Examination Warrant Number 11-03678-17957-R1

Report of Examination of

American Independent Insurance Company
Conshohocken, PA

As of December 31, 2011

American Independent Insurance Company

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Harrisburg, Pennsylvania
May 7, 2013

Honorable Stephen J. Johnson, CPA
Deputy Insurance Commissioner
Commonwealth of Pennsylvania
Insurance Department
Harrisburg, Pennsylvania

Dear Sir:

In accordance with instructions contained in Examination Warrant Number 11-03678-17957-R1, dated, February 25, 2011, an examination was made of

American Independent Insurance Company, NAIC Code: 17957,

a Pennsylvania domiciled stock property and casualty insurance company, hereinafter referred to as "Company" or "AIIC". The examination was conducted at the Company's home office, located at 1000 River Road, Suite 300, Conshohocken, PA 19428.

A report of this examination is hereby respectfully submitted.

SCOPE OF EXAMINATION

The Company was last examined as of December 31, 2006.

This examination covered the five-year period from January 1, 2007 through December 31, 2011, and consisted of a general survey of the Company's business practices, management, and operations, and an evaluation of the Company's financial condition as of the latter date. Material subsequent events were also reviewed.

Work programs employed in the performance of this examination were designed to comply with the standards promulgated by the Pennsylvania Insurance Department ("Department") and the National Association of Insurance Commissioners ("NAIC").

The format of this report is consistent with the current practices of the Department and the examination format prescribed by the NAIC. It is limited to a description of the Company, a discussion of financial items that are of specific regulatory concern, and a disclosure of other significant regulatory information.

For the years 2007 through 2009 covered by the period under examination, the Certified Public Accounting ("CPA") firm Smart and Associates, LLP and for the years 2010 and 2011 covered by the period under examination, the Certified Public Accounting ("CPA") firm of WeiserMazars, LLP provided unqualified audit opinions on the Company's year-end financial statements based on statutory accounting principles. Relevant work performed by the CPA firms, during the annual audits of the Company, was reviewed during the examination and incorporated into the examination workpapers.

The following companies were examined at the same time during the above examination:

Company	State	NAIC Code
Bankers Independent Insurance Company ("BIIC")	PA	13455
The Personal Service Insurance Company ("PSIC")	PA	12289
Apollo Casualty Company ("Apollo")	IL	10343
Delphi Casualty Company ("Delphi")	IL	11862
Omni Indemnity Company ("Indemnity")	IL	34940
Omni Insurance Company ("OIC")	IL	39098

For the purposes of this report, the seven companies reflected above will be referred to as the "AIC Group" when references are made to them as a combined group of companies.

HISTORY

The Company was incorporated on June 22, 1971, licensed by the Department on January 3, 1972 and commenced business on the date of licensing.

Until March 31, 1990, ownership of AIIC rested with American Independent Company, an insurance holding company in Wilkes-Barre, Pennsylvania. On that date AIIC was divested and concurrently transferred all existing accident and health business to a former subsidiary, American Independent Life Insurance Company.

On December 31, 2000, AIIC and its parent, American Independent Insurance Holding Company, and its affiliates, C & L Insurance Agency, Inc. and American Independent Services Inc. were acquired by Arch Capital Group Ltd. ("ACGL").

Effective December 2004, AIIC and PSIC became subsidiaries of American Independent Companies Inc. ("AICI") (formerly Protective Underwriting Services, Inc.) through a cash purchase from ACGL.

The Company is currently authorized to transact those classes of insurance described in the Pennsylvania Insurance Company Law, 40 P.S. § 382, Subsection (b), Paragraph (2) Inland Marine and Auto Physical Damage, Subsection (c), Paragraph (2) Accident and Health and (11) Auto Liability.

MANAGEMENT AND CONTROL

CAPITALIZATION

As of the examination date, December 31, 2011, the Company's total capitalization was $22,847,430, consisting of 12,144 capital shares of issued and outstanding common stock with a par value of $140 per share amounting to $1,700,160 ; $8,175,419 in gross paid in and contributed surplus; and $12,971,851 in unassigned funds (surplus).

The Company's minimum capital and minimum surplus requirements for the types of business for which it is licensed, pursuant to 40 P. S. § 386.1, is $850,000 in capital and

$425,000 in surplus. The Company met all governing requirements throughout the examination period.

STOCKHOLDER

The Company is a wholly-owned subsidiary of AICI. AICI is wholly owned by Independent Insurance Investments, Inc. As of the examination date, Independent Insurance Investments, Inc., is owned by the following:

Inverness Partnerships II LP	60.3%
BlackRock Stockholders	24.7%
Independent Insurance Investments Inc	11.8%
Phoenix Life Insurance Company	3.2%

As of the examination date, the ultimate controlling persons of the holding company are; James C. Comis, III, and William McComb Dunwoody of Inverness Partnerships II LP.

