

EXAMINATION REPORT OF
NATIONAL INDEMNITY COMPANY OF THE SOUTH
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 THE SOUTH

CORALVILLE, IOWA

AS OF DECEMBER 31, 2020

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

INTRODUCTION

National Indemnity Company of the South, 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 March 28, 1983, licensed in Florida on July 27, 1983, and commenced business on October 1, 1983, as National Indemnity Company of Florida. On September 20, 1990, the Company changed its name to National Indemnity Company of the South.

On January 1, 2012, the Company's parent, OBH LLC, a Delaware limited liability company, was merged into Berkshire Hathaway Inc., with Berkshire Hathaway Inc. being the surviving corporation.

The Company re-domesticated from the State of Florida to the State of Iowa effective December 20, 2016.

CAPITAL STOCK AND DIVIDENDS

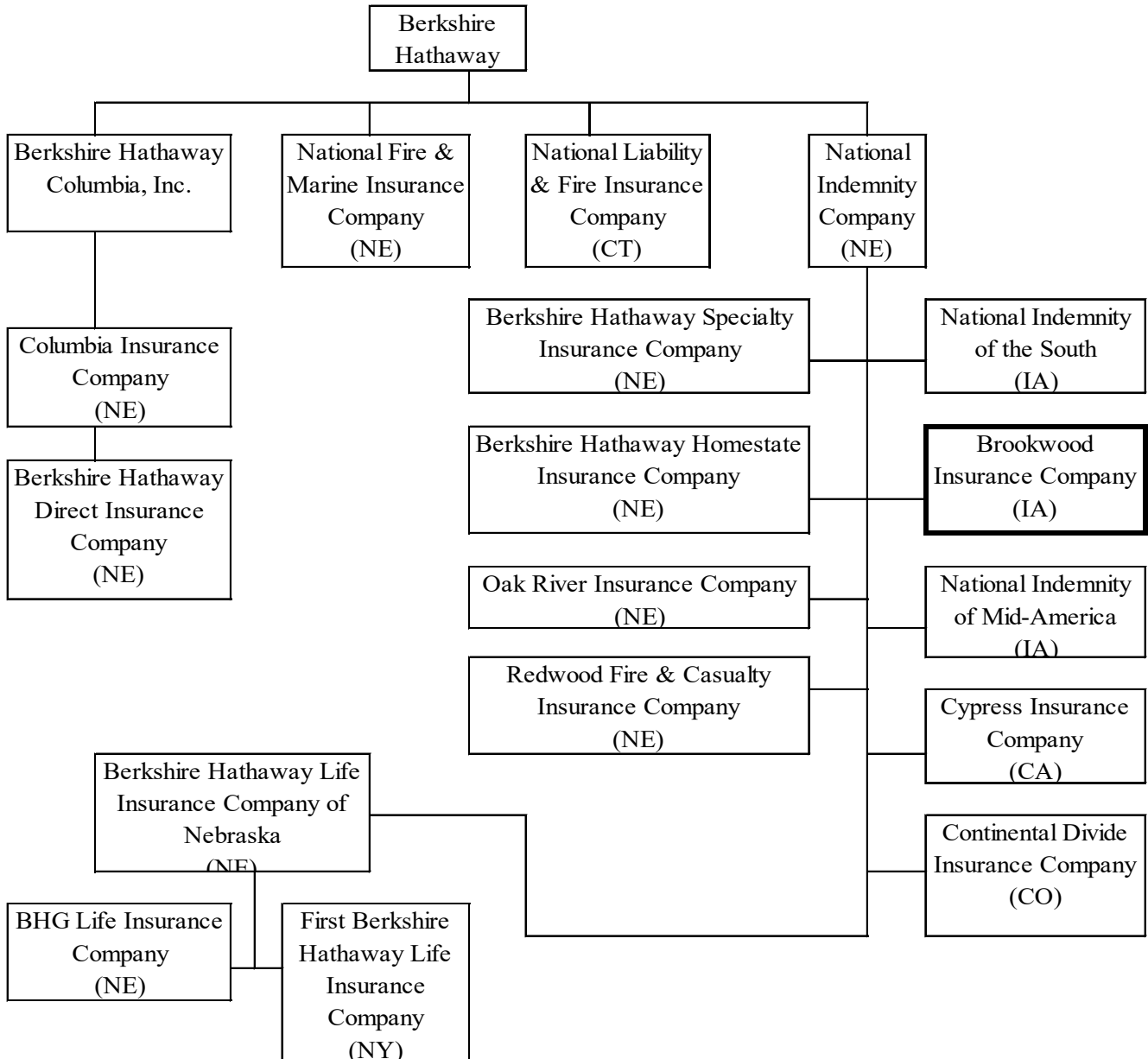
The Articles of Incorporation provide that the authorized capital of the Company is \$5,000,000 consisting of 50,000 shares of common stock at \$100 par value each. As of December 31, 2020, the Company had 50,000 shares of common stock issued and outstanding with a total par value of \$5,000,000 and \$2,000,000 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 \$26,500,000 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, for the purpose of electing directors for the ensuing year and for the transaction of such other business as may properly come before such meeting, shall be held at such time and place as shall be stated in the notice to the shareholders or in any waiver of notice executed by such shareholders.

