REPORT ON EXAMINATION

OF

NATIONAL INDEMNITY COMPANY OF THE SOUTH

JACKSONVILLE, FL

AS OF

DECEMBER 31, 2012

BY THE

FLORIDA OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

May 23, 2014

Kevin M. McCarty
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, Rule 69O-138.005, Florida Administrative Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2012, of the financial condition and corporate affairs of:

NATIONAL INDEMNITY COMPANY OF THE SOUTH
725 PENINSULAR PLACE
JACKSONVILLE, FL 32204

Hereinafter referred to as the "Company." Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2009 through December 31, 2012. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2008. This examination commenced with planning at the Office on October 7, 2013 to October 11, 2013. The fieldwork commenced on October 14, 2013 and concluded as of May 23, 2014.

This financial examination was an association examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida. Eight states participated in the coordinated examination including: California, Colorado, Connecticut, Delaware, Florida, Iowa, Nebraska and New York. Nebraska acted as the lead state and fieldwork was conducted in Omaha, Nebraska.

The Financial Condition Examiners Handbook requires that the examination be planned and performed 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. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All material accounts and key activities of the Company were considered in accordance with the risk-focused examination process.

This report of examination is confined to significant adverse findings, a material change in the financial statements or other information of regulatory significance or requiring regulatory action. The report comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

SUMMARY OF SIGNIFICANT FINDINGS

Current Exam Findings

The findings noted during this examination period have been resolved by the Company subsequent to the examination date. However, the findings or exceptions are discussed in detail in the body of the examination report.

Prior Exam Findings

There were no findings, exceptions, or corrective action to be taken by the Company for the examination as of December 31, 2008.

SUBSEQUENT EVENT

Brian Gerard Snover was elected as Senior Vice President and a director of the Company effective November 18, 2013, to replace Forrest Nathan Krutter, now deceased.

HISTORY

General

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. The Company name was changed to National Indemnity Company of the South on September 20, 1990.

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

The Company was authorized to transact the following insurance coverage in Florida on various dates beginning in 1983 and continued to be authorized as of December 31, 2012:

Commercial multi-peril (reinsurance only)	Inland marine
Workers' compensation	Other liability
Commercial automobile liability	Commercial auto physical damage
Aircraft	Glass

The Bylaws were amended on December 30, 2011, during the period covered by this examination. Article II, Section 2 of the Bylaws was amended to set a fixed number of not less than five (5) directors to manage the affairs and business of the corporation and to require an annual shareholders vote to elect the directors. The Bylaws require directors to be of full age and a majority of them shall be United States citizens.

Dividends to Stockholders

The Company did not declare or pay any dividends during the period of this examination.

Capital Stock and Capital Contributions

As of December 31, 2012, the Company's capitalization was as follows:

Number of authorized common capital shares	50,000
Number of shares issued and outstanding	50,000
Total common capital stock	$5,000,000
Par value per share	$ 100

Control of the Company was maintained by its parent, National Indemnity Company, who owned 100% of the stock issued by the Company. National Indemnity Company is 100% owned by Berkshire Hathaway Inc., a Delaware corporation.

Surplus Notes

The Company did not have any surplus notes during the period of this examination.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales Through Reinsurance

The Company had no acquisitions, mergers, disposals, and purchase or sales through reinsurance during the period of this examination.

CORPORATE RECORDS

The recorded minutes of the Sole Shareholder, Board of Directors (Board) and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, in compliance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code including the authorization of investments as required by Section 625.304, Florida Statutes.

Conflict of Interest

The Company adopted a policy statement requiring periodic disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

MANAGEMENT AND CONTROL

Management

The annual shareholder meeting for the election of directors was held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2012, were:

Directors

Name and Location	Principal Occupation
Marc David Hamburg[1] Omaha, Nebraska	Senior Vice President and Chief Financial Officer, Berkshire Hathaway Inc.
Forrest Nathan Krutter (a) Stamford, Connecticut	Senior Vice President, Secretary and General Counsel, National Indemnity Company
Donald Frederick Wurster Omaha, Nebraska	President National Indemnity Company
Dale David Geistkemper Omaha, Nebraska	Treasurer and Controller National Indemnity Company
J. Michael Gottschalk Omaha, Nebraska	Vice President National Indemnity Company

[1] Chairman

(a) Brian Gerard Snover was elected as a Senior Vice President and a director of the Company effective November 18, 2013, to replace Forrest Nathan Krutter, who was deceased.

