

EXAMINATION REPORT OF
NATIONAL INDEMNITY COMPANY OF MID-AMERICA
CORALVILLE, IOWA
AS OF DECEMBER 31, 2020

Coralville, Iowa
May 25, 2022

HONORABLE DOUG OMMEN
Commissioner of Insurance
State of Iowa
Des Moines, Iowa 50315

Commissioner Ommen:

In accordance with your respective authorizations and pursuant to Iowa statutory provisions, an examination has been made of the records, business affairs and financial condition of

NATIONAL INDEMNITY COMPANY OF MID-AMERICA

CORALVILLE, IOWA

AS OF DECEMBER 31, 2020

at the Company's administrative office, located at 1314 Douglas Street, Suite 1400, Omaha, NE.

INTRODUCTION

National Indemnity Company of Mid-America, hereinafter referred to as the "Company", was last examined as of December 31, 2016. The examination reported herein was part of a coordinated examination of the Berkshire Hathaway Group of insurance companies. The state insurance departments of California, Colorado, Connecticut, Iowa, Nebraska, and New York participated in this coordinated examination, with Nebraska as the lead state.

SCOPE OF EXAMINATION

This is the regular comprehensive financial examination of the Company covering the period from January 1, 2017 to the close of business on December 31, 2020, including any material transactions and/or events occurring and noted subsequent to the examination period.

The examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. The Handbook requires that we plan and perform the examination to evaluate the financial condition, identify current and prospective risks of the company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact and general information about the insurer and its financial condition.

HISTORY

The Company was incorporated on June 1, 1971 under the provisions of Chapter 300 of the Minnesota Statutes as Lakeland Fire and Casualty Company, a capital stock corporation, and commenced business on July 28, 1971. In 1984, the Company changed its name to National Indemnity Company of Minnesota and to its current name in 1989.

Per adoption of restated Articles of Incorporation, the Company re-domesticated from the State of Minnesota to the State of Iowa effective December 31, 1999.

On December 31, 2007, Pennsylvania Reinsurance Company merged with and into the Company.

