Jackson	Vice President
John P. Joines	Vice President
James A. Klemme	Vice President
Richard E. Larson	Vice President
Peter J. Merrion	Vice President
Randal A. Miller	Vice President
Randall J. Oligmueller	Vice President
Randy A. Phillips	Vice President
Steven J. Ponder	Vice President
Lynn J. Prohaska	Vice President
William F. Riley	Vice President
Robert J. Todd	Vice President
Bruce W. Willenborg	Vice President
Richard A. Wright	Vice President

Committees

Article X of the By-Laws requires the election of an Executive Committee composed of not less than three nor more than seven members of the Board. This article also states that the Board shall designate an Audit Committee composed of not less than three nor more than seven members of the Board and a Compensation Committee composed of not less than three nor more than seven members of the Board. Members elected or appointed to committees by the Board and their membership at December 31, 2011 follows:

Executive Committee

Harrington Bischof
R. Scott Rager, Chair
A. C. Zucaro
John M. Dixon
Arnold L. Steiner
Leo E. Knight, Jr.

Audit Committee

Fredricka Taubitz, Chair
Leo M. Knight, Jr., Vice-Chair
Charles Titterton
Steven Walker
Dennis P. Van Mieghem

Management Development & Compensation Committee

John M. Dixon, Chair
Harrington Bischof
Leo M. Knight, Jr.
Arnold L. Steiner
Fredricka Taubitz
Steven J. Walker
Dennis P. Van Mieghem, Vice- Chair

TRANSACTIONS WITH AFFILIATES

The Company has various reinsurance agreements with certain of its affiliates that are commented upon in this report under the caption "Reinsurance."

Old Republic Asset Management Corporation (ORAMC) furnishes investment services to the Company under an Investment Counsel Services Agreement as effective January 1, 2005. Under this agreement, ORAMC advises the Company regarding the proper investment policy,

aids in the purchase and sale of securities, and monitors the value of the Company's assets. ORAMC will prepare instructions for sale or purchase of any security that the Company instructs them to buy or sell. ORAMC has no authority to receive, deliver or hold in custody any securities on the Company's behalf. The Company retains custody of, responsibility for, and the control of all investments. In consideration for such services, ORAMC receives an annual fee in quarterly installments based on the market value of securities and cash equivalents under supervision as shown by the quarterly statements. Investment expenses incurred by the Company under this Agreement for each of the years under review were as follows:

<u>Date</u>	<u>Amount</u>
2007	\$275,919
2008	258,164
2009	259,624
2010	283,091
2011	280,230

The Company is a party to the Tax Sharing Agreement between Old Republic International Corporation and its subsidiaries beginning March 11, 1985, and amended to apply to the tax year ended 2004. The tax allocation is based upon the separate return calculations with current credit for net losses. Intercompany tax balances are settled annually.

Under an Information Technology Services Agreement with Old Republic Insurance Company of Canada (ORICC), the Company provides strategic planning and consultation, including, but not limited to, administration of and access to the Company's claim system. The Company is paid \$20,833 (Canadian) per month. This agreement became effective February 1, 2005 and will remain in effect until cancelled by either party upon 60 days written notice.

The Company provides underwriting, accounting, reporting, premium collection and disbursement, and claims service to Old Republic Life Insurance Company of Chicago, Illinois (ORLIC) in writing Occupational Accident coverage. For these services, the Company receives

an underwriting service fee of 3% of direct written premiums. In addition, ORLIC will pay 3% of net premiums earned for claims service. A contingent profit commission may also be due based on underwriting results. This agreement, originally effective February 1, 1998, was amended as of February 2, 2004, and may be terminated by either party upon 75 days notice to the other in writing.

Under an indemnity agreement, Old Republic Surety Company (ORSC), at its discretion, agrees to provide surety bonds to governmental agencies required of Company insureds. In exchange for this service, the Company agrees to indemnify and hold harmless ORSC or any other Old Republic General Insurance Group, Inc. companies providing bonds to the Company or its insureds or affiliates from all loss liability, demand, costs, claim, charge, suit, judgment, and expense - internal and external, of whatever kind and nature, including, but not limited to, investigative costs, attorney fees - whether on salary, retainer, or otherwise which they may incur for or by reason of writing the aforementioned bonds. The Company services all accounts contemplated by this agreement and is responsible for handling any and all claims. To this end, ORSC has appointed the Company as its true and lawful attorney in regard to bonds issued under this agreement. The Company looks to the producing agent for recovery under these bonds. This agreement, entered October 25, 2000, may be terminated by either party upon 30 days notice to the other in writing.

