

CERTIFICATION

June 18, 2012

I, Bruce R. Range, 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

Preferred Professional Insurance Company
as of

December 31, 2010

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

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



Bruce R. Range

DIRECTOR OF INSURANCE

PREFERRED PROFESSIONAL INSURANCE COMPANY

11605 Miracle Hills Drive, Suite 200

Omaha, Nebraska

Report of Association

Financial Condition Examination

as of

December 31, 2010

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

JUN 18 2012

FILED

States Participating

Nebraska Department of Insurance

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Omaha, Nebraska
June 1, 2012

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

Honorable Merle D. Scheiber
Chair, Midwestern Zone, NAIC
Director of Insurance
South Dakota Division of Insurance
445 East Capitol Avenue
Pierre, SD 57501-3185

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

Sirs:

Pursuant to your instructions and authorizations, pursuant to Neb. Rev. Stat. §44-5904 (1),
an Association Examination has been conducted of the financial condition and business affairs of
the

PREFERRED PROFESSIONAL INSURANCE COMPANY
11605 Miracle Hills Drive, Suite 200
Omaha, Nebraska 68154-4467

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

INTRODUCTION

The Company was last examined as of December 31, 2007, by the State of Nebraska, representing the Midwestern Zone, NAIC. The current financial condition examination covered the intervening period to and including the close of business on December 31, 2010, and incorporated such subsequent events and transactions as were deemed pertinent to this report. The State of Nebraska, representing the Midwestern Zone, NAIC, participated in the examination and the preparation of this report.

SCOPE OF EXAMINATION

This examination was conducted pursuant to and in accordance with both the NAIC Financial Condition Examiners Handbook 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 determine compliance with statutory and charter provisions. Its 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 disclosures 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, elections 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. 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 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 "Description of Company". Accounting records and procedures were tested to the extent deemed necessary through the risk-focused examination process. Additionally, NAIC IRIS test results were reviewed for all years covered by this examination.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. The examination included a review of work papers prepared by Deloitte & Touche LLC, the Company's independent auditors, in their examination of the Company's accounts for the year ended December 31, 2010. The auditors' work papers were utilized to assist in determining the scope and areas of emphasis in conducting the examination.

The aforementioned utilization of the auditors' working papers was performed pursuant to Title 210 (Rules of Nebraska Department of Insurance), Chapter 56, Section 013.

DESCRIPTION OF COMPANY

History

The Company was incorporated under the laws of the State of Nebraska on June 30, 1976, and commenced business on July 1 of that same year as a mutual insurance association under the provisions of LB 809, Second Session, 84th Legislature, with its offices located in Omaha, Nebraska. The Articles of Incorporation were amended on July 9, 1976 to provide for perpetual existence as a mutual company. The Articles were again amended on July 11, 1979 to allow for the Company to operate as a not-for-profit corporation by limiting its membership to hospitals which were organized exclusively for religious, charitable, educational, or scientific purposes. It then became qualified as a Federal Income Tax exempt corporation.

Effective February 22, 1985, the Articles of Incorporation were amended to expand the membership to include "for profit" hospitals, this effectively removed the Company's tax-exempt status. The Articles of Incorporation were restated effective March 26, 1986, to convert the Company's operations to that of a non-assessable mutual insurance company, whereby no member would be liable for any debt obligations of the Corporation. In a subsequent restatement of its Articles of Incorporation, effective December 11, 1987, the Company's name was changed from Hospital Mutual Insurance Company to Preferred Physicians Insurance Company, and its corporate structure was changed to that of a stock insurance company.

The shareholders of Preferred Physicians Insurance Company (PPIC) and Consolidated Catholic Casualty Risk Retention Group (CCCRRG) approved a business combination effective

October 1, 1998. Simultaneous to the business combination, CCCRRG assumed a run-off position for its existing liability portfolio. At the same time, by way of dividends from both companies, an eleven-owner system became shareholders of the continuing PPIC. The Company assumed the excess liability insurance business previously written by CCCRRG upon renewal. The name of the Company was then changed to Preferred Professional Insurance Company.

The Company is authorized by its Articles of Incorporation to transact and write all types of insurance and reinsurance authorized by the Nebraska Insurance Code with the exception of life insurance, title insurance, and variable annuities. The Company's current Certificate of Authority authorizes the Company to write the lines of insurance as provided under Section 44-201 Paragraphs (5), (7), (8), (9), (10), (11), (12), and (18) of the Nebraska Insurance Laws.

Management and Control

Holding Company

The Company is a member of an insurance holding company system as defined by Nebraska Statute. The Company wholly owns Physicians Consultants Inc. (PCI), a Nebraska domiciled insurance agency. The Company's ownership is reflected in this report under the caption "Shareholders".

Capital Stock

Article V of the Company's Amended and Restated Articles of Incorporation provides that: The aggregate number of shares which the Company shall have the authority to issue is 10,000,000 shares consisting only of common stock with a par value of \$1 per share. Each issued and outstanding share of common stock shall be entitled to one vote on all matters submitted to a vote at a meeting of shareholders.

At the time of the last previous financial examination, paid-up capital totaled \$5,714,948 and paid in and contributed surplus totaled \$55,935,033. The following paragraphs discuss the changes made to the Company's surplus for each year under examination.

Catholic Relief Insurance Company purchased 24,018 shares of common stock on May 1, 2008 for the price of \$540,498. There were no common stock transactions that occurred in 2009 nor 2010.

The shareholder agreement requires each shareholder to maintain a sufficient minimal capital and surplus invested in the Company to support the risk being insured. A sufficient minimal capital and surplus is determined as the amount necessary to support a leverage ratio of not more than 1.6 to 1, for *net premiums written in force to surplus arising for the shareholder's insurance coverage written by the Company* and 7.5 to 1, for *premiums written and reinsured 100% by the shareholder's captive to surplus arising for the shareholder's insurance coverage written by the Company*. The capital change noted above was made to remain in compliance with this shareholder agreement.

After the capital increase, total shares outstanding were 5,738,966 for paid-up capital of \$5,738,966 and paid-in and contributed surplus totaled \$56,451,513. The above transaction was approved by both the Shareholders and the Board of Directors.

