

# CERTIFICATION

June 30, 2014

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  
**NATIONAL INDEMNITY COMPANY**

as of

December 31, 2012

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.

STATE OF NEBRASKA  
DEPARTMENT OF INSURANCE  
JUN 30 2014

FILED



STATE OF N  
DEPARTMENT C

JUN

*Bruce R. Ramage*

DIRECTOR OF INSURANCE

STATE OF N  
DEPARTMENT C

JUN

CERTIFICATE OF ADOPTION

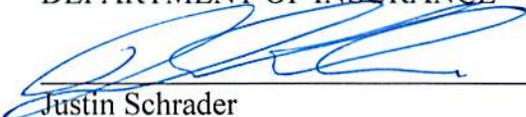
Take notice that the proposed report of the financial examination of

**NATIONAL INDEMNITY COMPANY**

dated as of December 31, 2012, verified under oath by the examiner-in-charge on June 3, 2014, and received by the company on June 17, 2014, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3)(a).

Dated this 20 day of June, 2014.

STATE OF NEBRASKA  
DEPARTMENT OF INSURANCE

  
Justin Schrader  
Chief Financial Examiner

**STATE OF NEBRASKA**

**Department of Insurance**

**EXAMINATION REPORT**

**OF**

**NATIONAL INDEMNITY COMPANY**

**as of**

**December 31, 2012**



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Omaha, Nebraska  
May 23, 2014

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Deputy Director and Superintendent of Insurance  
Rhode Island Division of Insurance  
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Honorable Bruce R. Ramage  
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Nebraska Department of Insurance  
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Connecticut Insurance Department  
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Insurance Commissioner  
California Department of Insurance  
300 Capitol Mall Suite 1700  
Sacramento, California 95814

Honorable Nick Gerhart  
Insurance Commissioner  
Iowa Insurance Division  
601 Locust St., 4th Floor  
Des Moines, Iowa 50309

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:

**NATIONAL INDEMNITY COMPANY**  
**3024 Harney Street**  
**Omaha, Nebraska 68131**

(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, 2008 by the State of Nebraska. The current financial condition examination covers the intervening period to, and including, the close of business on December 31, 2012, and includes such subsequent events and transactions as were considered pertinent to this report. The States of Nebraska, California, Florida, and Iowa participated in this examination, and assisted in the preparation of this report. The examination staff from these states conducted fully coordinated financial condition examinations of the following Company affiliates:

- Berkshire Hathaway Life Insurance Company of Nebraska (BHLN)
- Berkshire Hathaway Homestate Insurance Company (BHHIC)
- Brookwood Insurance Company (BIC)
- Columbia Insurance Company (CIC)
- Cypress Insurance Company (CYP)
- National Fire & Marine Insurance Company (NFM)
- National Indemnity Company of Mid-America (NIMA)
- National Indemnity Company of the South (NISO)
- Oak River Insurance Company (ORIC)
- Redwood Fire and Casualty Insurance Company (RFC)
- Stonewall Insurance Company (STW)

## **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.

The examination was completed under coordination of the holding company group approach with the Nebraska Department of Insurance as the coordinating state. The companies examined under this approach benefit to a large degree from common management, systems and processes, internal control, and risk management functions that are administered at the consolidated or business unit level.

The coordinated examination applies procedures sufficient to comprise a full scope financial examination of each of the companies in accordance with the examination procedures and standards promulgated by the NAIC, and by the respective state insurance departments where the companies are domiciled. The objective is to enable each domestic state to report on their respective companies' financial condition and to summarize key results of examination procedures.

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 Bylaws were reviewed, including appropriate filings of any changes or amendments thereto. The minutes of the meetings of the shareholders, 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 working papers prepared by Deloitte & Touche LLP, the Company's external auditors, during their audit of the Company's accounts for the years ended December 31, 2011 and 2012. Portions of the auditor's working papers have been incorporated into the working papers 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 as a capital stock fire and casualty insurance company on April 26, 1940, and commenced business on May 1, 1940. Stock control changed from founder Jack Ringwalt to Berkshire Hathaway Inc. (BHI) in March 1967.

Under provisions of its amended charter and in conformity with Nebraska Statutes, the Company is authorized to write all kinds of business prescribed by Section 44-201 of the Nebraska Insurance Code except life, variable life, variable annuities, credit property, title, and mortgage guaranty insurance.

### **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”, BHI, as reported in the 2012 Annual Statement, is attached to this report as an addendum.

#### **Shareholder**

The Amended Articles of Incorporation provide that, “the Corporation has authority not limited to any preemptive or other rights of its shareholders to issue an aggregate of 750,000 shares of non-assessable common capital stock of the par value of \$10.00 each.”

As of December 31, 2012, Company records indicated that 550,000 shares were issued and outstanding and that all were owned by BHI, for a total paid up capital of \$5.5 million.

There were no changes made to common capital stock during the years under review. Gross paid in and contributed surplus increased \$23.8 billion during the years under review. The Company paid cash dividends during the examination period totaling \$3.75 billion for 2012; \$3.5 billion for 2011; \$1.25 billion for 2010; and \$580 million for 2009.

**Board of Directors**

The Company’s By-Laws provide that, “the affairs and business of the corporation shall be managed by a Board of such number of Directors not less than five nor more than twenty-one as may be fixed by the shareholders at each annual meeting or, if no number is so fixed, of five Directors the majority of whom shall be residents of Nebraska.”

The following persons were serving as Directors at December 31, 2012:

<b><u>Name and Residence</u></b>	<b><u>Principal Occupation</u></b>
J. Michael Gottschalk Omaha, Nebraska	Vice President of the Company
Marc David Hamburg Omaha, Nebraska	Chairman of the Board of the Company and Chief Financial Officer of BHI
Ajit Jain Rye, New York	Executive Vice President of the Company
Daniel Jerome Jaksich Omaha, Nebraska	Controller of BHI
Forrest Nathan Krutter Milton Mills, New Hampshire	Senior Vice President, Secretary, and General Counsel of the Company
Philip Michael Wolf Omaha, Nebraska	Senior Vice President of the Company
Donald Frederick Wurster Omaha, Nebraska	President of the Company

No fees or expenses were paid to the Directors during the period under review.

## **Officers**

The Company's By-Laws provide that, "the Officers shall be a President, one or more Vice Presidents, a Secretary, one or more Assistant Secretaries, a Treasurer, and one or more Assistant Treasurers none of whom shall be required to be shareholders or Directors."

The following is a listing of Officers elected and serving the Company at December 31, 2012:

<b><u>Name</u></b>	<b><u>Office</u></b>
Donald Frederick Wurster	President
Ajit Jain	Executive Vice President
Scott Robert Doerr	Senior Vice President
Sunil Chandra Khanna	Senior Vice President
Forrest Nathan Krutter	Senior Vice President and Secretary
Philip Michael Wolf	Senior Vice President
Dale David Geistkemper	Treasurer and Controller
John Duane Arendt	Vice President and Assistant Secretary
Leslie James Baller	Vice President
Joseph Gerard Casaccio	Vice President
J. Michael Gottschalk	Vice President
David Evan Govrin	Vice President
Tracy Leigh Gulden	Vice President
Michael James Lawler	Vice President
Joseph Rocco Liuzzi	Vice President
Kara Lee Raiguel	Vice President
Karen Lee Rainwater	Vice President
Ty James Reil	Vice President
Brian Gerard Snover	Vice President
Robert Scott Stirling	Vice President
Walter Clifford Strain	Vice President
Thomas Lyle Young	Vice President

## **Committees**

The Company's By-Laws provide that, "the Board of Directors may designate an Executive Committee and one or more other committees from among the Directors; and the committees shall have the powers and rights that pertain to such committees."

