

CERTIFICATION

September 26, 2011

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

Report of Examination of Financial Condition

The Central National Insurance Company of Omaha

Omaha, Nebraska

as of

December 31, 2010

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

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



Bruce R. Ramage

DIRECTOR OF INSURANCE

The Central National Insurance Company of Omaha

11128 John Galt Boulevard, Suite 450

Omaha, Nebraska 68137

Report of Financial Condition Examination

as of

December 31, 2010

**State of Nebraska
Department of Insurance**

**STATE OF NEBRASKA
DEPARTMENT OF INSURANCE**

SEP 26 2011

FILED

TABLE OF CONTENTS

<u>Item</u>	<u>Page</u>
Salutation	1
Introduction.....	1
Scope of Examination	2
Description of Company:	
History	3
Management and Control	
Holding Company	6
Shareholder.....	6
Board of Directors.....	7
Officers.....	8
Committees of the Board	9
Agreements/Transactions with Affiliates:	
Tax Allocation Agreement	9
Expense Allocation Agreement.....	9
Investment Management Agreement	10
Territory and Plan of Operation	10
Reinsurance	11
Body of Report:	
Growth.....	12
Financial Statements.....	12
Examination Changes in Financial Statements	15
Compliance with Previous Recommendations.....	15
Commentary on Current Examination Findings.....	15
Summary	16
Acknowledgement.....	17

Omaha, Nebraska
August 15th, 2011

Honorable Bruce R. Ramage
Director of Insurance
State of Nebraska
Lincoln, Nebraska 68508

Dear Sir:

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

**The Central National Insurance Company of Omaha
11128 John Galt Boulevard, Suite 450
Omaha, Nebraska 68137**

(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 September 30, 2006. The current financial condition examination initially covered the intervening period to the close of business on December 31, 2010. The review also included subsequent transactions as were considered pertinent. Examiners from the State of Nebraska participated in this examination and assisted in the preparation of this report.

SCOPE OF EXAMINATION

The examination was conducted pursuant to and in accordance with both the NAIC Financial Condition Examiners 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 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, 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 ascertain compliance with statutory and charter provisions. Its history was traced and has been reflected 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 the By-Laws were reviewed, including appropriate filings of any changes or amendments thereto. The minutes of the meetings of the shareholder and the Board of Directors, held during the examination period, were read and noted. Attendance at meetings, election of directors and officers, approval of investment transactions and authorization of salaries were also noted.

The fidelity bond and other insurance coverages protecting the Company's property and interests were reviewed, as were the employees' and agents' welfare and pension plans. The

Certificate of Authority to conduct the business of insurance in the State of Nebraska was 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 for the examination period, 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, including a review of internal controls. Its method of claim handling and all procedures pertaining to the adjustment and payment of incurred losses were also noted. NAIC IRIS test results were reviewed for all years covered by this examination.

DESCRIPTION OF COMPANY

History

The Company was incorporated under the laws of the State of Nebraska on August 6, 1946 as a capital stock legal reserve life and accident and health insurance company. By appropriate action in 1946, the plan of business was changed to that of a stock casualty insurance company and the name was changed to the present title. By amendment to the Articles of Incorporation in 1955, the Company's operations were broadened to permit the writing of multiple lines of insurance.

In 1967, ownership of the Company passed to Fidelity Corporation. In December 1970, all outstanding capital stock of the Company was transferred to FICOR, Inc. (Nevada) (FICOR), a wholly owned subsidiary of Fidelity Corporation. On December 31, 1977, FICOR was merged into Fidelity Corporation. Effective August 1, 1979, Fidelity Corporation changed its name to Drum Financial Corporation (Drum).

Effective September 10, 1981, Drum was acquired by St. Regis Paper Company (St. Regis). In September 1984, St. Regis was merged into Champion International Corporation (Champion). In October of 1986, Professional Underwriters Investment, Inc. acquired Drum.

The Nebraska Director of Insurance placed the Company under the supervision of the Nebraska Department of Insurance through the issuance of a "Determination and Notification of Supervision – List of Requirements to Abate Supervision and Notice of Hearing" effective September 15, 1989. The Company did not contest this determination, and consented to such supervision. The Order indicated that it appeared the Company was in such a condition as to render continuance of its business hazardous to the public or its policyholders. Also, that such condition primarily was the result of the insolvency or non-performance of a number of its reinsurers, which required the Company to fund all claims and resulted in a deteriorating surplus position.