Shareholders

Article XII of the Company's Articles of Incorporation and Article II, Section 1, of the Company's Amended By-Laws provide that, "annual meetings of the Shareholders shall be held at the office of the Company in Omaha, Nebraska, or at such other place as determined by the Board of Directors and stated in the notice to Shareholders. Such annual meetings shall be held on the date and time designated by the Chairperson or before the thirtieth day of June in each and every

calendar year". The Company has nineteen shareholders which include eighteen Catholic healthcare systems owning common capital stock of the Company. The owners and their percentage of ownership as of December 31, 2010 were as follows:

Catholic Health Initiatives	26.56%
Catholic Health Partners	13.31%
CHRISTUS Health	12.11%
Catholic Health East	7.91%
Provena Health	6.95%
Sisters of St. Francis Health Service *	6.44%
Trinity Health Corporation	6.33%
Hospital Sisters Health System	3.06%
Sisters of Charity of Leavenworth	2.48%
Franciscan Services Corporation	2.41%
Bon Secours Health System Inc.	1.86%
The Carmelite System, Inc.	1.76%
Daughters of Charity Health System	1.73%
Catholic Mutual Relief Society of America	1.68%
Providence Health & Services	1.50%
Ascension Health	1.26%
Wheaton Franciscan Services Inc.	1.07%
Covenant Health Systems, Inc.	1.00%
St. Elizabeth Medical Center, Inc.	<u>0.58%</u>
	100.00%

* - Changed its name to Franciscan Alliance Inc. on January 25, 2011

During the period under examination, the Company declared and paid dividends of \$1,836,469 in 2009 and \$6,511,684 in 2010.

Board of Directors

Article IX of the Company's Amended and Restated Articles of Incorporation provides that, "the affairs of the Company shall be conducted by a Board of Directors of not less than five nor more than thirteen persons with the exact number to be fixed and determined from time to time by resolution of a majority of the full Board of Directors. At all times a majority of the

number of Directors shall be shareholder representatives. At least one Director shall be a resident of the State of Nebraska”.

Article III, Section 2 of the Company's Fourth Amended and Restated By-Laws provides that, "the number of Directors of the Company shall be fixed by resolution of the Board of Directors or as otherwise provided by the Articles of Incorporation or any amendments thereto. Except as provided in the Articles of Incorporation or in Sections 5, 6, and 7 of this Article III, each Class I Director shall hold office for a term of one year and each Class II and Class III Director shall hold office for a term of two years and until his or her successor shall have been elected and qualified. No Class II or Class III member of the Board of Directors shall serve more than four consecutive terms, provided that service prior to the adoption of these Fourth Amended and Restated By-Laws shall not be considered for purposes of the term limitation.” The Fourth Amended and Restated By-Laws were executed on June 14, 2005.

Article X of the Amended and Restated Articles of Incorporation provides that, “the Board of Directors shall be divided into three classes, designated as Class I, Class II, and Class III. Class I shall consist of (i) the President of the Company, (ii) a representative appointed by the largest shareholder of the Company, and (iii) a representative appointed by the second-largest shareholder of the Company. Determination of the two largest shareholders of the Company shall be based on the percentage of ownership in the Company as of the preceding year end audited financial statements. The remaining positions on the Board of Directors shall be designated as Class II and Class III and shall be as nearly equal in number as possible. The President of the Company shall serve a one-year by virtue of his or her office, and shall be reappointed annually and without term limits. The representatives appointed by the largest two shareholders shall serve one-year terms,

without term limits, provided each of the respective two largest shareholders shall have the power to remove and appoint a successor representative at any time”.

The following persons were serving the Company as Directors at December 31, 2010:

<u>Name and Residence</u>	<u>Principal Occupation</u>
William T. Deemer, CPCU, ARM Chesterfield, Missouri	Retired Insurance Professional
Anthony J. Filer, CPA Park, Illinois	System Senior Vice President and Chief Financial Officer, Provena Health Orland
Philip L. Foster Cincinnati, Ohio	Chief Risk Officer, Catholic Health Initiatives
Sheila R. Hagg-Rickert, CPCU Porter, Texas	Healthcare Risk Manager, CHRISTUS Health
Timothy J. McKivergan * Omaha, Nebraska	President and Chief Executive Officer of the Company
Larry M. Mitchell Indianapolis, Indiana	Retired Insurance Chief Financial Officer
J. Bryon Neaman, CPA Elliott City, Maryland	Senior Vice President – Internal Audit, Chief Audit Executive, Bon Secours Health System Inc
John W. O’Connell Ottawa Hills, Ohio	President, Franciscan Services Corporation
Ardith A. Ryberg, MD, PhD, FACS Omaha, Nebraska	General Surgeon
Theodore A. Schlert Glen Mills, Pennsylvania	Vice President – Risk Services and Chief Risk Officer, Catholic Health East
Dennis W. Taylor Illinois	Vice President – Risk & Compliance, Springfield, Hospital Sisters Health System
Michael J. Williams Cincinnati, Ohio	Vice President - Risk & Insurance, Catholic Healthcare Partners
James O. Wood, FCAS, MAAA Lecanto, Florida	Retired Consulting Actuary

* - Retired and replaced by Lynnette M. Matza effective January 1, 2011

Officers

Article IV, Section 1, of the Company's Fourth Amended and Restated By-Laws provides that, “the Officers of the Company shall be a Chairperson, a Vice Chairperson, a President; one or more Senior Vice Presidents and Vice Presidents, the number thereof to be determined by the Board of Directors, a Treasurer, a Secretary, an Assistant Secretary or Secretaries, an Assistant Treasurer or Treasurers and other Officers as may be elected or appointed by the Board of Directors. Any two or more offices may be held by the same person, except that neither the Chairperson nor the President may hold any other office”.