The Executive Committee was appointed by the Board of Directors to have and exercise all the authority of the Board in the management of the Company. The following persons were serving on the Executive Committee at December 31, 2012:

Ajit Jain

Donald Frederick Wurster

The Secretary of the Company was authorized and directed by the Board to certify any action taken by the Committee.

The Investment Committee was appointed by the Board to supervise and direct the investment funds of the Company. The following persons were serving on the Investment Committee at December 31, 2012:

Marc David Hamburg

Donald Frederick Wurster

The Audit Committee was appointed by the Board to provide oversight of the financial reporting process. The following persons were serving on the Audit Committee at December 31, 2012:

J. Michael Gottschalk

Daniel Jerome Jaksich

## **TRANSACTIONS WITH AFFILIATES**

### **Intercompany Services Agreement**

Effective March 1, 2011, the Company entered into an intercompany services agreement with the following affiliates:

Berkshire Hathaway Life Insurance Company of Nebraska  
Columbia Insurance Company  
National Fire & Marine Insurance Company  
National Indemnity Company of Mid-America  
National Indemnity Company of the South  
Wesco-Financial Insurance Company

This agreement replaced an intercompany services agreement that had been effective from January 1, 1988. Under the terms of the new agreement, the Company performs various

services for these affiliates, including: accounting, tax, internal and premium auditing, underwriting, claims, information technology, marketing, and support services. The Company also agrees to provide certain property, equipment, and facilities necessary in the conduct of the affiliates' operations; and also provides the personnel necessary for the affiliates to conduct their normal day-to-day operations. This relationship results in joint operating expenses that are subject to allocation. The method of allocating these expenses is set forth in the intercompany services agreement. The charge to the affiliates for the services and facilities includes all direct and directly allocable expenses, reasonably and equitably determined to be attributable to the affiliates by the Company. The apportionment of costs is based upon the allocation of salary for Company employees on a quarterly basis.

The Company has various other intercompany service agreements with other affiliates. Billings for services under these agreements is substantially lower than the amount billed under the agreement noted above. The wording and structure of these various agreements is very similar and the majority of the time the Company is providing administrative and special services to the affiliate.

### **Intercompany Investment Agreements**

The Company is a participant in various intercompany investment agreements. The Company is deemed the "manager" in all of these agreements and renders investment management services to the affiliates. The manager has extensive experience in the management of investment portfolios and strives to achieve certain operating economies and improve services to benefit all parties in the agreement. The terms, wording, and structure of these agreements follow the same format. It was noted that the amount billed by the Company for a few of the investment agreements are combined with the amount billed under the intercompany service

agreements, mentioned above. The intercompany investment agreements where the Company is the manager are listed below:

<b><u>Affiliated Party</u></b>	<b><u>Effective Date</u></b>
Berkshire Hathaway Reinsurance LTD	11/1/2011
Stonewall Insurance Company	4/8/2010
The Scottish Lion Insurance Company Limited	6/21/2010
Atlanta International Insurance Company	9/1/2009
British Insurance Company of the Cayman	11/1/2008
Commercial Casualty Insurance Company	11/1/2008
American Centennial Insurance Company	11/1/2008
Philadelphia Reinsurance Corporation	6/13/2008
Nederlandse Ressorantic Groep N.V.	6/13/2008
Berkshire Hathaway Assurance Corporation	12/31/2007
Transfercom Limited	7/14/2007
Finial Reinsurance Company	1/31/2007
US Liability Insurance Company, Mount Vernon Fire Insurance Company, Mount Vernon Specialty Insurance Company, and US Underwriters Insurance Company	1/1/2007
Tenecom Limited	4/14/2006
Berkshire Hathaway International Insurance Company, Limited	4/1/2004
First Berkshire Hathaway Life Insurance Company	12/1/2002

The Company is also a participant in one additional intercompany investment agreement effective as of March 1, 2007, with General Re-New England Asset Management Inc. (General Re). In this case, General Re is the manager and the Company is the client. General Re acts as investment trader with the full power/authority to instruct any broker, dealers, or banks to sell certain designated assets from time to time during the term of the agreement for set fees. In 2012, no payments were made by the Company for investment services rendered by General Re.

### **Revolving Loan Agreements**

The Company has a number of revolving loan agreements with affiliates that total \$1.6 billion as of December 31, 2012. Under the terms of these agreements, the Company may loan the affiliate up to the limit amounts listed below, with repayment of the loan and all accrued

interest by the maturity date. Each revolving loan shall bear interest for each interest period at a rate per annum equal to the 30-day LIBOR rate plus a defined number of basis points.

<u>Affiliated Party</u>	<u>12/31/2012 Balance</u>	<u>Revolving Loan Limit</u>	<u>Effective Date</u>
Berkshire Hathaway Inc.	\$1,457,688,340	\$8,000,000,000	12/1/2001
International American Group	1,099,496	410,000,000	3/11/2011
Northern States Agency	81,389,514	150,000,000	3/12/2003
Wesco-Financial Insurance Company	-0-	500,000,000	11/7/2011
BH Finance LLC	-0-	250,000,000	4/15/2011
Berkshire Hathaway Homestate Insurance Company	-0-	50,000,000	10/1/2011
Redwood Fire & Casualty Insurance Company	-0-	50,000,000	10/1/2011
Columbia Insurance Company	-0-	1,000,000,000	3/10/2008
National Fire & Marine Insurance Company	-0-	400,000,000	8/1/2002
	\$ 1,598,138,181		

### **Consolidated Federal Income Tax Allocation Agreement**

The Company joins with a group of approximately seven hundred fifty affiliated companies in the filing of a consolidated federal income tax return. The consolidated tax liability is allocated among the affiliates in the ratio that each affiliate's separate return tax liability bears to the sum of the separate return liabilities. A complementary method is used which results in reimbursement by profitable affiliates to loss affiliates for tax benefits generated by loss affiliates.

A written agreement between the Company and BHI, effective January 1, 1995, describes the method of allocation and the manner in which intercompany balances are settled.

### **TERRITORY AND PLAN OF OPERATION**

At December 31, 2012, the Company was licensed to transact the business of insurance in all states and the District of Columbia as evidenced by current or continuous Certificates of Authority. Such authority is limited to reinsurance only in Hawaii and to reinsurance and surplus

lines in Massachusetts, New Jersey, and New York. The Company is qualified as an acceptable surety on federal bonds.

Primary business, commercial automobile, general liability, and commercial multi-peril, is produced through affiliated and unaffiliated general agents currently under contract with the Company, and through some independent brokers. Underwriting for commercial automobile and general liability is performed at the home office in Omaha, Nebraska.

In addition, various corporate products, excess of loss, and professional liability capacity including terrorism, aircraft, Directors and Officers liability, errors and omissions coverages, are offered. The primary underwriting and claims activities for this business are conducted through the Company's reinsurance division located in Stamford, Connecticut.

The Company was named to write aviation risks in accordance with a pool members' agreement between Global Aerospace Underwriting Managers Limited, Global Aerospace, Inc., and the Company. The territory includes all jurisdictions in which the Company has been granted a license to write aviation risks. This business is written through Global Aerospace Underwriting Managers Limited and Global Aerospace, Inc., who are acting as agents for this business.

Reinsurance assumed is the primary source of premium volume, including quota share assumptions from affiliates, "super-cat" covers, catastrophe excess property risks, and various other facultative and quota share treaties with other insurance companies, syndicates, and pools. These assumptions are negotiated through the Company's reinsurance division located in Stamford, Connecticut. The Company also assumes large retroactive reinsurance reserves from affiliated and unaffiliated insurers.