Old Republic Union Insurance Company (ORUIC) utilizes the facilities, personnel and expertise of the Company in writing and servicing Bobtail Liability, Automobile Physical Damage, and Inland Marine business on a non-admitted excess and surplus lines basis to its customers in various states of which Texas is the primary state. The Company agrees to perform these functions as a branch office of ORUIC in consideration of the mutual promises and

covenants contained in a reinsurance agreement originally dated July 1, 1988. For these services, the Company receives an underwriting service fee of 9% of direct premiums written, including 2.5% representing allowances for premium taxes, boards, and bureaus and a claim service fee equivalent to 4% of net premiums earned. This agreement, effective July 1, 1988, may be terminated at any anniversary by 90 days written notice prior thereto. This arrangement is discussed further under the caption "Reinsurance".

International Business & Mercantile Reassurance Company, which changed its name in 2006 to Old Republic General Insurance Corporation (ORGIC), utilizes the expertise of the Company in writing Commercial Automobile Liability, Commercial Automobile Physical Damage, Cargo, Workers' Compensation, and Non-Trucking Use Liability coverages. The Company agrees to render such underwriting, accounting, reporting, premium collection and disbursement, and claim services to ORGIC and its reinsurers. For these services, the Company receives an underwriting service fee of 9% of direct premiums written, including 2.5% representing allowances for premium taxes, boards, and bureaus, and a claim service fee of 10% of net paid claims before salvage and subrogation subject to a cap of 4% of net premiums earned. This agreement, effective September 15, 1986, may be terminated upon 75 days notice in writing by either party to the other.

American Business & Personal Insurance Mutual, Inc. (ABPIM), utilizes the expertise of the Company in writing Commercial Automobile Physical Damage, Cargo and Non-Trucking Use Liability coverage's. The Company agrees to render such underwriting, accounting, reporting, premium collection and disbursement, and claim services to ABPIM and its reinsurers. For these services, the Company receives an underwriting service fee of 9% of direct premiums written, including 2.5% representing allowances for premium taxes, boards, and

bureaus, and a claims service fee of 4% of net premiums earned. This agreement, effective January 2, 2008, may be terminated upon 75 days notice in writing by either party.

In addition to the above, the Company has an agreement with Joe Morten & Sons, Inc. (JMS) whereby the Company can utilize the JMS aircraft on an as-needed-basis, and shall be billed for all costs associated with such usage. The agreement is indefinite with a 90-day termination.

TERRITORY AND PLAN OF OPERATION

As evidenced by current or continuous Certificates of Authority, the Company is licensed to transact the business of insurance in the District of Columbia and in all states of the United States except Hawaii.

The Company provides property and liability insurance, primarily commercial automobile insurance, to the trucking industry. Geographically, the Company's marketing territory is primarily in the midwest, southeast, south, and most western states. Regional offices are located in: Boise, Idaho - Western Regional Office; Bloomington, Indiana - Eastern Regional Office; South Sioux City, Nebraska - Home Office and Midwestern Regional Office; Arlington, Texas - Southern Regional Office; and Knoxville, Tennessee - Southeastern Regional Office.

The Company markets its products through agents that specialize in its product line. At December 31, 2011, the Company's agency force included 1,275 licensed agents producing business through approximately 184 agencies. JMS will also accept a limited amount of brokerage business. Approximately 17% of all insurance written by the Company is produced by affiliated agencies, namely Joe Morten & Son, Inc., and Great West Services, Inc.

REINSURANCE

Ceded

Effective June 26, 2006, an agreement is in place with Old Republic General Insurance Corporation (ORGIC) providing excess of loss reinsurance coverage for both the Company and several of its affiliates. Under the terms of this agreement, reinsurance is provided under a First and Second Excess Cover for both the Company's direct written property and casualty business and life business the company assumes from Old Republic Life Insurance Company (ORLIC) and Old Republic Union Insurance Company as follows:

First Excess Cover	\$ 500,000 XS \$ 500,000
Second Excess Cover	\$1,000,000 XS \$1,000,000

During the calendar years 2007 to 2011, the Company retained \$500,000 each occurrence and ORGIC participated 100% in the First and Second Excess Cover.

In addition to payments for their share of net loss, the reinsurer shared proportionately in adjustment expenses.

An additional excess of loss contract provides reinsurance coverage almost identical to the previous outlined contract in regards to business covered. Under the terms of this agreement, reinsurance is provided for both property and casualty or a combination thereof for each occurrence \$3,000,000 XS of \$2,000,000, reinsured by ORGIC and two external reinsurers.

Additional excess of loss contracts are in place for property and casualty coverages excess of \$5,000,000. There are two separate additional excess of loss contracts, one is the Property Contract and one is the Casualty Contract. The Property Contract and the Casualty Contract were negotiated through reinsurance intermediary Guy Carpenter, and reinsures the Company and several of its insurance affiliates.

