

CERTIFICATION

June 26, 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 the

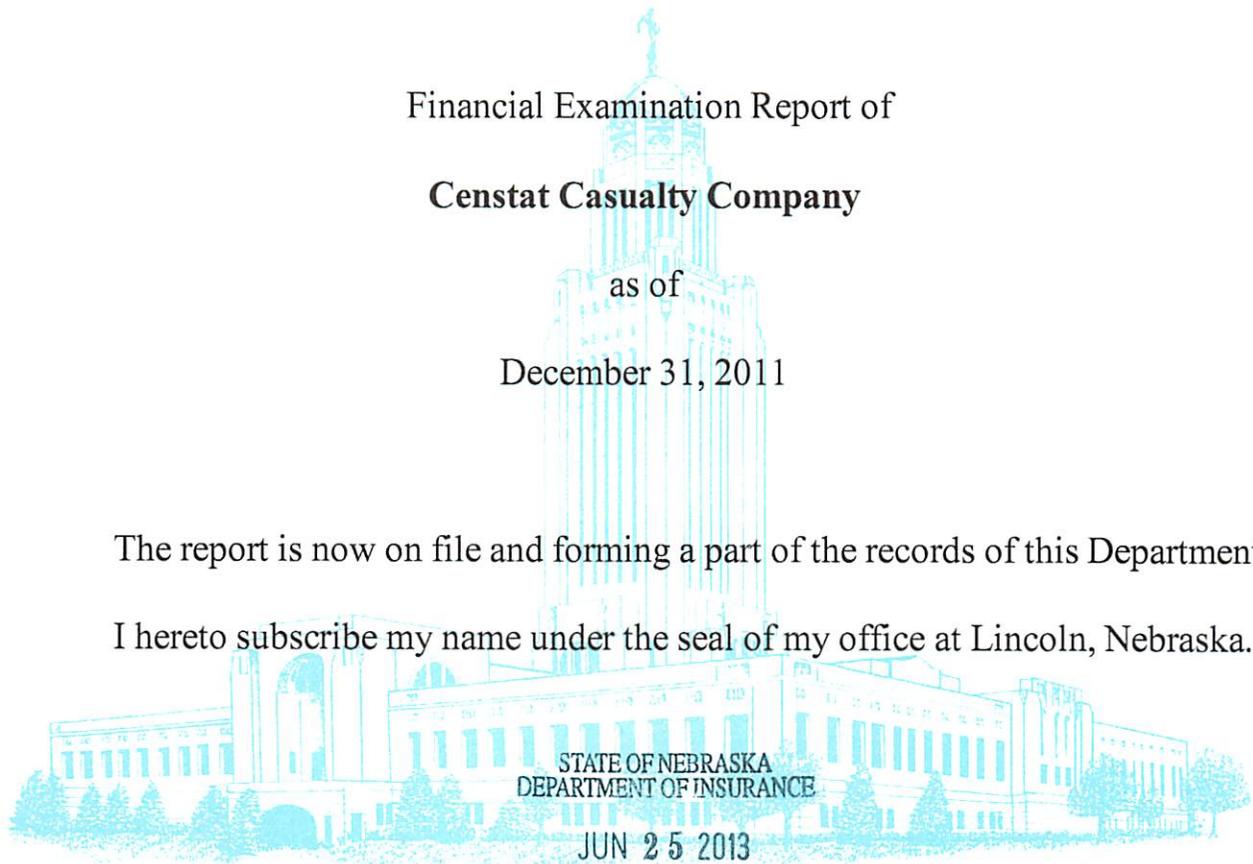
Financial Examination Report of
Censtat Casualty Company

as of

December 31, 2011

The report 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.



FILED



Bruce R. Ramage

DIRECTOR OF INSURANCE

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

CENSTAT CASUALTY COMPANY

as of

December 31, 2011



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Omaha, Nebraska
June 1, 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 instruction and authorizations, and in accordance with statutory requirements, an examination has been conducted of the financial condition and business affairs of:

**Censtat Casualty Company
1212 North 96th Street
Omaha, Nebraska 68114**

(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, 2007 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.

The same examination staff conducted a concurrent financial condition examination of the Company's parent, Central States Health & Life Co. of Omaha.

