REPORT OF EXAMINATION

OF THE

CYPRESS INSURANCE COMPANY

AS OF

DECEMBER 31, 2016

Filed on April 12, 2018

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Los Angeles, California
March 28, 2018

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

CYPRESS INSURANCE COMPANY

(hereinafter also referred to as the Company) at the primary location of its books and records at 1314 Douglas Street, Omaha, Nebraska 68102. The Company's statutory home office and main administrative office is located at 1 California Street, Suite 600, San Francisco, California 94111.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was made as of December 31, 2012. This examination covers the period from January 1, 2013 through December 31, 2016. The examination was conducted in accordance with the National Association of Insurance Commissioners Financial Condition Examiners Handbook. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, assess corporate governance, identify current and prospective risks, and evaluate system controls and procedures used to mitigate those risks. The examination also included identifying and evaluating significant risks that could cause the Company'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 did not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment was identified, the impact of such adjustment would be documented separately following the Company's financial statements.

This examination report includes significant findings of fact and general information about the Company and its financial condition. There might be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report, but separately communicated to other regulators and/or the Company.

This was a coordinated examination of the Berkshire Hathaway Group with Nebraska as the lead state. The examination was conducted concurrently with other insurance entities belonging to two separate subgroups of the Berkshire Hathaway holding company group, National Indemnity Companies Group (NICO) and Berkshire Hathaway Homestate Companies Group (BHHC).

The NICO Group is comprised of insurers as listed below:

- American Centennial Insurance Company (DE)
- Berkshire Hathaway Assurance Corporation (NY)
- Berkshire Hathaway Life Insurance Company of Nebraska (NE)
- Columbia Insurance Company (NE)
- Finial Reinsurance Company (CT)
- National Fire & Marine Insurance Company (NE)
- National Indemnity Company (NE)
- National Indemnity Company of Mid-America (IA)
- National Indemnity Company of the South (FL)
- National Liability and Fire Insurance Company (CT)

- Stonewall Insurance Company (NE)
- Unione Italiana Reinsurance Company of America (NY)
- Wesco-Financial Insurance Company (NE)

The BHHC Group consists of the following six insurers:

- Berkshire Hathaway Homestate Insurance Company (NE)
- Brookwood Insurance Company (IA)
- Continental Divide Insurance Company (CO)
- Cypress Insurance Company (CA)
- Oak River Insurance Company (NE)
- Redwood Fire and Casualty Insurance Company (NE)

COMPANY HISTORY

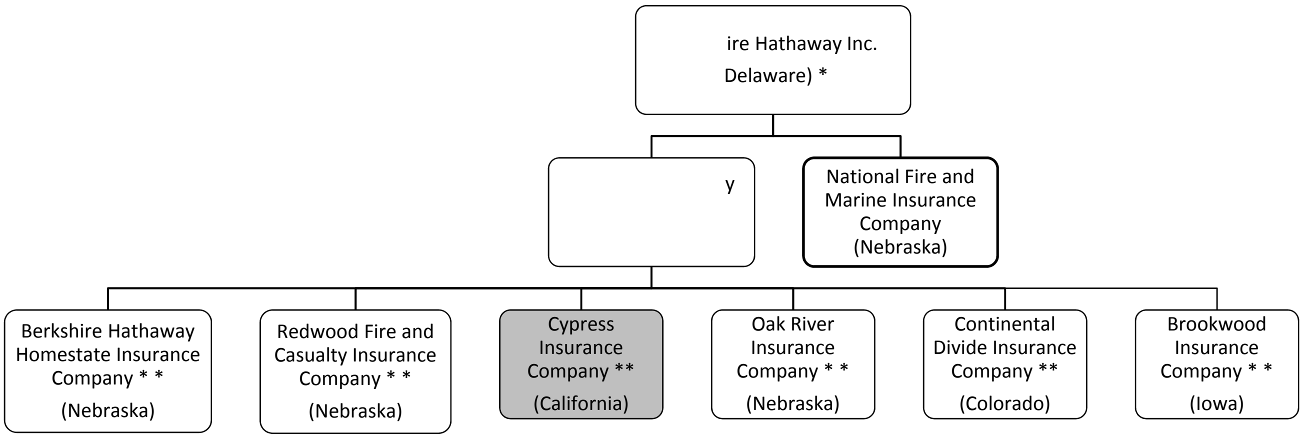
The Company was incorporated in California on October 17, 1962 under the laws of the state of California and commenced business on March 8, 1963. The Company has 104,000 authorized and outstanding shares of common stock with a par value of $50 per share.