The Casualty Contract is broken down into 2nd through 7th and 8th through 9th layers. The 2nd layer is not applicable to the Company pursuant to the contract. The 3rd through 7th layers are applicable to personal and commercial auto liability, other liability, and workers' compensation for each occurrence as follows:

Third Layer	\$ 5,000,000 XS of \$ 5,000,000
Fourth Layer	\$ 10,000,000 XS of \$ 10,000,000
Fifth Layer	\$ 10,000,000 XS of \$ 20,000,000
Sixth Layer	\$ 10,000,000 XS of \$ 30,000,000
Seventh Layer	\$ 20,000,000 XS of \$ 40,000,000

The 8th through 9th layers indemnify the Company for liability under workers' compensation policies only.

Eight Layer	\$ 40,000,000 XS of \$ 60,000,000
Ninth Layer	\$100,000,000 XS of \$100,000,000

The ultimate net loss in respect of all loss events during the term of the contract is limited by layer as follows:

Third Layer	\$ 25,000,000
Fourth Layer	\$ 40,000,000
Fifth Layer	\$ 30,000,000
Sixth Layer	\$ 30,000,000
Seventh Layer	\$ 40,000,000
Eight Layer	\$ 80,000,000
Ninth Layer	\$200,000,000

Under an Umbrella Liability Quota Share Reinsurance Agreement, the Company cedes liability under Commercial Umbrella Liability and Excess Liability policies written for insureds classified as "Truckmen/Motor Carriers for hire". Munich Reinsurance America and Swiss Reinsurance America Corporation, as endorsed effective March 1, 2007 and renewed each year through March 1, 2011, are the subscribing reinsurers participating in 80% and 20% of the liability respectively. The Limits of Cover are provided as respects to policies issued by the Company for amounts up to but not exceeding \$5,000,000, the Company cedes 90% quota share

participation of the Company's net retained liability as respects the first \$1,000,000 plus a 100% quota share participation of the Company's net retained liability for amounts in excess of \$1,000,000 up to \$4,000,000 under each policy resulting from each occurrence. The policy limits that may be ceded by the Company to the Reinsurer and covered shall be up to \$1,000,000 excess of a \$1,000,000 primary limit; up to \$3,000,000 excess of a \$2,000,000 primary limit and up to \$5,000,000 excess of a \$5,000,000 primary limit. With respect to policies with 10 insured vehicles or less, the policy limits that may be ceded by the Company to the Reinsurer and covered shall be up to \$4,000,000 excess of a \$1,000,000 primary limit. The Company retains a commission allowance of 15% of the proportional premium ceded.

The Company also has a Property Catastrophe Excess of Loss Reinsurance Agreement, effective July 1, 2007, renewing each year through July 1, 2011. This agreement allows the Company to recover when it has an interest in two or more risks involved in the same loss occurrence, also known as basket coverage. The subscribing reinsurers, which include Axis Specialty Limited, Hannover Ruckversicherung, American Agricultural Insurance Company, and three underwriting members of Lloyds, shall be liable in respect to each loss occurrence for 95% of the ultimate net loss over and above an initial ultimate net loss of \$5,000,000 each loss occurrence, subject to a limit of liability to the reinsurer of 95% of \$10,000,000 each loss occurrence. In addition to the initial retention, the Company shall retain an amount equal to 5% of the excess ultimate net loss.

Underlying the excess of loss agreements is a quota share reinsurance contract with affiliates Old Republic Insurance Company (ORINSCO), and ORGIC, which became effective January 1, 2000. Initially, ORINSCO and ORGIC assumed a 13.33% and 6.67% share of the Company's net retained liability, respectively. However, over the recent years, these percentages

have been reduced in light of the overall profitability of the Company’s business. Effective January 1, 2005, the Company ceded only 5% of its net retained liability to ORGIC. In January 2011, accident years 2000 – 2004 were commuted. The reinsurance premium is calculated for each reinsurer equal to the percentage of the subject net premiums written by the Company. In addition, a fixed commission allowance of 22.5% is provided for underwriting expense.

The Company also utilizes facultative reinsurance as an accommodation to insureds whose risk exceeds the Company’s tolerance for a particular line of business. This coverage is placed with several different reinsurers.