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 includes 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 shareholder, 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 McGladrey & Pullen, LLP, the Company's external auditors, during their audit of the Company's accounts for the year ended December 31, 2011. 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 organized under the laws of the State of Nebraska and issued a Permit to Complete Organization on May 31, 2002. On May 31, 2002, the Company's Articles of Incorporation were filed and approved by the Nebraska Department of Insurance and filed with the Secretary of State. On August 16, 2002, the Department of Insurance granted the Company a Certificate of Authority to write Sickness and Accident, Property, Credit Property, Glass, Burglary and Theft, Boiler and Machinery, Liability, Workers' Compensation and Employers Liability, Vehicle, Fidelity, Surety, Credit, Mortgage Guaranty, Marine, Financial Guaranty, and Miscellaneous insurances as prescribed by Neb. Rev. Stat. §44-201 of the Nebraska Insurance Code.

MANAGEMENT AND CONTROL

Holding Company

The Company is a member of an insurance holding company system as defined by Nebraska Statute. An organizational listing flowing from the 'Ultimate Controlling Person', as reported in the 2011 Annual Statement, is represented by the following (subsidiaries are denoted through the use of indentations, and unless otherwise indicated, all subsidiaries are 100% owned):

- Central States Health & Life Co. of Omaha (CSO)
 - Censtat Life Assurance Co.
 - Censtat Casualty Company
 - Censtat Services, Inc.
 - Censtat Financial, Inc.

Shareholder

The Articles of Incorporation, approved by the Nebraska Department of Insurance and filed with the Secretary of the State of Nebraska on May 30, 2002, provide that, “the aggregate number of shares which the Company shall have the authority to issue is 3,000,000 shares, consisting only of common stock, with a par value of \$1.00 per share”. At the date of this examination, 2,500,000 shares were issued and outstanding, and all were owned and held by Central States Health & Life Co. of Omaha (CSO).

The By-Laws provide that, “all annual meetings of the shareholders shall be held at the Principal Office of the Company in Omaha, Nebraska, or at such other place as determined by the Board of Directors and stated in the notice to shareholders”. The annual meeting shall be held no later than June 30 of each year every calendar year.

In 2008, the Company received a \$4,000,000 capital contribution from its parent, CSO, at the request of states where the Company requested and received Certificates of Authority in which to sell business. Additionally in 2008, by Resolution of the Board of Directors, CSO committed to maintaining the capital and surplus of the Company in an amount at least equal to \$10 million in order to continue the Company’s authority to conduct business in the State of California.

On June 30, 2008, the Company issued a \$400,000 stock dividend to the Company’s parent, CSO. No cash dividends have been paid during the period under examination.

Board of Directors

The Company’s By-Laws provide that, “the property and business of this Company shall be managed by its Board of Directors, the number of which shall be between 5 and 21, as determined from time to time by the Board of Directors. At the first annual meeting of the

shareholders and at each annual meeting thereafter, the shareholders shall elect Directors to hold office until the next succeeding meeting”. The Board of Directors shall have one regularly scheduled meeting a year, immediately following the annual meeting of the shareholders.

The following persons were serving as Directors at December 31, 2011:

<u>Name and Residence</u>	<u>Principal Occupation</u>
Richard T. Kizer Omaha, Nebraska	Chairman of the Board and Secretary of Central States Health & Life Co. of Omaha and Chairman of the Company
John E. Kizer Omaha, Nebraska	Chairman and President of Central States Indemnity of Omaha
Thomas E. Kizer Omaha, Nebraska	President of Central States Health & Life Co. of Omaha and President of the Company
William M. Kizer Omaha, Nebraska	Treasurer of Central States Indemnity Co. of Omaha
Jeffrey J. Wanning Omaha, Nebraska	Senior Vice President, Operations of Central States Health & Life Co. of Omaha and Vice President of the Company

The Directors listed above also serve as the Company’s Audit Committee.

Officers

The Company’s By-Laws provide that, “the Officers of the Company shall be a Chairman of the Board, a President, Vice Presidents, the number thereof (if any) to be determined by the Board of Directors, a Treasurer and a Secretary, or other officers as may be elected or appointed by the Board of Directors. Any two or more offices may be held by the same person, except that the President and Secretary shall not be the same person. The Officers of the Company shall be elected annually by the Board of Directors at the first meeting of the Board of Directors held after each annual meeting of shareholders or as soon thereafter as convenient and vacancies may be filled at any meeting of the Board of Directors. Each Officer shall hold office until a

successor shall have been fully elected and shall have been qualified or until his death, or until he shall resign or shall have been removed in the manner here provided”.