BlackRock Stockholders (formerly Merrill Lynch) has filed a "Disclaimer of Control" with the Department.

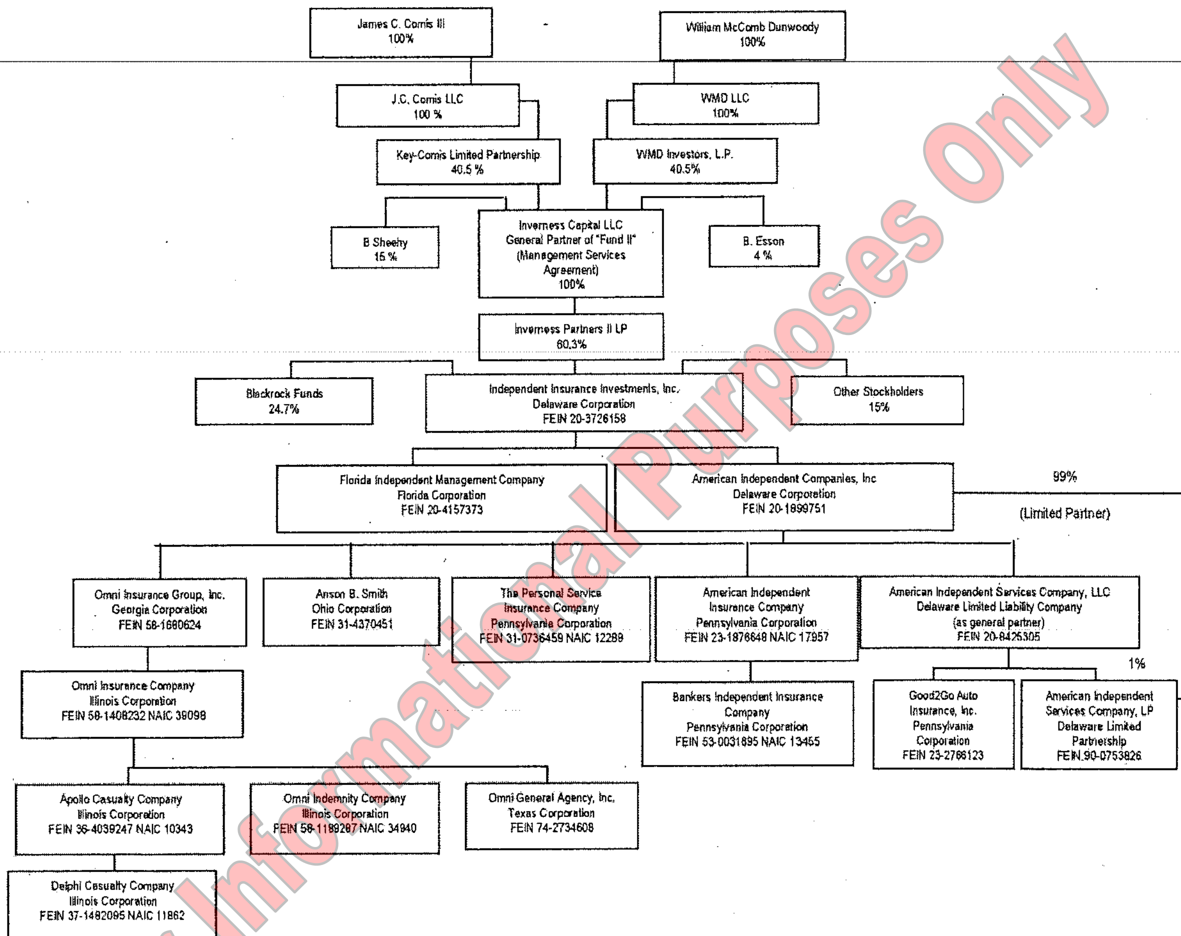
Dividend payments during the examination period totaled $26,620,909 broken down by the year of payment as follows:

2011	$16,160,909
2010	$ 3,860,000
2009	$ 3,300,000
2008	$ 3,300,000

All of the dividends paid during the examination period were properly authorized by the Company's Board of Directors. All dividends paid were considered ordinary dividends except for one extraordinary dividend, which was paid on June 25, 2011 for $11,187,000. The Department approved this extraordinary dividend payment on June 15, 2011.

INSURANCE HOLDING COMPANY SYSTEM

James C. Comis, III and William McComb Dunwoody are named as the ultimate controlling persons in the system. Members of the Holding Company System include the following entities briefly described below:



- Independent Insurance Investments, Inc., a Delaware Corporation, is the ultimate holding company for the group.
- American Independent Companies, Inc., a Delaware Corporation, is the intermediate holding company that directly owns insurance related operations of the group.
- American Independent Insurance Company, a Pennsylvania stock property and casualty insurance company, is licensed in 10 states and writes personal automobile liability and personal automobile physical damage insurance primarily in Pennsylvania and Delaware.