The following Officers were serving the Company as of December 31, 2010:

<u>Name</u>	<u>Position</u>
Theodore A. Schlert	Chair
William T. Deemer	Vice Chair
Timothy J. McKivergan *	President and Chief Executive Officer
Melvin I. Epstein	Senior Vice President, Chief Operating Officer, and Assistant Secretary
Lynnette M. Matza **	Senior Vice President – Finance, Chief Financial Officer and Assistant Treasurer
Anders G. Backlund	Senior Vice President – Claims, Chief Risk Officer
Denise A. Hill	Senior Vice President, General Counsel, and Corporate Compliance Officer
Ann R. Wozny	Vice President – Business Development
James O. Walters	Vice President – Information Systems
James T. McCoy	Vice President – Insurance Operations
Larry M. Mitchell	Treasurer
Michael J. Williams	Secretary

* - Retired and replaced by Lynnette M. Matza effective January 1, 2011

** - Replaced by Karen A. Riley effective January 1, 2011

Committees

The Company’s Fourth Amended and Restated By-Laws state that, “the Board of Directors shall, by resolution adopted by a majority of the full Board of Directors, designate an Executive

Committee consisting of not less than four nor more than seven Directors of the Company, which Committee shall have and may exercise, when the Board is not in session, the power of the Board of Directors in the management of the business and affairs of the Company.” The Executive Committee was comprised of the following members at December 31, 2010:

William T. Deemer
Larry M. Mitchell
Michael J. Williams

Philip L. Foster
John W. O’Connell

Timothy J. McKivergan *
Theodore A. Schlert

* - Retired and replaced by Lynnette M. Matza effective January 1, 2011

The Company’s Fourth Amended and Restated By-Laws also allow, “the Board of Director (to) establish other committees of the Board of Directors, including but not limited to a Governance Committee, an Audit/Finance Committee, and an Underwriting Committee”. The members of these committees are nominated by the Nominating Committee and affirmed by the Board. The minutes and members of these Committees were reviewed.

Agreements with Affiliates

The Company has a Management and Service Agreement with Consolidated Catholic Casualty Risk Retention Group (CCCRRG), a Vermont RRG, to provide expertise and personnel to assist CCCRRG in the run-off phase of its business. This agreement is the result of the business combination of the Preferred Physicians Insurance Company and CCCRRG.

Services to be provided by the Company include: 1) overall general management responsibility for the run-off of existing policies and policy obligations, 2) provide general oversight of the activities of Aon Insurance Managers (USA), Inc., CCCRRG’s Vermont captive manager, 3) administer claims and related liabilities including potential claims and liabilities, 4) seek, at the direction of CCCRRG’s Board of Directors, bulk reinsurance, assumption reinsurance

or other transactions resulting in a novation that would accelerate the run-off, and 5) provide other specific duties spelled out in the agreement.

This agreement was originally effective from October 1, 1998 through December 31, 1999. It automatically renews for successive one-year periods unless either party gives the other party 30 days' written notice of termination or intent to amend the agreement prior to the end of each term or period. This agreement was commuted with CCCRRG's dissolution in 2010. From January 1, 2001 thru December 31, 2007, the compensation for the management and other services provided under the agreement was \$80,000 annually. An addendum effective January 1, 2008 provides that the compensation for the management and other services provided under the terms of this agreement will be \$50,000 annually.

The Company has entered into Claims Management Services Agreements with Catholic Health Initiatives (CHI), a 26.56% owner of the Company; Catholic Health Partners (CHP), a 13.31% owner of the Company; CHRISTUS Health (CHRISTUS), a 12.11% owner of the Company; Catholic Health East (CHE) a 7.91% owner of the Company; Trinity Health Corporation (Trinity) a 6.33% owner of the Company; and Catholic Relief Insurance Company of America (CRIC), owned by Catholic Mutual Relief Society of America a 1.68% owner of the Company. Ownership interests stated are as of December 31, 2010 per the annual statement. These agreements provide claims management services, respectively, for the professional and general liability and workers' compensation insurance policies written by the Company. These policies are written on a fronting basis for certain hospitals and other healthcare providers owned by, or affiliated with CHI, CHP, CHRISTUS, CHE, Trinity, and CRIC reinsured on a 100% quota share basis by captives of these shareholders.

CHI, CHP, CHE, Trinity, and CRIC have the authority to adjust, investigate, settle or compromise all claims and losses on policies issued under their Insurance Programs up to \$8,000,000 for CHI; \$500,000 for CHP; \$500,000 for CHE; \$1,000,000 for Trinity; and \$100,000 for CRIC for each claim without prior notice to the Company.

CHRISTUS and the Company have entered into a Claims Handling Agreement with a third party administrator, F.A. Richards & Associates (FARA). FARA has authority up to \$2,500 for each claim. For CHI, CHP, CHRISTUS, Trinity, and CRIC, funds held by the Claims Manager for the settlement of claims are held in trust in a fiduciary capacity. The Company disburses funds pertinent to the CHE program.

The Company has also entered into Claims Funding Agreements with Ascension Health (Ascension), a 1.26% owner of the Company and Wheaton Franciscan Services Inc. (Wheaton), a 1.07% owner of the Company. These funds are held by third party administrators for the settlement of claims. The Company has entered into Claims Management Agreements with the third party administrators.

The Company has an Employee Leasing Agreement with Physicians Consultants, Inc. (PCI) to lease certain employees to PCI. Services rendered to PCI include 1) soliciting, writing, and servicing insurance accounts sold by PCI issued through the Company, 2) general administrative support of PCI, and 3) clerical support as necessary. The Company is responsible for all licensing and documentation of hours spent on services performed.

The Company and PCI have also entered into a Service Agreement whereby the Company appoints PCI as its agent representative. PCI shall pay the Company for the actual cost for assets, supplies, and services rendered to PCI not covered by any other agreement and the Company will pay a commission for insurance services rendered on the Company's behalf.

In addition to the above service contracts, the Company is party to a number of reinsurance agreements with its stockholders or captive insurers owned by or affiliated with its stockholders. These agreements are described under the caption "Reinsurance" in this report of examination.

The Company has also entered into a Tax Sharing Agreement and a Service Agreement with Physicians Consultants Inc. (PCI) a wholly owned subsidiary.

Territory and Plan of Operation

As evidenced by current or continuous Certificates of Authority, the Company was authorized to conduct the business of insurance in all states of the United States and the District of Columbia at year-end 2010.

The Company is a direct writer of insurance coverages, with all underwriting and marketing performed by employees of the Company or through an agreement with PCI, a wholly-owned subsidiary. The Company's plan of operation is to support the Catholic healthcare ministry of its owners by providing a wide array of insurance products and related services to preferred physicians and other healthcare providers who maintain a business relationship with its owners. On a limited basis, physicians and healthcare providers who maintain a business relationship with non-shareholder catholic health systems or hospitals are also provided these products and services.

