

# CERTIFICATION

June 20, 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  
**OAK RIVER INSURANCE 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 20 2014

FILED

*Bruce R. Ramage*

DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

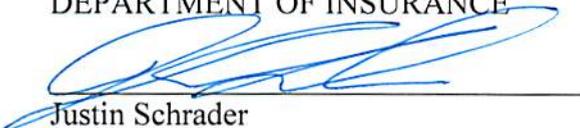
Take notice that the proposed report of the financial examination of

**OAK RIVER INSURANCE 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 17 day of June, 2014.

STATE OF NEBRASKA  
DEPARTMENT OF INSURANCE

  
Justin Schrader  
Chief Financial Examiner

**STATE OF NEBRASKA**

**Department of Insurance**

**EXAMINATION REPORT**

**OF**

**OAK RIVER INSURANCE COMPANY**

**as of**

**December 31, 2012**



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Omaha, Nebraska  
May 23, 2014

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Honorable Kevin M. McCarty  
Insurance Commissioner  
Florida Office of Insurance Regulation  
200 East Gaines Street  
Tallahassee, Florida 32399

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:

**OAK RIVER INSURANCE COMPANY**  
**3333 Farnam Street, Suite 300**  
**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 included 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)
- Cypress Insurance Company (CYP)
- Columbia Insurance Company (CIC)
- National Fire & Marine Insurance Company (NFM)
- National Indemnity Company (NICO)
- National Indemnity Company of Mid-America (NIMA)
- National Indemnity Company of the South (NISO)
- 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 By-Laws 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 incorporated on March 4, 1993 and remained dormant until December 29, 1993 when its parent, Kansas Fire and Casualty (KFC) merged into the Company and KFC dissolved. As of the merger date, the Company assumed all of the in-force business of KFC and all assets and liabilities of KFC became the assets and liabilities of the Company. Prior to the merger, KFC was a wholly owned subsidiary of NICO. Subsequent to the merger, the Company became a wholly owned NICO subsidiary until December 31, 1994, when NICO contributed all of the Company's outstanding capital stock to BHLN. BHLN is a wholly owned subsidiary of NICO.

Under the provisions of its charter and in conformity with Nebraska Statutes, the Company is authorized to write multiple line fire and casualty insurance. The Articles of Incorporation provide that the corporation shall have perpetual existence.

### **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," Berkshire Hathaway Inc. (BHI), as reported in the 2012 Annual Statement, is attached to this report as an addendum.

## **Shareholder**

The Articles of Incorporation provide that “the Corporation has authority not limited by any preemptive or other rights of its shareholders, to issue an aggregate of 100,000 shares of non-assessable common capital stock of the par value of \$60 each.”

As of December 31, 2012, Company records indicated that 50,000 shares were issued and outstanding in the name of BHLN, for a total paid up capital of \$3 million.

Gross paid-in and contributed surplus remained unchanged for the period covered by this examination in the amount of \$4.8 million. No dividends were paid to stockholders during this examination period.

## **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 seven nor more than twenty-one as may be fixed by the shareholders at each annual meeting or, if no number is so fixed, of seven Directors, at least one of whom shall be a resident 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>
Donald Frederick Wurster Omaha, Nebraska	President of NICO
Joseph Gerard Casaccio Stamford, Connecticut	Vice President of National Liability & Fire Insurance Company (NLF)
J. Michael Gottschalk Omaha, Nebraska	Vice President of NICO
Forrest Nathan Krutter Milton Mills, New Hampshire	Senior Vice President of NLF
Brian Peterson Hall Alpharetta, Georgia	Vice President of the Company

Andrew Ray Linkhart  
Omaha, Nebraska

Chief Financial Officer of BHHIC

Robert Nathan Darby, Jr.  
San Francisco, California

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 senior Officers elected and serving the Company at December 31, 2012:

<b><u>Name</u></b>	<b><u>Office</u></b>
Robert Nathan Darby, Jr.	President
Jackie Lou Perry	Secretary and Treasurer
Tracy Leigh Gulden	Senior Vice President
Mark Barba	Vice President
Brian Peterson Hall	Vice President
Margaret Anne Hartmann	Vice President
Richard Owen Kirste	Vice President
William Manuel Lawrence	Vice President
Therissa Elliot McKelvey	Vice President
Thomas John Mortland	Vice President
Reagan Rich Pufall	Vice President
Michael Vincent Campbell	Vice President