Assumed

The Company assumes casualty and property business from its affiliate, American Business & Personal Insurance, Mutual (ABPIM). A novation agreement was completed on December 31, 2007, between ABPIM and ORGIC, under terms of an excess of loss reinsurance agreement. Under terms effective January 1, 2008, this agreement provides coverage for each occurrence as follows:

Casualty business	First Share Cover	20% of the first \$100,000
	First Excess Cover	100% of \$1,500,000 in excess of \$500,000
	Second Excess Cover	100% of \$3,000,000 in excess of \$2,000,000
Property business	First Share Cover	20% of the first \$100,000
	First Excess Cover	100% of \$1,500,000 in excess of \$500,000
	Second Excess Cover	100% of \$3,000,000 in excess of \$2,000,000

The Company services the business, under a separate agreement with ABPIM. Under this service agreement ABPIM utilizes the expertise of the Company in writing Commercial Automobile Physical Damage, Cargo, and Non-Trucking Use Liability coverages. The Company renders underwriting, accounting, reporting, premium collection and disbursement, and claims service to ABPIM and its reinsurers on this business. As consideration, the Company

receives a reinsurance premium based on the First Share, First Excess Cover, and Second Excess Cover break-downs outlined above. For the property and casualty business under the First Share Cover, the Company receives 20% of the subject gross net premium earned by ABPIM.

A reinsurance agreement similar to that with ABPIM was entered into effective July 30, 1993, and amended November 27, 2001, with Old Republic Union Insurance Company (ORUIC). The only exception to limits consisted of the First Share Cover as 95% of the first \$500,000. The Company also services this business under a separate agreement. The Company performs such insurance functions as may be necessary and required including, but not necessarily limited to, marketing, underwriting, and claims services. For the property and casualty business under the First Share Cover, the Company receives 95% of the subject gross net premium earned by ORUIC.

Another similar reinsurance agreement was entered into February 1, 1998, and amended January 1, 2004 with affiliate Old Republic Life Insurance Company (ORL). Under this agreement, the Company assumes liability under Occupational Accident business issued by ORL. The limits of liability under the contract are exactly the same as the ORGIC agreement outlined above. Also similar to the ORGIC contract above is the schedule of reinsurance premiums by First Share Cover (80% of subject gross net premiums earned).

Effective March 26, 2002, the Company assumes business from Old Republic Insurance Company of Canada under a quota share contract. This contract provides for the reinsurance of 10% of the net loss with respect to each occurrence on casualty business, (defined as automobile personal injury and bodily injury, auto property damage liability, auto medical payments, auto accident benefits, auto personal injury protection, auto uninsured motorists, auto underinsured motorists, auto family protection, other personal injury and bodily injury liability, other property

damage liability, and other medical payments.), and property business (defined as auto physical damage, including collision and theft, and inland marine, including motor truck cargo) subject to a limit of 10% of \$500,000.

A Master Facultative Reinsurance Agreement between the Company and ORINSCO provides coverage for certain insurance policies of Old Republic underwritten by the Chicago Branch of Old Republic Risk Management. This agreement has not been utilized in the past 5 years, and will be terminated going forward.

The Company participates in state workers' compensation pools through the National Council on Compensation Insurance. In addition, the Company participates in various states' Commercial Auto Insurance Plans.

General

All reinsurance agreements reviewed contained standard insolvency, arbitration, errors and omissions, and termination clauses where applicable. Most of the agreements contained a provision providing for extra contractual obligations. All contracts contained the clauses necessary to assure reinsurance credits could be taken. Several treaties are in effect providing coverage on a run-off basis.

BODY OF REPORT

GROWTH

The following comparative data reflects the growth of the Company during the five year period under review:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Admitted assets	\$1,595,042,049	\$1,472,475,325	\$1,517,294,742	\$1,571,927,943	\$1,571,228,837
Loss reserves	575,880,912	566,638,278	553,224,806	541,792,102	515,878,168
Loss adjustment expenses	111,691,212	112,707,210	110,618,708	115,572,613	114,929,141
Unearned premiums	309,144,555	296,225,830	283,996,684	290,197,547	308,398,982
Total liabilities	1,122,066,272	1,100,354,654	1,063,203,442	1,073,096,533	1,063,872,120
Capital and surplus	473,035,777	372,120,671	454,091,300	498,831,410	507,356,717
Premiums earned	616,874,336	585,379,843	541,719,272	559,461,422	576,341,329
Losses incurred	363,496,097	354,734,900	309,870,460	318,120,086	344,678,573
Loss expenses incurred	75,745,965	73,757,893	70,462,463	75,734,713	72,241,358
Underwriting gain (loss)	36,665,030	23,024,248	36,604,478	34,493,613	23,110,950
Net investment gain	61,270,196	(26,238,876)	49,020,625	83,593,032	64,360,145
Net income	71,405,915	(53,471,896)	60,976,329	93,150,080	64,953,751

UNDERWRITING EXPERIENCE

The Company's net underwriting experience for selected lines of business and all lines combined, as developed from filed insurance expense exhibits for the period under review, is reflected in the following schedules. Ratios are to net earned premiums by line of business:

<u>Losses Incurred</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Inland marine	47.8	57.0	57.8	66.0	73.4
Workers' compensation	60.4	52.1	74.4	57.7	52.1
Excess workers' compensation	N.A.	124.7	154.9	-10.5	9.8
Other liability	58.2	44.9	32.5	2.8	17.3
Commercial auto liability	59.5	62.5	54.1	52.5	57.4
Commercial auto physical damage	61.6	62.6	58.0	66.2	65.9
Surety	0.0	0.0	0.0	0.0	0.0
All lines combined	58.9	60.6	57.2	56.9	59.8
<u>Expenses Incurred</u>					
Inland marine	28.2	29.7	29.3	31.4	29.7
Workers' compensation	32.5	28.9	29.8	29.1	30.0
Excess workers' Compensation	N.A.	23.2	31.8	(3.1)	7.1
Other liability	31.6	26.6	47.4	40.1	46.5
Commercial auto liability	39.0	39.8	39.8	40.8	39.8
Commercial auto physical damage	30.3	31.9	31.9	33.1	33.3
Surety	33.2	46.1	42.7	39.1	27.7
All lines combined	35.0	35.5	36.0	36.9	36.3
<u>Underwriting Gain</u>					
Inland marine	24.0	13.3	12.9	2.6	(3.1)
Workers' compensation	7.1	19.0	(4.2)	13.2	18.9
Excess workers' Compensation	N.A.	(47.9)	(86.7)	113.6	83.1
Other liability	10.2	28.5	20.1	57.1	36.2
Commercial auto liability	1.5	(2.3)	6.1	6.7	2.8
Commercial auto physical damage	8.1	5.5	10.1	0.7	0.8
Surety	66.8	53.9	57.3	60.9	72.3
All lines combined	6.1	3.9	6.8	6.2	3.9

FINANCIAL STATEMENTS

The following statement of admitted assets and liabilities, together with the accompanying statement of income, reflect the financial condition of the Company as of December 31, 2011 and its transactions for the year 2011 as determined through this examination. A reconciliation of the capital and surplus account for the period under review is also included.

FINANCIAL STATEMENT

December 31, 2011

	<u>Ledger Assets</u>	<u>Non-Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$ 988,674,478		\$ 988,674,478
Common stocks	104,356,024		104,356,024
Real estate	5,613,739		5,613,739
Cash and short term investments	44,746,787		44,746,787
Other invested assets	<u>5,000,000</u>	<u>\$1,258,800</u>	<u>3,741,200</u>
Subtotals, cash and invested assets	\$1,148,391,028	\$1,258,800	\$1,147,132,228
Investment income due and accrued	13,180,526		13,180,526
Premiums and considerations:			
Uncollected premiums and agents' balances	89,835,502	22,908	89,812,594
Booked but deferred, and not yet due	245,447,412	65,400	245,382,012
Accrued retrospective premiums	1,166,668	27,190	1,139,478
Reinsurance:			
Amounts recoverable from reinsurers	12,778,824		12,778,824
Funds held or deposited with reinsured companies	9,611,971		9,611,971
Federal income tax recoverable	5,603,488		5,603,488
Net deferred tax asset	34,744,247		34,744,247
Guaranty funds receivable	280,929		280,929
Electronic data processing equipment and software	2,560,527	2,438,718	121,809
Furniture and equipment	595,813	595,813	
Receivable from parent, subsidiaries and affiliates	3,701,508		3,701,508
Self insurance recoverable on loss payments	7,292,265	121,111	7,171,154
Equities and deposits in pools and associations	568,069		568,069
Sales and use tax refund receivable	1,138,628	1,138,628	
Prepaid expenses	<u>923,024</u>	<u>923,024</u>	
Totals	<u>\$1,577,820,429</u>	<u>\$6,591,592</u>	<u>\$1,571,228,837</u>

Liabilities, Surplus and Other Funds

Losses	\$ 515,878,168
Reinsurance payable on paid losses and loss adjustment expenses	100,072
Loss adjustment expenses	114,929,141
Commissions payable	258,725
Other expenses	3,010,644
Taxes, licenses and fees	7,295,399
Unearned premiums	308,398,982
Policyholders dividends declared and unpaid	926,444
Ceded reinsurance premiums payable	6,779,621
Amounts withheld by company for account of others	1,044,790
Drafts outstanding	28,303,796
Payable to parent, subsidiaries and affiliates	134,159
Policyholders' deposit funds	57,608,667
Self insured loss trust funds	13,095,084
Bonds collateral	3,752,073
Adjusting expense payable	1,849,306
Premiums payable on retrospective rated policies	502,851
Premium deficiency reserve	<u>4,198</u>
Total liabilities	<u>\$1,063,872,120</u>
Increase in admitted assets and surplus from SSAP 10R	\$ 268,427
Common capital stock	2,500,000
Gross paid in and contributed surplus	56,130,928
Unassigned funds (surplus)	<u>448,457,362</u>
Total capital and surplus	<u>\$ 507,356,717</u>
Total liabilities, surplus and other funds	<u>\$1,571,228,837</u>