Risk management includes clinical educational programs offered to insured providers emphasizing malpractice exposure detected from losses. The program includes quality and risk assessments performed by Company personnel. For smaller groups there is a self-assessment tool completed by the physician group and forwarded to the Company for review and scoring.

All claims, other than most of the fronted programs, the auto programs, and the workers compensation programs, are handled by the home office claims department in Omaha, Nebraska.

Procedures and guidelines are established and monitored by the claims department. Contracts are in place with qualified third party administrator's for the fronted programs, the auto programs, and the workers compensation programs insured by the Company but not handled by the home office claims department.

Reinsurance

Assumed

The Company assumes healthcare provider professional liability and employed attorney professional liability insurance for Catholic Mutual Relief Society of America (CMRS). The Company provides coverage of \$800,000 excess of \$200,000 of ultimate net loss each insured with one or two exceptions where limits of \$1,800,000 excess of \$200,000 were provided, each loss of Not For Profit Professional Liability and related General Liability business. In all cases the limits provided are retroceded under the physician and surgeon treaty in place at that time with the current coverages noted in this report under the "Reinsurance – Ceded" caption below.

The Company assumes Physician Professional, Umbrella Liability, and Long Term Care Professional and General Liability risk from Covenant Health System Insurance, Ltd., a wholly-owned Cayman captive insurer of Covenant Health System, a 1.0% owner of the Company and The Hills Insurance Company Ltd, a wholly-owned Cayman captive insurer of the Sisters of St. Francis Health Services, Inc., a 6.5% owner of the Company. This business is assumed under facultative contracts. These risks are retroceded under excess facultative agreements.

Multiple facultative contracts are issued for the Physician Professional Liability assumed from Covenant Health System Insurance, Ltd. These risks are retroceded under the Physician Professional Liability described above, and facultative reinsurance for coverages in excess of the \$2,000,000 provided under the physician reinsurance treaty.

Ceded

Preferred Professional Insurance Company has several different types of “insurance programs” with unique reinsurance in place for each. The insurance programs consist of the physician and surgeon non-fronted policies; non-fronted other lines; auto and workers compensation written for Catholic Mutual Group; and fronted programs reinsured by off-shore captives of PPIC shareholders.

The Company entered into an excess of loss reinsurance agreement effective from July 1, 2010 until June 30, 2011 providing coverage for Medical Professional Liability and related General Liability, Healthcare Provider Professional Liability, Miscellaneous Healthcare Facility Liability, and Employed Attorneys and Healthcare Provider Professional Liability business assumed from Catholic Mutual Relief Society of America (CMRS). The Company has entered into similar agreements for the period of July 1 to June 30 for prior years and for 2011/12.

Coverage is placed with reinsureds through an intermediary, Aon Benfield Inc., for the following Coverages:

- A. \$500,000 XS \$500,000 ultimate net loss each claim or occurrence, each insured.
- B. \$2,000,000 XS \$1,000,000 ultimate net loss each claim or occurrence, each insured.
- C. \$4,000,000 XS \$1,000,000 ultimate net loss each claim or occurrence, each insured on excess of policy limits and extra contractual obligations. Recoveries under Coverage B shall inure to the benefit of this coverage.
- D. \$2,000,000 XS \$1,000,000 of loss adjustment expenses (which does not reduce the Company’s limit of liability under the policy involved and including successful and unsuccessful declaratory judgment expense) arising out of each loss event. Coverage shall not exceed \$3,000,000 as respects to all loss events. Recoveries under Coverage C shall inure to the benefit of this coverage.
- E. 80% in excess of \$75,000 not to exceed \$1,000,000 on any successful or settled declaratory judgment action regarding a claim.

Participants under this agreement, with their participation percentages, are; Ace Underwriting Managing Agencies Limited Syndicate No. 2488 (15%), ACE Property & Casualty Insurance Company (15%), Aspen Insurance UK Limited, UK (25%), Hannover Rueckversicherung-Aktiengesellschaft (20%), MAP Underwriting Syndicate No. 2791 (5%), Odyssey America Reinsurance Corporation (10%), S.J.O. Catlin and Others Syndicate No. 2003 (10%).

Other lines of non-fronted insurance including long term care professional liability, general liability, and umbrella liability are reinsured under multiple facultative contracts individually negotiated.

The Company fronts business, effective December 31, 2006, for The Catholic Relief Insurance Company of America (CRIC), a not-for-profit Vermont domiciled captive insurance company and wholly-owned subsidiary of CMRS, a 1.68% owner of the Company. The Company has entered into a reinsurance contract with CRIC pertinent to Commercial Automobile Liability and Physical Damage and Workers' Compensation and Employers Liability risks associated with members of the CMRS whereby the Company cedes \$250,000 of each claim to CRIC. The remaining liability under the policies is commercially reinsured under an agreement arranged by Aon Benfield Inc. as follows (for contract in effect for 2010):

The first layer provides coverage of \$250,000 XS of \$250,000, each occurrence, each coverage, each policy, for auto and each occurrence for workers' compensation business.

The second layer provides coverage of \$1,500,000 XS of \$500,000, each occurrence, for workers' compensation business only.

The third layer provides coverage of \$8,000,000 XS of \$2,000,000, each occurrence, for workers' compensation only.

A fourth layer provides coverage of \$20,000,000 XS of \$10,000,000, each occurrence, for workers' compensation business only.

Effective September 1, 2001, the Company entered into an agreement with CRIC to cede a 50% quota share on Workers' Compensation coverages to the Archdiocese of New York, and any other entities that are related to the Archdiocese of New York.

Effective December 31, 2005, the Company entered into an agreement with CRIC to front Professional Liability policies to long term care facilities in the state of Pennsylvania and Professional Liability and General Liability coverages to long term care facilities and other entities related to the facilities located in Kansas and other states as requested by CRIC.

The Company has entered into a number of fronting arrangements whereby risks written on physicians and other healthcare providers who maintain business relationships with certain Shareholders of the Company are 100% ceded to off-shore captives owned by such Shareholders.