The Company was not in compliance with Section 628.261, Florida Statutes when there was a change in directors effective January 11, 2012, and when there was a change in a director and an officer effective November 18, 2013, because it did not send written notification to the Office within 45 days of the change. Dale David Geistkemper and J. Michael Gottschalk were appointed as directors and Brian Patrick O'Leary and Daniel Charles O'Leary, III were removed as directors effective January 11, 2012. **Subsequent Event:** Subsequent to the examination "as of" date the Company submitted a letter to the Office on January 6, 2014, regarding the change in directors that occurred on January 11, 2012, to comply with Section 628.261, Florida Statutes.

In accordance with the Company's Bylaws, the Board appointed the following senior officers:

Senior Officers

Name	**Title**
Donald Frederick Wurster	President
Forrest Nathan Krutter (b)	Secretary
Dale David Geistkemper	Treasurer and Controller

(b) J. Michael Gottschalk was elected as Secretary effective November 18, 2013, to replace Forrest Nathan Krutter.

The Company's Board appointed several internal committees. Following were the principal internal Board committees and their members as of December 31, 2012:

Executive Committee	**Audit Committee**	**Investment Committee**
Donald Frederick Wurster	Forrest Nathan Krutter (c)	Marc David Hamburg
Forrest Nathan Krutter (c)	J. Michael Gottschalk	Donald Frederick Wurster

(c) Marc David Hamburg was appointed to the Executive Committee effective November 18, 2013, to replace Forrest Nathan Krutter. Brian Gerard Snover was appointed to the Audit Committee effective November 18, 2013 to replace Forrest Nathan Krutter.

The Company maintained an audit committee, as required by Section 624.424(8)(c), Florida Statutes.

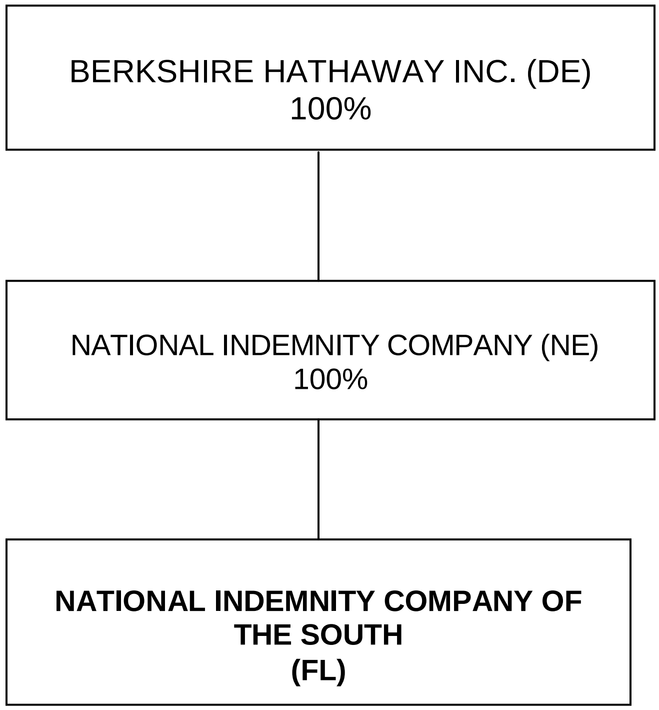
Affiliated Companies

The most recent holding company registration statement was filed with the State of Florida on March 4, 2013, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code. **Subsequent Event:** The Company filed three amendments to the holding company registration statement on June 19, 2013, August 27, 2013, and November 22, 2013. Schedule Y of the 2012 Annual Statement underwent numerous changes during the first, second and third quarters of 2013.