STATEMENT OF INCOME - 2011

Underwriting Income

Premiums earned	<u>\$576,341,329</u>
Deductions:	
Losses incurred	\$344,678,573
Loss adjustment expenses incurred	72,241,358
Other underwriting expenses incurred	136,316,048
CAIP premium deficiency reserve	<u>(5,600)</u>
 Total underwriting deductions	 <u>\$553,230,379</u>
 Net underwriting gain	 <u>\$ 23,110,950</u>

Investment Income

Net investment income earned	\$ 47,727,835
Net realized capital gains	<u>16,632,310</u>
 Net investment gain	 <u>\$ 64,360,145</u>

Other Income

Net loss from agents' or premium balances charged off	\$ (13,772)
Finance and service charges not included in premiums	571,863
Miscellaneous income	<u>(6,363)</u>
 Total other income	 <u>\$ 551,728</u>
 Net income before dividends and federal income tax	 \$ 88,022,824
Dividends to policyholders	<u>1,034,836</u>
 Net income after dividends but before federal income tax	 \$ 86,987,988
Federal income tax incurred	<u>22,034,237</u>
 Net income	 <u>\$ 64,953,751</u>

CAPITAL AND SURPLUS ACCOUNT

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Capital and surplus, beginning	\$439,336,216	\$473,035,777	\$372,120,670	\$454,091,299	\$498,831,410
Net income	\$ 71,405,915	\$(53,471,896)	\$ 60,976,329	\$ 93,150,080	\$ 64,953,751
Change in net unrealized capital gains (losses)	(11,321,280)	(7,293,727)	22,707,078	5,307,795	2,170,050
Change in net unrealized foreign exchange capital gain (loss)			428,336	(408,412)	(220,892)
Change in net deferred income tax	522,069	29,903,856	(7,547,207)	(12,586,205)	(8,417,004)
Change in nonadmitted assets	(8,612,971)	(30,878,628)	36,857,900	4,934,609	(2,226,871)
Change in provision for reinsurance	455,830	825,286	(1,136,145)	1,524,426	
Capital transferred to surplus				500,000	
Surplus paid in				(500,000)	
Increased admitted assets and surplus from SSAP 10R			6,684,337	(4,182,183)	(2,233,727)
Dividends to stockholder	<u>\$ (18,750,000)</u>	<u>\$ (40,000,000)</u>	<u>\$ (37,000,000)</u>	<u>\$ (43,000,000)</u>	<u>\$ (45,500,000)</u>
Net change for the year	<u>\$ 33,699,561</u>	<u>\$(100,915,107)</u>	<u>\$ 81,970,629</u>	<u>\$ 44,740,111</u>	<u>\$ 8,525,307</u>
Capital and surplus, ending	<u>\$473,035,777</u>	<u>\$ 372,120,670</u>	<u>\$454,091,299</u>	<u>\$498,831,410</u>	<u>\$507,356,717</u>

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of \$448,457,362, as reported in the Company's 2011 Annual Statement has been accepted for examination purposes.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

No recommendations were made as a result of the previous examination.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

Affiliate Agreement

It was noted during the examination of several affiliate agreements that specific dates, or timeframes (monthly, quarterly, etc.) for settlement were not included. These agreements include an American Business Personal Mutual Claims Servicing Agreement, an Old Republic Union Management Servicing Agreement, and an ORI Great West Holdings & JMS Intercompany Aircraft Use Agreement. SSAP No. 25, paragraph 6 states that, "transactions between related parties must be in the form of a written agreement. The written agreement must provide for timely settlement of amounts owed, with a specified due date". It is recommended that the Company amend the noted agreements to comply with SSAP No. 25, and ensure all subsequent agreements contain adequate settlement provisions. It is also requested that once the Company has made these changes, that the amended agreements be submitted to the Nebraska Department of Insurance in accordance with Neb. Rev. Statute 44-2133(2)(d).

SUMMARY OF COMMENTS AND RECOMMENDATIONS

- 1) **Affiliated Agreement** – It is recommended that the Company amend certain agreements to include adequate settlement provisions in compliance with SSAP No. 25 paragraph 6.