### **Committees**

The Company's By-Laws provide that "the Board of Directors may designate an Executive Committee, an Investment 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 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

Forrest Nathan Krutter

## **TRANSACTIONS WITH AFFILIATES**

### **Intercompany Services Agreement**

Effective November 23, 1994, the Company became a participant in an Intercompany “Service Agreement with its affiliates Continental Divide Insurance Company (CDIC), BHHIC, RFC, CYP, and BIC. Each participant cooperates in the performance of administrative services, special services, and shares in the use of property, equipment, and facilities necessary for all participants to conduct normal day-to-day operations. Each participant agrees to provide requested services to one or more of the other participants. A performing participant may at its sole discretion decline to provide the request if it would interfere with its ability to meet its obligations to its policyholders or would otherwise adversely affect the participant.

Effective as of July 1, 2007, the Company became a participant in an Intercompany Service Agreement with an affiliate, American Commercial Claims Administrators Inc. (ACCA). American Commercial Claims Administrators is a subsidiary of CIC. The Company provides ACCA with certain claims consulting and support services. ACCA will reimburse the Company for services and facilities provided by the Company pursuant to the agreement.

### **Intercompany Allocation Agreement**

Effective December 31, 2010, the Company became a participant in an Intercompany Allocation Agreement with its affiliates BHHIC, NFM, CDIC, CYP, RFC, and BIC. The affiliated insurers listed above are parties to a property excess per risk reinsurance contract.

Under the reinsurance agreement, BHHIC is the agent for the other participants for remitting or receiving payments. Each participant is responsible for tracking premiums subject to the reinsurance contract and calculating losses exceeding the contract retention. The agreement allows for balances to be offset through the participants' intercompany balances accounts. The Company's reinsurance recoveries are to be allocated on a pro rata basis, based on the total recoveries under the contract.

### **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.

Effective November 23, 1994, an agreement between the Company and BHI describes the method of tax allocation and the manner in which intercompany balances are settled.

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

The Company is licensed in 10 states. The Company's primary business is workers' compensation that comprised 90% of the 2012 direct premiums written with a concentration of business in the state of California. The Company also focused on workers compensation business in the states of Kansas, Missouri, Nebraska, and New York. The Company writes fire, other commercial auto liability and commercial multiple peril. The Company distributes its products through independent agents.

## **REINSURANCE**

Reinsurance contracts in effect during 2012 are described herein. The Company assumes insurance business from affiliated companies and mandatory pools. The Company cedes insurance business to affiliates, as well as to unaffiliated insurers. A general description of the contracts comprising its reinsurance program is summarized in the paragraphs below:

### **Assumed Reinsurance**

#### **Affiliate Fronting**

The Company assumes a 100% quota share of the claim liability and expense of any nature whatsoever arising from the following:

Effective January 1, 1995, the Company entered into an agreement with CYP. Coverage includes various lines of business issued at the request of CYP. This treaty provides a ceding commission of 1% of net written premium. This treaty was terminated on September 30, 2010 and is currently in run-off.

Effective September 15, 1984, The Company entered into an agreement with BHHIC. Coverage includes workers' compensation policies and employers liability insurance issued at the request of BHHIC. This treaty provides a ceding commission of 1% of net written premium. This treaty was terminated on September 30, 2010 and is currently in run-off.

Effective November 15, 1983, the Company entered into an agreement with NICO. Coverage includes workers' compensation policies and employers liability insurance issued at the request of NICO. This treaty provides a ceding

commission of 1% of net written premium. This treaty was terminated on September 30, 2010 and is currently in run-off.

Effective December 1, 1996, the Company entered into an agreement with NLF. Coverage includes workers' compensation policies and employers liability insurance issued at the request of NLF. This treaty provides a ceding commission of 1% of net written premium. This treaty was terminated on September 30, 2010 and is currently in run-off.

