

EXAMINATION REPORT OF
CONTINENTAL INDEMNITY COMPANY
CEDAR RAPIDS, IOWA
AS OF DECEMBER 31, 2017

Omaha, Nebraska
March 28, 2019

Honorable Doug Ommen
Commissioner of Insurance
Iowa Insurance Division
601 Locust St., 4th Floor
Des Moines, Iowa 50309

Commissioner:

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

CONTINENTAL INDEMNITY COMPANY

CEDAR RAPIDS, IOWA

AS OF DECEMBER 31, 2017

at the Company's administrative office, 10805 Old Mill Road, Omaha, NE.

INTRODUCTION

Continental Indemnity Company, hereinafter referred to as the "Company", was last examined as of December 31, 2013 by the Iowa Insurance Division.

SCOPE OF EXAMINATION

This is the regular comprehensive financial examination of the Company covering the intervening period from January 1, 2014 to the close of business on December 31, 2017, 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 Financial Condition Examiners Handbook. The Handbook requires that we 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 organization, and evaluating system controls and procedures used to mitigate those risks. An 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.

All accounts and activities of the organization were considered in accordance with the risk-focused examination process. The Company's assets were verified and evaluated and the liabilities determined to reflect herein a statement of its financial condition as of December 31, 2017.

HISTORY

Continental National Indemnity Company was incorporated December 9, 1986 under the laws of Ohio, as a stock property and casualty insurance company. It was licensed on December 29, 1986 at which time it commenced business. On December 30, 2005, the Company was purchased by Applied Underwriters, Inc. (AU) from Continental National American Group ("CNI"). In May 2006, the Company, through acquisition of its holding

company, became a member of Berkshire Hathaway Inc. As of December 29, 2006, the Company re-domiciled to Iowa and changed its name to Continental Indemnity Company. The Company is licensed in 47 States and the District of Columbia. and currently writes direct business in workers compensation. The Company is a party to the intercompany pool agreement and assumes a 15 percent share.

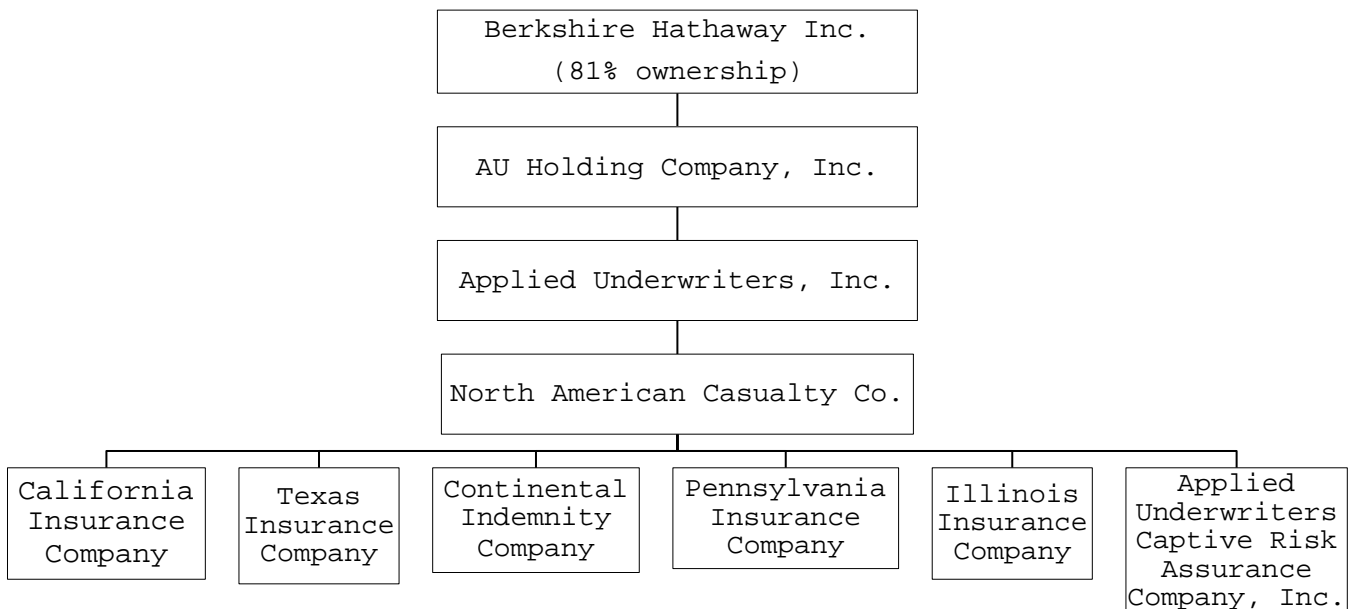
CAPITAL STOCK

The Amended Articles of Incorporation provide that the authorized capital of the Company is \$4,000,002 consisting of 300 shares of common stock at \$13,333.34 par value each. At December 31, 2017, the Company had 300 shares of common stock issued and outstanding with a total par value of \$4,000,002 and \$33,656,763 of gross paid in and contributed surplus. The Company’s parent, North American Casualty Co. (NAC) owns 100 percent of the stock issued by the Company

The Company did not pay any stock dividends during the examination period.