A special meeting of the shareholders may be called at any time by the President, or a majority of the Board of Directors, and shall be called by the President or the Secretary upon the written request of a majority of the directors or of shareholders of record holding in the aggregate one-quarter or more of the outstanding shares of stock of the corporation entitled to vote, any such written request to state the purpose or purposes of the meeting and to be delivered to the President, any Vice President, or the Secretary.

Every shareholder of record entitled to vote shall be entitled at every meeting of the Corporation to one vote for each share of stock standing in his name on the books of the Corporation. Any shareholder entitled to vote may vote by proxy, provided that the instrument authorizing such proxy to act shall have been executed in writing by the shareholder himself or by his authorized attorney.

BOARD OF DIRECTORS

In Accordance with the Bylaws, the affairs and business of the corporation shall be managed by a Board of Directors of not less than five (5) nor more than twenty-one (21), as may be fixed by the shareholders at each annual meeting. Directors shall be elected annually by the shareholders entitled to vote at the annual meeting by a plurality of the vote. Each director shall continue in office until the annual meeting of shareholders held next after his election and until his resignation or removal in the manner hereinafter provided. All directors shall be of full age and a majority of them shall be citizens of the United States. No director need be a shareholder.

A regular meeting of the Board of Directors shall be held for the election of officers and for the transaction of such other business as properly may come before the meeting, within thirty days after each annual election of directors upon notice provided for a special meeting. The directors may hold such meeting, without notice, at the location of the annual shareholders meeting and immediately following such annual meeting of the shareholders.

Special meetings of the Board of Directors may be called by the President, any Vice President or any two directors. Notice of each special meeting shall be mailed to each director, addressed to him at his address as it appears upon the records of the Corporation, at least two days before the day on which the meeting is to be held, or shall be sent to him at such place by telegraph, radio or cable, or telephoned or delivered to him personally, not later than the day before the day on which the meeting is to be held.

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	Chief Financial Officer Berkshire Hathaway Inc.	2021
Dale D. Geistkemper Omaha, Nebraska	Treasurer & Controller National Indemnity Company	2021

<u>Name and Address</u>	<u>Principal Occupation</u>	<u>Term Expires</u>
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:

<u>Audit Committee</u>	<u>Executive Committee</u>	<u>Investment Committee</u>
Bruce J. Byrnes Brian G. Snover	Marc D. Hamburg Donald F. Wurster	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	Vice President & Secretary
Ateet A. Dhru	Vice President
Tracy L. Gulden	Vice President
Timothy J. Kenesey	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
Carol Albaugh-Manning	Assistant Secretary
John D. Arendt	Assistant Secretary

<u>Name</u>	<u>Title</u>
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 inter-company service agreement that allocates costs to all companies in the holding company system.