The following is a listing of Officers elected and serving the Company at December 31, 2011:

<u>Name and Residence</u>	<u>Office</u>
Richard T. Kizer	Chairman of the Board
Thomas E. Kizer	President
Ronald L. Wheeler	Treasurer
Rebecca L. Smart	Secretary
Jaime Amodeo	Vice President
Jacquelyn McCaslin	Vice President
Jeffrey J. Wanning	Vice President & Assistant Secretary

TRANSACTIONS WITH AFFILIATES

Service Agreement

The Company entered into a Service Agreement with its parent, Central States Health & Life Co. of Omaha (CSO) effective September 3, 2002. Under the terms of this agreement, CSO will provide all facilities and services necessary relating to underwriting, actuarial studies, claims service, agents’ licensing, compliance, regulatory filings, accounting, investment management, tax filing, record keeping, legal services and other such services mutually agreed upon by the parties.

CSO will prepare and furnish reports relating to services provided as requested by the Company. Premium collected by CSO will be held in fiduciary capacity and paid over to the Company immediately following collection.

Compensation shall be on a cost basis, calculated by an allocation of expenses in conformity with customary insurance accounting practices consistently applied, and shall be an amount no greater than the Company would have expended in providing such services for itself.

Payment for these services is to be made on a monthly basis as billed by CSO. The Company shall pay CSO, or at the option of CSO, shall remit payment to other entities designated by CSO.

The initial period of this Agreement is for five years from the effective date. It may be extended for an additional period of time, and upon the terms and conditions of the agreement, or modified by mutual consent of the parties. The Agreement may be terminated by mutual consent or by either party upon at least 60 days' notice in writing to the other party. This Agreement has been extended to September 3, 2012.

Tax Allocation Agreement

The Company is party to a tax allocation agreement with its parent, CSO. Under this Agreement, the consolidated tax liability of the Company and its parent is allocated to the parties on the percentage the separate return tax bears to the consolidated tax. If for any taxable period the separate liability of either member exceeds the consolidated tax liability as a result of any excess loss or tax credits of either party, the parent shall pay each member its allocated portion of such excess amount.

TRANSACTIONS WITH NON-AFFILIATES

Service Agreement

An administration agreement with Lenders Protection Assurance Company Risk Retention Group (LPAC) provides for administration of LPAC's reinsured policies by the Company. The services provided by the company include claims administration, premium administration, maintenance of books, accounts and records, electronic data processing, policyholder services, finance and accounting, office services, and all services incidental to the administration of the administered policies.

All monies collected by the Company on behalf of LPAC are held in a fiduciary capacity.

The Company has agreed to indemnify, defend and hold harmless LPAC and its directors, officers, and agents against any action or omission arising out of any of its performances under this Agreement. Likewise, LPAC agrees to indemnify, defend and hold harmless the Company against any action or omission arising out of its performance of its obligations under this Agreement.

The initial period of this Agreement was for five years beginning on the effective date of September 1, 2002. The original Agreement was amended to automatically renew for successive one year periods, unless either party provides notice of cancellation at least nine months in advance of the expiration date.

TERRITORY AND PLAN OF OPERATION

As evidenced by current or continuous Certificates of Authority, the Company is licensed to transact business in all states, with the exception of the District of Columbia, Alaska, Colorado, Connecticut, Hawaii, Maine, Maryland, Minnesota, New Hampshire, New Jersey, New York, Pennsylvania, Virginia, and Wisconsin. The Company intends to pursue licenses in additional states.

During the exam period, the Company assumed only contractual liability coverage from Central States Indemnity (CSI) and Lender's Protection Assurance Company Risk Retention Group, which markets to members of its owner Lender's Mutual Benefit Association. Subsequent to the examination date, effective October 1, 2012, the Company ceased assuming business from CSI. As the Company is admitted to additional States in the future, it plans to write a direct book of business in such states including, but not limited to, contractual liability coverage.

The Company operates out of the same location as its parent company, Central States Health & Life Co. of Omaha (CSO), and is managed by the same key officers that manage CSO. The

initial marketing plan for the writing of direct business includes marketing through current regional managers of CSO, independent general agents currently contracted with CSO and new general agents in the various additional jurisdictions where the Company may become authorized to write business.