CAPITAL STOCK AND DIVIDENDS

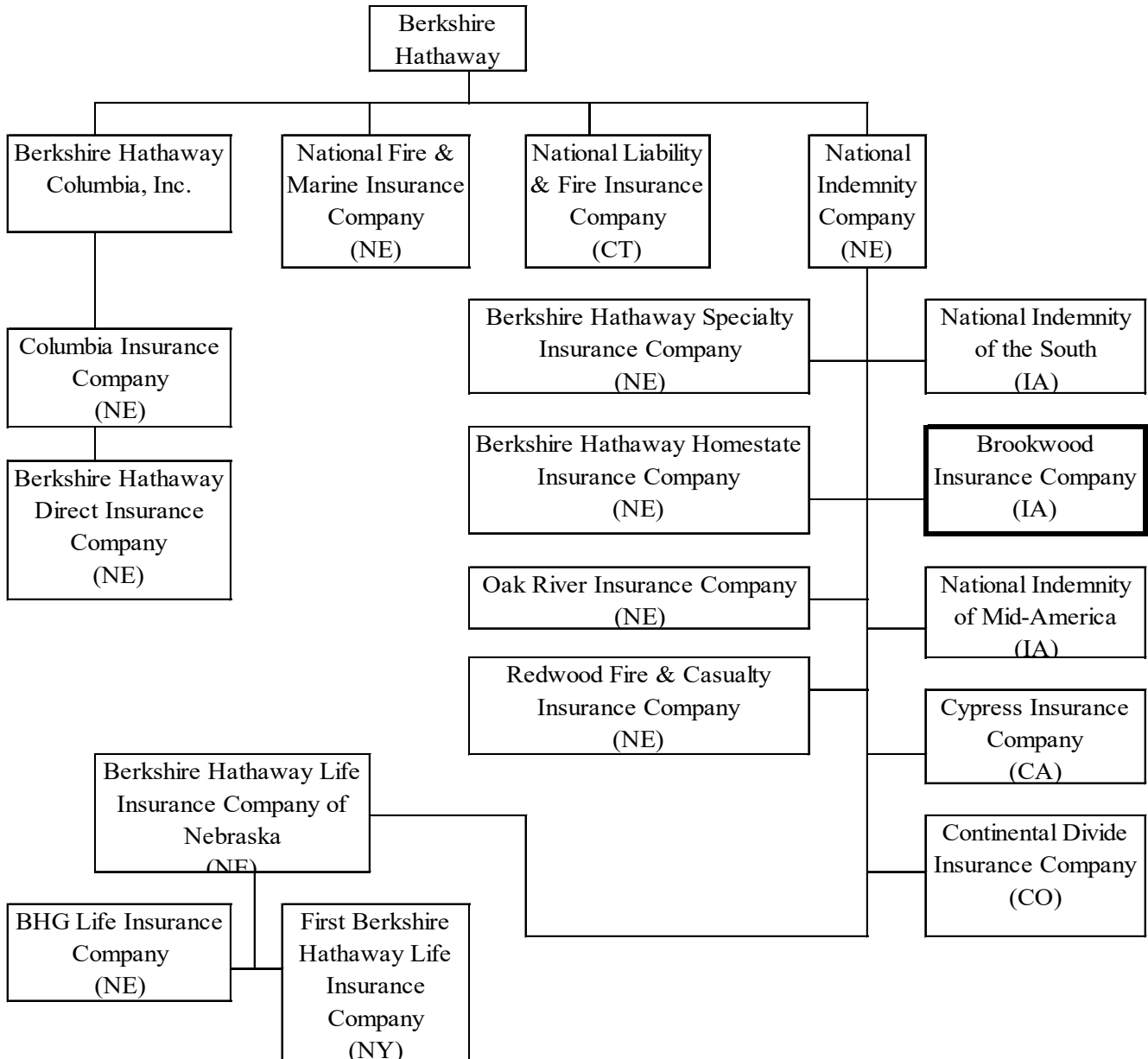
The Restated Articles of Incorporation provide that the authorized capital of the Company is \$5,000,000 consisting of 50,000 shares of common stock at \$100 par value each. At December 31, 2020, the Company had 30,000 shares of common stock issued and outstanding with a total par value of \$3,000,000 and \$8,967,801 of gross paid in and contributed surplus. All shares were owned by National Indemnity Company (NICO), a property and casualty insurer domiciled in Nebraska.

During the exam period, the Company paid an ordinary dividend of \$24,000,000 to its shareholder in 2019.

INSURANCE HOLDING COMPANY SYSTEM

The Company is a member of a Holding Company System as defined by Chapter 521A, Code of Iowa.

A simplified organizational chart as of December 31, 2020, reflecting the ultimate parent and holding company system, is shown below:



*Berkshire Hathaway Inc. is 31.847% owned by Warren E. Buffett

MANAGEMENT AND CONTROL

SHAREHOLDERS

The annual meeting of the Shareholders of the Corporation shall be held each year at a location, at a time and on a date set by the President of the Corporation, during the first five (5) months of the calendar year. The holders of a majority of the outstanding shares of the capital stock present in person or by proxy shall constitute a quorum for the transaction of business.

Notice of the time and place of the annual meeting of Shareholders shall be given to each Shareholder of record at least ten (10) days prior to said meeting, a notice thereof, postage prepaid, addressed to the last known post office address. Such notice may also be provided via electronic means such as email. However, such notice need not be given if a waiver thereof in writing, signed by the persons entitled to such notice, is obtained and filed with the minutes of such meeting.

BOARD OF DIRECTORS

In Accordance with the Restated Articles of Incorporation, the business and affairs of the Company shall be managed by a Board of Directors consisting of not more than 21 members nor less than five (5), the exact number to be determined by the stockholders at their annual meeting each year, or at a special meeting called for that purpose. The directors are to be elected annually at the stockholders meeting and hold office for one year or until their successors are elected and qualified.

The annual meeting of the Board of Directors shall be held immediately following the annual meeting of the shareholders, and regular and special meetings of the Board of Directors may be held as directed by the Board of Directors or upon call by the President or a majority of the Board of Directors.