- American Independent Services Company, LLC, a Delaware limited liability company, is the holding company for American Independent Services Company, LP and Good2Go Auto Insurance, Inc.
- American Independent Services Company, LP, a Delaware limited partnership, which provides premium cash collection and processing, customer service, and mailing of claim checks issued by American Independent Insurance Company.
- Good2Go Auto Insurance, Inc. (formerly C & L Insurance Agency, Inc.), a Pennsylvania Corporation, which was established as an insurance agency to sell auto policies directly to consumers for the AIC Group. It has produced policies throughout 2012 (and the very end of 2011) and continues into 2013.
- Florida Independent Management Company ("FIMC"), a Florida Corporation, was set up as a Managing General Agent to issue auto policies. FIMC currently produces limited business for Omni Indemnity Company through a managing general agency agreement. The AIC Group maintains a limit on the business it wishes to write in Florida; generally limiting it to renewal business due to the volatility in that market.
- Anson B. Smith & Company, an Ohio Corporation, provides premium cash collection and processing, customer service and mailing of claim checks issued by Personal Service Insurance Company.
- Bankers Independent Insurance Company, a Pennsylvania stock property and casualty insurance company, is licensed in eight states and provides personal automobile liability and personal automobile physical damage insurance primarily in Virginia and the District of Columbia. Additionally, the Company also specializes in providing automobile and personal effects coverage to foreign service and government service personnel serving abroad in approximately 170 countries throughout the world.
- The Personal Service Insurance Company, a Pennsylvania stock property and casualty insurance company, is licensed in four states and writes nonstandard personal automobile liability and personal automobile physical damage primarily in New Jersey with additional writings in Ohio.
- Omni Insurance Group Inc., a Georgia Corporation, is the holding company for Omni Insurance Company, Omni Indemnity Company, Apollo Casualty Company, Omni General Agency, Inc. and Delphi Casualty Company.
- Omni General Agency, Inc., a Texas corporation, is a Managing General Agent that produces business written under Liberty County Mutual Insurance Company in the state of Texas.
- Omni Insurance Company, an Illinois stock property and casualty insurance company, writes nonstandard personal automobile liability and personal automobile physical damage insurance in eight states in Southeastern United States. It is licensed in 43 states.
- Omni Indemnity Company, an Illinois stock property and casualty insurance company, writes nonstandard personal automobile liability and personal automobile

physical damage insurance in eight states in Southeastern United States. It is licensed in 33 states.

- Apollo Casualty Company, an Illinois stock property and casualty insurance company, writes nonstandard personal automobile liability and personal automobile physical damage insurance primarily in Northeastern Illinois. It is only licensed to write in Illinois.
- Delphi Casualty Company, an Illinois stock property and casualty insurance company, writes nonstandard personal automobile liability, personal automobile physical damage and commercial auto liability insurance concentrated in Cook and surrounding counties in Northeastern Illinois. It is only licensed to write in Illinois.

During the period under examination, the Company timely filed annual registration statements, in compliance with the 40 P.S. §§ 991.1401-991.1413.

BOARD OF DIRECTORS

Management of the Company is vested in its Board of Directors ("Board"), which was comprised of the following members as of the examination date, December 31, 2011:

Name and Address	Principal Occupation
James C. Comis III Palm Beach, FL	Managing General Partner/Principal Inverness Management LLC
Brad D. Esson New York City, NY	Managing Director Inverness Management LLC
William B. Lockhorn University Park, FL	Chairman, Chief Executive Officer Independent Insurance Investments, Inc.
Patrick J. McLaughlin Bryn Mawr, PA	Financial Consultant Emerald Capital
Parker W. Rush McKinney, Texas	Chief Executive Officer/President Republic Underwriters Insurance Company
Bruce W. Schnitzer New York, NY	Managing Director/Chairman Wand Partners, Inc.
Robert N. Sheehy New Canaan, CT	Managing Director Inverness Management LLC

The Company's By-laws state that each director shall serve until the next annual meeting of the stockholders and until his successor shall have been elected and qualified, except in the event of his death, resignation or removal. Directors were duly elected in accordance with the Company's By-laws during the examination period.

The members of the board and the officers of the Company signed annual conflict of interest disclosures, for each of the years during the period under examination, with no conflicts disclosed.

The members of the Board of the Company listed above are the same members of the Board of the Company's subsidiary, BIIC, except for one additional member (Bruce S. Arneson) on BIIC's Board, and exactly the same for an affiliate, PSIC. Many, but not all, of the Company's Board members also serve on the Boards' of the other insurance company affiliates in the AIC Group, which includes OIC, Indemnity, Apollo, and Delphi.