A simplified organizational chart as of December 31, 2012, reflecting the holding company system, is shown on the following page. Schedule Y of the Company's 2012 annual statement provided a list of all related companies of the holding company group. The Company disclosed a full organizational chart in its 2011 and 2012 Schedule Y to comply with NAIC reporting guidelines requiring all subsidiaries and affiliates to be listed, regardless of size. The 2011 organizational chart listed approximately 1,550 companies. There were numerous changes to the organizational chart in both 2012 and 2013.

NATIONAL INDEMNITY COMPANY OF THE SOUTH
ORGANIZATIONAL CHART

DECEMBER 31, 2012



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

Tax Allocation Agreement

The Company, along with its parent, National Indemnity Company, Berkshire Hathaway Inc. (the ultimate parent) and approximately 750 affiliates, filed a consolidated federal income tax return. The Company was a party to a Consolidated Federal Income Tax Allocation Agreement, effective January 1, 1995, by and between the ultimate parent. The Company and the ultimate parent are members of an "affiliated group" of "includable" corporations as defined in Section 1504 of the Internal Revenue Code of 1986, which join in the filing of a consolidated federal income tax return pursuant to Section 1501 of the Internal Revenue Code. On December 31, 2012, the method of allocation between the Company and Berkshire Hathaway Inc. was on a consolidated return basis.

Intercompany Service Agreement

The Company was a party to an Intercompany Service Agreement, effective March 1, 2011, with several of its affiliates that replaced an Intercompany Service Agreement effective January 1, 1988. National Indemnity Company agreed to provide facilities, services, and supplies for the affiliates. Records were maintained and expenses allocated accordingly. The replacement agreement provided that National Indemnity Company may perform various services for the Company, including accounting, tax, internal and premium auditing, underwriting, claims, information technology, marketing and support services.

The Company agreed to reimburse National Indemnity Company for services and facilities provided. The charges for services and facilities included direct and directly allocable expenses, reasonably and equitably determined to be attributable to affiliates by National Indemnity Company, based on allocation of salary by National Indemnity Company employees on a quarterly basis. Shared expenses shall be allocated in accordance with Statement of Statutory Accounting Principles (SSAP) No. 70. National Indemnity Company shall furnish its determination of charges to affiliates who have fifteen days after the receipt of the quarterly reports to object to any such determination. The quarterly statements shall be furnished by National Indemnity Company to the affiliates within 45 days after the close of each calendar quarter and all amounts due National Indemnity Company shall be paid within 60 days after the close of each quarter, which complies with SSAP No. 96. The agreement includes an offset clause necessary under SSAP No. 64. The agreement was filed with the Office and it was not disapproved.

FIDELITY BOND AND OTHER INSURANCE

The Company was a named insured with 67 of its affiliates on a fidelity bond with coverage up to $5,000,000 and a deductible of $100,000, which exceeded the suggested minimum as recommended by the 2012 NAIC Financial Condition Examiner's Handbook. The coverage amounts included large deductibles that were not a current concern due to strength of the Company's surplus position.

The Company had other insurance coverage with its affiliates as follows: Property – limits depended on location; General Liabilities - $1,000,000 occurrence limit, $2,000,000 general aggregate limit; Auto Liabilities - $1,000,000 limit; Workers Compensation - $1,000,000 limit; and Umbrella - $10,000,000 limit.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees and therefore no pension, stock ownership or insurance plans.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance in the following states:

Florida	New Jersey	Tennessee

The Company has surplus lines authority in Alabama, Nebraska, and Puerto Rico.

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1) (j), Florida Statutes.

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1) (i) 3a, Florida Statutes.