The Company was previously owned by Berkshire Hathaway Inc. ("BHI"), a publicly traded Delaware corporation. Effective July 1, 2016, the Company became a wholly-owned subsidiary of National Indemnity Company as a result of a capital contribution from its prior direct owner BHI. The Company remains an indirect wholly-owned subsidiary of BHI.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system, Berkshire Hathaway Inc. (BHI), an American multinational holding company headquartered in Omaha, Nebraska.

The following abridged organizational chart is limited to some of the entities that the Company had interrelationships with during the examination period within the holding company system (all ownership is 100% unless otherwise indicated).



*   32.483% owned by Warren E. Buffett at December 31, 2016

* * Collectively referred to as the Berkshire Hathaway Homestate Companies

The three members of the board of directors, who are elected annually, manage the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2016:

Directors

Name and Location	Principal Business Affiliation
J. Michael Gottschalk Omaha, Nebraska	Vice President National Indemnity Company
Thomas J. Mortland Omaha, Nebraska	Vice President Berkshire Hathaway Homestate Insurance Company
Donald F. Wurster Omaha, Nebraska	President National Indemnity Company

Principal Officers

Name	Title
Robert N. Darby, Jr.	President
Andrew R. Linkhart	Chief Financial Officer
Jackie L. Perry	Secretary and Treasurer
Tracy L. Gulden	Senior Vice President
Brian T. Wesselman	Senior Vice President
Mark Barba	Vice President
Brian P. Hall	Vice President
Margaret A. Hartmann	Vice President
Richard O. Kirste	Vice President
William M. Lawrence	Vice President
Michael V. Campbell	Vice President
Christopher J. Desautel	Vice President
Russell A. Selinger	Vice President
Jeffrey W. Morris	Vice President

Intercompany Agreements

Consolidated Federal Income Tax Allocation Agreement: The Company has a Consolidated Federal Income Tax Allocation Agreement with its ultimate parent, Berkshire Hathaway Inc., effective November 23, 1994. Pursuant to the agreement, the consolidated federal tax liability is allocated among the subsidiaries in the ratio that each subsidiary's separate tax return liability bears to the total consolidated federal tax liabilities of all subsidiaries that are members of the consolidated group. This agreement was in place before prior approval was required under California Insurance Code (CIC) Section 1215.5(b)(4). Taxes payable under this agreement for 2013, 2014, 2015 and 2016 respectively were: $9,005,914, $13,852,294, $11,061,551, and $24,754,564.

Intercompany Service Agreement: The Company entered into a written Intercompany Service Agreement, effective November 23, 1994, with five affiliated insurers within the Berkshire Hathaway Homestate Companies Group (BHHC). The agreement covers the following services: accounting; tax and auditing; underwriting; claims; investments; and other functional support services such as actuarial; telecommunications and electronic data processing; legal; and purchasing; payroll and employee relations services. Each member may provide to other members any of the services listed above. The costs of shared services are allocated based on actual costs. In 2013, the agreement was amended to reflect one affiliate's name change from Cornhusker Casualty Company to Berkshire Hathaway Homestate Insurance Company (BHHIC) and to add a paragraph regarding appropriate licensing. The amendment was filed with the California Department of Insurance (CDI) in accordance with CIC Section 1215.5(b)(4).The CDI approved this amendment on September 6, 2013. The amounts paid/(received) for these services for 2013, 2014, 2015, and 2016, respectively were: $192,255,685, ($47,570,636), ($9,968,983), and $2,223,680. The amount paid in 2013 included balance paid to each Company as a result of the commutation of all non-California assumed workers compensation business in 2012.

Intercompany Service Agreement: The Company entered into an Intercompany Service Agreement with its affiliate, the GUARD Insurance Group, Inc. (GUARD), effective November 1, 2013. Under the terms of the agreement, the Company utilizes the Guard Software, a comprehensive proprietary policy administration and claims system, to process its workers' compensation line of business. GUARD in turn, charges the Company for services and use of facilities allocated as follows; 100% of direct staffing cost, 75% of indirect cost and 100% of direct expenses and capital cost. This agreement was filed with the CDI in accordance with CIC Section 1215.5(b)(4). The CDI approved this agreement on November 5, 2013. The Company paid GUARD $2,659,078 in 2014 for the development of the Bravo underwriting system. No other payments were made during the examination period.