INSURANCE HOLDING COMPANY SYSTEM

The Company is a member of an insurance holding company system as defined by Chapter 521A, Code of Iowa. A simplified organizational chart as of December 31, 2017, reflecting the ultimate parent and holding company system, is shown below. Schedule Y of the Company’s 2017 annual statement provided a list of all related companies of the holding company group.



MANAGEMENT AND CONTROL

STOCKHOLDERS

The Articles of Incorporation of the Company state that the annual meeting of the shareholders for the election of directors, for the consideration of reports to be laid before such meeting and for the transaction of such other business as may properly come before such meeting, shall be held on the last Wednesday in April in each year or on such other date as may be fixed from time to time by the directors, except that if the last Wednesday in April in a particular year falls on the last day of the month,

the annual meeting shall be held on the fourth Wednesday in April in that year or on such other date as may be fixed by the directors.

Meetings of the shareholders may be called only by the Chairman of the Board, the President, or in the case of the President's absence, death, or disability, the Vice President authorized to exercise the authority of the President; the Secretary; the directors by action at a meeting, or a majority of the directors acting without a meeting; or the holders of at least 50 percent of all shares outstanding and entitled to vote thereat.

All meetings of shareholders shall be held at the principal office of the corporation, unless otherwise provided by action of the directors. Meetings of shareholders may be held at any place within or without the State of Iowa.

At any meeting of shareholders, the holders of a majority in amount of the voting shares of the corporation then outstanding and entitled to vote thereat, present in person or by proxy, shall constitute a quorum for such meeting.

BOARD OF DIRECTORS

In accordance with the Articles of Incorporation, the business and affairs of the Company shall be managed by a Board of Directors consisting of not less than five nor more than 21 as may be fixed by the shareholders at each annual meeting or, if no number is so fixed, of five directors, and each of whom shall be elected annually by the shareholders at each annual meeting to serve for a term of one year or until a successor has been elected and qualified.

The annual meeting of the Board of Directors shall be held immediately following the annual shareholders meeting. Special meetings of the Board of Directors may be held as directed by the Chairman or a majority of the Board of Directors.

A majority of the whole authorized number of directors shall be necessary to constitute a quorum for a meeting of directors, except that a majority of the directors in office shall constitute a quorum for filling a vacancy in the Board.

Qualified directors serving on the Board as of December 31, 2017 were:

<u>Name</u>	<u>Principal Occupation</u>	<u>Term Expires</u>
Sidney R. Ferenc Highland Beach, Florida	Chairman Applied Underwriters, Inc. Affiliates	2018
Steven M. Menzies Omaha, Nebraska	President & Chief Operating Officer Applied Underwriters, Inc.	2018
Jeffrey A. Silver Omaha, Nebraska	Executive Vice President Applied Underwriters, Inc.	2018
Jon M. McCright Cedar Rapids, Iowa	Attorney Lynch Dallas P.C.	2018
Marc M. Tract Nassau, New York	Attorney Katten Muchin Rosenmann LLP	2018

COMMITTEES

The Board of Directors may designate from their own number an executive committee, an investment committee and one or more other committees. Committees designated were as follows:

<u>Audit Committee</u>	<u>Investment Committee</u>
Jeffrey A. Silver	Sidney R. Ferenc
Marc M. Tract	Steven M. Menzies
Jon M. McCright	Jeffrey A. Silver

The full Board of Directors reviews and approves investments at least quarterly.

OFFICERS

The Amended Bylaws and Regulations prescribe that the officers of the corporation to be elected by the directors shall be a President, one or more Vice Presidents, a Secretary, a Treasurer, and may, but shall not be required to include, one or more Assistant Vice Presidents, Assistant Secretaries or Assistant Treasurers, none of whom shall be required to be shareholders or directors. Any two or more offices may be held by the same person, but no officer shall execute, acknowledge, or verify any instrument in more than one capacity if such instrument is required by law, the Articles, the Bylaws and Regulations or the Bylaws to be executed, acknowledged or verified by two or more officers. Each officer shall be elected annually by the Board of Directors at each annual meeting to serve a term of office of one year or until a successor has been elected and qualified.