Addendum
Organizational Chart

Old Republic International Corporation (DE)

Old Republic General Insurance Group, Inc. (DE)

 Bitco Corp, (DE)

 Bituminous Casualty Corp. (IL)

 Bituminous Fire & Marine Ins. Co. (IL)

 Brummel Brothers Inc. (IL)

 Chicago Underwriting Group, Inc. (DE)

 CHUG Insurance Brokers, Inc. (IL)

 Employers General Insurance Group, Inc. (DE)

 National General Agency, Inc. (TX)

 International Business & Mercantile Insurance Holdings, Ltd. (BA)

 Old Republic Construction Program Group, (DE)

 Old Republic Construction Insurance Agency, Inc. (CA)

 Old Republic Construction Insurance Agency of New York, Inc. (NY)

 Old Republic Indemnity, Ltd. (BA)

 InterWest Assurance, Ltd. (BA)

 ORI Great West Holdings, Inc. (DE)

 Great West Casualty Co. (NE)

 Joe Morten & Sons, Inc. (NE)

 Great Republic Services, Inc. (NE)

 Great West Assurance, Ltd. (BA)

 Old Republic Agribusiness Underwriters, Inc. (DE)

 Old Republic General Insurance Corporation (IL)

 Old Republic Home Protection Co., Inc. (CA)

 Old Republic Home Protection Services, Inc. (IL)

 ORHP Management Company (IL)

 Old Republic Insurance Co. (PA)

 Phoenix Aviation Managers, Inc. (TX)

 Old Republic Insured Credit Services, Inc. (DE)

 Old Republic Equity Credit Services, Inc. (IL)

 Old Republic Insured Credit Agency, Inc. (PA)

 Old Republic Lloyds of Texas (TX)

 Old Republic Mercantile Insurance Co. (IL)

 Old Republic Risk Management, Inc. (DE)

 Old Republic Security Assurance Co. (AZ)

 Old Republic Security Holdings, Inc. (DE)

 Old Republic Insured Automotive Services, Inc. (OK)

 Minnehoma Automobile Association, Inc. (FL)

 Old Republic Surety Group, Inc. (DE)

 Old Republic Surety Co. (WI)

 Old Republic Surety Consulting, Inc. (DE)

 Capital Services Agency, Inc. (IA)

Old Republic Union Insurance Co. (IL)
 Phoenix Aviation Managers, Inc. (DE)
 PAM Finance Co (DE)
 Aerie Adjustment Services, Inc. (DE)
 Aerie Reinsurance Mangers, Inc. (DE)
 Aerie Inspection Services, Inc. (DE)
 PMA Companies, Inc. (PA)
 Pennsylvania Manufacturers' Association Insurance Co. (PA)
 Pennsylvania Manufacturers' Indemnity Co. (PA)
 Manufacturers Alliance Insurance Co. (PA)
 PMA Holdings, Ltd (BA)
 Pennsylvania Manufacturers' International Insurance Ltd. (BA)
 Mid Atlantic States Investment Co. (DE)
 PMA Insurance SPC (Cayman)
 PMA Management Corp. (PA)
 PMA One Benefit, Inc. (PA)
 PMA Services, Inc. (PA)
 Midlands Holding Corporation (OK)
 Midland Management Corp. (OK)
 American Agency Systems, Inc. (OK)
 Midlands Intermediaries, Inc. (OK)
 Midlands Management of Texas, Inc. (TX)
 American Marine Underwriters, Inc. (TX)
 Midlands Underwriting Managers, Inc. (TX)
 U.S. Marine Insurance Group, Inc. (TX)
 Midlands Claims Administration, Inc. (OK)
 Midlands Injury Management, Inc. (OK)
 Underwriters Adjustment Bureau, Inc. (TX)
 Midlands Management Corporation of New York (NY)
 PMA Management Corp of New England (CT)
 Webster Risk Services of New York, Inc.
 Reliable Canadian Holdings, Ltd. (Can)
 D. I. S. C. C. Enterprise, Ltd. (Can)
 Old Republic Canadian Holdings, Ltd. (Can)
 Reliable Life Insurance Co. (Can)
 Old Republic Insurance Company of Canada (Can)

Old Republic Mortgage Guaranty Group, Inc. (DE)
 Republic Mortgage Insurance Company (NC)
 Group Mortgage Reinsurance Company (VT)
 ORI Mortgage Guaranty Holdings, Inc. (DE)
 Republic Mortgage Insurance Co. of Florida (FL)
 Republic Mortgage Insurance Co. of North Carolina (NC)
 RMIC Corporation (NC)
 Republic Strategic Advisors (NC)