On June 7, 2017 an addendum to change the name from GUARD Insurance Group, Inc. to WestGUARD Insurance Company and the inclusion of various safeguard provisions was submitted to the CDI. The CDI approved the addendum on July 3, 2017. WestGUARD Insurance Company is a wholly-owned subsidiary of National Indemnity Company.

Intercompany Allocation Agreement: The Company entered into an Intercompany Allocation Agreement with the Berkshire Hathaway Homestate Companies Group (BHHC) and National Fire and Marine Insurance Company, an affiliate, effective December 31, 2010. The agreement was established to memorialize the BHHC companies' understanding of how recoveries from reinsurance carriers are assigned if the reinsurance aggregate limit is ever exhausted on the Property Excess per Risk Reinsurance Contract. The Company is one of the cedents in the aforementioned Reinsurance Contract. In addition, the agreement also assigned Berkshire Hathaway Homestate Insurance Company (BHHIC), formerly known as Cornhusker Casualty Company, to be the agent for the BHHC companies. As an agent, BHHIC is responsible for sending or receiving notices and receiving or remitting monies due any party. Pursuant to California Insurance Code (CIC) Section 1215.5(b)(3), no prior approval was necessary from the CDI because the amount of premium ceded in the Property Excess per Risk Reinsurance Contract was immaterial.

Intercompany Allocation Agreement: Multi-Cedent Reinsurance: The Company entered into an Intercompany Allocation Agreement: Multi-Cedent Reinsurance with the BHHC companies, National Fire and Marine Insurance Company, National Indemnity Company, National Indemnity Company of Mid-America and National Liability & Fire Insurance Company, all affiliated with the Company, effective December 31, 2014. The agreement was established to formalize the provisions and reinsurance recoveries amongst affiliates participating in the Property Excess per Risk Reinsurance Contract. This agreement supersedes the Intercompany Allocation Agreement with the BHHC companies and National Fire & Marine Insurance Company that was effective December 31, 2010. Berkshire Hathaway Homestate Insurance Company is still the agent for the BHHC Companies. Pursuant to California Insurance Code (CIC) Section 1215.5(b)(3), no prior approval was necessary from the CDI, because the amount of premium ceded in the Property Excess per Risk Reinsurance Contract was immaterial.

Investment Services Agreement: Effective April 21, 2017, the Company became a recipient to the Investment Services Agreement (ISA) provided by its ultimate parent, Berkshire Hathaway, Inc. (BHI). Under the terms of the agreement, BHI provides investment management services to the National Indemnity Company (NICO) and its various affiliates. As compensation, NICO and its affiliates will pay BHI a fee based on the actual cost incurred in managing its investment. As an affiliate of NICO, the Company submitted to the CDI Amendment No.5 to be added as one of the service recipient to the ISA. The CDI approved the amendment on April 21, 2017.

TERRITORY AND PLAN OF OPERATION

The Company operates as a specialty carrier, focusing on workers' compensation business primarily in California and five other southeastern states. During 2016, the Company wrote direct premiums of $437 million, of which 90.7% was written in California, 5.2% in Georgia, 1.4% in Alabama, 1.2% in Arkansas, .9% in South Carolina, and .6% in Tennessee. Workers' compensation policies comprised 91% of the total direct premiums written in 2016.

As of December 31, 2016, the Company was also licensed to write property and casualty insurance in Alabama, Arkansas, California, Georgia, Hawaii, Idaho, Mississippi, New Mexico, Oklahoma, South Carolina, Tennessee, and Virginia. In addition to being licensed to write surplus lines in Texas, the Company was an accredited reinsurer in the states of Colorado, Delaware, Iowa, and Nebraska. The Company currently concentrates on writing workers' compensation business in California, even though the Company has made efforts towards expanding into other states to diversify geographically.

Business is marketed through approximately 840 independent agents. The primary location of the Company's books and records is in Omaha, Nebraska. The workers' compensation line of business is operated from the Company's statutory home office located in San Francisco, California. Other lines of business are conducted in Omaha, Nebraska. In addition, the Company maintains branch offices in San Diego, California, as well as Atlanta, Georgia.

REINSURANCE

Assumed

Other than immaterial amounts assumed under mandatory pools and associations, the Company had no assumed reinsurance in-force as of December 31, 2016.