Qualified directors serving on the Board as of December 31, 2020 were:

<u>Name and Address</u>	<u>Principal Occupation</u>	<u>Term Expires</u>
Bruce J. Byrnes Omaha, Nebraska	Vice President National Indemnity Company	2021
Marc D. Hamburg Omaha, Nebraska	Senior Vice President and CFO Berkshire Hathaway Inc.	2021
Daniel J. Jaksich Papillion, Nebraska	Vice President, Controller Berkshire Hathaway Inc.	2021
Brian G. Snover Stamford, Connecticut	Senior Vice President National Liability & Fire Insurance Company	2021
Donald F. Wurster Omaha, Nebraska	President National Indemnity Company	2021

COMMITTEES

The Board of Directors shall designate from their own number an executive committee and such other committees as in their sole discretion they shall deem necessary and appropriate. Committees designated as of December 31, 2020 were as follows:

Audit Committee

Brian G. Snover
Bruce J. Byrnes

Executive Committee

Marc D. Hamburg
Donald F. Wurster

Investment Committee

Marc D. Hamburg
Donald F. Wurster

OFFICERS

At each annual meeting of the Board of Directors, they shall elect from among their number, a President, and may elect a Chairman of the Board, each of whom shall hold office for the term of one year or until their successors are chosen and accept office. The Board shall elect a Corporate Secretary and a Treasurer, and may elect such other officers and agents as they deem necessary for the conduct of the business of the Company.

Officers elected and serving as of December 31, 2020 were as follows:

<u>Name</u>	<u>Title</u>
Marc D. Hamburg	Chairman of the Board
Donald F. Wurster	President
Brian G. Snover	Senior Vice President
Philip M. Wolf	Senior Vice President
Bruce J. Byrnes	Secretary & Vice President
Ateet A. Dhru	Vice President
Tracy L. Gulden	Vice President
Raj R. Mehta	Vice President
Nancy F. Peters	Vice President
Karen L. Rainwater	Vice President
Ty J. Reil	Vice President
Ralph Tortorella III	Vice President
Thomas L. Young	Vice President
Lori L. Cleary	Assistant Vice President
Daniel H. Little	Assistant Vice President
Timaree D. McKillip	Assistant Vice President
Rodney L. Rathbun	Assistant Vice President
Brad E. Rosen	Assistant Vice President
Thomas M. Ryan	Assistant Vice President
Carol Albaugh-Manning	Assistant Secretary
John D. Arendt	Assistant Secretary
Connor B. Dillard	Assistant Secretary
Janelle K. Kay	Assistant Secretary
Susan M. Kreski	Assistant Secretary
Mark D. Millard	Assistant Secretary
Brennan S. Neville	Assistant Secretary
Dale D. Geistkemper	Treasurer & Controller
Zachary R. Royse	Assistant Controller
Shane W. Tomlinson	Assistant Controller

The Company does not have any salaried officers or employees. All costs, including compensation, are shared under an intercompany service agreement that allocates costs to all companies in the holding company system.

CONFLICT OF INTEREST STATEMENTS

The Company has an established procedure for disclosure to its Board of Directors of any material interest or affiliation on the part of any of its officers or key employees which is in or likely to conflict with their official duties. Conflicts of interest statements are circulated and reviewed annually. No conflicts were disclosed.

CORPORATE RECORDS

The minutes of the stockholders, Board of Directors, Executive Committee and Audit Committee meetings were read and noted. The Investment Committee did not maintain minutes.

The Board minutes did not document the receipt or approval of the prior exam report dated as of December 31, 2016 as required by Iowa Code Section 507.10.4a.

The Bylaws were amended June 15, 2018 to restate the registered office, delete elected directors not creating contract rights, delete the requirement for directors to be 21 years of age or older, added unanimous written consent, delete participation at meeting by phone, add sentence on actions not eligible for indemnification, add approval by Board for indemnification and changed the description of the corporate seal.

RELATED PARTY AGREEMENTS

Effective March 10, 2011, the Company entered into an Intercompany Service Agreement with National Indemnity Company along with affiliates Berkshire Hathaway Life Insurance Company of Nebraska, Columbia Insurance Company (CIC), National Fire & Marine Insurance Company, National Indemnity Company of the South, and Wesco-Financial Insurance Company. Services and facilities available include but are not limited to: data processing, equipment, business property, whether owned or leased, and communication equipment. Additional services such as accounting, tax and auditing, underwriting, claims, investment, and functional support services may be provided. Charges for such services and facilities shall include all direct and directly allocable expenses, reasonably and equitably determined to be attributable to the Company, plus a reasonable charge for direct overhead. This agreement may be terminated by any party by giving a sixty-day written notice.