## **REINSURANCE**

### **Assumed – Affiliates**

The Company has numerous quota share and excess of loss arrangements with its affiliates that are structured on both facultative and automatic terms. Affiliated reinsurance arrangements are negotiated and administered through the Company's Omaha corporate accounting office. Assumed affiliated reinsurance activities comprised of 22% of the total assumed premiums in 2012, as well as 38% of total assumed reserves as of December 31, 2012. The more significant arrangements are described below.

Effective January 1, 1998, the Company entered into an excess of loss reinsurance agreement with its affiliate, NFM. An amendment effective January 1, 2007 calls for NFM to cede 100% of NFM's liabilities in excess of \$100 million per occurrence that arose from NFM's contracts with per occurrence limits in excess of \$100 million.

Effective May 15, 2000, the Company entered into an excess of loss reinsurance agreement with certain NLF, an affiliate. Per the agreement, the Company agreed to assume 100% of NLF's liabilities in excess of \$5 million per occurrence that arose from certain NLF's contracts with per occurrence limits in excess of \$5 million.

Effective January 1, 2005, the Company entered into a quota share reinsurance agreement with NLF whereby the Company assumes 50% of the net loss sustained by NLF with respect to all workers' compensation policies issued by NLF through American All Risk Insurance Services, Inc.

Effective January 1, 2005, the Company entered into two agreements with its affiliates; General Reinsurance Corporation, General Star Indemnity Company, General Star National Insurance Company, Genesis Insurance Company, Genesis Indemnity Insurance Company,

National Reinsurance Corporation, and Fairfield Insurance Company, collectively referred to as Gen Re. The first agreement is a 40% share of liability, which is 80% of the reinsurer's liability, on a quota share agreement. This contract covers all non-Canadian lines of insurance and reinsurance written by Gen Re. The second Gen Re agreement is a 40% share of non-Canadian liability, which is 80% of the reinsurer's liability, of a loss portfolio agreement. The Company's aggregate limit on this assumption is equal to the loss transfer payment plus \$4 billion.

Effective December 31, 2005, the Company entered into two reinsurance agreements with Medical Protective Corp. (Med Pro). The first of these agreements is a 25% loss portfolio cession, which equals 50% of the reinsurer's liability, of Med Pro's then outstanding net loss and loss adjustment expenses. The aggregate limit of liability to the Company is \$1.05 billion or three times the loss transfer payment. Under the second agreement, the Company assumed a 25% share of liability, which equals 50% of the reinsurer's liability, quota share cession of net loss. The Company's quota share aggregate limit of liability is equal to three times the subject net earned premium ceded for the calendar accident year.

Effective January 1, 2007, the Company entered into two reinsurance agreements with its affiliates; United States Liability Insurance Company, Mount Vernon Fire Insurance Company, and U.S. Underwriters Insurance Company, collectively referred to as USLI. Under the first agreement, the Company assumed 50% of the outstanding loss and loss adjustment expense reserves of USLI with an aggregate limit of approximately \$888 million. Under the second agreement, the Company assumed 50% of USLI's unearned premium reserves, losses, loss adjustment expenses, and underwriting expenses incurred after the effective date with an aggregate limit equal to three times the subject net earned premium ceded for the calendar accident year.

Effective December 31, 2012, the Company entered into a loss portfolio agreement with its affiliates; AmGUARD Insurance Company, EastGUARD Insurance Company, NorGUARD Insurance Company, and WestGUARD Insurance Company, collectively referred to as GUARD. Under the agreement, the Company assumed 50% of GUARD's aggregate unpaid ultimate net loss and loss adjustment expense under all lines of insurance and reinsurance up to an aggregate limit of approximately \$781 million.

Tenecom Limited (formerly The Yasuda Fire & Marine Insurance Company) entered into a portfolio run-off reinsurance agreement with the Company effective January 1, 2001. The contract covers business underwritten in the London market from 1973 until 1991 and has an aggregate limit of \$275 million in excess of \$100 million.

Transfercom Limited entered into a portfolio run-off reinsurance agreement with the Company effective March 1, 2007. The contract covers business originally carried by Sompo Japan Insurance Inc. (UK branch) from underwritten and reinsurance business in the London market from 1958 until 2002. Transfercom Limited assumed the business through novation from Sompo. On the effective date, the Company's aggregate limit was \$525 million, plus \$50 million for expenses. In 2010, the contract aggregate limit was increased to \$605 million, plus \$50 million for expenses.

The Company has the following loss portfolio agreements with affiliates, which are retroactive in nature and are accounted for as prospective in accordance with SSAP 62R Paragraph 31(d).

<b><u>Reinsured</u></b>	<b><u>Effective Date</u></b>	<b><u>Reserves Carried</u></b>
AmGUARD Insurance Co.*	December 31, 2012	\$ 105,135,939
EastGUARD Insurance Co.*	December 31, 2012	25,024,088
General Reinsurance Corp.*	January 1, 2005	2,530,950,392
General Star Indemnity Co.*	January 1, 2005	18,505,125
General Star National Ins. Co.	May 19, 1997	43,399,855

<b><u>Reinsured</u></b>	<b><u>Effective Date</u></b>	<b><u>Reserves Carried</u></b>
General Star National Ins. Co.	January 1, 2005	\$ 10,135,348
Genesis Insurance Co.*	January 1, 2005	6,532,474
Mount Vernon Fire Ins. Co.*	January 1, 2007	9,740,993
NorGUARD Insurance Co.*	December 31, 2012	121,499,919
Seaworthy Insurance Co.	December 31, 2007	12,133,785
Tenecom Limited *	January 1, 2001	166,344,103
The Medical Protective Co.*	December 31, 2005	81,822,878
Transfercom Limited *	March 1, 2007	276,385,898
Transfercom Limited	March 1, 2011	88,966,435
U.S. Underwriters Ins. Co.*	January 1, 2007	8,569,431
United States Liability Ins. Co.*	January 1, 2007	5,547,718
WestGUARD Insurance Co.*	December 31, 2012	10,778,216

\* - Agreement is describe in the narrative above.

### **Assumed - Non-Affiliates**

The Company's non-affiliated reinsurance underwriting and claims activities are administered through its Reinsurance Division. The Reinsurance Division offices are located in Stamford, Connecticut. The Reinsurance Division writes both prospective and retroactive business under the terms of numerous reinsurance agreements. The Company's counterparties are foreign as well as domestic insurers and reinsurers, reinsurance pools, and syndicates. The assumption treaties cover exposures located across the globe. Arrangements include both quota share and excess loss structures utilizing both facultative and automatic facilities. The Company focuses on providing catastrophe and high dollar exposure property coverages, as well as, high limit liability and workers compensation casualty coverages. The Company also assumes whole accounts of business, under which the Company or an affiliate of the Company may manage the run-off claims activities. Some of the more significant categories of exposure assumed by the Company include the following:

Property catastrophe	Workers compensation
Aviation	Personal liability
Terrorism	Commercial liability
Hurricane	Third party liability
Earthquake	Product liability
Surety	

The Company enters into a number of new assumed reinsurance agreements each year and has several hundred contracts remaining in-force as of December 31, 2012 that are with hundreds of entities.