CONFLICT OF INTEREST

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 other 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 Articles of Incorporation and Bylaws were amended December 12, 2016 to redomesticate the company from Florida to Iowa.

RELATED PARTY AGREEMENTS

Effective March 1, 2011, the Company entered into an inter-company service agreement with National Indemnity Company along with affiliates Berkshire Hathaway Life Insurance Company of Nebraska, Columbia Insurance Company, National Fire & Marine Insurance Company (NFM), National Indemnity Company of Mid-America, 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 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 assumed run-off business from National Workers' Compensation Reinsurance Pool, a mandatory pool. This activity was ceded to National Fire & Marine Insurance Company pursuant to an affiliated treaty.

The Company assumed business from Tennessee Commercial Auto Insurance Procedure, a mandatory pool.

Ceded

Effective January 1, 1987, the Company entered into a fronting arrangement with an affiliate, National Fire & Marine Insurance Company (NFM). This agreement covered workers' compensation business generated by the Commercial Casualty Division located in Stamford, Connecticut. This agreement is in run-off.

Effective January 1, 2000, the Company entered into an excess of loss reinsurance agreement with NFM. Under this agreement the Company ceded 100 percent of automobile liability coverage on risks in excess of \$1,000,000 up to a maximum limit of \$4,000,000.

Effective July 1, 2003, the Company entered into an excess of loss reinsurance agreement with NFM. Under this agreement the Company cedes 100 percent of aircraft coverage on risks in excess of \$2,000,000. The agreement does not apply to the reinsured share as defined in the quota share reinsurance agreement between the Company and NFM effective October 16, 2012.

Effective March 11, 2005, the Company entered into an excess of loss reinsurance agreement with NFM. Under this agreement the Company ceded 100 percent of personal umbrella coverage on risks in excess of \$2,000,000 per occurrence.

Effective July 1, 2006, the Company entered into an excess of loss reinsurance agreement with NFM. Under this agreement the Company ceded 100 percent of other than auto, personal umbrella, and aviation coverage on risks in excess of \$2,000,000 per occurrence. The Company's aggregate retention under the agreement shall be \$2,000,000 under any policy reinsured thereunder. The reinsurance provided under the agreement does not apply to the Company's issuance of personal umbrella, aviation, or commercial automobile policies of insurance.

Effective June 1, 2007, the Company entered into a facultative reinsurance agreement with NFM against Ultimate Net Loss arising from the insurance business written and reinsurance business assumed on certain specified lines by the Company. NFM is liable in respect of each and every claim for 100% of the ultimate net retained loss to the Company in excess of \$5,000,000 for the first loss occurrence and \$1,000,000 for subsequent loss occurrences. NFM is not liable for more than \$200,000,000 for any one loss occurrence or \$600,000,000 during the policy period.

Effective October 16, 2012, the Company entered into a 50% reinsurance lines quota share reinsurance contract with National Liability & Fire Insurance, an affiliated company. Under the contract the Company's reinsured share was 4.485 percent and its gross share was 27.875 percent in the Global Aerospace Underwriting Pool dated November 27, 2002. Effective January 1, 2014 the contract was amended and the Company ceded 100 percent of its reinsured share.

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

The Company had various immaterial reinsurance contracts related to the insurance programs managed by Starr Underwriting Agency (aviation lines) and Starr Marine Agency (marine lines). The contracts are currently in runoff and the Company stopped writing the subjected business on June 30, 2010.

STATUTORY DEPOSIT

The statement value of securities held in a custodial account and vested in the Insurance Commissioner of Iowa for licensing requirements totaled \$542,258 and in the Insurance Commissioner of Georgia for admission requirements totaled \$60,656.

TERRITORY AND PLAN OF OPERATION

The Company is authorized to transact business in Florida, Georgia, Iowa, New Jersey and Tennessee. Approximately eighty-two percent of the 2020 premium was written in Florida. The Company has surplus lines authority in Alabama, Nebraska, and Puerto Rico.