At a hearing held November 6, 1989, testimony and evidence offered indicated that the Company had not yet abated the conditions which resulted in the Determination of Supervision, and that the examination, which had commenced previously, still remained in progress. It was therefore found that the Supervision Order should be continued and remain in place until such appropriate further order of the Nebraska Director of Insurance. The Company did not object to such continuation.

On February 12, 1990, American Professional Insurance Company, owned by a then subsidiary of the Company, was sold to First Security Corporation.

On March 9, 1990, the Company submitted to the Order of Rehabilitation and Consent to Rehabilitation petitioned by the Nebraska Director of Insurance to the District Court. This resulted in the Nebraska Director of Insurance being appointed rehabilitator of the Company effective March 9, 1990.

During 1990, The Central National Insurance Company of Puerto Rico, a subsidiary of the Company, was placed in liquidation and written off by the Company. Final liquidation was completed in 2000.

On February 28, 2003, the capital stock of The Protective National Insurance Company of Omaha, a wholly owned subsidiary of the Company, was transferred to the Company's parent, Drum Financial Corporation.

On December 1, 2005, the Company acquired all of the insurance and reinsurance rights and obligations of St. Regis Insurance Company Ltd. (Bermuda) (St. Regis). St. Regis was a wholly owned subsidiary of Angelina Casualty Company (Angelina), which in turn was a wholly owned subsidiary of the Company. On December 20, 2005, St. Regis was merged with Angelina (statutory merger).

On September 30, 2006, Angelina was merged with and into the Company. The merger transaction was approved by the Nebraska Department of Insurance in an Order Approving Merger entered June 16, 2006.

On February 26, 2010, White Mountains Re Holding, Inc. acquired 100% of the common stock of the Company from Drum Financial Corporation. White Mountains Re Holding, Inc. is a subsidiary of White Mountains Insurance Group, Ltd. As a condition to the acquisition of the Company by White Mountains, the Order of Rehabilitation was lifted by the Nebraska Department of Insurance on March 1, 2010.

Management and Control

Holding Company

The Company is a member of an insurance holding company system as defined by Nebraska Statute. Following is a partial organizational listing as reported in its December 31, 2010 Annual Statement:

White Mountains Insurance Group, Ltd.
Lone Tree Insurance Group Ltd.
Lone Tree Holdings Ltd.
White Mountains Re Ltd.
White Mountains Re Holdings Ltd
White Mountains Re Group, Ltd
White Mountains Re Financial Services Ltd
White Mountains Caleta Limited
White Mountains Phoenix S.a.r.l
White Mountains Re Holdings, Inc.
Central National Insurance Company of Omaha

Shareholder

The Company's Restated Articles of Incorporation, approved by the Board of Directors on July 13, 2010, authorize the issuance of 200,000 shares of common stock with a par value of \$25.00 each. At the date of this examination, 100,000 shares of common stock were issued and outstanding totaling \$2,500,000 of paid up capital, and all such shares were owned and held by White Mountains Re Holding, Inc.

Gross Paid In and Contributed Surplus at December 31, 2010 totaled \$6,544,742.

Dividends paid to the Company's shareholder during the examination period were as follows:

<u>Date of Payment</u>	<u>Amount</u>
April 26, 2006	\$398,635
April 23, 2007	\$244,840

<u>Date of Payment</u>	<u>Amount</u>
June 3, 2008	\$330,568
July 15, 2009	\$165,575
July 23, 2010	\$1,485,071

Notice was not provided to the Department nor the Director for the ordinary dividend declared on July 16, 2010 and paid to White Mountain Re Holding, Inc, on July 23, 2010 in the amount of \$1,485,071. It is recommended that the Company comply with Neb. Rev. Stat. §44-2132.

According to Neb. Rev. Stat. §44-2132(5) each insurer shall give notice to the Director of all dividends and other distributions to shareholders within five (5) business days following the declaration thereof, and shall not pay any such dividends or other distributions to shareholders within ten (10) business days following receipt of such notice by the Director unless, for good cause shown, the Director has approved payments within such ten (10) business day period.

Board of Directors

The Company's Restated By-Laws, adopted by the Board of Directors on July 13, 2010, state that the affairs and business of the corporation shall be conducted by a Board of Directors, which shall not be less than five nor more than eleven members. The By-Laws state that each Director shall be elected at an annual shareholders meeting, and shall serve for a term of one year.