The Company has issued a number of policies covering risks including Comprehensive General Liability, Medical Professional Liability, Employment Practices Liability, Workers' Compensation, and Related Professional Liability policies to certain hospitals, physicians, and other healthcare providers owned by, or affiliated with, ten of the Company's Shareholders. Two of these agreements, Marillac Insurance Company Ltd. and Catholic Health Partners Insurance Ltd. are retroactive agreements and will be further discussed under the caption, "Retroactive Reinsurance" below. All of these policies are reinsured 100% by the Shareholders wholly-owned off-shore captives all domiciled in Grand Cayman, Cayman Islands as follows:

Shareholder	% Ownership of the Company	Off-Shore Captive
Ascension Health	1.26%	Ascension Health Insurance Ltd.
Bon Secours Health System	1.86%	Bon Secours Assurance Company Ltd.
Catholic Health Initiatives	26.56%	First Initiatives Insurance Ltd.
Catholic Health East	7.91%	Stella Maris Insurance Company Ltd.
Catholic Health Partners	13.31%	CHP Ins. Ltd.
CHRISTUS Health	12.11%	Emerald Assurance Cayman Ltd.
Daughters of Charity Health System	1.73%	Marillac Insurance Company Ltd.
Hospital Sisters Health System	3.06%	Renaissance Quality Insurance Ltd.
Trinity Health Corporation	6.33%	Venzke Insurance Company Ltd.
Wheaton Franciscan Services	1.07%	Wheaton Franciscan Insurance Co.

The Company is the beneficiary of Letters of Credit to cover the liabilities ceded to Ascension Health Insurance Ltd., Bon Secours Assurance Company Ltd., Catholic Health Partners Insurance Ltd., Emerald Assurance Cayman Ltd., and Venzke Insurance Company Ltd.

The Company is the beneficiary under several trust agreements providing pledged assets for liabilities held under these fronting agreements with First Initiatives Insurance Ltd., Marillac Insurance Company Ltd., Renaissance Quality Insurance Ltd., Stella Maris Insurance Company Ltd., and Wheaton Franciscan Insurance Company.

Retroactive

On January 1, 2002, seven California healthcare facilities formerly in Catholic Health West separated to form the Daughters of Charity Health System (O'Connor Hospital, RFK Medical Center, Seton Coastside, Seton Medical Center, St. Francis Medical Center, St. Louise Regional Hospital, and St. Vincent Medical Center). Effective January 1, 2002, the Company entered into a workers' compensation insurance policy with Daughters of Charity Health System (DCHS) to cover certain hospitals, healthcare providers, and other entities which are owned by or affiliated with DCHS. Prior to this date, DCHS retained workers compensation' for its hospitals, physicians and surgeons, and related healthcare providers as part of a self-insurance

program with a retention of \$250,000. This policy covered the retention on claims from July 1, 1978 through December 31, 2001 and 100% of claims after January 1, 2002.

Effective January 1, 2002, the Company entered into a reinsurance agreement with DCHS, S.P., a protected cell company in the Cayman Islands and affiliate of DCHS, who was substituted with Marillac Insurance Company, Ltd. (Marillac), a Cayman Islands company and wholly-owned subsidiary of DCHS, on December 30, 2003 covering the \$250,000 retention from July 1, 1978 to December 31, 2001. Sedgwick Claim Management Services, Inc. (Sedgwick) is assigned as the claims manager.

Effective August 1, 2009, the Company entered into a medical professional liability insurance policy with Catholic Health Partners (CHP) which provides coverage related to the following entities: Mercy Hospital of Scranton, PA; Mercy Special Care Hospital of Nanticoke; Mercy Hospital Wilkes Barre; Mercy Hospital Johnston; and Mercy Tyler Hospital during the periods which they were owned by CHP. This business was previously written through a CHP self-insured trust.

In connection with the above mentioned policy and effective August 1, 2009, the Company entered into a reinsurance agreement with CHP Insurance, Ltd., a Cayman Islands company and wholly-owned subsidiary of CHP, covering 100% of the medical professional liability policy described above. The Company has assigned CHP as the claims manager for the business covered by this policy.

General

The above contracts contain standard provisions, including an insolvency clause and an intermediary clause where appropriate. The contracts contain the necessary clauses to assure reinsurance credits could be taken on business ceded to unauthorized reinsurers.

BODY OF REPORT

Growth

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

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Admitted assets	\$310,275,388	\$352,569,326	\$372,209,345
Loss reserves	91,601,206	102,370,847	102,382,667
Loss adjustment expense reserves	35,815,096	41,314,219	43,514,814
Total liabilities	184,985,490	205,320,742	209,045,689
Gross paid in and contributed surplus	56,451,513	56,451,513	56,451,513
Unassigned surplus	63,099,419	83,592,120	91,018,306
Premiums earned	60,257,434	62,048,390	64,141,990
Losses and loss expenses incurred	41,154,663	52,030,502	40,555,520
Net underwriting gain (loss)	27,506,083	14,617,292	19,251,326
Net investment income earned	7,915,297	6,873,238	9,480,013
Net income (loss)	22,998,452	13,000,498	20,361,993

Underwriting Results

The Company's underwriting results, as taken from copies of its filed insurance expense exhibits for the period under review, were as follows:

Ratios to Earned Premiums - By Line Net of Reinsurance

<u>Line</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<u>Losses Incurred</u>			
Medical Malpractice	45.9%	57.2%	37.4%
Other Liability	(111.3)	2,367.3	(621.2)
Total	<u>44.3%</u>	<u>58.6%</u>	<u>35.9%</u>
<u>Loss Expenses Incurred</u>			
Medical Malpractice	24.6%	26.2%	27.9%
Other Liability	(54.8)	(804.2)	(732.2)
Total	<u>24.0%</u>	<u>25.3%</u>	<u>27.4%</u>

<u>Line</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<u>Other Underwriting Expenses Incurred</u>			
Medical Malpractice	(12.3)%	17.2%	13.1%
Other Liability	<u>(171.5)</u>	<u>(108.8)</u>	<u>(2,057.4)</u>
Total	<u>(17.6)%</u>	<u>16.1%</u>	<u>7.5%</u>

Financial Statements

The following statement assets and liabilities, together with the summary of operations, reflect the Company's financial condition at December 31, 2010, and its transactions for the year 2010 as determined by this examination. A reconciliation of the Company's capital and surplus account for the period under review is also included.