Ceded

Effective December 31, 2012, the Company entered into a 50% Quota Share Reinsurance Agreement (QS Agreement) with its affiliate, Redwood Fire and Casualty Insurance Company ("Redwood"). Under the QS Agreement, the Company ceded 50% of its direct workers' compensation business to Redwood. The CDI approved the QS Agreement on December 5, 2012. Effective December 31, 2015, the QS Agreement was terminated.

The Company had the following ceded reinsurance programs in effect as of December 31, 2016:

Line of Business and Type of Contract	Reinsurer's Name (A) - Authorized (U) - Unauthorized	Company's Retention	Reinsurer's Limit
Workers' Compensation			
Excess of Loss	Columbia Insurance Company (A)	$10,000,000	$500,000,000
Liability & Workers' Compensation			
Excess of Loss	National Indemnity Company (A)	$600,000	$9,400,000 (Policies issued on V-4 only-referenced as package workers comp)
Commercial Auto			
Excess of Loss	Columbia Insurance Company (A)	$1,000,000	$4,000,000

Property			
Excess of Loss	6 reinsurers with varying participations, 5 of which are authorized.	$1,000,000	$4,000,000
Excess of Loss	6 reinsurers with varying participations, 5 of which are authorized	$5,000,000	$5,000,000
Property Catastrophe			
Excess of Loss	National Indemnity Company (A)	$2,000,000	$10,000,000
Property & Casualty			
Excess of Loss	Columbia Insurance Company (A)	$10,000,000	$500,000,000

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the California Department of Insurance and present the financial condition of the Company for the period ending December 31, 2016. The accompanying comments on financial statements should be considered an integral part of the financial statements. There is no examination adjustments to the amounts reported in the annual statements.

Statement of Financial Condition as of December 31, 2016

Underwriting and Investment Exhibit for the Year Ended December 31, 2016

Reconciliation of Surplus as Regards Policyholders from December 31, 2012 through December 31, 2016

Statement of Financial Condition
as of December 31, 2016

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 504,941,122	$	$ 504,941,122	
Preferred stocks	12,000,000		12,000,000	
Common stocks	411,813,805		411,813,805	(1)
Cash and short-term investments	372,105,693		372,105,693	
Investment income due and accrued	2,441,902		2,441,902	
Premiums and agents' balances in course of collection	167,486,512	3,936,149	163,550,363	
Deferred premiums, agents' balances and Installments booked but deferred and not yet due (including $11,534,530 earned but unbilled premiums)	11,534,530		11,534,530	
Amount recoverable from reinsurers	3,993,157		3,993,157	
Guaranty funds receivable or on deposit	10,898,384	213,552	10,684,832	
Electronic data processing equipment and software	409,008	409,008	0	
Receivables from parent subsidiaries and affiliates	10,569		10,569	
Aggregate write-ins for other than invested assets	6,592,460		6,592,460	
Total assets	$1,504,227,142	$ 4,558,709	$1,499,668,433	
Liabilities, Surplus and Other Funds				
Losses			$ 599,484,494	(2)
Reinsurance payable on paid loss and loss adjustment expenses			118	
Loss adjustment expenses			237,201,777	(2)
Commissions payable, contingent commissions and other similar charges			23,227,994	
Other expenses			8,683,186	
Taxes, licenses and fees			7,286,103	
Current federal and foreign income taxes (including $4,612 On realized capital gains (losses))			1,019,654	
Net deferred tax liability			44,246,083	
Unearned premiums			194,070,209	
Advance premium			1,610,997	
Ceded reinsurance premiums payable			1,598,841	
Drafts outstanding			609,779	
Payable to parent, subsidiaries and affiliates			13,287,393	
Aggregate write-ins for liabilities			1,333,405	
Total liabilities			1,133,660,033	
Common capital stock		$ 5,200,000		
Gross paid-in and contributed surplus		3,255,000		
Unassigned funds (surplus)		357,553,400		
Surplus as regards policyholders			366,008,400	
Total liabilities, surplus and other funds			$1,499,668,433	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2016

Statement of Income

Underwriting Income		
Premiums earned		$ 435,761,819
Deductions:		
Losses incurred	$ 218,071,827	
Loss adjustment expenses incurred	78,047,299	
Other underwriting expenses incurred	85,040,269	
Total underwriting deductions		381,159,395
Net underwriting gain		54,602,424
Investment Income		
Net investment income earned	$ 13,223,144	
Net realized capital gain	35,421,266	
Net investment gain		48,644,410
Other Income		
Net gain from agents' or premium balances charged off (amount recovered $0, amount charged off $2,112,589)	$ (2,112,589)	
Finance and service charges not included in premiums	110,169	
Total other income		(2,002,420)
Net income before dividends to policyholders, after capital gains tax and before federal and foreign income taxes		101,244,414
Federal and foreign income taxes incurred		24,474,503
Net income		$ 76,769,911