COMMITTEES

The Directors and/or Officers were assigned to serve on the following Committees as listed below:

Executive Committee
Brad D. Esson
Patrick J. McLaughlin
Parker W. Rush
Robert N. Sheehy

Audit Committee
Brad D. Esson
Patrick J. McLaughlin
Parker W. Rush
Robert N. Sheehy

Investment Committee
William B. Lockhorn
Patrick J. McLaughlin
Robert N. Sheehy
Mark J. Keyser, ex officio
Jeffrey Ruhl, ex officio

Compensation Committee
Brad D. Esson
William B. Lockhorn
Robert N. Sheehy

The legal requirements for the structure of boards of directors and committees thereof are delineated below:

- 40 P.S. § 991.1405(c)(3) "(i)Not less than one-third of the directors of a domestic insurer shall be persons who are not officers or employees of such insurer or of any entity controlling, controlled by or under common control with such insurer and who are not beneficial owners of a controlling interest in the voting stock of such insurer or any such entity. At least one such person must be included in any quorum for the transaction of business at any meeting of the board of directors. (ii)Not less than one-third of the members of each committee of the board of directors of any domestic insurer shall be persons who are not officers or employees of such insurer or of any entity controlling, controlled by or under common control with such insurer. At least one such person must be included in any quorum for the transaction of business at any meeting of each committee."
- 40 P.S. § 991.1405(c)(4), "The board of directors of a domestic insurer shall establish a committee comprised solely of directors who are not officers or employees of the insurer or of any entity controlling, controlled by or under common control with the insurer and who are not beneficial owners of a controlling interest in the voting stock of the insurer or any such entity. The committee shall have responsibility for recommending the selection of independent certified public accountants and reviewing the insurer's financial condition, the scope and results of the independent audit and any internal audit. The committee may also have the responsibilities described in paragraph (4.1) if one or more committees described in paragraph (4.1) are not separately established."

- 40 P.S. § 991.1405(c)(4.1), "The board of directors of a domestic insurer shall establish one or more committees comprised solely of directors who are not officers or employees of the insurer or of any entity controlling, controlled by or under common control with the insurer. The committee or committees shall have responsibility for recommending candidates to be nominated by the board of directors, in addition to any other nominations by voting shareholders or policyholders, for election as directors by voting shareholders or policyholders, evaluating the performance of officers deemed to be principal officers of the insurer and recommending to the board of directors the selection and compensation of the principal officers."
- 40 P.S. § 991.1405(c)(5), "The provisions of paragraphs (3), (4) and (4.1) shall not apply to a domestic insurer if the person controlling such insurer is an insurer, an attorney in fact for a reciprocal exchange, a mutual insurance holding company or a publicly held corporation having a board of directors and committees thereof which already meet the requirements of paragraphs (3), (4) and (4.1)."

All of the committees reside at the AICI level. The Executive Committee performs the functions normally associated with a Nominating Committee. The membership of the Company's Audit Committee, Compensation Committee, and Executive Committee do not comply with the requirements of 40 P.S. § 991.1405(c)(3)-(5), as delineated above, as not all of the members of these committees can be considered independent directors nor is AICI an attorney in fact for a reciprocal exchange, a mutual insurance holding company or a publicly held corporation.

It is recommended that the Company comply with the requirements of 40 P.S. § 991.1405(c)(4), (4.1) and (5) and form a committee or committees of its Board comprised solely of directors who are not officers or employees of the insurer or of any entity controlling, controlled by or under common control with the insurer and who are not beneficial owners of a controlling interest in the voting stock of the insurer or any such entity. The committee or committees shall have the responsibility for recommending the selection of independent certified public accountants and reviewing the insurer's financial condition, the scope and results of the independent audit and any internal audit, recommending candidates to be nominated by the board of directors, in addition to any other nominations by voting shareholders, for election as directors by voting shareholders, evaluating the performance of officers deemed to be principal officers of the insurer and recommending to the board of directors the selection and compensation of the principal officers. The Company's By-laws should accurately reflect specific designated authorities and responsibilities of the committee or committees that are established by the Board in compliance with this recommendation.

OFFICERS

As of the examination date, December 31, 2011, the following officers were appointed and serving in accordance with the Company's By-laws:

Name	Title
William B. Lockhorn	CEO and Secretary
Bruce S. Arneson	President
Mark J. Keyser	CFO and Treasurer
Man Du	Assistant Secretary

CORPORATE RECORDS

MINUTES

A compliance review of corporate minutes revealed the following:

- The Annual Meetings of the Company's stockholder were held in compliance with its By-laws.
- The stockholder elects directors at such meetings in compliance with the By-laws.
- The stockholder ratified the prior year's actions of the officers and directors.
- Quorums were present at all stockholders', directors', and committee meetings.
- The Company's officers were appointed at the Annual Organizational Meeting of the Board.
- The Company's investment and reinsurance transactions were approved quarterly by the Board.
- The actions of the investment committee were ratified regularly by the Board.
- All directors attend Board meetings regularly.