FINANCIAL STATEMENT **DECEMBER 31, 2010**

Assets

	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$220,155,517		\$220,155,517
Common stocks	50,357,906		50,357,906
Cash, cash equivalents and short-term investments	<u>71,882,992</u>		<u>71,882,992</u>
Subtotals, cash and invested assets	\$342,396,414		\$342,396,414
Investment income due and accrued	2,376,048		2,376,048
Uncollected premiums in course of collections	1,325,192	\$ 225,547	1,099,645
Deferred premiums	19,681,850		19,681,850
Amounts recoverable from reinsurers	560,511		560,511
Net deferred tax asset	7,960,847	2,958,667	5,002,180
EDP equipment	53,583		53,583
Furniture and equipment	49,003	49,003	
Miscellaneous receivable	<u>1,039,114</u>	<u> </u>	<u>1,039,114</u>
Total	<u>\$375,442,562</u>	<u>\$3,233,217</u>	<u>\$372,209,345</u>

Liabilities, Surplus and Other Funds

Losses	\$102,382,667
Loss adjustment expenses	43,514,814
Other expenses	3,777,149
Taxes, licenses and fees	544,019
Federal income taxes	6,544,999
Unearned premiums	35,840,776
Advanced premium	7,380,642
Ceded reinsurance premiums payable	14,181,259
Amounts withheld or retained by company for account of others	73,677
Provision for reinsurance	4,944,000
Payable to parent, subsidiaries, and affiliates	235,119
Reserves on retroactive reinsurance ceded	<u>(10,373,432)</u>
Total liabilities	<u>\$209,045,689</u>
SSAP No. 10R increase in DTA	\$ 3,666,643
Special surplus from retroactive reinsurance	6,288,228
Common capital stock	5,738,966
Gross paid in and contributed surplus	56,451,513
Unassigned funds	<u>91,018,306</u>
Surplus as regards policyholders	<u>\$163,163,656</u>
Total	<u>\$372,209,345</u>

UNDERWRITING AND INVESTMENT EXHIBIT
STATEMENT OF INCOME - 2010

Underwriting Income

Premiums earned	<u>\$64,141,990</u>
Deductions:	
Losses incurred	\$23,009,961
Loss expenses incurred	17,545,559
Other underwriting expenses incurred	<u>4,335,144</u>
Total underwriting deductions	<u>\$44,890,664</u>
Net underwriting gain	<u>\$19,251,326</u>

Investment Income

Net investment income earned	\$ 9,480,013
Net realized capital gains	<u>1,690,223</u>
Net investment gain	<u>\$ 11,170,236</u>

Other Income

Management fee/education revenues	\$ 16,653
Change in incurred retroactive reinsurance	<u>486,290</u>
Total other income	<u>\$ 502,943</u>
Net income before dividends to policyholders and federal income taxes	\$30,924,505
Dividends to policyholders	\$ 98,678
Federal income taxes incurred	<u>10,463,834</u>
Net income (loss)	<u>\$20,361,993</u>

CAPITAL AND SURPLUS ACCOUNT

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Surplus as regards policyholders, beginning	\$118,642,175	\$125,289,898	\$147,248,584
Net income	\$ 22,998,452	\$ 13,000,498	\$ 20,361,993
Net unrealized capital gains or (losses)	(12,164,730)	6,912,414	3,419,172
Change in net deferred income tax	188,389	(720,449)	5,270,201
Change in non-admitted assets	(6,149,989)	4,793,385	(1,191,948)
Change in the provision for reinsurance	1,235,103	(1,656,678)	(3,232,000)
Paid in capital	24,018		
Paid in surplus	516,480		
Dividends to stockholders		(1,836,469)	(6,511,684)
Increase in deferred tax asset value due to application of SSAP 10R		1,465,985	(2,200,662)
Net change for year	<u>\$ 6,647,723</u>	<u>\$ 21,958,686</u>	<u>\$ 15,915,072</u>
Capital and surplus, ending	<u>\$125,289,898</u>	<u>\$147,248,584</u>	<u>\$163,163,656</u>

Examination Changes in Financial Statements

There were no examination changes affecting the unassigned funds (surplus) account as a result of this examination.

Compliance with Previous Recommendations

There were no recommendations resulting from the Company's examination as of December 31, 2007.

Commentary on Current Examination Findings

There were no findings warranting comment as a result of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

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

ACKNOWLEDGMENT

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

In addition to the undersigned, Kim Hurst, CFE, Nicole Zimmermann, CFE and Wade Fleischacker, Financial Examiners; and Bill Schmid, Information Systems Examiner, all with the Nebraska Department of Insurance, participated in the examination and assisted in the preparation of this report.

Respectfully submitted,

A handwritten signature in black ink that reads "A Elliott". The signature is written in a cursive style with a large, prominent initial "A".

Annie M. Elliott, CFE
Supervisory Examiner
Nebraska Department of Insurance

State of Nebraska,

County of Lancaster,

Annie Elliott, being duly sworn, states as follows:

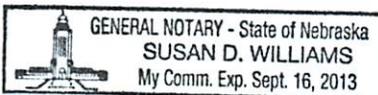
1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of Preferred Professional Insurance Company.
2. The Department of Insurance of the State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards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

The affiant says nothing further.

[Signature]
Examiner-in-Charge's Signature

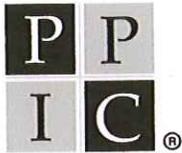
Subscribed and sworn before me by Annie Elliott on this 29th day of June, 2012.

(SEAL)



[Signature]
Notary Public

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



The link between coverage and caring®

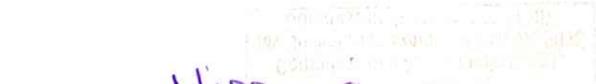
Preferred Professional Insurance Company®

Affidavit

I, William T. Deemer, a member of the PPIC® Board of Directors, hereby swear that I have received a copy of the PPIC Report of Financial Examination as of December 31, 2010, conducted by the State of Nebraska Department of Insurance.

Dated this 25th day of June, 2011.