Officers elected and serving as of December 31, 2017 were as follows:

<u>Name</u>	<u>Office</u>
Sidney R. Ferenc	Chairman
Steven M. Menzies	President, Chief Operating Officer and Treasurer
Robert L. Stafford	Vice President of Finance
Justin Smith	Vice President and Chief Actuary
Jeffrey A. Silver	Secretary

The Company does not have any salaried officers or employees. Services and costs are shared under an inter-company service agreement.

CONFLICT OF INTEREST

The Company has a Conflict of Interest policy that states, "If an officer or director has an interest in or contemplates entering into a transaction that presents an actual or potential conflict of interest, the same must be disclosed in writing to the Company's Board of Directors and, if necessary, to the stockholder of the Company."

The annual Conflict of Interest questionnaires were reviewed, and it was noted that each of the officers and directors had completed and signed a questionnaire.

CORPORATE RECORDS

The minutes of the stockholders and Board of Directors meetings were read and noted. The minutes appeared to be complete and were properly attested.

The Board of Directors formally accepted the examination report as of December 31, 2013 delivered on February 4, 2015 by unanimous written consent on February 24, 2015.

INTER-COMPANY SERVICE AGREEMENT

The following agreements are in effect between the Company and its affiliates:

The Company has an Agency Agreement with an affiliate, Applied Risk Services, Inc. (ARS), in which ARS receives premium from policyholders and pays commissions to brokers on behalf of the Company. The agreement requires that intercompany balances be settled within 30 days.

The Company also has an intercompany pooling arrangement with affiliates, California Insurance Company (CIC), Texas Insurance Company (TIC), Illinois Insurance Company (IIC), and Pennsylvania Insurance Company (PIC) for Workers' Compensation, including Mandatory Reinsurance, Employment Practices Liability, Warranty, Accidental Death & Dismemberment, and Non-occupational Income Replacement lines of business. CIC is the lead company, assuming a 70 percent share, TIC, IIC and PIC each assume a five percent share while the Company assumes the remaining 15 percent share. This arrangement also requires that balances be settled within 30 days.

Applied Underwriters, Inc., the Company's Indirect Parent, has agreed to provide certain management, claims processing, premium processing, and data processing services for the Company. These costs are shared as part of the intercompany pooling arrangement with CIC, TDI, IIC and PIC.

All agreements have been filed with the Iowa Insurance Division.

FIDELITY BONDS AND OTHER INSURANCE

The Company's indirect parent, Applied Underwriters, Inc., maintains fidelity bond coverage up to \$2,000,000, which adequately covers the suggested minimum amount of coverage for the Company as recommended by the NAIC. The Company is identified as a named insured on the fidelity bond.

The Company also maintains Property, Crime, General Liability, and Automobile coverages, along with an overall umbrella policy with a limit of \$10,000,000.

EMPLOYEE WELFARE

The Company does not have any salaried employees and is provided services from an inter-company service agreement.

REINSURANCE

The Company's current reinsurance program consists of the following:

Assumed

The Company's (only) materially assumed risk from its intercompany pooling arrangement with CIC, TDI, IIC and PIC. The Company also assumed a small amount of risk from the National Workers Compensation Pool.

Ceded

The Company's only materially ceded risk to its intercompany pooling arrangement with CIC, IIC and PIC. The Company also ceded a small amount of risk to various

insurers from runoff business prior to the acquisition by Applied Underwriters. These risks are managed by the previous owner, CNA.

The Company has a reinsurance agreement in runoff with Continental Casualty Company (CCC), whereby CCC assumes all of the net retained liability of the Company for losses incurred prior to December 30, 2005. As a result, the Company is not responsible for the net retained liability of any period prior to the purchase date of December 30, 2005.

STATUTORY DEPOSIT

As of December 31, 2017, the book/adjusted carrying value of securities held in a custodial account and vested in the Insurance Commissioner of Iowa for the benefit of all policyholders totaled \$5,728,645. The Company had securities and other assets on deposit with the Iowa Insurance Division in excess of the minimum statutory requirements.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in all States except Alaska, Connecticut and Hawaii. The Company is authorized to transact many property and casualty lines of business, with workers compensation representing the Company's principal line of business.