Members of the Company's Board of Directors at December 31, 2010, were as follows:

<u>Name and Residence</u>	<u>Principal Occupation</u>
Walter Neal Wasserman Bolton, Connecticut	President and Chief Executive Officer of Company
Christine Hayer Repasy Bloomfield, Connecticut	White Mountains Re Services LLC, Attorney
Stephen Dale Heideman Omaha, Nebraska	Executive Vice President, Secretary of the Company

Name and Residence**Principal Occupation**

Jeffrey Wayne Davis
Washington Crossing, Pennsylvania

Chief Actuary, White Mountains Re Ltd.

Brian Eugene Kensil
Celebration, Florida

Board of Directors, White Mountains Re.
Holdings, Inc

Officers

Article IV of the Company's Restated By-Laws states that, "the Officers shall consist of a President, one or more Vice Presidents, a Secretary, one or more Assistant Secretaries, Treasurer, and one or more Assistant Treasurers. At the discretion of the Board of Directors, there may be an Executive Vice President elected." The Officers are elected at the first meeting of the Board of Directors following every annual shareholder's meeting. Officers elected and serving the Company at December 31, 2010, were as follows:

Name**Office**

Walter Neal Wasserman

President & Chief Executive Officer

Christine Hayer Repasy

Executive Vice President & General Counsel

Michael Raymond Terelmes

Executive Vice President, Chief Financial Officer
and Treasurer

Stephen Dale Heideman

Executive Vice President & Corporate Secretary

Jeffery Kent Ogle

Senior Vice President

Beverly Rae Branchaud

Vice President

Ronda Marie Kern

Assistant Secretary

It was noted that the Company does not have an Assistant Treasurer and therefore not in compliance with Article IV of the Company's Restated By-Laws which states that the Company should have one or more Assistant Treasurers. It is recommended that the Company comply with Article IV of the Company's Restated By-Laws which states that the Company should have one or more Assistant Treasurers.

Committees of the Board

Article III of the Company's Restated By-Laws states that, "the Board of Directors, by resolution of a majority of the whole Board, may provide for a Finance Committee of three or more directors and appoint or designate the manner in which the membership of the Committee shall be determined." Members serving on the Finance Committee at December 31, 2010 were as follows:

Brian E. Kensil	Jeffrey W. Davis	Stephen D. Heideman
Christine H. Repasy	Walter N. Wassermann	

The Board of Directors may designate other committees and delegate such authority and responsibility required to perform the purposes for which the committees are created.

Agreements/Transactions with Affiliates

Tax Allocation Agreement

The Company entered into a consolidated tax allocation agreement with White Mountains Insurance Re Holdings, Inc. (WTM Re Holdings), its ultimate parent, and certain direct and indirect wholly owned subsidiaries of WTM Re Holdings, dated February 26, 2010. Under this Agreement, the Company should contribute its fair and equitable share to the taxes payable by the WTM Re Holdings an amount equal to the federal income tax liability that the Company would owe if it were filing a separate federal income tax return. If the Company is due a refund on a separate return basis, WTM Re Holdings will pay the Company an amount equal to the refund.

Expense Allocation Agreement

Effective February 26, 2010, the Company entered into an Expense Allocation Agreement with White Mountains Holding Company, Inc. (WMHC). WMHC has agreed to provide and make available to the Company the services of its personnel, office space and the use of equipment and

other services, as long as such arrangements do not impede WMHC's business operations. Such costs and expenses shall be allocated based upon the Cost of Personnel or the Physical Allocation of Space. WMCH shall determine such allocated expenses and present a bill to the Company with 30 days after the last day of each month. All billings between parties shall be settled within 15 days of presentation except any quarterly adjustments, if necessary, shall be settled by the applicable parties within 15 days following presentation of the billing for the last month of each such quarter. Expense Allocation fees paid by the Company for the year 2010 totaled \$196,944.

Investment Management Agreement

Effective February 26, 2010, the Company entered into an Investment Management Agreement with White Mountains Advisors LLC. (WMA), whereby WMA is the investment adviser with respect to the Company's assets and has full discretion and authority, without obtaining any prior approval to make all investment decisions in respect of the Investment Account on the Company's behalf, in accordance with the Company's Investment Guidelines. The Company's Board of Directors shall oversee the activities of the Advisor pursuant to the Agreement and retains ultimate authority over the Investment Account.