#### Other Assumed Reinsurance from Affiliates

The Company and CYP are parties to a reinsurance agreement providing excess of loss coverage to RFC and BHHIC with 50% participation from each company. This agreement coverage includes fire, extended coverage, allied lines, inland marine, earthquake, automobile physical damage comprehensive, garage-owners, garage keepers, warehouse legal liability, and the property sections of multiple peril policies effective between July 1, 2007 and December 31, 2010. This contract provides coverage of \$750,000 ultimate net loss each risk, each loss, in excess of \$250,000 subject to an occurrence limit of \$2.25 million and an aggregate annual limit of \$3 million.

#### Ceded Reinsurance

##### Affiliate Fronting

Quota Share agreements have been entered into providing for the Company to cede 100% of its claim liability and expense of any nature whatsoever arising from the following:

Effective January 1, 1995, the Company entered into an agreement with CYP.

The coverage includes workers' compensation policies and employers liability

insurance issued at the request of CYP. This treaty provides for a ceding commission of 1% of net written premium. This treaty was terminated and commuted in full as of December 31, 2012.

Effective September 15, 1984, the Company entered into an agreement with BHHIC. The coverage includes workers' compensation policies and employers liability insurance issued at the request of BHHIC. This treaty provides for a ceding commission of 1% of net written premium. This treaty was terminated on September 30, 2010 and is currently in run-off.

Effective January 1, 1978, the Company entered into an agreement with NICO. The coverage includes all Company policies, net of facultative and/or any non-affiliated reinsurance, issued through the reinsurer's Commercial Casualty Division in New York, New York. This treaty was terminated on September 30, 2010 and is currently in run-off.

#### Other Ceded Reinsurance to Affiliates

The Company had a reinsurance agreement in place ceding excess of loss coverage to RFC and CYP with 50% participation from each company. This agreement covers fire, extended coverage, allied lines, inland marine, earthquake, automobile physical damage comprehensive, garage-owners, garage-keepers, warehouse legal liability, and the property sections of multiple peril policies effective between July 1, 2007 and December 31, 2010. This contract provides coverage of \$750,000 ultimate net loss each risk, each loss, in excess of \$250,000 subject to an occurrence limit of \$2.25 million and an aggregate annual limit of \$3 million.

The Company, along with affiliates BHHIC, BIC, CDIC, CYP, and RFC, has a reinsurance treaty with NICO that cedes excess of loss coverage for property catastrophe losses.

The agreement covers fire, extended coverage, allied lines, inland marine, earthquake, automobile physical damage comprehensive, garage-owners, garage keepers warehouse legal liability, and the property sections of multiple peril policies effective April 1, 2009. This treaty provides coverage for 100% of \$10 million of coverage in excess of \$2 million for each risk, each occurrence, and an aggregate annual limit of \$20 million.

Effective June 1, 2008, the Company ceded 90% of all California workers' compensation policies to CYP. This treaty was terminated effective May 31, 2010, and commuted in full on December 31, 2012, thereby leaving no ongoing reinsurance coverage with CYP.

Effective January 1, 2007, the Company entered into a treaty agreement with RFC providing excess of loss coverage for all California workers' compensation business. This treaty provides coverage for 100% of \$3 million of coverage in excess of \$2 million for each risk, each occurrence.

Effective July 1, 2007, the Company has an agreement with NICO for all workers' compensation business. This agreement provides coverage for 100% of \$5 million of coverage in excess of \$10 million for each risk, each occurrence and also in the aggregate any one original policy. BHHIC, BIC, CDIC, CYP, and RFC are included as the reinsureds under this agreement.

The Company's casualty business is ceded under two arrangements with affiliated companies which provide excess of loss coverage on business classified as automobile bodily injury liability, automobile property damage liability, medical payments, uninsured motorists coverage, personal injury protection, death and disability coverage, workers' compensation and employers' liability, general liability/professional liability, and the liability sections of multiple peril policies. The agreements are detailed below:

Effective January 1, 1992, the Company entered in an agreement with RFC covering 100% of \$500,000 in excess of \$100,000 of ultimate net loss each occurrence and also in the aggregate any one original policy. This treaty was terminated effective December 31, 2010 and is currently in run-off.

Effective January 1, 1992, The Company entered an agreement with NICO covering 100% of \$9.4 million in excess of \$600,000 of ultimate net loss each occurrence and also in the aggregate any one original policy. BHHIC and RFC are included as the reinsured under this agreement.