Effective December 31, 2014, the Company and BHC Special Risks Insurance Company (BSRIC), formerly Brookwood Insurance Company, entered into an Intercompany Allocation Agreement with a number of their affiliates. The purpose of the agreement is to document the companies' understanding of how reinsurance recoveries would be allocated if the limits under property excess reinsurance agreements to which each company participates were ever to be exhausted. The agreement calls for the participating companies to allocate reinsurance recoveries on a pro rata basis, based on the total recoveries under the respective reinsurance agreements as of the date of the companies' balance sheet at each quarter end.

Effective March 27, 2018, the Company entered into an Intercompany Services Agreement with their affiliate, General Reinsurance Corporation (GRC). Under the agreement, GRC personnel will perform certain internal audit services for the benefit of the Company.

Effective October 1, 2013, the Company's parent, Berkshire Hathaway, Inc. (BHI), entered into an Investment Services Agreement with New England Asset Management (NEAM). Effective March 1, 2018, the Company entered into an Investment Services Agreement with BHI. Subject to a July 20, 2017 amendment, all insurers under BHI began receiving investment services from NEAM. The 2013 Investment Services Agreement between BHI and NEAM stipulates that NEAM would bill BHI; however, it was determined during the exam period that all the individual insurers were receiving invoices for services provided. Going forward, the stipulations of the agreement will be followed and all invoices for services provided will be billed to BHI.

FIDELITY BONDS AND OTHER INSURANCE

The Company is named as a joint insured with other named affiliates on a blanket fidelity bond. The individual loss limit is \$6,000,000 with a \$12,000,000 aggregate loss limit. This policy is placed with a company authorized to transact business in the State of Iowa.

EMPLOYEE WELFARE

The Company does not have any salaried employees and is provided services from its parent, National Indemnity Company, through an Inter-company Services Agreement.

REINSURANCE

The Company is party to various assumed and ceded agreements with affiliated and unaffiliated companies, as well as a participant in mandatory pools.

Assumed

The Company reports a minimal reserve on Schedule F Part 1 for reserves related to the agreements for the merger of Pennsylvania Reinsurance Company; the Company became a party to several reinsurance contracts that are in run-off.

The Company is a member of a mandatory pool for workers' compensation in Minnesota. The Company is also a member of mandatory pools for automobile liability in Iowa, Minnesota, North Dakota, and Pennsylvania.

Ceded

The Company has a reinsurance agreement with Columbia Insurance Company (CIC) to cede 100% of the Company's collective liabilities which arise from the issuance of automobile liability policies with coverage above \$1 million limits and up to \$5 million limits on commercial risks. The contract became effective on October 1, 1985. The agreement shall remain continuously in force unless otherwise cancelled by either party.

The Company entered into a facultative reinsurance agreement with its affiliate, CIC, effective January 1, 2002. Pursuant to this agreement, CIC reinsures the Company for an underlying risk, represented by two Professional and Employment Practices Liability Policies written by the Company. The agreement provides that CIC will assume \$12,312,500 excess of \$3,000,000 each and every claim for a premium of 20% of the combined policies.

The Company entered into a reinsurance agreement with National Indemnity Company (NICO), effective November 7, 2002. NICO reinsures losses in excess of \$2 million per occurrence that arise from policies and reinsurance contracts in its Professional Liability and Special Risks Division. In consideration for the reinsurance coverage, the Company pays NICO 81% of the "Pro Rata Premium" received from insureds and cedents for insurance policies and reinsurance contracts with per occurrence limits in excess of \$2 million.

The Company has a reinsurance agreement with NICO to cede 100% of liabilities in excess of \$2 million per occurrence which arise from business written outside the National Indemnity Company Primary Group, with per occurrence limits in excess of \$2 million. The agreement was amended on March 1, 2014 to amend the reinsurance coverage paragraph and include the Company's aggregate retention shall be \$2 million under any policy or contract reinsured hereunder.