ARTICLES OF AGREEMENT

There were no changes to the Company's Articles of Agreement during this examination period.

BY-LAWS

The Company made the following amendments to its By-laws during this examination period. All of these amendments were made on September 27, 2011.

<u>Article I - Section 1.01 Registered Office</u>

This section was amended to change the registered office of the Company from 1502 Locust Street, Philadelphia to 1000 River Road, Conshohocken, PA.

Article I - Section 1.02 Annual Meeting

This section was amended to change the Annual Meeting of Stockholders from a fixed date to a date to be determined by the Board.

ARTICLE II - Indemnification of Directors, Officers, Etc.

Section 7.01 through 7.06 were amended to clarify the indemnification clauses from the prior By-laws to include sections on obtaining insurance, advancing expenses, inclusion of merged companies, and defining various other terms and concepts.

The aforementioned By-law changes were properly approved by the Board, but were not reported to the Department. Any changes made to a company's By-laws must be reported to the Department.

It is recommended that the Company report the By-law changes made on September 27, 2011 and any By-law changes made in the future to the Department in a timely manner.

SERVICE AND OPERATING AGREEMENTS

The Company is party to the following material service and operating agreements:

- Corporate Management Agreement
- Tax Allocation Agreement
- Inter-Company Pooling Agreement

A review of these agreements pursuant to the fair and reasonable standards contained in 40 P.S. § 991.1405, revealed only the Tax Allocation Agreement met these standards. The Corporate Management Agreement was not considered fair and reasonable as it did not include all affiliated companies in the expense allocation computation for the 2011 true-up calculation. The Inter-Company Pooling Agreement was not considered fair and reasonable as it did not provide any penalty or interest for late settlements. However, before examination fieldwork was completed, AICI revised the Corporate Management Agreement computation to properly include all affiliated companies in this computation and added provisions to the Inter-Company Pooling Agreement to address late settlement; therefore, no examination recommendation is being made.

CORPORATE MANAGEMENT AGREEMENT

The Company entered into a Corporate Management Agreement with AICI, whereby AICI provides services to manage the insurance operations of the Company and provide other administrative services to the parent, Independent Insurance Investments, Inc., and other subsidiaries. The compensation for the services is an amount equal to the Company's direct and allocable share of the actual expenses, plus a capital charge of 2.05% of prior year's ending surplus.

TAX ALLOCATION AGREEMENT

The Company is party to a Tax Allocation Agreement with its ultimate parent, Independent Insurance Investments, Inc., and each of its direct and indirect subsidiaries. Under the terms of this agreement, a consolidated tax return is filed utilizing the methodology prescribed by the Internal Revenue Code (Section 1.1552-l(a)(i)). The tax liability/benefit is determined for each entity on a separate return basis and may be terminated for any party when that entity no longer is a member of the affiliated group for tax filing purposes. The settlement provisions require quarterly prepayments to be due five days before the tax return is filed.

INTER-COMPANY POOLING AGREEMENT

As of December 31, 2011, the Company participates in an Amended and Restated Inter-Company Reinsurance Pooling Agreement, which was effective July 1, 2011. Pursuant to the terms of the agreement, the pool members cede to the pool lead company 100% of such pool member's liabilities. The pool lead company agrees to cede to the other pool members a quota share of the pool lead company's liabilities equal to its pool member's participation percentage. AIIC is the pool lead company. The pool member's participation percentages are as follows:

	State	NAIC #	Pooling Percentage
Lead Company			
American Independent Insurance Company	PA	17957	13.00%
Affiliated Pool Companies			
Omni Insurance Company	IL	39098	50.00%
Omni Indemnity Insurance Company	IL	34940	17.00%
The Personal Service Insurance Company	PA	12289	8.00%
Bankers Independent Insurance Company	PA	13455	6.00%
Apollo Casualty Company	IL	10343	4.00%
Delphi Casualty Company	IL	11862	2.00%
Total Inter-Company Reinsurance Pool			100.00%

REINSURANCE

CEDED

The Company does not have any reinsurance agreements in effect except for its participation in an inter-company pooling agreement, described earlier in this report under "Service and Operating Agreements".

ASSUMED

The extent of the Company's assumed reinsurance is its participation in an inter-company pooling agreement, described earlier in this report under "Service and Operating Agreements".