Effective July 1, 2010, the Company entered into a treaty agreement ceding excess of loss coverage for automobile liability business with CIC. This treaty provides coverage for 100% of \$4 million of coverage in excess of \$1 million for each risk, each occurrence. BHHIC, BIC, CDIC, CYP, and RFC are included as reinsureds under this agreement.

#### Ceded Reinsurance to Nonaffiliates

The Company has a treaty agreement in place providing excess of loss coverage. This agreement covers fire, extended coverage, allied lines, inland marine, earthquake, automobile physical damage comprehensive, garage-owners, garage-keepers, warehouse legal liability, and the property sections of multiple peril policies effective January 1, 2005. This contract provides coverage of \$3 million ultimate net loss each risk, each loss, in excess of \$1 million subject to an occurrence limit of \$9 million and an aggregate annual limit of \$12 million. Several subscribing reinsurers provide these coverages through an intermediary. BHHIC, BIC, CDIC, CYP and RFC are included as the reinsureds under this agreement.

Effective July 1, 2004, the Company entered into a property facultative excess loss binding agreement with Catlin Underwriting, Inc., acting on behalf of Syndicate 2003. This

agreement, which pertains to public entity business only, provides \$20 million of coverage in excess of \$5 million for each risk, each occurrence. BHHIC, BIC, CDIC, CYP and RFC are included jointly as the reinsured under this agreement.

Effective May 20, 2003, the Company entered into a commercial excess facultative property binding agreement with Catlin Underwriting, Inc., acting on behalf of Syndicate 2003. With respect to each individual risk, the Company may bind a maximum amount of \$8 million in excess of the Company's retention but in no event may the Company bind more than three times its net and treaty retention.

The Company has a 100% quota share reinsurance treaty with Factory Mutual Insurance Company effective November 23, 2007, for equipment breakdown policies and equipment breakdown endorsements to commercial property insurance policies. This treaty provides coverage for 100% of the Company's net retained liability, with a maximum limit of \$100 million. BHHIC, BIC, CDIC, CYP and RFC are included as the reinsureds under this agreement.

### **Pools and Associations**

The Company participates in the National Workers' Compensation Reinsurance Pool, the Commercial Automobile Insurance Pool and the Kansas All Industry Placement Facility.

### **General**

It was noted that the Company had a number of multi-cedent contracts that were not subject to written allocation terms amongst the cedents. It is recommended that allocation terms be documented for all affiliate and non-affiliate multi-cedent reinsurance agreements in accordance with Statutory Accounting Principles (SSAP) 62R, Paragraph 9. It is also

recommended that any new or amended affiliate agreements be filed in accordance with the Insurance Holding Company System Act, Neb. Rev. Stat. Sec. 44-2133.

All contracts reviewed were inspected for insolvency, arbitration, run-off, errors and omissions and termination clauses, as well as intermediary clauses where applicable. 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>
Admitted assets	\$269,301,027	\$299,897,738	\$336,555,327	\$458,975,099
Loss reserves	87,297,464	96,024,579	118,974,228	201,596,246
Loss adjustment expenses	25,086,728	26,423,053	36,169,729	58,651,419
Net deferred tax liability	3,414,858	3,526,149	2,641,159	2,174,444
Unearned premiums	18,292,232	32,577,776	35,609,906	44,253,072
Total liabilities	151,385,569	172,564,104	210,061,909	321,322,678
Policyholder surplus	117,915,458	127,333,634	126,493,418	137,652,421
Premiums earned	18,843,331	52,269,422	78,204,403	91,598,926
Losses incurred	15,126,745	28,743,417	48,103,087	56,998,936
Underwriting gain/(loss)	(2,943,450)	1,737,822	(11,989,227)	(9,078,233)
Investment gain	6,103,026	7,651,142	8,190,534	9,405,794
Net income	2,071,050	4,570,643	(4,373,919)	(6,068,422)