REINSURANCE

Assumed

The Company assumes Contractual Liability Policies (CLPs) from Lenders Protection Assurance Company Risk Retention Group (LPAC) under a 100% Quota Share Treaty. This agreement was effective September 1, 2002 and automatically renewed on September 1, 2007, per the terms of the contract. The policies under this reinsurance agreement are CLPs issued by LPAC with effective dates of December 31, 2004 and before with the exception of liability for debt protection products sold through the Secure Pay Plus program with effective dates of January 1, 2005 and after even though the CLPs were issued prior to January 1, 2005. The ceding fee retained by LPAC is 3% of ceded premium. Effective October 1, 2012, this Agreement was amended to include CLPs issued by LPAC with effective dates of January 1, 2005 and after and CLPs sold in connection with LPAC's Secure Pay Plus Program with effective dates of January 1, 2005 and after.

Effective January 1, 2005, the Company began receiving new business as a retrocession from Central States Indemnity Co. of Omaha (CSI), under which CSI assumes liability for specified CLPs issued by LPAC with effective dates of January 1, 2005 and after. The Company continued to administer the business. The ceding fee retained by CSI was 6% of ceded premium. This treaty was terminated effective October 1, 2012. A Reinsurance Termination Agreement

was entered, whereby CSI recaptured the ceded business releasing the Company of any future obligations.

Also effective January 1, 2005, the Company entered into a 100% Quota Share Reinsurance Treaty for CLPs issued by CSI. Reinsured policies are those CSI CLPs ceded by CSI to the Company which are issued pursuant to the General Agent Agreement between CSI and the Company's affiliate, Censtat Services, Inc. The ceding fee retained by CSI was 3% of ceded premium. This Agreement was terminated effective October 1, 2012 and pursuant to a Reinsurance Coverage Termination Agreement, all of the Company's obligations and liabilities under the Quota Share Agreement were extinguished.

Ceded

Effective January 1, 2007, the Company entered into a retrocession quota share reinsurance agreement for its CLPs with SWBC RE, Ltd. (SWBC). The amount ceded by the Company is 50% of the risk under each of the reinsured policies. The reinsured policies are those CLPs issued to client customers of SWBC and administered by SWBC.

General

All contracts reviewed contained standard insolvency, arbitration, errors and omissions, and termination clauses where applicable. All contracts contained the clauses necessary to assure reinsurance credits could be taken.

BODY OF REPORT

GROWTH

The following comparative data reflects the growth of the Company during the period covered by this examination:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Bonds	\$11,778,026	\$12,935,017	\$13,642,620	\$14,326,160
Admitted assets	12,832,956	13,771,413	14,775,306	15,506,231
Loss reserves	981,109	1,326,576	1,559,996	703,853
Total liabilities	1,363,132	1,916,770	2,223,740	1,748,232
Capital and surplus	11,469,824	11,854,643	12,551,566	13,757,999
Premiums earned	988,941	1,070,999	1,064,686	900,524
Net investment income	557,038	611,183	675,549	581,263
Losses incurred	591,368	641,995	631,376	(556,891)
Net income	521,149	368,146	561,122	1,213,541

FINANCIAL STATEMENTS

The following statement of admitted assets and liabilities, together with the accompanying summary of operations, reflects the financial condition of the Company at December 31, 2011 and its transactions during 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>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$14,326,160		\$14,326,160
Cash and short-term investments	<u>984,355</u>		<u>984,355</u>
Subtotal, cash and invested assets	\$15,310,516		\$15,310,516
Investment income due and accrued	105,076		105,076
Uncollected premiums and agents' balances in the course of collection	86,832		86,832
Guaranty funds receivable or on deposit	50		50
Due from DCC program	<u>3,758</u>		<u>3,758</u>
Totals	<u>\$15,506,231</u>		<u>\$15,506,231</u>

Liabilities, Surplus, and Other Funds

Losses	\$ 703,853
Other expenses	5,524
Taxes, licenses and fees	53,616
Current federal and foreign income taxes	945,899
Net deferred tax liability	7,691
Unearned premiums	17,090
Ceded reinsurance premiums payable	13,011
Drafts outstanding	348
Payable to parent, subsidiaries and affiliates	<u>1,199</u>
Total liabilities	<u>\$ 1,748,232</u>
Common capital stock	\$ 2,500,000
Gross paid in and contributed surplus	8,000,000
Unassigned funds (surplus)	<u>3,257,999</u>
Total capital and surplus	<u>\$13,757,999</u>
Totals	<u>\$15,506,231</u>