As of December 31, 2012, the most significant non-affiliated assumed arrangement was with Swiss Reinsurance Company, Ltd. and several of its property-casualty affiliates (SwissRe), which is described below. The SwissRe agreement comprised 44% of the total assumed premiums in 2012, as well as compromised 30% of the Company's assumed carried reserves and 45% of unearned premiums on assumed business as of December 31, 2012. The Company has only three other non-affiliated contracts with premiums greater than 2% of total assumed premiums in 2012. These assumed contracts are with Accident Fund Insurance Company of America, Asia Capital Reinsurance Group Pte. Ltd., and Vero Insurance Limited. Other than the SwissRe agreement, the Company had only one other individual non-affiliated contract that comprised more than 2% of the total claim reserves held as of December 31, 2012. This contract was with Utica Mutual Insurance Company (Utica). The SwissRe and Utica agreements notes above are further described as follows.

Effective January 1, 2008, the Company entered into a 20% quota share reinsurance agreement with SwissRe. The activities for each SwissRe affiliate are shown separately in the Company's Schedule F. In 2012, the Company assumed activity from the following individual affiliates of Swiss Re:

First Specialty Insurance Corporation  
Swiss Reinsurance America Corporation  
Westport Insurance Corporation  
Swiss Re Europe S.A.  
Swiss Re Insurance Company Africa Ltd.  
Swiss Re International SE  
Swiss Reinsurance Company Ltd.

The Company individually assumed a 20% quota share from each of SwissRe's major affiliates. The agreement covers all of SwissRe's property-casualty risks incepting through December 31, 2012. The agreement was not renewed. The agreement required quarterly reporting and settlement of premium and claim activities utilizing the relevant jurisdictional currency under which each SwissRe affiliate operated. All monies flowed through an escrow account facilitated by JP Morgan Chase Bank. Simultaneous with this agreement, the Company entered into a reinsurance agreement with its affiliate, Wesco-Financial Insurance Company (WESCO), retroceding 10% of the quota share risk assumed from SwissRe on the same terms as the underlying agreement. The reinsurance agreement with WESCO was commuted in full effective January 1, 2012. On March 31, 2009, the Company novated certain obligations under the SwissRe reinsurance agreement to NLF and the Company's obligations under the reinsurance agreement were amended to exclude certain Canadian liabilities.

Effective January 1, 2012, the Company entered into a run-off reinsurance agreement with Utica. The agreement covers asbestos claims prior to December 2003. The agreement is accounted for as prospective in accordance with SSAP No. 62R. Under the agreement, the Company's aggregate limit of liability for ultimate net loss is \$476 million.

### **Programs and Pools**

Effective January 1, 2003, the Company became a member of the Global Aerospace Underwriting Managers Limited & Global Aerospace, Inc. (GAUM) which was formerly known

as Associated Aviation Underwriters, Inc., an international aviation pool. GAUM groups their business into four separate pools (Pools). For 2003 through 2007 there were three pools: United States, United Kingdom & Canada. In 2008, a fourth pool was added, namely a Zurich pool.

The Company's participation percentages after applicable cessions, by pool year, were as follows:

<u>Pool Year</u>	<u>Net Percentage</u>
2003 thru 9/15/04	25.000
2003 after 9/15/04	25.000
2004 thru 9/15/04	29.750
2004 after 9/15/04	29.750
2005	29.750
2006	29.750
2007	29.750
2008	25.890
2009	08.390
<u>Pool Year</u>	<u>Net Percentage</u>
2010	08.390
2011 thru 10/16/12	08.390
2011 after 10/16/12	08.390
2012 thru 10/16/12	08.390
2012 after 10/16/12	08.390

Pool members have the option to nominate an affiliated company to write 'Specific Risks' by completing a Deed of Adherence. The nominated company becomes an Inside Insurer. The Company has nominated various affiliates to write Specific Risks in the pool. The table below details those nominations:

<u>Affiliate</u>	<u>Effective</u>	<u>Pool Business</u>
Berkshire Hathaway Intl. Ins. Ltd.	1/1/2004	UK - 2004 & later
Berkshire Hathaway Intl. Ins. Ltd	1/1/2008	Zurich - 2008 & later
Central States Indemnity Co.	1/1/2003	US - MA, NY, HI
Central States Indemnity Co.	7/1/2003	US - LA, OR
Central States Indemnity Co.	7/1/2008	US - Puerto Rico
National Fire & Marine Ins. Co.	7/1/2003	US - Surplus Lines

<u>Affiliate</u>	<u>Effective</u>	<u>Pool Business</u>
National Liability & Fire Ins. Co.	9/1/2004	Canada
National Liability & Fire Ins. Co	12/1/2009	Brazil
United States Liability Ins. Co.	1/1/2003	US - NJ (Until 5-14-07)
National Indemnity of the South	5/15/2007	US - NJ
National Indemnity of the South	7/1/2003	US - FL, NE

The aggregate maximum liability the Pool may assume on behalf of the Member was \$750 million combined single limit any one accident or occurrence for liability risks and \$90 million for any single hull and/or spares risk. The aggregate limit is subject to change.

An affiliate of the Company, Northern States Agency, Inc. (NSA), owns 60% of GAUM as of December 31, 2012. NSA purchased 40% of GAUM in 2003, then increased ownership by 5% in 2004, and by another 15% in 2008.

The Company has also entered into reinsurance agreements with affiliates, whereby certain Pool policy participations are ceded to the Company.

### **Retroactive Reinsurance**

Retroactive reinsurance agreements cover past loss events previously insured or reinsured by the cedent. The Company's retroactive agreements are each subject to an aggregate limit and are generally expected to incur losses that exceed the consideration received for the contract. Through investment of said consideration, the Company expects to eventually attain a profit position, as the claim settlements are expected to occur over an extended period of time. The Company's December 31, 2012 financial statement includes 35 assumed and 2 ceded retroactive reinsurance contracts, with carried reserves of approximately \$17.58 billion and \$1.4 million, respectively. The significant retroactive contracts assumed include the following:

<u>Reinsured Name</u>	<u>Contract Effective Date</u>	<u>Aggregate Limit (millions)</u>	<u>2012 Reserve (millions)</u>
Aviva International Insurance PLC	July 1, 2000	\$3,424	\$1,103
Century Indemnity Company	July 1, 1999	2,500	18
Continental Casualty Company	January 1, 2010	4,000	1,764
Eaglestone Reinsurance Company	January 1, 2011	3,500	2,146
Equitas Limited	March 30, 2007	15,112	7,829
Potomac Insurance Company	June 1, 2001	2,500	932
Swiss Reinsurance Company Ltd.	February 4, 2009	5,322	501

The Aviva International Insurance PLC agreement includes certain of its affiliates under which the Company assumed up to an aggregate limit of \$3.43 billion in net losses and allocated loss adjustment expenses paid after June 30, 2000 for certain business written in years 2000 and prior.

The Century Indemnity Company agreement calls for the Company to assume up to an aggregate limit of \$2.5 billion in excess after an approximate \$2.3 billion retention for losses and loss adjustment expenses on business written and in effect prior to January 1, 1996. The Company in turn has retroceded to Ace Bermuda Insurance Ltd, a portion of its coverage provided under this treaty through a separate arrangement that ceded 10% of an aggregate limit of \$1.25 billion in excess of a \$1.25 billion retention.

The Company entered into an agreement, effective January 1, 2010, with Continental Casualty Company and certain of its affiliates, collectively CNA. Under the terms of the agreement the Company agrees to assume certain asbestos and environmental pollution liabilities incurred by CNA prior to the effective date, subject to the terms and conditions of the agreement. The Company's aggregate limit of liability for all loss and allocated loss adjustment expenses under the agreement is \$4 billion.

The Company entered into an agreement with a group of American International Group, Inc. affiliates, including Eaglestone Reinsurance Company. Under the agreement, the Company

assumes up to an aggregate limit of \$3.5 billion in losses and allocated loss adjustment expenses for certain asbestos liabilities incurred prior to 1986 and unpaid at December 31, 2010.