### **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	\$167,742,466		\$167,742,466
Preferred stocks	24,000,000		24,000,000
Common stocks	83,035,100		83,035,100
Cash, cash equivalents and short-term investments	<u>70,885,642</u>	<u>                    </u>	<u>70,885,642</u>
Subtotal, cash and invested assets	<u>\$345,663,208</u>	<u>\$                    </u>	<u>\$345,663,208</u>
Investment income due and accrued	1,375,881		1,375,881
Uncollected premiums and agents' balances in course of collection	31,856,305	\$ 516,304	31,340,001
Deferred premiums, agents' balances and installments booked but deferred and not yet due	2,453,621		2,453,621
Amounts recoverable from reinsurers	72,335,288		72,335,288
Guaranty funds receivable or on deposit	6,442		6,442
Electronic data processing equipment and software	1,674,747	943,057	731,690
Furniture and equipment	125,823	125,823	
Receivables due from parent	1,968,907		1,968,907
Automobiles	303,084	303,084	
Leasehold improvements	1,184,814	1,184,814	
Prepaid expenses	811,839	811,839	
Prepaid California Department of Industrial Relations fees	1,203,642		1,203,642
Prepaid California Insurance Guarantee Association charges	1,848,360		1,848,360
Software in development	1,441,775	1,441,775	
Miscellaneous	<u>48,059</u>	<u>                    </u>	<u>48,059</u>
Total	<u>\$464,301,795</u>	<u>\$5,326,696</u>	<u>\$458,975,099</u>

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

Losses	\$201,596,246
Loss adjustment expenses	58,651,419
Commissions payable, contingent commissions and other similar charges	5,665,605
Other expenses	6,013,029
Taxes, licenses and fees	(530,191)
Current federal and foreign income taxes	2,530,441
Net deferred tax liability	2,174,444
Unearned premiums	44,253,072
Ceded reinsurance premiums payable	151,056
Amounts withheld for account of others	642
Provision for reinsurance	72,921
Drafts outstanding	49,050
Payable to parent, subsidiaries and affiliates	131,807
Escheatable funds	372,919
Accounts Receivable Suspense	169,336
Miscellaneous	<u>20,882</u>
Total liabilities	<u>\$321,322,678</u>
Common capital stock	\$ 3,000,000
Gross paid in and contributed surplus	4,767,500
Unassigned funds (surplus)	<u>129,884,921</u>
Surplus as regards policyholders	<u>\$137,652,421</u>
Total	<u>\$458,975,099</u>

## STATEMENT OF INCOME - 2012

### Underwriting Income

Premiums earned	\$ <u>91,598,926</u>
Deductions:	
Losses incurred	\$ 56,998,936
Loss adjustment expenses incurred	17,368,291
Other underwriting expenses incurred	<u>26,309,932</u>
Total underwriting deductions	<u>\$100,677,159</u>
Net underwriting gain or (loss)	<u>\$ (9,078,233)</u>

### Investment Income

Net investment income earned	\$ 9,405,794
Net realized capital gains (losses)	<u>0</u>
Net investment gain (loss)	<u>\$ 9,405,794</u>

### Other Income

Net gain (loss) from agents' or premium balances charged off	\$ (272,828)
Finance and service charges not included in premiums	20,537
Miscellaneous income	<u>32,462</u>
Total other income	<u>\$ (219,829)</u>
Net income, before dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes	\$ 107,732
Dividends to policyholders	<u>5,305</u>
Net income, after dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes	\$ 102,427
Federal and foreign income taxes incurred	<u>6,170,849</u>
Net income	<u>\$ (6,068,422)</u>

## CAPITAL AND SURPLUS ACCOUNT

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Capital and surplus, beginning	\$111,360,952	\$117,915,458	\$127,333,634	\$126,493,417
Net income	\$ 2,071,050	\$ 4,570,643	\$ (4,373,919)	\$ (6,068,422)
Change in net unrealized capital gains	6,318,390	4,104,360	1,177,800	11,643,808
Change in net unrealized foreign exchange capital gain		1,360,000	2,120,000	520,000
Change in net deferred income tax	(434,112)	2,098,749	1,519,190	6,736,458
Change in nonadmitted assets	(1,425,822)	120,877	(1,247,970)	(1,733,707)
Change in provision for reinsurance	25,000	237,530	(35,318)	60,867
Cumulative effect of changes in accounting principles	_____	(3,073,983)	_____	_____
Net change for the year	<u>\$ 6,554,506</u>	<u>\$ 9,418,176</u>	<u>\$ (840,217)</u>	<u>\$ 11,159,004</u>
Capital and surplus, ending	<u>\$117,915,458</u>	<u>\$127,333,634</u>	<u>\$126,493,417</u>	<u>\$137,652,421</u>

## EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of \$129,884,921, 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 recommendation appearing in the previous report of examination is reflected below, together with the remedial action taken by the Company to comply therewith:

**Reinsurance – Multi-Cedent Reinsurance Contracts** – It is recommended that the Company establish an allocation agreement to formalize provisions for sharing amongst affiliates participating in multi-cedent reinsurance contracts. It is also recommended that this allocation agreement be filed with the Director of the Nebraska Department of Insurance under the provisions of the Insurance Holding Company System Act, Neb. Rev. Stat. Sec. 44-2133(2).