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2015		$ 305,671,839
Net income	$ 76,769,911	
Change in net unrealized capital losses	(9,408,084)	
Change in net deferred income tax	(9,400,345)	
Change in nonadmitted assets	2,375,079	
Change in surplus as regards policyholders for the year		60,336,561
Surplus as regards policyholders, December 31, 2016		$ 366,008,400

Reconciliation of Surplus as Regards Policyholders
from December 31, 2012 through December 31, 2016

Surplus as regards policyholders, December 31, 2012 per Examination			$ 207,181,232
	Gain in Surplus	Loss in Surplus	
Net income	$ 135,489,361	$	
Net unrealized capital gains	26,515,279		
Change in net deferred income tax	39,084		
Change in nonadmitted assets		3,352,558	
Change in provision for reinsurance	136,000		
Total gains and losses	$ 162,179,724	$ 3,352,558	
Net increase in surplus as regards policyholders			158,827,168
Surplus as regards policyholders, December 31, 2016, per Examination			$ 366,008,400

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Common Stocks

On November 28, 2016, the Company purchased 681 thousand shares of Apple, Inc. stock for a total cost of $75.9 million. This purchased exceeded the limitations prescribed by California Insurance Code (CIC) Section 1198, which states in part that “excess funds investments shall not be made in purchases of or loans upon shares of the capital stock of any one corporation in an amount exceeding 10 percent of the excess of the admitted assets of the investing insurer over the liabilities and required reserves of such insurer.” At the time of purchase, the Apple, Inc. stock exceeded the limitations by approximately $45.4 million, pursuant to CIC Section 1198.

Upon the request of the Company, the California Department of Insurance allowed for the admittance of the excess investment of Apple, Inc. stock; however, it is recommended that the Company implement procedures to ensure future compliance with CIC Section 1198. During the course of the examination, the Company agreed to the CDI recommendation and will implement procedures to ensure compliance with CIC Section 1198.

(2) Losses and Loss Adjustment Expenses

Based on an analysis by a Casualty Actuary from the Nebraska Department of Insurance, the Company’s loss and loss adjustment expense reserves as of December 31, 2016 were found to be reasonably stated and have been accepted for the purposes of this examination. A Casualty Actuary from the California Department of Insurance agreed with this conclusion.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Comments on Financial Statement Items - Common Stocks (Page 14): It is recommended that the Company implement procedures to ensure compliance with California Insurance Code (CIC) Section 1198.

Previous Report of Examination

Management and Control – Intercompany Agreements (Page 5): It was recommended that the Company file the Intercompany Allocation Agreement with the California Department of Insurance (CDI) pursuant to California Insurance Code (CIC) Section 1215.5.(b)(4). The Company has complied with this recommendation.

Corporate Records (Page 7): It was recommended that the Company implement procedures to ensure compliance with CIC Section 735. The Company has complied with this recommendation.

Reinsurance – Ceded (Page 9): It was recommended that the Company draft cost allocation agreements or amend the reinsurance contracts to ensure compliance with the Statement of Statutory Accounting Principles (SSAP) 62R, paragraph 9, and that the agreement which includes the cost allocation terms be filed with the CDI pursuant to CIC Section 1215.5(b)(4). The Company has complied with this recommendation.

Accounts and Records – Information Systems Controls (Page 10): It was recommended that the Company evaluate the recommendations and make appropriate changes to strengthen its controls over its information systems. The Company has complied with this recommendation.

Comments on Financial Statement Items – Advance Premium (Page 15): It was recommended that the Company comply with the National Association of Insurance Commissioners Annual Statement Instructions and SSAP 53, paragraph 13, for the reporting of advance premiums. The Company has complied with this recommendation.

ACKNOWLEDGEMENT

Acknowledgement is made of the cooperation and assistance extended by the Company's officers and employees during the course of this examination.

Respectfully submitted,

_/S/____________________________

Ferdinand Ison
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California

_/S/____________________________

Vivien Fan, CFE
Examiner-In-Charge
Senior Insurance Examiner (Supervisor)
Department of Insurance
State of California