STATEMENT OF INCOME – 2011**Underwriting Income**

Premiums earned	\$ 900,524
Losses incurred	\$ (556,891)
Other underwriting expenses incurred	233,403
Fines/penalties and interest expense	<u>2,677</u>
Total underwriting deductions	<u>\$ (320,811)</u>
Net underwriting gain	<u>\$1,221,335</u>

Investment Income

Net investment income earned	\$ 563,815
Net realized capital gain	<u>17,448</u>
Net investment gain	<u>\$ 581,263</u>
Net income before dividends to policyholders and federal income taxes	\$1,802,598
Federal income taxes incurred	<u>589,057</u>
Net income	<u>\$1,213,541</u>

CAPITAL AND SURPLUS ACCOUNT

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Capital and surplus, beginning	<u>\$ 7,006,395</u>	<u>\$11,469,824</u>	<u>\$11,854,643</u>	<u>\$12,551,566</u>
Net income	\$ 521,149	\$ 368,146	\$ 561,122	\$ 1,213,541
Change in net unrealized capital gains	(66,293)	13,149	35,667	10,607
Change in net deferred income tax	24,423	76	(21,966)	(17,716)
Change in nonadmitted assets	(15,847)	3,448	22,099	
Capital changes paid in	400,000			100,000
Surplus adjustments paid in	4,000,000		100,000	(100,000)
Surplus adjustment transferred to capital (stock dividend)	<u>(400,000)</u>	<u> </u>	<u> </u>	<u> </u>
Net change for the year	<u>\$ 4,463,431</u>	<u>\$ 384,820</u>	<u>\$ 696,922</u>	<u>\$ 1,206,432</u>
Capital and surplus, ending	<u>\$11,469,825</u>	<u>\$11,854,645</u>	<u>\$12,551,566</u>	<u>\$13,757,999</u>

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of \$3,257,999, as reported in the Company's 2011 Annual Statement, has been accepted for examination purposes. Examination findings, in the aggregate, were considered to have no material effect on the Company's financial condition.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

The recommendations appearing in the previous report of examination are reflected below together with the remedial actions taken by the Company to comply therewith:

Investment Approvals – Authorization and approval of investment should be handled in a manner consistent with Neb. Rev. Stat. § 44-5105.

Action: The Company has complied with this recommendation.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

Investments – Custodial Agreements

During review of the custodial agreements, it was noted that the custodial agreement with First National Bank of Omaha was not in compliance with all of the provisions of Title 210, Chapter 81 of the Nebraska Department of Insurance Rules and Regulations, in particular 003.02(b), 003.02(d), 003.02(e), 003.02(g)(i), 003.02(g)(ii), 003.02(h), 003.02(i), 003.02(j), 003.02(m), 003.02(n), and 003.02(o). It is recommended that the Company revise its custodial agreements to include all provisions related to safeguards and controls of securities pursuant to Title 210, Chapter 81 of the Nebraska Department of Insurance Rules and Regulations.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

The following comments and recommendations have been made as a result of this examination:

Investments – Custodial Agreements – It is recommended that the Company revise its custodial agreements with the custodians holding securities on its behalf to include all provisions related to safeguards and controls of securities pursuant to Title 210 (Nebraska Department of Insurance Rules and Regulations), Chapter 81.

ACKNOWLEDGEMENT

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

In addition to the undersigned, Joe C. Hofmeister, CFE, Derek J. Petersen, CFE, Linda K. Scholl, CFE, Andrea D. Szwaneck, CFE, Wade B. Fleischacker, and Elizabeth I. Hofker, Financial Examiners; Gary E. Evans, CFE, CISA, AES, Information Systems Specialist; and Gordon K. Hay, FCAS, MAAA, CPCU, Property & Casualty Actuarial Examiner, all with the Nebraska Department of Insurance, participated in this examination and assisted in the preparation of this report.

Respectfully submitted,



Isaak Russell. CFE
Assistant Chief Examiner - Exam
Department of Insurance
State of Nebraska

State of Nebraska,
County of Lancaster,

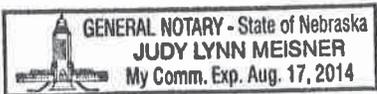
Isaak Russell, being duly sworn, states as follows:

1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of Censtat 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 Censtat 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 ISAAC RUSSELL on this 12 day of JUNE, 2013.



(SEAL)


Notary Public

My commission expires 8/17/2014 [date].