COMPANY GROWTH

Premiums earned increased to $15,207,831 in 2012 from $14,317,395 in 2011. Amounts reported in 2010 and 2009 were $15,600,255 and $15,675,150, respectively. The Company had excess surplus of $136,770,109 as of December 31, 2012, after meeting statutory minimum capital requirements. Net written premium to policyholders' surplus was 21 percent in 2008. It decreased to 13 percent in 2009, 12 percent in 2010 and 2011, and then increased to 13 percent in 2012. Gross written premium to policyholders' surplus decreased from 33 percent in 2008 to 14 percent in 2012.

Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of examination, as reported in the filed annual statements.

	2012	2011	2010	2009
Premiums Earned	15,207,831	14,317,395	15,600,255	15,675,150
Net Underwriting Gain/(Loss)	1,913,595	1,821,751	(1,558,695)	2,072,296
Net Income	4,888,792	3,509,550	985,716	4,251,762
Total Admitted Assets	211,823,428	192,128,528	189,170,414	182,978,723
Total Liabilities	70,053,319	65,922,917	67,484,620	68,896,071
Surplus As Regards Policyholders	141,770,109	126,205,611	121,685,794	114,082,652

LOSS EXPERIENCE

Reserves for unpaid loss and loss adjustment expenses decreased by 52 percent from $47,650,729 in 2008 to $22,881,256 in 2012. The accounts decreased by 22 percent from $29,320,092 in 2011 to $22,881,256 in 2012. Reserves remaining from prior years were approximately $11,600,000 resulting from the re-estimation of ultimate liability losses primarily on commercial auto, non-proportional assumed property and aviation lines of insurance. The Company experienced a $7,537,000 favorable prior year development from 2011 to 2012 with no effect from retrospectively rated contracts. The Company's combined ratio decreased from 86 percent in 2011 to 80 percent in 2012.

REINSURANCE

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting, and settlement information deadlines.

Assumed

The Company assumed runoff business from National Workers' Compensation Reinsurance Pool, a mandatory pool. This activity was ceded to the National Fire & Marine Insurance Company, pursuant to an affiliated treaty. See the Ceded subsection of the report.

Effective January 1, 2003, the Company assumed its 85% share of a 95% personal lines quota share reinsurance contract with Atlantic Preferred Insurance Company and Florida Preferred Property and Casualty Company, unaffiliated companies authorized in Florida. See the Ceded subsection of the report.

Effective January 1, 2004, the Company assumed its 27.5% share of a 95% personal lines quota share reinsurance contract with Atlantic Preferred Insurance Company and Florida Preferred Property and Casualty Company, unaffiliated companies authorized in Florida. The agreement was renewed through June 30, 2005 and was in run-off. The contract has since expired. See the Ceded subsection of the report.

Effective May 15, 2005, the Company entered into a 75% personal lines quota share reinsurance contract with Florida Peninsula Insurance Company. The agreement was canceled as of June 30, 2006 and was in run-off.

Ceded

Effective January 1, 1987, The Company entered into a fronting arrangement with National Fire & Marine Insurance Company, an affiliated company unauthorized in Florida. This agreement essentially covered workers' compensation business generated by the Commercial Casualty Division located in Stamford, Connecticut. This agreement was in runoff.

Effective January 1, 2000, the Company entered into a property catastrophe aggregate excess of loss reinsurance agreement with National Fire & Marine Insurance Company, an affiliated company unauthorized in Florida. Under this agreement, the Company ceded 100 percent of $20,000,000 per any one loss occurrence, and in the aggregate in excess of $5,000,000 ultimate net loss per occurrence. This agreement was amended as of January 1, 2003, to cover 100 percent of $50,000,000 per any one loss occurrence and in the aggregate in excess of $5,000,000 ultimate new loss per occurrence. The amendment covered business assumed during the period of this contract on covered interests underwritten by Atlantic Preferred Insurance Company and Florida Preferred Property and Casualty Company. The contract has since expired.

Effective January 1, 2000, the Company entered into an excess of loss reinsurance agreement with National Fire & Marine Insurance Company, an affiliated company unauthorized in Florida. 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. The Holding Company Registration Statements filed during the examination period did not contain a disclosure describing this reinsurance agreement with an affiliate pursuant to Rule 690-143.046(2)(c)(6), Florida Administrative Code.