Under the Equitas Limited (Equitas) agreement, the Company has agreed to reinsure all of the loss and allocated loss adjustment expense of Equitas, which was established to reinsure and manage the pre-1993 non-life insurance and reinsurance liabilities of the Names or Underwriters of Lloyd's of London. The arrangement was agreed to in November 2006 and effective on March 30, 2007 after receipts of all requisite regulatory approvals. As of the effective date of the agreement, the aggregate limit was \$13.8 billion. On June 18, 2009, Equitas exercised its option to purchase an additional \$1.3 billion aggregate limit.

As per a June 2001 agreement with Potomac Insurance Company (Potomac), the Company agreed to assume up to an aggregate limit of \$2.5 billion in losses and allocated loss adjustment expenses. Covered business includes activities from Potomac and that of certain of its affiliates that are paid after December 31, 1999 and arise from certain losses occurring mostly from business written prior to 1988.

In February 2009, the Company entered into a retroactive reinsurance agreement with SwissRe to assume up to 5.0 billion Swiss Francs (CHF) of substantially all of SwissRe's property and casualty losses and allocated loss adjustment expenses occurring prior to January 1, 2009 but unpaid as of December 31, 2008. This assumption was in excess of a retention of SwissRe's then reported reserves on subject losses and allocated loss adjustment expenses of CHF 56.7 billion.

### **Ceded – Affiliates**

Ceded reinsurance activities have been a relatively minor aspect of the Company's overall reinsurance operations. The Company generally retains most risks assumed or directly written. In

2012, affiliated reinsurance activities comprised 20% of ceded premiums and 56% of ceded reserves. The remaining ceded activities were comprised of retrocessions and fronting arrangements which were generally a part of larger arrangements under which the Company assumed and/or agreed to take under its management a block of business. The two significant affiliated reinsurance agreements are with CI and are noted below.

The Company retrocedes 25% of its property catastrophe business assumed from contracts incepting January 1, 2000 until cancellation of the agreement to CIC.

The Company also ceded to CIC 100% of all liability arising from periodic payment settlements negotiated by the Company with its own claimants and with insurance companies or self-insureds that the Company has insured or reinsured.

#### **Ceded - Non-Affiliates**

Effective January 1, 2002, the Company retroceded 34% of the liabilities assumed under a quota share agreement with Syndicate 2020, Wellington Underwriting. The agreement also covered Wellington Underwriting with respect to their whole account from January 1 through May 31, 2002, as well as its United States surplus lines business that was written from June 1 through June 30, 2002.

Effective September 16, 2004, Converium AG (Converium) entered into a fronting and administration agreement with the Company. The Agreement called for the Company to write and cede 50% of the Converium AG's share of the GAUM aviation pool business.

In 2007, Converium was purchased by SCOR S.A. and based on the November 27, 2002 GUAM agreement this change in control terminated Converium's participation effective the following underwriting year. Effective January 1, 2008, SCOR Switzerland Limited (SCOR)

entered into a quota share reinsurance agreement with the Company. This agreement called for the Company to cede a 15% share of the GAUM business to SCOR.

### **Deposit Accounting**

The Company has entered into certain agreements that are deemed, for financial purposes, not to transfer sufficient insurance risk or were not agreed to both parties in written form within nine months. The following agreements were accounted for using the deposit method of accounting. The total deposit liability for such contracts as of December 31, 2012 is \$1.62 billion.

Following is a listing of the reinsureds and the corresponding liability balance being carried by the Company for each contract accounted for as deposit accounting:

<b><u>Reinsured Company</u></b>	<b><u>Effective Date</u></b>	<b><u>Liability Being Carried</u></b>
Frontier Insurance Company	7/1/2000	\$ 25,728,138
INA Assitalia SPA	10/22/2007	6,479,269
Paul Revere Life Insurance Company	4/1/2004	460,786,435
Provident Life and Accident Ins. Co.	4/1/2004	563,156,322
Provident Life and Casualty Ins. Co.	4/1/2004	50,263,774
Swiss Re Europe S.A.	1/1/2008	118,970,097
Swiss Reinsurance America Corp.	11/30/1994	182,518,290
Swiss Reinsurance Company, Ltd	1/1/2008	164,071,387
Transport Insurance Company	12/1/2004	50,677,747
Net foreign currency adjustment		<u>2,307,193</u>
Total liability carried		<u>\$1,624,958,652</u>

### **General**

During a sample review of Company reinsurers it was noted that one reinsurer was not included in the NAIC Annual Statement, Schedule F, Part 8. An immaterial understatement of the Company's Schedule F penalty resulted for this sample exception. It is recommended that the Company complete its NAIC Annual Statement, Schedule F in accordance with the NAIC

Annual Statement Instructions regarding the inclusion of reinsurers and reinsurance balances required to be reported on Schedule F, Part 8.

It was noted that several reinsurance agreements did not contain clauses or complete clause wording in accordance with NAIC Accounting Practices and Procedures, SSAP 62R, Paragraphs 8a, 8b, and 8c (insolvency, recoveries without delay, and entire agreement clauses). It is recommended that all current and future reinsurance agreements include clauses required by NAIC Accounting Practices and Procedures, SSAP 62R, Paragraphs 8a, 8b, and 8c.

It was noted that several multi-cedent reinsurance agreements did not contain or refer to allocation terms for the cedents. It is recommended that allocation terms be documented for all affiliate and non-affiliate multi-cedent reinsurance agreements in accordance with the NAIC Accounting Practices and Procedures, SSAP 62R, Paragraph 9. Per SSAP 62R the written documentation may be part of the reinsurance agreement or may be a separate agreement. It is also recommended that any new or amended affiliate agreements executed to comply with SSAP 62R Paragraph 9 be filed in accordance with the Insurance Holding Company System Act, Neb. Rev. Stat. Sec. 44-2133.

All contracts reviewed contained standard arbitration, run-off, errors and omissions, and termination clauses, as well as intermediary clauses where applicable. Significant cessions were with insurers/reinsurers authorized to do business in Nebraska.

## **BODY OF REPORT**

### **GROWTH**

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

	<b><u>2009</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2012</u></b>
Common stocks	\$51,087,799,599	\$43,823,206,152	\$59,591,876,033	\$67,865,053,419
Other invested assets	11,040,524,974	48,020,781,698	43,742,515,543	44,256,809,244
Admitted assets	78,440,494,147	111,644,977,716	115,452,570,996	127,340,865,936
Loss reserves	10,762,489,276	10,517,731,122	12,200,481,968	13,952,473,219
Unearned premiums	2,049,097,051	1,996,338,724	2,359,609,336	3,034,857,739
Total liabilities	40,004,992,853	43,207,923,401	45,297,143,421	48,479,351,256
Capital and surplus	38,435,501,294	68,437,054,315	70,155,427,575	78,861,514,680
Premiums earned	4,895,332,282	4,475,513,611	5,135,299,323	6,923,123,681
Losses incurred	2,155,788,040	1,763,205,018	3,560,343,327	3,635,980,451
Net underwriting gain	1,040,559,829	650,094,440	(671,937,948)	534,039,425
Net investment gain	1,731,226,593	6,207,021,567	5,677,943,844	5,538,455,420
Net income	1,609,605,444	6,079,272,198	4,836,989,444	5,366,419,443

### **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, 2012 and its transactions during the year 2012, 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, 2012**