The Company has a facultative reinsurance agreement issued by General Reinsurance Corporation to cede automobile bodily injury and property damage liability and excess auto liability. The agreement became effective February 18, 2014. The policy limits of \$5 million each accident and \$4 million in excess of underlying insurance.

The Company has a reinsurance agreement with National Liability and Fire Insurance Company to cede 100% of Commercial Automobile risk located in the State of Minnesota for the 1993 and subsequent accident years. The contract became effective June 16, 1995.

Effective January 1, 2014, the Company became a party to the 100 Percent Quota Share Reinsurance Treaty with Factory Mutual Insurance Company for Equipment Breakdown Coverage. The Company cedes 100% of Equipment Breakdown endorsements to Commercial Property insurance policies underwritten in accordance with the Berkshire Hathaway Homestate Companies' underwriting guidelines and distribution channels. The Agreement was amended on February 1, 2017 and on January 1, 2018 to update the rates and rules permissible.

The Company is a party to the Property Excess Per Risk reinsurance contract brokered by Aon with various reinsurers. The agreement was effective January 1, 2020 and remained in effect through December 31, 2020. The Company agrees to cede any excess liability for property business, including but not limited to, Fire, Extended Coverage, Allied lines, Inland Marine, Earthquake, Warehouse Legal Liability and the property sections of multiple peril policies. The agreement applies to insurance policies underwritten in accordance with the Berkshire Hathaway Homestate Companies' underwriting guidelines and distribution channels.

Due to the merger of Pennsylvania Reinsurance Company, the Company became a party to several reinsurance contracts that are in run-off. Several of these contracts contain an exposure to asbestos risk.

STATUTORY DEPOSIT

The statement value of securities held in a custodial account and vested in the Insurance Commissioner of Iowa for the benefit of all policy holders totaled \$1,645,200.

TERRITORY AND PLAN OF OPERATION

The Company is authorized to transact business in Iowa, Minnesota, North Dakota and Pennsylvania. The Company writes business in Nebraska on a surplus lines basis. Approximately twenty-five percent of the 2020 premium was written in Iowa.

The Company writes mainly commercial automobile, targeting small to medium size niche business such as tour buses, suburban taxicab companies, limousine fleets of livery companies and tow trucks owned by service stations.

ACCOUNTS AND RECORDS

The Company's general ledgers are maintained on an accrual basis. Trial balances were prepared for the examination years under review. Amounts from the general ledger accounts were reconciled and found to be in agreement with balances reported on the annual statements for assets, liabilities, income or disbursements.

During the course of the examination, no material aggregate surplus difference was identified from the amount reflected in the financial statements, as presented in the annual statement at December 31, 2020.

The 2020 Actuarial Report did not comply with the Annual Statement Instructions regarding the illustration of Schedule P reconciliations.

SUBSEQUENT EVENTS

COVID-19 Pandemic

In March 2020, the World Health Organization declared Coronavirus disease (COVID-19) a pandemic. As of the date of this report, there is significant uncertainty as to the impact the pandemic will have on the economy, insurance industry and the Company. In addition, this uncertainty has contributed to extreme volatility in the financial markets. As such, the Iowa Insurance Division will continue to monitor COVID-19 developments.

FINANCIAL STATEMENTS
AND COMMENTS THEREON

NOTE: The following financial statements are based on the statutory financial statements filed by the Company with the Iowa Insurance Division and present the financial condition of the Company for the period ending December 31, 2020.

STATEMENT OF ASSETS AND LIABILITIES

ASSETS

<u>Ledger</u>	<u>Admitted</u>	<u>Not Admitted</u>	<u>Total</u>
Bonds	\$ 39,000	\$ -	\$ 39,000
Preferred stocks	105,000		105,000
Common Stocks	304,700,933		304,700,933
Cash & Cash Equivalents	61,327,694		61,327,694
Investment income due and accrued	200,706		200,706
Premiums and considerations			
Uncollected premium	400,219		400,219
Deferred premium	427,943	334	427,609
Amounts recoverable from reinsurers	18,885		18,885
Receivable from parent, subsidiaries and affiliates	<u>201,733</u>	<u> </u>	<u>201,733</u>
 Total assets	 <u>\$ 367,422,113</u>	 <u>\$ 334</u>	 <u>\$ 367,421,779</u>