Effective July 1, 2003, the Company entered into an excess of loss reinsurance agreement with National Fire & Marine Insurance Company, an affiliated company unauthorized in Florida. Under this agreement, the Company ceded 100 percent of aircraft coverage on risks in excess of $2,000,000 per occurrence.

Effective March 11, 2005, the Company entered into an excess of loss reinsurance agreement with National Fire & Marine Insurance Company, an affiliated company unauthorized in Florida. 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 National Fire & Marine Insurance Company, an affiliated company unauthorized in Florida. 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.

Effective June 1, 2007, the Company entered into an excess of loss reinsurance agreement with National Fire & Marine Insurance Company, an affiliated company unauthorized in Florida. Under this agreement, the Company ceded 100 percent of property coverage on risks in excess of $5,000,000 per occurrence.

Effective October 16, 2012, the Company entered into a 50% reinsurance lines quota share reinsurance contract with National Fire & Marine Insurance Company, an affiliated company unauthorized in Florida. 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. The Global Aerospace Underwriting Pool was formed for the purposes of engaging in the business of writing aviation and aerospace insurance and reinsurance and related and incidental risks. The contract applied to the reinsured share. On January 1, 2013, the Company's reinsured share was 19.485 percent and its gross share was 27.875 percent. The Company and National Fire & Marine Insurance Company mutually agreed to terminate the contract as of January 1, 2014, and National Fire & Marine Insurance Company remained liable to the Company for any amounts due before the termination date.

Effective October 16, 2012, the Company entered into a 50 percent reinsurance lines quota share reinsurance contract with National Liability & Fire Insurance, an affiliated company unauthorized in Florida. 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. The contract applied to the reinsured share. On January 1, 2013, the Company's reinsured share was 19.485 percent. Effective January 1, 2014, the contract was amended and the Company ceded 100 percent of its reinsured share.

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). It stopped writing the subject business on June 30, 2010.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Omaha, Nebraska, where this examination was conducted. Each year during the examination period, the Company requested and received approval from the Office to keep its records outside the State of Florida to comply with the provisions of Section 628.281(1)(a), Florida Statutes. The Company is required to request the Office's consent annually, no later than January 1, of each year.

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 statements submitted to the Office.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custody agreement with Wells Fargo Bank, National Association executed on March 2, 1998. The first amendment as of June 15, 2002, and the third amendment as of November 8, 2007, were made to reflect the name changes of the custodian. The second amendment was made as of April 1, 2004, to include mandatory provisions required by the Office. The agreement was in compliance with Rule 69O-143.042, Florida Administrative Code

Independent Auditor Agreement

An independent CPA audited the Company's statutory basis financial statements annually for the years 2009, 2010, 2011 and 2012, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

INFORMATION TECHNOLOGY REPORT

The State of Nebraska engaged an IT Specialist to perform an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes:

STATE	Description	Par Value	Market Value
FL	USTNTS, 2.125%, 5/31/2015	$320,000	$333,984
TOTAL FLORIDA DEPOSITS		$320,000	$333,984

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2012, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

NATIONAL INDEMNITY COMPANY OF THE SOUTH

Assets

DECEMBER 31, 2012

	Per Company	Examination Adjustments	Per Examination
Bonds	$332,941		$332,941
Stocks:			
Preferred stocks	16,000,000		16,000,000
Common stocks	132,549,550		132,549,550
Cash and short-term Investments	57,442,305		57,442,305
Agents' balances:			
Uncollected premium	1,807,482		1,807,482
Deferred premium	937,330		937,330
Reinsurance recoverable	3,246		3,246
Investment income due & accrued	300,598		300,598
Receivable from parents, subsidiaries and affiliates	2,475,784		2,475,784
Equities and deposits in pools and associations	(25,808)		(25,808)
Totals	$211,823,428	$0	$211,823,428