GROWTH OF COMPANY

The following significant data, taken from the Company's filed annual statements for the years indicated reflects the growth of the Company:

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Premiums Earned	66,071,467	54,774,146	57,049,833	48,095,000
Net Underwriting Gain/(Loss)	18,457,883	14,994,079	26,744,729	19,347,358
Net Income	18,456,037	11,260,305	18,350,054	13,432,794
Total Assets	227,622,380	200,385,157	177,963,144	156,574,028
Total Liabilities	112,430,154	102,953,307	93,200,759	90,814,819
Surplus As Regards Policyholders	115,192,226	97,431,850	84,762,385	65,759,209

ACCOUNTS AND RECORDS

The Company maintains its principal operational offices in Omaha, Nebraska, where this examination was conducted.

RSM US LLP, an independent CPA audited the Company's statutory basis financial statements annually for the years 2014, 2015, 2016, and 2017.

The Company's accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Division of Insurance.

An evaluation of the information technology and computer systems of the Company was completed during the examination.

During the course of the examination, no material statutory compliance issues were noted nor aggregate surplus differences identified from the amount reflected in the financial statements, as presented in the annual statement at December 31, 2017.

SUBSEQUENT EVENTS

On December 27, 2018, the Company declared a dividend of \$13,500,000 to be paid to its parent, North American Casualty Co.

Berkshire Hathaway announced plans to sell Applied Underwriters, Inc. (the company's indirect parent) and its subsidiaries.

F I N A N C I A L S T A T E M E N T S
A N D C O M M E N T S T H E R E O N

NOTE: Except as otherwise stated, the financial statements immediately following reflect only the transactions for the period ending December 31, 2017 and the assets and liabilities as of this date. Schedules may not add or tie precisely due to rounding.

STATEMENT OF ASSETS AND LIABILITIES

ASSETS

	<u>Ledger</u>	Not <u>Admitted</u>	<u>Admitted</u>
Bonds	\$ 74,425,337	\$	\$ 74,425,337
Stocks			
Common Stock	20,619,390		20,619,390
Cash & Short term investments	80,260,410		80,260,410
Investment income due and accrued	339,660		339,660
Premiums and considerations:			
Deferred premium	31,290,238	63	31,290,175
Reinsurance			
Amounts recoverable	16,767,147		16,767,147
Current federal income tax recoverable	376,906		376,906
Guaranty funds receivable or on deposit	535,559		535,559
Receivables from parent and affiliate	57,836		57,836
Aggregate write-ins			
Policyholder Surcharges	1,866,891		1,866,891
Prepaid Expenses	66,871	66,871	0
NE Sales Taxes Paid	1,081		1,081
Equity in Pools & Associations	882,281		882,281
Premium tax recievable	199,707		199,707
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Total assets	\$ 227,689,314	\$ 66,934	\$ 227,622,380

Liabilities, Surplus and Other Funds

Losses	\$ 56,743,452
Reinsurance payable on paid losses and loss adjustment expenses	3,248,382
Loss adjustment expenses	10,780,764
Commissions payable	4,373,719
Other expenses	1,485,565
Taxes, licenses and fees	11,321,733
Net deferred tax liability	445,488
Unearned premium	742,631
Ceded reinsurance premium payable	22,300,722
Remittances and items not allocated	517
Payable to parent and affiliates	18,094
Write-ins	
Funds held by company under reinsurance assumed contracts	414,130
Escheat payable	554,957
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Total liabilities	\$ 112,430,154
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Common capital stock	\$ 4,000,002
Gross paid in and contributed surplus	33,656,763
Unassigned funds (surplus)	77,535,461
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Surplus as regards policyholders	\$ 115,192,226
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Total liabilities, surplus and other funds	\$ 227,622,380
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STATEMENT OF INCOME

PERIOD ENDING DECEMBER 31, 2017

<u>Underwriting income</u>	
Premium earned	\$ 66,071,467
 <u>Deductions</u>	
Losses incurred	\$ 26,572,933
Loss adjustment expenses incurred	6,591,292
Other underwriting expenses incurred	14,449,359
Total underwriting deductions	<u>47,613,584</u>
 Net underwriting gain (loss)	 \$ 18,457,883
 <u>Investment Income</u>	
Net investment income earned	<u>\$ 1,528,566</u>
Net realized capital gains	<u>4,901,761</u>
 Net investment gain (loss)	 6,430,327
 <u>Other Income</u>	
Net gain (loss) from agents' or premium balances charged off	\$ -
Finance and service charges not included in premium	8,651
Aggregate write-ins for miscellaneous income	<u>372</u>
 Total other income	 <u>9,023</u>
 Net income before Federal income tax	 \$ 24,897,233
Federal & foreign income taxes	<u>6,441,196</u>
 Net income	 <u>\$ 18,456,037</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2016	<u>\$ 97,431,850</u>
 <u>Gains and (Losses) in Surplus</u>	
Net Income	\$ 18,456,037
Change in net unrealized capital gains(losses)	1,919,866
Change in net deferred income tax	(2,615,998)
Change in non-admitted assets	<u>471</u>
 Change in surplus as regards policyholders for the year	 <u>\$ 17,760,376</u>
 Surplus as regards policyholders, December 31, 2017	 <u>\$ 115,192,226</u>