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	\$ 60,085	\$ -	\$ 60,085
Preferred stocks	105,000		105,000
Common stocks	273,442,296		273,442,296
Cash & cash equivalents	208,741,822		208,741,822
Investment income due and accrued	126,735		126,735
Premiums and considerations:			
Uncollected premium	6,012,362	8,606	6,003,756
Deferred premiums	1,535,327	15,043	1,520,284
Amounts recovered from reinsurers	2,247		2,247
Receivables from parent, subsidiaries and affiliates	2,475,229		2,475,229
Miscellaneous receivable	<u>27,000</u>	<u>27,000</u>	<u> </u>
 Total assets	 <u>\$ 492,528,103</u>	 <u>\$ 50,649</u>	 <u>\$ 492,477,454</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	\$ 88,994,011
Reinsurance payable on paid losses and loss adjustment expenses	836
Loss adjustment expenses	25,992,447
Commissions payable, contingent commissions and other similar charges	492,374
Other expenses	67,670
Taxes, licenses and fees	535,502
Current federal and foreign income taxes	450,066
Net deferred tax liability	41,563,094
Unearned premiums	25,292,601
Ceded reinsurance premiums payable	1,889
Amounts withheld or retained by company for account of others	(1,971)
Provision for reinsurance	559,000
Drafts outstanding	383,686
Payable to parent, subsidiaries and affiliates	<u>9,837,285</u>
 Total liabilities	 <u>\$ 194,168,490</u>
 Common capital stock	 \$ 5,000,000
Gross paid in and contributed surplus	2,000,000
Unassigned funds (Surplus)	<u>291,308,964</u>
 Total capital and surplus	 <u>\$ 298,308,964</u>
 Total liabilities, capital and surplus	 <u>\$ 492,477,454</u>

STATEMENT OF INCOME

Underwriting Income

Premiums earned \$ 55,430,950

Deductions

Losses incurred \$ 33,057,250

Loss adjustment expenses incurred 8,989,095

Other underwriting expenses incurred 12,479,244

Total underwriting deductions 54,525,589

Net underwriting gain \$ 905,361

Investment Income

Net investment income earned \$ 8,793,700

Net realized capital gains 6,499,470

Net investment gain 15,293,170

Other Income

Net loss from agents' or premium balances charged off \$ (76,810)

Miscellaneous income 14,993

Total other income (61,817)

Net income before federal income tax \$ 16,136,714

Federal and foreign income taxes incurred 1,222,388

Net income \$ 14,914,326

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December prior year \$ 307,949,318

Gains and (Losses) in Surplus

Net income \$ 14,914,326

Change in net unrealized capital loss (24,450,586)

Change in net deferred income tax (206,390)

Change in nonadmitted assets 82,294

Change in provision for reinsurance 20,000

Change in surplus as regards policyholders for the year \$ (9,640,356)

Surplus as regards policyholders, December 31, 2020 \$ 298,308,961

CASH FLOW STATEMENT

Cash from Operations

Premiums collected net of reinsurance	\$ 50,688,764	
Net investment income	8,793,926	
Miscellaneous income	<u>(61,816)</u>	
Total		\$ 59,420,874
Benefit and loss related payments	\$ 32,662,244	
Commissions, expenses paid and aggregate write-ins	21,706,976	
Federal income taxes (paid) recovered	<u>1,226,889</u>	
Total		<u>55,596,109</u>
Net cash from operations		<u>\$ 3,824,765</u>

Cash from Investments

Proceeds from investments sold, matured or repaid:		
Stock	<u>\$ 34,968,454</u>	
Total investment proceeds		<u>\$ 34,968,454</u>
Net cash from investments		<u>\$ 34,968,454</u>

Cash from Financing and Miscellaneous Sources

Other cash provided (applied)	<u>(7,740,241)</u>	
Net cash from financing and miscellaneous sources		<u>\$ (7,740,241)</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash, cash equivalents and short-term investments		\$ 31,052,978
Cash, cash equivalents and short-term investments:		
Beginning of year		<u>177,688,844</u>
End of period		<u>\$ 208,741,822</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 the South 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