LIABILITIES, CAPITAL, AND SURPLUS

Losses	\$ 20,445,383
Reinsurance payable on paid losses and loss adjustment expenses	(8,473)
Loss adjustment expenses	3,798,065
Commissions payable, contingent commissions	212,220
Other expenses	155,953
Taxes, licenses and fees	15,378
Current federal and foreign income taxes	17,410
Net deferred tax liability	51,518,772
Unearned Premiums	3,921,484
Ceded reinsurance premiums payable	(181,750)
Amounts withheld or retained by company for account of others	1,251
Provision for reinsurance	1,092
Drafts outstanding	183
Payable to parent, subsidiaries, and affiliates	<u>690,825</u>
 Total liabilities	 <u>\$ 80,587,793</u>
 Common capital stock	 \$ 3,000,000
Gross paid in and contributed surplus	8,967,801
Unassigned funds (surplus)	<u>274,866,186</u>
 Surplus as regards policyholders	 <u>\$ 286,833,987</u>
 Total liabilities and surplus	 <u>\$ 367,421,780</u>

STATEMENT OF INCOME

Underwriting Income

Premiums earned		\$ 9,372,257
 <u>Deductions</u>		
Losses incurred	\$ 8,386,464	
Loss adjustment expenses incurred	1,532,472	
Other underwriting expenses incurred	<u>3,285,524</u>	
Total underwriting deductions		<u>13,204,460</u>
 Net underwriting gain (loss)		 \$ (3,832,203)

Investment Income

Net investment income earned	\$ 7,463,960	
Net realized capital gains (losses)	<u>(1,063,524)</u>	
Net investment gain (loss)		6,400,436

Other Income

Net gain (loss) from agents' or premium balances charged off	\$ (25,422)	
Finance and service charges not included in premiums	4,880	
Miscellaneous Expense	<u>197</u>	
Total other income		<u>(20,345)</u>

Net income before federal income tax		\$ 2,547,888
Federal and foreign income taxes incurred		<u>300,063</u>
Net income		<u>\$ 2,247,825</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December prior year		\$ <u>282,336,290</u>
 <u>Gains and (Losses) in Surplus</u>		
Net income		\$ 2,247,825
Change in net unrealized capital gain		2,140,139
Change in net deferred income tax		109,303
Change in nonadmitted assets		<u>1,522</u>
Change in surplus as regards policyholders for the year		<u>\$ 4,497,697</u>
Surplus as regards policyholders, December 31, 2020		<u>\$ 286,833,987</u>

CASH FLOW STATEMENT

Cash from Operations

Premiums collected net of reinsurance	\$ 10,194,251	
Net investment income	7,463,960	
Miscellaneous income	<u>(20,832)</u>	
Total		\$ 17,637,379
Benefit and loss related payments	\$ 3,134,067	
Commissions, expenses paid and aggregate write-ins	4,406,412	
Federal income taxes (paid) recovered	<u>(88,867)</u>	
Total		<u>7,451,612</u>
Net cash from operations		<u>\$ 10,185,767</u>

Cash from Investments

Proceeds from investments sold, matured or repaid:		
Bonds	\$ <u>8,640,140</u>	
Total investment proceeds		\$ 8,640,140
Net cash from investments		<u>\$ 8,640,140</u>

Cash from Financing and Miscellaneous Sources

Cash provided (applied):		
Other cash provided (applied)	\$ <u>303,314</u>	
Net cash from financing and miscellaneous sources		<u>\$ 303,314</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash, cash equivalents and short-term investments		\$ 19,129,221
Cash, cash equivalents and short-term investments:		
Beginning of year		<u>42,198,475</u>
End of period		<u>\$ 61,327,696</u>

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of National Indemnity Company of Mid-America as of December 31, 2020, consistent with the insurance laws of the State of Iowa.

In addition to the undersigned, the following participated in the examination for the Iowa Insurance Division: James Menck, CFE, CPA, of Eide Bailly LLP.

Respectfully submitted,

/s/ Joe Hofmeister
Joseph Hofmeister, CFE
Examiner in Charge
Eide Bailly LLP on behalf of the
Iowa Insurance Division

/s/ Amanda Theisen
Amanda Theisen, CFE
Supervisor and Assistant Chief Examiner
Iowa Insurance Division
State of Iowa