<u>Assets</u>	<u>Assets</u>	<u>Assets Non- Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 4,638,227,130		\$ 4,638,227,130
Preferred stocks	3,280,800,000		3,280,800,000
Common stocks	69,418,087,778	\$1,553,034,359	67,865,053,419
Real estate	680,328		680,328
Cash, cash equivalents and short-term investments	2,634,648,027		2,634,648,027
Other invested assets	44,334,267,927	77,458,683	44,256,809,244
Receivable for securities	<u>739,553</u>	<u>                    </u>	<u>739,553</u>
Subtotal, cash and invested assets	<u>\$124,307,450,743</u>	<u>\$1,630,493,042</u>	<u>\$122,676,957,701</u>
Investment income due and accrued	\$ 206,293,970	\$ 110,071	\$ 206,183,899
Uncollected premiums and agents' balances in course of collection	2,887,475,027	5,223,043	2,882,251,984
Deferred premiums, agents' balances and installments booked but deferred and not yet due	17,754,901	45,740	17,709,161
Accrued retrospective premiums	24,780,960		24,780,960
Amounts recoverable from reinsurers	48,960,803		48,960,803
Funds held by reinsured companies	529,980,360	1,019,847	528,960,513
Current federal income tax recoverable	129,100,054		129,100,054
EDP equipment	288,486		288,486
Furniture and equipment	827,569	827,569	
Net adjustment in assets and liabilities due to foreign exchange rates	20,442,764		20,442,764
Receivables due from parent	44,851,323		44,851,323
Funds held by reinsured company under retroactive contract	564,365,310		564,365,310
Retroactive reinsurance premium deferred and not yet due	4,511,135		4,511,135
Third-party reinsurance recoverables	271,180,600	82,319,544	188,861,056
Assigned reinsurance recoverables	146,877,169	146,877,169	
Automobiles	27,896	27,896	
Leasehold improvements	505,563	505,563	
Other assets	<u>2,668,845</u>	<u>28,058</u>	<u>2,640,787</u>
Total	<u>\$129,208,343,478</u>	<u>\$1,867,477,542</u>	<u>\$127,340,865,936</u>

## **Liabilities, Surplus and Other Funds**

Losses	\$ 13,952,473,219
Reinsurance payable on paid losses and loss adjustment expenses	416,934,884
Loss adjustment expenses	2,319,361,917
Commissions payable, contingent commissions and other similar charges	2,621,249
Other expenses	10,648,447
Taxes, licenses and fees	(4,380,125)
Net deferred tax liability	7,063,253,798
Unearned premiums	3,034,857,739
Advanced premiums	486,000
Ceded reinsurance premiums payable	12,952,500
Funds held under reinsurance treaties	356,632,410
Amounts withheld for account of others	225,457,690
Provision for reinsurance	28,849,200
Drafts outstanding	788,792
Payable to parent, subsidiaries and affiliates	32,520,087
Payable for securities	100,135,306
Retroactive reinsurance reserve – assumed	17,580,805,255
Retroactive reinsurance reserve – ceded	(1,444,738)
Deposit liabilities	1,624,958,652
Deferred gain liability	1,665,010,569
Other liabilities	<u>56,428,405</u>
Total liabilities	<u>\$ 48,479,351,256</u>
Special surplus from retroactive reinsurance	\$ 100,222,663
Common capital stock	5,500,000
Gross paid in and contributed surplus	26,806,657,926
Unassigned funds (surplus)	<u>51,949,134,091</u>
Surplus as regards policyholders	<u>\$ 78,861,514,680</u>
Total	<u>\$127,340,865,936</u>

## STATEMENT OF INCOME - 2012

### Underwriting Income

Premiums earned	<u>\$6,923,123,681</u>
Deductions:	
Losses incurred	\$3,635,980,451
Loss adjustment expenses incurred	759,201,172
Other underwriting expenses incurred	<u>1,993,902,633</u>
Total underwriting deductions	<u>\$6,389,084,256</u>
Net underwriting gain or (loss)	<u>\$ 534,039,425</u>

### Investment Income

Net investment income earned	\$5,773,313,917
Net realized capital gains less capital gains tax	<u>(234,858,497)</u>
Net investment gain (loss)	<u>\$5,538,455,420</u>

### Other Income

Net gain (loss) from agents' or premium balances charged off	\$ (34,187)
Finance and service charges not included in premiums	49,739
Miscellaneous other income (expense)	(59,153,168)
Retroactive reinsurance gain (loss) - assumed	<u>35,375,486</u>
Total other income	<u>\$ (23,762,130)</u>
Net income after capital gains tax and before federal income tax	\$6,048,732,715
Federal income tax incurred	<u>682,313,272</u>
Net income	<u>\$5,366,419,443</u>

## CAPITAL AND SURPLUS ACCOUNT

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Capital and surplus, beginning	\$27,613,131,754	\$38,435,501,294	\$68,437,054,315	\$70,155,427,575
Net income	\$ 1,609,605,444	\$ 6,079,272,198	\$ 4,836,989,444	\$ 5,366,419,443
Change in net unrealized capital gains	8,813,876,853	5,049,052,005	89,594,590	7,091,496,919
Change in net unrealized foreign exchange capital (loss)	(68,349,598)	(152,225,505)	(48,487,838)	(154,742,966)
Change in net deferred income tax	424,729,312	126,924,511	483,981,172	498,947,865
Change in nonadmitted assets	(771,200,877)	(632,864,436)	(68,738,451)	(369,363,032)
Change in provision for reinsurance	(3,030,400)	1,719,600	(12,619,800)	(5,443,400)
Cumulative effect of changes in accounting principles			(77,713,831)	
Surplus adjustment, paid in	1,435,059,763	22,450,504,511		
Dividends to stockholders	(580,000,000)	(1,250,000,000)	(3,500,000,000)	(3,750,000,000)
Change in deferred gain liability	(38,320,957)	(1,670,829,863)	15,367,974	28,772,276
Net change for the year	<u>\$10,822,369,540</u>	<u>\$30,001,553,021</u>	<u>\$ 1,718,373,260</u>	<u>\$ 8,706,087,105</u>
Capital and surplus, ending	<u>\$38,435,501,294</u>	<u>\$68,437,054,315</u>	<u>\$70,155,427,575</u>	<u>\$78,861,514,680</u>

## EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of \$51,949,134,091, as reported in the Company's 2012 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:

**Information Systems – Periodic User Access Review** – It is recommended that management review user network and application access capabilities within each department on a quarterly basis.

**Action:** The Company has complied with this recommendation.

**Information Systems – Administrator Level Access** - It is recommended that the Company should take the necessary steps to limit the number of individuals with administrator level access and maintain a formal listing of all such individuals.

**Action:** The Company has complied with this recommendation.

**Information Systems – Disaster Recovery/Business Continuity Plan** – It is again recommended that the Company establish a formal, documented disaster recovery plan and a formal, documented business contingency plan.

**Action:** The Company has complied with this recommendation.

## **COMMENTARY ON CURRENT EXAMINATION FINDINGS**

There were no additional comments or recommendations made as a result of this examination.

## **SUBSEQUENT EVENTS**

### **ACQUISITION OF STW**

Effective December 26, 2013, the Company acquired STW from CIC through a stock purchase agreement. In addition to a change in the organizational structure, the Company contributed approximately \$3 billion in capital to STW. An Investment Limitation Exemption (as provided under Nebraska Rev. Stat. 44-5119) was granted to allow the Company to make the contribution consisting of no less than five equity securities. Effective February 7, 2014, STW was renamed Berkshire Hathaway Specialty Insurance Company (BHSIC).

### **INVESTMENT TRANSFER**

On December 19, 2013, the Company transferred securities with a fair market value of \$3.7 billion from its investment in the Harney Trust to its common stock portfolio. The Company is the sole beneficiary of Harney Trust.