TERRITORY AND PLAN OF OPERATION

The Company is licensed in the following nine jurisdictions: Delaware, Florida, Georgia, Illinois, Kentucky, Maryland, Pennsylvania, South Carolina, Tennessee, and Virginia. Since the prior examination, the Company ceased writing business in Florida due to poor experience.

AIIC provides non-standard private passenger automobile insurance primarily to residents of Pennsylvania, with additional writings in Delaware. Virtually all policies are sold at minimum limits. Most policies are written on an annual, limited tort basis under which the consumer gives up the right to sue for non-economic damages, in exchange for a lower premium. Generally, AIIC underwrites policyholders based on financial underwriting criteria and does not price its product to attract risks with motor vehicle violations or a poor accident history. Most customers are attracted by flexible down payments and installment billings. Distribution is through approximately 500 independent agents.

The following chart illustrates the amount of direct, assumed and ceded premium written by line of business as of December 31, 2011:

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Written Premium	Percentage of Total
Inland marine	$ 1,182,346	$ 1,029,433	$ 152,913	0.6%
Private passenger auto liability	145,277,197	125,941,976	19,335,221	73.6%
Commercial auto liability	2,260,914	1,966,995	293,919	1.1%
Auto physical damage	48,826,989	42,323,196	6,503,793	24.7%
Totals	$ 197,547,446	$ 171,261,600	$ 26,285,846	100.0%

SIGNIFICANT OPERATING RATIOS AND TRENDS

The underwriting ratios summarized below are on an earned/incurred basis, and encompass the five-year period covered by this examination.

	Amount	Percentage
Premiums earned	$ 174,929,572	100.0 %
Losses incurred	$ 104,612,472	59.8 %
Loss expenses incurred	21,178,312	12.1 %
Other underwriting expenses incurred	54,782,912	31.3 %
Net underwriting gain or (loss)	(5,644,124)	(3.2)%
Totals	$ 174,929,572	100.0 %

The Company reported the following net underwriting, investment and other gains or losses during the period under examination:

	2011	2010	2009	2008	2007
Admitted assets	$ 53,580,210	$ 74,187,889	$ 79,569,389	$ 101,732,832	$ 116,331,159
Liabilities	$ 30,732,780	$ 38,581,464	$ 45,037,898	$ 68,237,043	$ 81,494,974
Surplus as regards policyholders	$ 22,847,430	$ 35,606,425	$ 34,531,491	$ 33,495,789	$ 34,836,185
Gross premium written	$ 197,547,446	$ 177,982,646	$ 191,633,679	$ 195,750,679	$ 251,332,814
Net premium written	$ 26,285,846	$ 33,816,703	$ 36,291,187	$ 35,667,066	$ 34,594,416
Underwriting gain/(loss)	$ (1,674,450)	$ (2,866,210)	$ (2,966,376)	$ (1,450,671)	$ 3,313,583
Investment gain/(loss)	$ 4,322,294	$ 6,124,509	$ 4,840,926	$ 1,770,731	$ 2,138,823
Other gain/(loss)	$ 2,981,974	$ 3,414,475	$ 3,630,349	$ 3,540,139	$ 3,011,329
Net income	$ 4,570,740	$ 4,973,909	$ 3,862,039	$ 2,857,342	$ 5,701,715

ACCOUNTS AND RECORDS

The Company's accounting functions are performed by AICI in Lancaster, Pennsylvania. The centralized automated accounting function consists of third party software, which produces a general ledger, journal entries and other various reports. The general ledger, AccPac for Windows, does not interface with other system applications with the exception of the PosPay process. The Company primarily utilizes a third party system, Internet Solutions for Insurance (ISi), for policy administration and claims processing. This system is also used by independent agents for quoting, binding, and policy maintenance.

PENDING LITIGATION

Based on a review of the responses to this examination's legal representation letters, there were no material current, pending, or threatened litigation at December 31, 2011 that required disclosure in this report.

FINANCIAL STATEMENTS

The financial condition of the Company, as of December 31, 2011, and the results of its operations for the five-year period under examination, is reflected in the following statements:

Comparative Statement of Assets, Liabilities, Surplus and Other Funds;
Comparative Statement of Income;
Comparative Statement of Capital and Surplus; and
Comparative Statement of Cash Flow

Comparative Statement of Assets, Liabilities, Surplus and Other Funds As of December 31,