Old Republic Title Insurance Group, Inc. (DE)
 Old Republic National Title Holding Company (DE)
 American First Title & Trust Company (OK)
 American Guaranty Title Insurance Company (OK)
 Asset Discovery, Inc. (MA)
 Attorneys' Title Fund Services, LLC (FL)
 Badger Abstract & Title Company (WI)
 Compass Abstract, Inc. (PA)
 eRecording Partners Network, LLC (PA)
 First Federal Title Agency, LLC (OH)
 Genesis Abstract, LLC. (PA)
 Kansas City Management Group, LLC (SD)
 Kaspamet, Inc. (OH)
 L.T. Service Corporation (NY)
 Lenders Inspection Company (OK)
 Lex Terrae National Title Services, Inc. (NJ)
 Lex Terrae, Ltd. (NY)
 Mississippi Real Estate Dispositions, LLC (MN)
 Old Republic Central Title, Inc. (DE)
 Old Republic Credit.com, LLC (CA)
 Old Republic Diversified Services, Inc. (MN)
 Old Republic Eastern Title, Inc. (DE)
 Old Republic Exchange Facilitator Co. (CA)
 Old Republic National Title Insurance Co. (MN)
 Mississippi Valley Title Insurance Co. ((MS)
 Old Republic Title Company of Bell County(TX)
 Old Republic Title Company of Cleburne (TX)
 Old Republic Title Company of Conroe (TX)
 Old Republic Title Company of Fort Worth(TX)
 Old Republic Title Company of Houston (TX)
 Old Republic Title Company of Indiana (IN)
 Title Services, LLC.(IN)
 Old Republic Title Company of Kansas City, Inc. (MO)
 Old Republic Title Company of Oklahoma (OK)
 Old Republic Title Company of St. Louis, Inc.(MO)
 Old Republic Title Company of Tennessee (TN)
 Old Republic Title Company of Utah (UT)
 Old Republic Title Holding Company, Inc. (CA)
 Mara Escrow Company (CA)
 North Star Title Company (CA)
 Old Republic Title and Escrow of Hawaii, Ltd. (HI)
 Old Republic Title Co. (CA)
 Old Republic Title Company of Nevada (NV)
 Old Republic Title Information Concepts (CA)
 Old Republic Title Insurance Agency, Inc. (AZ)
 Old Republic Title, Ltd. (DE)

Professional Realty Couriers, Inc. (CA)
Timeshare Holdings, Inc. (CA)
OR Systems, Inc. (AZ)
Republic Abstract & Settlement, LLC (SD)
RQ Holdings, Inc. (TX)
 RamQuest Software, Inc. (TX)
 Guardian Consumer Services, Inc. (TX)
Sentry Abstract Company (PA)
 Excel Abstract (PA)
 Spring Ridge Abstract (PA)
The Title Company of North Carolina (NC)
Trinity Title of Texas, LLC (TX)
Troon Management Corporation (PA)
 American First Abstract, LLC (PA)
 Diamond Abstract (PA)
 Mid-Jersey Closing Agency, LLC (NJ)
 Realty Title Partners, LLC (NJ)
 Synergy Abstract, LP (PA)

Old Republic National Services Group, Inc. (IL)
 Old Republic Asset Management Corp. (IL)
 Old Republic Capital Corporation (DE)
 Old Republic Financial Acceptance Corp (DE)
 Old Republic General Services, Inc. (IL)

Old Republic Financial Investors, Inc. (DE)

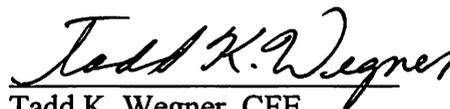
Old Republic Life Insurance Group, Inc. (DE)
 Old Republic Life Insurance Co. (IL)
 Old Republic Life Insurance Co. of Arizona (AZ)

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Officers and employees of the Company during this examination is hereby acknowledged.

In addition to the undersigned, Andrea Szwanek, CFE, Linda Scholl, CFE, Erin Garvin, and Kim Shannon, Financial Examiners; Bill Schmid, Information System Specialist; and Gordon Hay, FCAS, MAAA, CPCU; all with the Nebraska Department of Insurance, participated in this examination and assisted in the preparation of this report.

Respectfully submitted,



Tadd K. Wegner, CFE
Supervisory Examiner
Department of Insurance
State of Nebraska

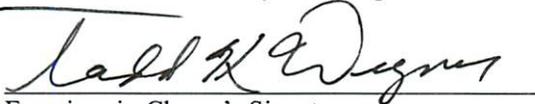
State of Nebraska,

County of Lancaster,

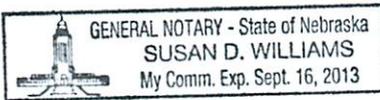
Tadd K. Wegner, being duly sworn, states as follows:

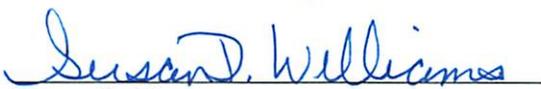
1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of Great West Casualty Company.
2. The Department of Insurance of the State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of Great West Casualty Company was performed in a manner consistent with the standards and procedures required by the Department of Insurance of the State of Nebraska.

The affiant says nothing further.


Examiner-in-Charge's Signature

Subscribed and sworn before me by Susan D. Williams on this 23rd day of February, 2013.

(SEAL) 


Notary Public

My commission expires 9/16/2013 [date].