## **REVOLVING LOAN AGREEMENT AMENDMENTS**

Effective December 23, 2013, the Company amended a number of revolving loan agreements with affiliates. These amendments are listed below:

<b><u>Affiliated Party</u></b>	<b><u>Maximum Loan Amount Increased By</u></b>	<b><u>Term</u></b>
Berkshire Hathaway Inc.	\$2 billion	12/31/2015
Columbia Insurance Company	\$250 million	12/31/2015
National Fire and Marine Insurance Company	\$100 million	12/31/2015
BH Finance LLC.	\$0	12/31/2015

## **ACQUISITION OF BHHIC AND ORIC**

On December 27, 2013 BHLN paid an extraordinary distribution of \$1.115 billion in common stock of two wholly owned subsidiaries, Berkshire Hathaway Homestate Insurance Company (BHHIC) and Oak River Insurance Company (ORIC) to the Company.

## **REINSURANCE AGREEMENTS WITH MED PRO**

Effective January 1, 2014, the Company replaced its affiliate, CIC, in the 2005 loss portfolio treaty and quota share agreement with Med Pro. The Company assuming percentage was also increased to 75%.

## **REINSURANCE AGREEMENTS WITH GEICO**

Effective January 1, 2014, the Company entered into twelve affiliate reinsurance agreements with GEICO Casualty Company, GEICO Indemnity Company, Government Employees Insurance Company, GEICO Secure Insurance Company, GEICO Choice Insurance Company and GEICO Advantage Insurance Company, collectively referred to as GEICO. There is one loss portfolio agreement and one quota share agreement with each GEICO company. Under the agreements, GEICO cedes 50% of all in-force and new business to the Company.

## **REINSURANCE AGREEMENT WITH BHSIC**

Effective March 1, 2014, the Company entered into an affiliate reinsurance agreement to assume 50% quota share of all in-force and new business written by its subsidiary, BHSIC.

### **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

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

1. **Schedule F Penalty** - It is recommended that the Company complete its NAIC Annual Statement, Schedule F in accordance with the NAIC Annual Statement Instructions regarding the inclusion of reinsurers and reinsurance balances required to be reported on Schedule F, Part 8.
2. **Reinsurance Agreement Clauses** - It is recommended that all future reinsurance agreements include clauses required by NAIC Accounting Practices and Procedures, SSAP 62R, Paragraphs 8a, 8b, and 8c.
3. **Multi-Cedent Allocation Terms** – It is recommended that allocation terms be documented for all affiliate and non-affiliate multi-cedent reinsurance agreements in accordance with the NAIC Accounting Practices and Procedures, SSAP 62R, Paragraph 9. It is also recommended that any new or amended affiliate agreements executed to comply with SSAP 62R Paragraph 9 be filed in accordance with the Insurance Holding Company System Act, Neb. Rev. Stat. Sec. 44-2133.

## ACKNOWLEDGEMENT

The courteous cooperation extended by the Officers and employees of the Company during this examination is hereby acknowledged. In addition to the undersigned, the following participated in this examination and assisted in the preparation of this report:

### Examiners

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### Reinsurance Specialist

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Don Carbone, CFE, Reinsurance Specialist, Contracted by the Nebraska Department of Insurance, INS Services, Inc.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "P. Bliss". The signature is stylized with a large initial "P" and a cursive "Bliss".

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Peter Bliss, CFE  
Examiner-in-Charge  
Contracted by the Nebraska Department of Insurance  
INS Regulatory Insurance Services, Inc.

## ADDENDUM

### ORGANIZATIONAL CHART

Note: The following chart includes all affiliates related to insurance operations. Affiliates of selected non-insurance operations have been omitted. The omissions are replaced with the phrase “and owned affiliate(s).”

Berkshire Hathaway Inc. (34.787% owned by Warren E. Buffett)  
Affordable Housing Partners, Inc. and owned affiliates  
Albecca Inc. and owned affiliates  
AU Holding Company, Inc.  
Applied Underwriters, Inc.  
AEG Processing Center No. 35, Inc.  
AEG Processing Center No. 58, Inc.  
American Employers Group, Inc.  
Applied Investigations, Inc.  
Applied Logistics, Inc.  
Applied Premium Finance, Inc.  
Applied Processing Center No. 60, Inc.  
Applied Risk Services of New York, Inc.  
Applied Risk Services, Inc.  
Applied Underwriters Captive Risk Assurance Company  
AUI Employer Group No. 42, Inc.  
BH, LLC  
Combined Claim Services, Inc.  
Coverage Dynamics, Inc.  
Employers Insurance Services, Inc.  
North American Casualty Co.  
Applied Underwriters Captive Risk Assurance Company, Inc.  
California Insurance Company  
Continental Indemnity Company  
Illinois Insurance Company  
Pennsylvania Insurance Company  
Promesa Health Inc.  
Strategic Staff Management, Inc.  
Applied Group Insurance Holdings, Inc.  
Commercial General Indemnity, Inc.  
Ben Bridge Corporation and owned affiliate  
Benjamin Moore & Co. and owned affiliates  
Berkshire Hathaway Credit Corporation and owned affiliates  
Berkshire Hathaway Finance Corporation  
BH Columbia Inc.  
Columbia Insurance Company  
American All Risk Insurance Services, Inc.  
American Commercial Claims Administrators Inc.

Berkshire Hathaway Assurance Corporation  
 Berkshire Hathaway Reinsurance (Ireland) Limited  
 Berkadia Commercial Mortgage LLC  
 BH Finance LLC  
 BHG Structured Settlements, Inc.  
     Berkshire Hathaway Services India Private Limited  
     Berkshire India Limited  
     Resolute Management Inc.  
         CHP Insurance Agency, LLC  
         Consolidated Health Plans, Inc.  
     Resolute Management Limited  
     Resolute Management Services Limited  
     Tonicstar Limited  
 The British Insurance Company of Cayman  
 Medical Protective Corporation  
     AttPro RRG Reciprocal Risk Retention Group  
     C&R Insurance Services, Inc.  
     C&R Legal Insurance Agency, LLC  
     Medical Protective Finance Corporation  
     Medical Protective Insurance Services, Inc.  
     MedPro Risk Retention Services, Inc.  
     MedPro RRG Risk Retention Group  
     Princeton Insurance Company  
         Alexander Road Insurance Agency, Inc.  
         Princeton Advertising & Marketing Group, Inc.  
         Princeton Risk Protection, Inc.  
     Somerset Services, Inc.  
     The Medical Protective Company  
 Nederlandse Reassurantie Groep NV  
     NRG Victory Holdings Limited  
         NRG Victory Reinsurance Limited  
     NRG America Holding Company  
         Philadelphia Reinsurance Corporation  
 NetJets IP, LLC  
 Ringwalt & Liesche Co. and owned affiliates  
 Stonewall Insurance Company  
 BH Housing LLC  
 BH Shoe Holdings, Inc. and owned affiliates  
 BH-IMC Holdings B.V and owned affiliates  
 BHSF, Inc. and owned affiliates  
 Blue Chip Stamps, Inc.  
 Borsheim Jewelry Company, Inc.  
 Brookwood Insurance Company  
 Business Wire, Inc. and owned affiliates  
 Central States of Omaha Companies, Inc.  
     Central States Indemnity Co. of Omaha