William T. Deemer
Independent Director



State of Missouri

County of Saint Louis

William T. Deemer, a member of the PPIC Board of Directors, personally appeared before me and swore that he received a copy of the PPIC Report of Financial Examination as of December 31, 2010, conducted by the State of Nebraska Department of Insurance.

Dated this 25th day of June, 2011.

Notary

Notary Seal



Commission Expires:

March 7, 15



The link between
coverage and caring®

Preferred Professional Insurance Company®

Affidavit

I, Anthony J. Filer, a member of the PPIC® Board of Directors, hereby swear that I have received a copy of the PPIC Report of Financial Examination as of December 31, 2010, conducted by the State of Nebraska Department of Insurance.

Dated this 26 day of June, 2012



Anthony J. Filer
Presence Health

State of ILLINOIS

County of KANKAKEE

Anthony J. Filer, a member of the PPIC Board of Directors, personally appeared before me and swore that he received a copy of the PPIC Report of Financial Examination as of December 31, 2010, conducted by the State of Nebraska Department of Insurance.

Dated this 26 day of June, 2012.





Notary

Commission Expires: 02-17-2016



The link between coverage and caring®

Preferred Professional Insurance Company®

Affidavit

I, Philip L. Foster, a member of the PPIC® Board of Directors, hereby swear that I have received a copy of the PPIC Report of Financial Examination as of December 31, 2010, conducted by the State of Nebraska Department of Insurance.

Dated this 25 day of June, 2012.

Philip L. Foster
Catholic Health Initiatives

State of Kentucky

County of Boone

Philip L. Foster, a member of the PPIC Board of Directors, personally appeared before me and swore that he received a copy of the PPIC Report of Financial Examination as of December 31, 2010, conducted by the State of Nebraska Department of Insurance.

Dated this 25 day of June, 2012.

Notary

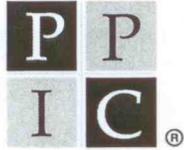
Notary Seal

Commission Expires:

July 9, 2013



RHONDA BEATSCH
Notary Public, Kentucky
State At Large
My Commission Expires
July 9, 2013



The link between coverage and caring®

Preferred Professional Insurance Company®

Affidavit

I, Sheila R. Hagg-Rickert, a member of the PPIC® Board of Directors, hereby swear that I have received a copy of the PPIC Report of Financial Examination as of December 31, 2010, conducted by the State of Nebraska Department of Insurance.

Dated this 25th day of June, 2012.

Sheila R. Hagg-Rickert
Christus Health

State of TEXAS

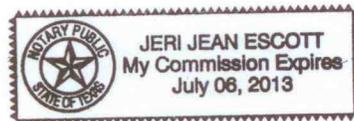
County of HARRIS

Sheila R. Hagg-Rickert, a member of the PPIC Board of Directors, personally appeared before me and swore that he received a copy of the PPIC Report of Financial Examination as of December 31, 2010, conducted by the State of Nebraska Department of Insurance.

Dated this 25 day of June, 2012.

Notary

Notary Seal



Commission Expires:

7/6/2013



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Preferred Professional Insurance Company®

Affidavit

I, Lynnette M. Matza, a member of the PPIC® Board of Directors, hereby swear that I have received a copy of the PPIC Report of Financial Examination as of December 31, 2010, conducted by the State of Nebraska Department of Insurance.

Dated this 27th day of June, 2012.

Lynnette M. Matza
Lynnette M. Matza
Preferred Professional Insurance Company

State of Nebraska
County of Douglas

Lynnette M. Matza, a member of the PPIC Board of Directors, personally appeared before me and swore that he received a copy of the PPIC Report of Financial Examination as of December 31, 2010, conducted by the State of Nebraska Department of Insurance.

Dated this 27th day of June, 2012.

Theresa A. Shepard
Notary

Notary Seal 

Commission Expires: March 30, 2016

Preferred Professional Insurance Company®

Affidavit

I, Larry M. Mitchell, a member of the PPIC® Board of Directors, hereby swear that I have received a copy of the PPIC Report of Financial Examination as of December 31, 2010, conducted by the State of Nebraska Department of Insurance.

Dated this 27 day of June, 2012.

Larry M. Mitchell

Larry M. Mitchell
Independent Director

State of INDIANA

County of MARION

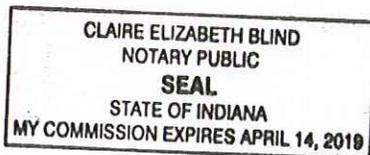
Larry M. Mitchell, a member of the PPIC Board of Directors, personally appeared before me and swore that he received a copy of the PPIC Report of Financial Examination as of December 31, 2010, conducted by the State of Nebraska Department of Insurance.

Dated this 27th day of June, 2012.

Claire Blind

Notary

Notary Seal



Commission Expires: April 14, 2019



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coverage and caring®

Preferred Professional Insurance Company®

Affidavit

I, Robert L. Muelleman, MD, a member of the PPIC® Board of Directors, hereby swear that I have received a copy of the PPIC Report of Financial Examination as of December 31, 2010, conducted by the State of Nebraska Department of Insurance.

Dated this 26 day of June, 2012.

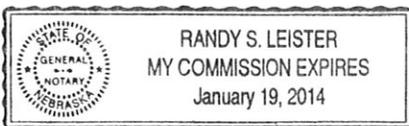
Robert L. Muelleman, MD
Independent Director

State of Nebraska

County of Douglas

Robert L. Muelleman, MD, a member of the PPIC Board of Directors, personally appeared before me and swore that he received a copy of the PPIC Report of Financial Examination as of December 31, 2010, conducted by the State of Nebraska Department of Insurance.

Dated this 26 day of June, 2012.



Notary Seal

Notary

Commission Expires: January 19, 2014



The link between
coverage and caring®

Preferred Professional Insurance Company®

Affidavit

I, J. Bryon Neaman, a member of the PPIC® Board of Directors, hereby swear that I have received a copy of the PPIC Report of Financial Examination as of December 31, 2010, conducted by the State of Nebraska Department of Insurance.

Dated this 10 day of July, 2012.

J. Bryon Neaman
Bon Secours Health System, Inc.

State of Maryland

County of Howard

J. Bryon Neaman, a member of the PPIC Board of Directors, personally appeared before me and swore that he received a copy of the PPIC Report of Financial Examination as of December 31, 2010, conducted by the State of Nebraska Department of Insurance.