	2011	2010	2009	2008	2007
Bonds	$ 21,274,470	$ 37,307,517	$ 50,339,492	$ 43,354,508	$ 45,725,324
Preferred stocks	0	877,781	245,261	313,378	577,978
Common stocks	12,715,291	10,854,215	11,100,213	11,254,086	10,455,436
Cash, cash equivalents, and short term investments	5,933,581	10,169,614	1,714,096	4,314,117	8,123,018
Receivable for securities	0	0	0	4,033	0
Subtotals, cash and invested assets	39,923,342	59,209,127	63,399,062	59,240,122	64,881,756
Investment income due and accrued	109,205	267,821	567,585	374,406	455,067
Premiums and agents' balances due	8,629,725	11,030,864	11,965,480	14,825,874	39,136,577
Amounts recoverable from reinsurers	35,004	102,682	278,823	21,371,970	7,032,256
Other amounts receivable under reinsurance contracts	1,944,539	817,316	0	0	0
Current federal and foreign income tax recoverable and interest thereon	620,698	380,142	0	264,434	0
Net deferred tax asset	1,383,551	1,720,984	1,735,478	1,750,350	1,683,832
Electronic data processing equipment and software	268,210	88,761	80,235	89,308	90,400
Receivable from parent, subsidiaries and affiliates	665,936	570,192	1,542,726	3,816,368	3,051,271
Total	$ 53,580,210	$ 74,187,889	$ 79,569,389	$ 101,732,832	$ 116,331,159
Losses	$ 13,659,283	$ 19,108,131	$ 20,527,643	$ 22,228,192	$ 23,060,239
Loss adjustment expenses	2,646,053	2,008,053	4,517,011	4,173,570	3,535,118
Commissions payable, contingent commissions and other similar charges	101,223	95,333	118,173	334,015	539,335
Other expenses	457,697	869,141	962,578	646,940	3,222,436
Taxes, licenses and fees	306,263	534,432	638,516	703,569	1,354,356
Current federal and foreign income taxes	0	0	317,152	0	793,453
Unearned premiums	11,654,096	14,541,194	15,350,002	15,022,678	17,288,208
Ceded reinsurance premiums payable (net of ceding commissions)	1,718,347	804,770	97,457	23,259,651	19,613,893
Amounts withheld or retained by company for account of others	189,818	384,421	250,024	365,553	670,116
Payable to parent, subsidiaries and affiliates	0	235,989	269,652	1,502,875	3,370,981
Payable for securities	0	0	1,989,690	0	0
Aggregate write-ins for liabilities	0	0	0	0	8,046,839
Total liabilities	30,732,780	38,581,464	45,037,898	68,237,043	81,494,974
Common capital stock	1,700,160	1,700,160	1,700,160	1,700,160	1,700,160
Gross paid in and contributed surplus	8,175,419	8,175,419	8,175,419	8,175,419	8,103,690
Unassigned funds (surplus)	12,971,851	25,730,846	24,655,912	23,620,210	25,032,335
Surplus as regards policyholders	22,847,430	35,606,425	34,531,491	33,495,789	34,836,185
Totals	$ 53,580,210	$ 74,187,889	$ 79,569,389	$ 101,732,832	$ 116,331,159

Comparative Statement of Income
For the Year Ended December 31,

Underwriting Income	2011	2010	2009	2008	2007
Premiums earned	$ 29,172,944	$ 34,625,511	$ 35,963,863	$ 37,932,596	$ 37,234,658
Deductions:					
Losses incurred	17,420,268	24,244,700	21,918,742	22,878,436	18,150,326
Loss expenses incurred	4,112,004	2,064,157	4,558,408	5,399,882	5,043,861
Other underwriting expenses incurred	9,315,122	11,182,864	12,453,089	11,104,949	10,726,888
Total underwriting deductions	30,847,394	37,491,721	38,930,239	39,383,267	33,921,075
Net underwriting gain or (loss)	(1,674,450)	(2,866,210)	(2,966,376)	(1,450,671)	3,313,583
Investment Income					
Net investment income earned	2,083,738	2,920,218	3,450,393	2,273,816	2,150,732
Net realized capital gains or (losses)	2,238,556	3,204,291	1,390,533	(503,085)	(11,909)
Net investment gain or (loss)	4,322,294	6,124,509	4,840,926	1,770,731	2,138,823
Other Income					
Finance and service charges not included in premiums	2,873,337	3,414,475	3,608,838	3,778,000	3,019,792
Aggregate write-ins for miscellaneous income	108,637	0	21,511	(237,861)	(8,463)
Total other income	2,981,974	3,414,475	3,630,349	3,540,139	3,011,329
Net income before dividends to policyholders and before federal and foreign income taxes	5,629,818	6,672,774	5,504,899	3,860,199	8,463,735
Federal and foreign income taxes incurred	1,059,078	1,698,865	1,642,860	1,002,857	2,762,020
Net income	$ 4,570,740	$ 4,973,909	$ 3,862,039	$ 2,857,342	$ 5,701,715