CSI Life Insurance Company  
 CSI Processing, LLC  
 CORT Business Services Corporation  
 CTB International Corp. (CTBI) and owned affiliates  
 Cypress Insurance Company  
 Forest River, Inc. and owned affiliates  
 Mobile Disaster Structures, Inc.  
 Priority One Financial Services, Inc.  
     Vertis Insurance Group, Inc.  
 Fruit of the Loom, Inc. and owned affiliates  
 Garan, Incorporated and owned affiliates  
 Gateway Underwriters Agency, Inc.  
 General Re Corporation  
     General Reinsurance Corporation  
         Elm Street Corporation  
         General Re Compania de Reaseguros, S.A.  
         General Re Life Corporation  
             Idealife Insurance Company  
         General Reinsurance AG  
             Faraday Reinsurance Co. Limited  
                 General Star International Indemnity Ltd.  
         Gen Re Beirut s.a.l. offshore  
         Gen Re Warsaw Sp. z.o.o.  
         General Re Holdings Limited  
             Gen Re Services UK Limited  
         General Reinsurance Africa Ltd.  
         General Reinsurance AG Escritório de Rep. o Brasil Ltda.  
         General Reinsurance Life Australia Ltd.  
         General Reinsurance México, S.A.  
     General Reinsurance Australia Ltd  
     General Star Indemnity Company  
     General Star Management Company  
     General Star National Insurance Company  
     Genesis Insurance Company  
     Genesis Management and Insurance Services Corporation  
     GRC Realty Corporation  
     Railsplitter Holdings Corporation  
         Commercial Casualty Insurance Company  
         International America Group Inc.  
             American Centennial Insurance Company  
             International American Management Company  
     General Re-New England Asset Management, Inc.  
         GR-NEAM Limited  
     United States Aviation Underwriters, Inc.  
         Canadian Aviation Insurance Managers Ltd.  
     Gen Re Intermediaries Corporation

Faraday Holdings Limited  
     Faraday Underwriting Limited  
     Faraday Capital Limited  
     GRF Services Limited  
 GRD Holdings Corporation  
     General Re Financial Products Corporation  
 Gen Re Long Ridge, LLC  
 Helzberg's Diamond Shops, Inc. and owned affiliate  
 International Dairy Queen, Inc. and owned affiliates  
 Johns Manville Corporation and owned affiliates  
 Jordan's Furniture, Inc.  
 Justin Industries, Inc and owned affiliates  
 Marmon Holdings, Inc. and owned affiliates  
 MidAmerican Energy Holdings Company and owned affiliates  
 MiTek Industries, Inc. and owned affiliates  
 MS Property Company and owned affiliate  
 National Fire & Marine Insurance Company and owned affiliates  
     Redwood Fire and Casualty Insurance Company  
 National Indemnity Company  
     Atlanta International Insurance Company  
     Berkshire Hathaway International Insurance Limited (UK)  
     Berkshire Hathaway Life Insurance Company of Nebraska  
         Berkshire Hathaway Homestate Insurance Company  
         First Berkshire Hathaway Life Insurance Company  
         FlightSafety International Inc. and owned affiliates  
         Oak River Insurance Company  
     BHG Life Insurance Company  
     Boat America Corporation and affiliates  
     Burlington Northern Santa Fe, LLC and owned affiliates  
     CLAL U.S. Holdings, Inc.  
         GUARD Financial Group, Inc.  
             GUARD Insurance Group, Inc.  
                 AmGUARD Insurance Company  
                 EastGUARD Insurance Company  
                 GUARDco, Inc.  
                 InterGUARD, Ltd.  
                     Affiliated Agency Operations Co.  
                     TransGUARD, Ltd.  
                 NorGUARD Insurance Company  
                 WestGUARD Insurance Company  
     Continental Divide Insurance Company  
     Finial Holdings, Inc.  
         Finial Reinsurance Company  
 GEICO Corporation  
     Clayton Homes, Inc. and owned affiliates  
     CMH Capital, Inc. and owned affiliates

Eastern States Life Insurance Co.  
 HomeFirst Agency, Inc.  
 Midland States Life Insurance Co.  
 Vanderbilt Property and Casualty Insurance Co., LTD  
 CMH Services, Inc. and owned affiliates  
 GEICO Advantage Insurance Company  
 GEICO Choice Insurance Company  
 GEICO Financial Services, Gmbh  
 GEICO Indemnity Company  
     Criterion Insurance Agency  
     GEICO Casualty Company  
 GEICO Products, Inc.  
 GEICO Secure Insurance Company  
 Government Employees Insurance Company  
     GEICO General Insurance Company  
     GEICO Insurance Agency, Inc.  
     Government Employees Financial Corporation  
     Plaza Financial Services Company  
 International Insurance Underwriters, Inc.  
 Maryland Ventures, Inc.  
 McLane Company, Inc. and owned affiliates  
     Claims Services, Inc.  
 Plaza Resources Company  
 Top Five Club, Inc.  
 TTI, Inc. and owned affiliates  
 National Indemnity Company of Mid-America  
 National Indemnity Company of the South  
 SLI Holding Limited  
     The Scottish Lion Insurance Company Limited  
 Tenecom Limited  
     Kyoei Fire & Marine Insurance Co. Limited  
 The British Aviation Insurance Company Limited  
 Transfercom Limited  
 Unione Italiana Reinsurance Company of America, Inc.  
 National Liability & Fire Insurance Company  
 Nebraska Furniture Mart, Inc. and owned affiliates  
 NetJets Inc. and owned affiliates  
 Northern States Agency, Inc.  
     Global Aerospace Underwriting Managers Limited  
         Associated Aviation Underwriters Limited  
         BAIG Limited  
         British Aviation Insurance Group (Canada) Ltd  
         British Aviation Insurance Group (Technical Services) Limited  
         British Aviation Insurance Group (Underwriting Services) Limited  
         Global Aerospace Underwriters Limited  
         Global Aerospace Underwriting Managers (Canada) Limited

Global Aerospace Underwriting Managers (USA), Inc.  
Global Aerospace, Inc.  
Global Limited  
OTC Worldwide Holdings, Inc. and owned affiliates  
Precision Steel Warehouse, Inc. and owned affiliates  
R. C. Willey Home Furnishings  
Richline Group, Inc. and owned affiliates  
See's Candy Shops, Inc. and owned affiliate  
Shaw Industries Group, Inc. and owned affiliates  
Star Furniture Company  
The Buffalo News, Inc.  
The Fechheimer Brothers Company and owned affiliates  
The Lubrizol Corporation and owned affiliates  
The Pampered Chef, Ltd.  
U.S. Investment Corporation  
    United States Liability Insurance Company  
        Mount Vernon Fire Insurance Company  
            Mount Vernon Specialty Insurance Company  
            U.S. Underwriters Insurance Company  
Wesco-Financial Insurance Company  
    The Kansas Bankers Surety Company  
XTRA Corporation and owned affiliates

State of Vermont

County of Chittenden

Peter Bliss, being duly sworn, states as follows:

1. I have authority to represent Nebraska Dept. of Ins. in the examination of eight companies listed below.
2. Nebraska Dept. of Ins. 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 the eight companies listed below was performed in a manner consistent with the standards and procedures required by

Nebraska Dept. of Ins.

National Indemnity Insurance Company  
Berkshire Hathaway Homestate insurance company  
National Fire and Marine Insurance Company  
Columbia Insurance Company  
Redwood Fire Insurance Company  
Oak River Insurance Company  
Stonewall Insurance Company  
Berkshire Hathaway Life Insurance Company of Nebraska

The affiant says nothing further.

  
\_\_\_\_\_  
Examiner's Signature

Subscribed and sworn before me by PETER BLISS on this THIRD day of JUNE, 20 14.

(SEAL)

  
\_\_\_\_\_  
Notary Public MARGO PLANK

My commission expires 02.10.2015 [date].