NATIONAL INDEMNITY COMPANY OF THE SOUTH

Liabilities, Surplus and Other Funds

DECEMBER 31, 2012

	Per Company	Examination Adjustments	Per Examination
Losses	$17,891,958		$17,891,958
Reinsurance payable on paid losses and loss adjustment expenses	1,424,392		1,424,392
Loss adjustment expenses	4,989,298		4,989,298
Commissions payable, contingent commissions and other similar charges	236,539		236,539
Other expenses	11,278		11,278
Taxes, licenses and fees	393,234		393,234
Current federal and foreign income taxes	1,194,110		1,194,110
Net deferred tax liability	30,419,100		30,419,100
Unearned premiums	10,752,130		10,752,130
Ceded reinsurance premiums payable	61,858		61,858
Amounts withheld or retained by company for account of others	24,192		24,192
Drafts outstanding	355,057		355,057
Payable to parent, subsidiaries and affiliates	2,300,173		2,300,173
Total Liabilities	$70,053,319	$0	$70,053,319
Common capital stock	$5,000,000		$5,000,000
Gross paid in and contributed surplus	2,000,000		2,000,000
Unassigned funds (surplus)	134,770,109		134,770,109
Surplus as regards policyholders	$141,770,109	$0	$141,770,109
Total liabilities, surplus and other funds	$211,823,428	$0	$211,823,428

NATIONAL INDEMNITY COMPANY OF THE SOUTH

Statement of Income

DECEMBER 31, 2012

Underwriting Income	
Premiums earned	$15,207,831
Deductions:	
Losses incurred	$5,979,756
Loss expenses incurred	1,905,885
Other underwriting expenses incurred	5,408,595
Total underwriting deductions	$13,294,236
Net underwriting gain or (loss)	$1,913,595
Investment Income	
Net investment income earned	$4,148,504
Net investment gain or (loss)	$4,148,504
Other Income	
Net gain or (loss) from agents' or premium balances charged off	($4,508)
Aggregate write-ins for miscellaneous income	7,204
Total other income	$2,696
Net income before federal & foreign income taxes	$6,064,795
Federal & foreign income taxes	1,176,003
Net Income	$4,888,792
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	$126,205,611
Net Income	$4,888,792
Change in net unrealized capital gains or losses	10,789,096
Change in net deferred income tax	(56,030)
Change in non-admitted assets	(59,360)
Change in provision for reinsurance	2,000
Change in surplus as regards policyholders for the year	$15,564,498
Surplus as regards policyholders, December 31 current year	$141,770,109

NATIONAL INDEMNITY COMPANY OF THE SOUTH

Comparative Analysis of Changes in Surplus

DECEMBER 31, 2012

The following is a reconciliation of Surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders December 31, 2012, per Annual Statement				$141,770,109
	PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS	
ASSETS: No Adjustment				
LIABILITIES: No Adjustment				
Net Change in Surplus:				0
Surplus as Regards Policyholders December 31, 2012, Per Examination				$141,770,109

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses $22,881,256

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2012, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Nebraska Department of Insurance actuary, Gordon Hay, FCAS, MAAA reviewed the loss and loss adjustment expense work papers provided by the Company and he was in concurrence with this opinion. The Office consulting actuary, Bob Gardner, FCAS, MAAA, INS Consultants, Inc. concurred with the Nebraska actuary's review.

Capital and Surplus

The amount of capital and surplus reported by the Company of $141,770,109 exceeded the minimum of $5,000,000 required by Section 624.408, Florida Statutes.

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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, 2012, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was $141,770,109, which exceeded the minimum of $5,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Colette Hogan Sawyer, CFE, Examiner-In-Charge, of INS Regulatory Insurance Services, Inc., and Bob Gardner, FCAS, MAAA, consulting actuary of INS Consultants, Inc., participated in the examination. Jonathan Frisard, Financial Examiner/Analyst Supervisor, Examination Manager of the Office participated in this examination.

Respectfully submitted,

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Robin Brown, CFE
Chief Examiner
Florida Office of Insurance Regulation