Dated this 10th day of July, 2012.

Notary

Notary Seal

CHRISTINE E. MORRIS
Notary Public-Maryland
Carroll County
My Commission Expires
February 28, 2016

Commission Expires: February 28, 2016



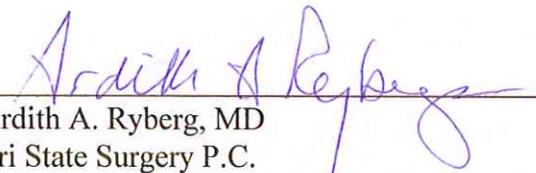
The link between
coverage and caring®

Preferred Professional Insurance Company®

Affidavit

I, Ardith A. Ryberg, MD, a member of the PPIC® Board of Directors, hereby swear that I have received a copy of the PPIC Report of Financial Examination as of December 31, 2010, conducted by the State of Nebraska Department of Insurance.

Dated this 10 day of ~~June~~, ^{July 10, 2012} 2012.

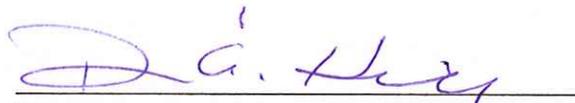

Ardith A. Ryberg, MD
Tri State Surgery P.C.
(affiliate of Catholic Health Initiatives)

State of Nebraska

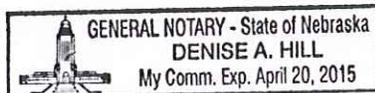
County of Douglas

Ardith A. Ryberg, MD, a member of the PPIC Board of Directors, personally appeared before me and swore that he received a copy of the PPIC Report of Financial Examination as of December 31, 2010, conducted by the State of Nebraska Department of Insurance.

Dated this 10 day of ~~June~~, ^{July} 2012.


Notary

Notary Seal



Commission Expires:



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Preferred Professional Insurance Company®

Affidavit

I, Theodore A. Schlert, a member of the PPIC® Board of Directors, hereby swear that I have received a copy of the PPIC Report of Financial Examination as of December 31, 2010, conducted by the State of Nebraska Department of Insurance.

Dated this 25th day of June, ~~2011~~ 2012.

Theodore A. Schlert
Catholic Health East

State of Pennsylvania

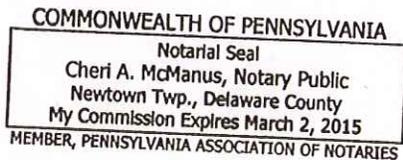
County of Delaware

Theodore A. Schlert, a member of the PPIC Board of Directors, personally appeared before me and swore that he received a copy of the PPIC Report of Financial Examination as of December 31, 2010, conducted by the State of Nebraska Department of Insurance.

Dated this 25 day of June, ~~2011~~ 2012.

Notary

Notary Seal



Commission Expires: March 2, 2015



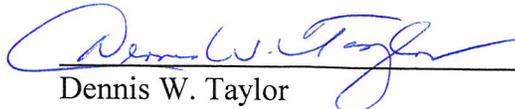
The link between
coverage and caring®

Preferred Professional Insurance Company®

Affidavit

I, Dennis W. Taylor, a member of the PPIC® Board of Directors, hereby swear that I have received a copy of the PPIC Report of Financial Examination as of December 31, 2010, conducted by the State of Nebraska Department of Insurance.

Dated this 27th day of June, 2012.


Dennis W. Taylor
Hospital Sisters Health System

State of Illinois

County of Sangamon

Dennis W. Taylor, a member of the PPIC Board of Directors, personally appeared before me and swore that he received a copy of the PPIC Report of Financial Examination as of December 31, 2010, conducted by the State of Nebraska Department of Insurance.

Dated this 27th day of June, 2012.

Notary Seal




Notary

Commission Expires: 4/17/2016



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Preferred Professional Insurance Company®

Affidavit

I, Michael J. Williams, a member of the PPIC® Board of Directors, hereby swear that I have received a copy of the PPIC Report of Financial Examination as of December 31, 2010, conducted by the State of Nebraska Department of Insurance.

Dated this 27 day of June, 2012.

Michael J. Williams
Catholic Health Partners

State of

Ohio

County of

Hamilton

Michael J. Williams, a member of the PPIC Board of Directors, personally appeared before me and swore that he received a copy of the PPIC Report of Financial Examination as of December 31, 2010, conducted by the State of Nebraska Department of Insurance.

Dated this 27 day of June, 2012.

Notary

Notary Seal

Commission Expires:

BARBARA J. BAIN
Notary Public, State of Ohio
My Commission Expires 03-02-2013



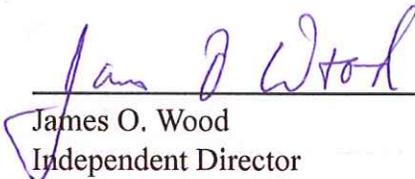
The link between
coverage and caring®

Preferred Professional Insurance Company®

Affidavit

I, James O. Wood, a member of the PPIC® Board of Directors, hereby swear that I have received a copy of the PPIC Report of Financial Examination as of December 31, 2010, conducted by the State of Nebraska Department of Insurance.

Dated this 25th day of June, 2012.

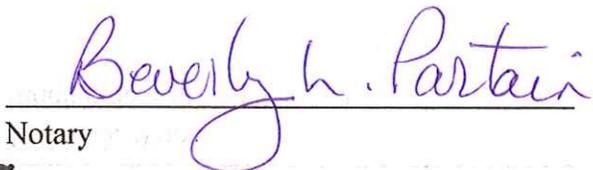


James O. Wood
Independent Director

State of Florida
County of Citrus

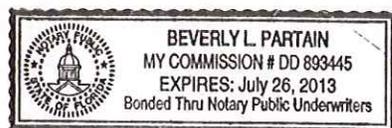
James O. Wood, a member of the PPIC Board of Directors, personally appeared before me and swore that he received a copy of the PPIC Report of Financial Examination as of December 31, 2010, conducted by the State of Nebraska Department of Insurance.

Dated this 25th day of June, 2012.



Notary

Notary Seal



Commission Expires