WMA is paid a quarterly management fee based upon the assets under management. The Management Fee is payable in arrears on a quarterly basis within 20 days after the last day of each calendar quarter based upon the value of the Investment. Investment Management fees paid by the Company for the year 2010 totaled \$82,710.

Territory and Plan of Operation

The Company is currently licensed in the states of:

California
Louisiana
Tennessee

Colorado
Nebraska
Texas

Connecticut
New Hampshire
West Virginia

The Company has a small number of single premium policies, which remain in force. In addition, claims are running off in a number of states. For this reason, the Company has been unable to withdraw its license in eight of the above states.

Reinsurance

The Company's current reinsurance portfolio has evolved from a number of quota share, surplus and excess agreements for ceding or assuming business produced, underwritten and serviced by managing general agents as well as business produced by various agencies, brokers and other insurance companies, all of which are on a run-off basis. A number of these agreements ceded 100 percent of business on specialty lines emanating from certain agencies and a number of other agreements ceded or assumed various percentages of business covering several lines of insurance. In addition, in recent years reinsurance rights and obligations have been acquired through merger or settlement with subsidiary and affiliated companies.

Since the Order of Rehabilitation dated March 9, 1990, many contracts and programs have been commuted, run off, or involve insolvent reinsurers. The programs in which there is activity include many reinsurers for which the Company has funds held or letters of credit to partially offset receivables. Letters of credit and the reinsurance provision for overdue reinsurance offset receivables in what was determined a reasonable amount.

The reinsurance programs have been shrinking in respect to the total loss reserves. Of the Company's reported losses, approximately 15% are as a result of reinsurance assumed. The reinsurance recoverable portion of reported losses is approximately 24%. The reinsurance assumed

portion of incurred but not reported loss reserves represents approximately 33% of the total.

Reinsurance ceded represents approximately 7% of incurred but not reported loss reserves.

BODY OF REPORT

Growth

The following comparative data reflects the growth of the Company for the period under review:

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Admitted assets	\$35,867,641	\$34,051,720	\$31,867,084	\$33,550,649	\$32,794,088
Losses	20,430,324	18,287,845	15,321,897	15,603,873	15,249,883
Loss adjustment expenses	3,091,804	3,062,566	3,054,600	3,054,600	1,557,284
Total liabilities	25,190,627	22,803,186	19,510,844	19,785,057	17,763,287
Capital and surplus	10,677,014	11,248,534	12,356,240	13,765,592	15,030,801
Premiums earned	19,969	18,952	17,767	16,731	15,709
Losses incurred	400,400	(276,665)	(1,000,522)	516,665	(1,600,981)
Underwriting gain/(loss)	(1,732,364)	(1,370,019)	(510,757)	(2,056,125)	1,859,036
Investment gain	(125,215)	1,470,638	1,100,710	859,058	289,558
Net income/(loss)	(6,116)	701,332	1,111,760	1,565,434	1,739,817

Financial Statements

The following statement of admitted assets and liabilities, together with the accompanying summary of operations, reflects the financial condition of the Company as of December 31, 2010, and its transactions for the year 2010 as determined through this examination. A reconciliation of the surplus account for the period under review is also included:

FINANCIAL STATEMENT
December 31, 2010

<u>Assets</u>	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$28,979,346		\$28,979,346
Cash and short term investments	<u>3,190,038</u>		<u>3,190,038</u>
Subtotals, cash and invested assets	\$32,169,384		\$32,169,384
Investment income due and accrued	128,616		128,616
Amounts recoverable from reinsurers	122,483		122,483
Funds held by or deposited with reinsured companies	9,967		9,967
Net deferred tax asset	1,516,563	\$1,152,925	363,638
Furniture and equipment	2,566	2,566	
Deposit with real estate manager	<u>12,100</u>	<u>12,100</u>	
Total	<u>\$33,961,679</u>	<u>\$1,167,591</u>	<u>\$32,794,088</u>