CASH FLOW

Premium collected net of reinsurance	67,668,610
Net investment income	1,502,551
Miscellaneous income	9,023
Total	<u>69,180,184</u>
Benefit and loss related payments	<u>12,331,194</u>
Net transfers to separate, segregated & protected cell accounts	
Commissions, expenses paid and aggregate write-in for deductions	21,402,031
Dividends paid to policyholders	
Federal and foreign income taxes paid	5,362,787
Total	<u>39,096,012</u>
Net cash from operations	<u>30,084,172</u>
Proceeds from investments sold, matured or repaid:	
Bonds	24,379,675
Stocks	6,941,608
Miscellaneous proceeds	8,000,000
Total investment proceeds	<u>39,321,283</u>
Cost of investments acquired (long-term only):	
Bonds	26,384,753
Total investment acquired	<u>26,384,753</u>
Net increase (decrease) in contract loans and premium notes	
Net cash from investments	<u>12,936,530</u>
Cash provided (applied):	
Other cash provided (applied)	(109,260)
Net cash from financing and miscellaneous sources	<u>(109,260)</u>
Net change in cash, cash equivalent & short term investments	42,911,442
Cash, cash equivalent & short term investments:	
Beginning of year	37,348,968
End of year	80,260,410

STATEMENT OF INCOME
PERIOD ENDING DECEMBER 31, 2017

<u>Underwriting income</u>		
Premium earned		\$ 225,990,446
<u>Deductions</u>		
Losses incurred	\$ 65,080,288	
Loss adjustment expenses incurred	20,687,641	
Other underwriting expenses incurred	60,678,468	
Total underwriting deductions		<u>146,446,397</u>
Net underwriting gain (loss)		\$ 79,544,049
<u>Investment Income</u>		
Net investment income earned	\$ 4,116,156	
Net realized capital gains	5,232,183	
Net investment gain (loss)		9,348,339
<u>Other Income</u>		
Net gain (loss) from agents' or premium balances charged off	\$ -	
Finance and service charges not included in premium	1,067,246	
Aggregate write-ins for miscellaneous income	1,867	
Total other income		<u>1,069,113</u>
Net income before Federal income tax		\$ 89,961,501
Federal & foreign income taxes		<u>28,462,311</u>
Net income		<u>\$ 61,499,190</u>
<u>Capital and Surplus Account</u>		
Surplus as regards policyholders, December 31, 2013		<u>\$ 53,765,169</u>
<u>Gains and (Losses) in Surplus</u>		
Net Income		\$ 61,499,190
Change in net unrealized capital gains(losses)		3,036,186
Change in net deferred income tax		(3,083,323)
Change in non-admitted assets		<u>(24,996)</u>
Change in surplus as regards policyholders for the year		<u>\$ 61,427,057</u>
Surplus as regards policyholders, December 31, 2017		<u>\$ 115,192,226</u>

CONCLUSION

The assistance extended by the officers and employees of the Company during the course of this examination is hereby acknowledged.

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Continental Indemnity Company as of December 31, 2017, consistent with the insurance laws of the State of Iowa.

In addition to the undersigned, the following examiners representing the Iowa Insurance Division participated in this examination:

Ryan Havick, CFE
Temi Nayin, CPA, CFE
Emilie Brady, CFE, AIE

In addition to the undersigned, Ber Vang, CFE, Lead State Exam and IT Supervisor, Donovan Han, CFE, Lead State EIC, Jack Lee, CFE, Associate Insurance Examiner, and Allen Lau, Associate Insurance Examiner participated in this examination representing the California Department of Insurance.

Respectfully submitted,

/s/ James Burch _____
James Burch, CFE
Examiner in Charge
Eide Bailly LLP on behalf of the
Iowa Insurance Division

/s/ Daniel Mathis _____
Daniel Mathis, CFE
Assistant Chief Examiner
Iowa Insurance Division