**Company Action:** The Company filed an allocation agreement with the Director of the Nebraska Department of Insurance for one multi-cedent contract.

## **COMMENTARY ON CURRENT EXAMINATION FINDINGS**

### **Custodial Agreements**

The Company had multiple custodial and safekeeping agreements in place with financial institutions that did not contain one or more required provisions. It is recommended that the Company amend their custodial and safekeeping agreements as required under Title 210 (Nebraska Department of Insurance Rules and Regulations), Chapter 81. The Company indicated that the agreements are being brought into compliance.

### **Multi-cedent Reinsurance Allocation Terms**

It was noted that the Company had a number of multi-cedent contracts that were not subject to written allocation terms amongst the cedents. It is recommended that allocation terms be documented for all affiliate and non-affiliate multi-cedent reinsurance agreements in accordance with Statutory Accounting Principles (SSAP) 62R, Paragraph 9. It is also recommended that any new or amended affiliate agreements be filed in accordance with the Insurance Holding Company System Act, Neb. Rev. Stat. Sec. 44-2133.

## **SUBSEQUENT EVENTS**

### **MIDAMERICAN ENERGY COMPANY INVESTMENT**

Effective December 19, 2013 the Company invested \$50 million in MidAmerican Energy Company (MEHC) through the purchase of junior subordinate debentures with a maturity of thirty years from the date of issuance.

### **CHANGE IN OWNERSHIP**

Effective December 27, 2013, the ownership of the Company changed due to an extraordinary distribution of stock from BHLN to NICO. The distribution included the Company's common stock and the common stock of BHHIC in the amount of \$1 billion.

## **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

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

1. **Custodial Agreements** - It is recommended that the Company amend their custodial and safekeeping agreements as required under Title 210 (Nebraska Department of Insurance Rules and Regulations), Chapter 81.
2. **Multi-cedent Reinsurance Allocation Terms** - It is recommended that allocation terms be documented for all affiliate and non-affiliate multi-cedent reinsurance agreements in accordance with Statutory Accounting Principles (SSAP) 62R, Paragraph 9. It is also recommended that any new or amended affiliate agreements 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

Emilie Brady, CFE, Financial Examiner, Contracted by the State of Iowa, Eide Bailly LLP

Kyo Chu, CFE, Senior Insurance Examiner, California Department of Insurance

Wade Fleischacker, Financial Examiner, Nebraska Department of Insurance

Erin Garvin, AFE, Financial Examiner, Nebraska Department of Insurance

Mei Gu, CFE, Associate Insurance Examiner, California Department of Insurance

Kim Hurst, CFE, Financial Examiner, Nebraska Department of Insurance

Isaak Russell, CFE, Financial Examiner, Nebraska Department of Insurance

Colette Sawyer, CFE, Financial Examiner, Contracted by the State of Florida, INS Regulatory Insurance Services, Inc.

Kevin Stubbs, AFE, Financial Examiner, Nebraska Department of Insurance

### Information Technology Specialists

Gary Evans, CFE, CISA, Information Systems Examiner, Nebraska Department of Insurance

Dave Gordon, CFE, CISA, CIA, Contracted by the Nebraska Department of Insurance, INS Services, Inc.

John Albertini, MBA, CISA, CISSP, Contracted by the Nebraska Department of Insurance, INS Services, Inc.

### Actuarial Specialists

Gordon Hay, FCAS, MAAA, CPCU, Senior Casualty Actuarial Examiner, Nebraska Department of Insurance

### Reinsurance Specialist

Lindsay Crawford, CFE, Reinsurance Specialist, Nebraska Department of Insurance

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "PBliss". The signature is written in a cursive, somewhat stylized font.

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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 Representação no 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.

The affiant says nothing further.

  
Examiner's Signature

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

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].