Liabilities, Surplus and Other Funds

Losses		\$15,249,883
Loss adjustment expenses		1,557,284
Other expenses		93,528
Taxes, licenses and fees		8,310
Current federal and foreign income taxes		203,869
Unearned premiums		117,627
Ceded reinsurance premiums payable		224,469
Funds held by company under reinsurance treaties		168,101
Amounts withheld or retained by company for account of others		42,593
Provision for reinsurance		<u>97,623</u>
Total liabilities		<u>\$17,763,287</u>
Common capital stock		\$ 2,500,000
Gross paid in and contributed surplus		6,544,742
Unassigned funds (surplus)		<u>5,986,059</u>
Surplus as regards policyholders		<u>\$15,030,801</u>
Total		<u>\$32,794,088</u>

STATEMENT OF INCOME – December 31, 2010

Underwriting Income

Premiums earned	<u>\$ 15,709</u>
Deductions:	
Losses incurred	\$(1,600,981)
Loss expense incurred	(981,095)
Other underwriting expenses incurred	<u>738,749</u>
Total underwriting deductions	<u>\$(1,843,327)</u>
Net underwriting gain or (loss)	<u>\$ 1,859,036</u>

Investment Income

Net investment income earned	\$ 277,298
Net realized capital gains	<u>12,260</u>
Net investment gain	<u>\$ 289,558</u>

Other Income

Miscellaneous income	\$ 116
Management fee	129,142
Reinsurance write offs and recoveries	<u>(334,166)</u>
Total other income	<u>\$ (204,908)</u>
Net income before federal income taxes	\$1,943,686
Federal income taxes incurred	<u>203,869</u>
Net income	<u>\$1,739,817</u>

CAPITAL & SURPLUS ACCOUNT

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Capital and surplus, beginning	<u>\$9,059,781</u>	<u>\$10,677,014</u>	<u>\$11,248,534</u>	<u>\$12,356,240</u>	<u>\$13,765,592</u>
Net income	\$ (6,116)	\$ 701,332	\$ 1,111,760	\$ 1,565,434	\$ 1,739,817
Change in unrealized capital gains	1,409,121		1	(1)	6
Change in net deferred income tax	(16,031,284)	(922,408)	(200,230)	73,583	(4,583,032)
Change in non-admitted assets	16,443,145	919,782	202,101	(72,836)	4,948,261
Change in provision for reinsurance	201,002	117,654	324,642	8,747	645,228
Surplus adjustments paid in	(398,635)				
Dividends to stockholders		<u>(244,840)</u>	<u>(330,568)</u>	<u>(165,575)</u>	<u>(1,485,071)</u>
Net change for the year	<u>\$ 1,617,233</u>	<u>\$ 571,520</u>	<u>\$ 1,107,706</u>	<u>\$ 1,409,352</u>	<u>\$ 1,265,209</u>
Capital and surplus, ending	<u>\$10,667,014</u>	<u>\$11,248,534</u>	<u>\$12,356,240</u>	<u>\$13,765,592</u>	<u>\$15,030,801</u>

Examination Changes in Financial Statements

Unassigned funds (surplus) in the amount of \$5,986,059 as reported in the Company's restated 2010 Annual Statement has been accepted for purposes of this examination.

Compliance with Previous recommendations

There were no findings warranting comment or recommendation as a result of the previous examination.

Commentary on Current Examination Findings

There were no recommendations made as a result of this examination other than the recommendations disclosed under the caption "Description of Company".

SUMMARY

Following is a summary of comments and recommendations made as a result of this examination.

1. **Dividends** - It is recommend that the Company comply with Neb. Rev. Stat. §44-2132. According to Neb. Rev. Stat. §44-2132(5) each insurer shall give notice to the Director of all dividends and other distributions to shareholders within five (5) business days following the declaration thereof, and shall not pay any such dividends or other distributions to shareholders within ten (10) business days following receipt of such notice by the Director unless, for good cause shown, the Director has approved payments within such ten (10) business day period.
2. **Officers** - It is recommended that the Company comply with Article IV of the Company's Restated By-Laws which states that the Company should have one or more Assistant Treasurers.

ACKNOWLEDGEMENT

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

In addition to the undersigned, Kimberly A. Hurst, CFE and Skyler Lawyer, CFE, Financial Examiners; and William R. Schmid, Information Systems Examiner, all with the Nebraska Department of Insurance, participated in this examination and assisted in the preparation of this report.

Respectfully submitted,


Nicole S. Zimmermann CFE
Examiner-in-Charge
Nebraska Department of Insurance