Comparative Statement of Capital and Surplus
For the Year Ended December 31,

	2011	2010	2009	2008	2007
Surplus as regards policyholders, December 31, previous year	$ 35,606,425	$ 34,531,491	$ 33,495,789	$ 34,836,185	$ 30,048,395
Net income	4,570,740	4,973,909	3,862,039	2,857,342	5,701,715
Net unrealized capital gains or (losses)	(801,923)	(296,912)	(44,683)	603,924	1,887,578
Change in net deferred income tax	(526,799)	(125,747)	(219,765)	(14,461)	(318,784)
Change in nonadmitted assets	159,896	383,684	738,111	(1,558,930)	(2,482,719)
Surplus adjustments:					
Paid in	0	0	0	71,729	0
Dividends to stockholders	(16,160,909)	(3,860,000)	(3,300,000)	(3,300,000)	0
Change in surplus as regards policyholder for the year	(12,758,995)	1,074,934	1,035,702	(1,340,396)	4,787,790
Surplus as regards policyholders, December 31, current year	$ 22,847,430	$ 35,606,425	$ 34,531,491	$ 33,495,789	$ 34,836,185

Comparative Statement of Cash Flow
For the Year Ended December 31,

	2011	2010	2009	2008	2007
Cash from Operations					
Premiums collected net of reinsurance	$ 29,849,897	$ 35,197,774	$ 16,148,438	$ 63,594,097	$ 37,097,600
Net investment income	2,234,001	3,267,109	3,224,270	2,363,397	2,061,184
Miscellaneous income	1,854,751	3,414,475	3,630,349	3,540,139	3,011,329
Total income	33,938,649	41,879,358	23,003,057	69,497,633	42,170,113
Benefit and loss related payments	22,801,438	26,305,387	2,526,144	38,050,197	6,526,824
Commissions, expenses paid and aggregate write-ins for deductions	13,422,849	15,976,340	16,633,313	19,297,982	16,804,062
Federal and foreign income taxes paid (recovered)	1,299,634	2,396,159	1,061,274	2,060,744	4,021,667
Total deductions	37,523,921	44,677,886	20,220,731	59,408,923	27,352,553
Net cash from operations	(3,585,272)	(2,798,528)	2,782,326	10,088,710	14,817,560
Cash from Investments					
Proceeds from investments sold, matured or repaid:					
Bonds	108,248,403	99,272,611	66,387,234	15,462,436	9,392,438
Stocks	2,184,880	258,491	74,218	224,789	0
Miscellaneous proceeds	0	0	1,993,723	0	600,000
Total investment proceeds	110,433,283	99,531,102	68,455,175	15,687,225	9,992,438
Cost of investments acquired (long-term only):					
Bonds	89,934,140	83,054,923	71,845,656	13,561,805	26,664,033
Stocks	4,004,404	970,470	0	196,729	574,937
Miscellaneous applications	0	1,989,690	0	4,033	0
Total investments acquired	93,938,544	86,015,083	71,845,656	13,762,567	27,238,970
Net cash from investments	16,494,739	13,516,019	(3,390,481)	1,924,658	(17,246,532)
Cash from Financing and Miscellaneous Services					
Other cash provided (applied):					
Capital and paid in surplus, less treasury stock	0	0	0	71,729	0
Dividends to stockholders	16,160,909	3,860,000	3,300,000	3,300,000	0
Other cash provided or (applied)	(984,591)	1,598,027	1,308,134	(12,593,998)	2,114,039
Net cash from financing and miscellaneous sources	(17,145,500)	(2,261,973)	(1,991,866)	(15,822,269)	2,114,039
Reconciliation of cash and short-term investments:					
Net change in cash and short-term investments	(4,236,033)	8,455,518	(2,600,021)	(3,808,901)	(314,933)
Cash and short-term investments:					
Beginning of the year	10,169,614	1,714,096	4,314,117	8,123,018	8,437,951
End of the year	$ 5,933,581	$ 10,169,614	$ 1,714,096	$ 4,314,117	$ 8,123,018

SUMMARY OF EXAMINATION CHANGES

There were no examination changes to the preceding financial statements as filed with regulatory authorities over the review period.

NOTES TO FINANCIAL STATEMENTS

ASSETS

INVESTMENTS

As of December 31, 2011, the Company's invested assets were distributed as follows:

	Amount	Percentage
Bonds	$ 21,274,470	53.3 %
Common stocks	12,715,291	31.8 %
Cash	3,184,733	8.0 %
Short-term investments	2,748,848	6.9 %
Totals	$ 39,923,342	100.0 %

The Company's bond and short-term investment portfolio had the following quality and maturity profiles:

NAIC Designation	Amount	Percentage
1 - highest quality	$ 18,114,986	75.4 %
2 - high quality	5,408,332	22.5 %
3 - medium quality	500,000	2.1 %
Totals	$ 24,023,318	100.0 %

Years to Maturity	Amount	Percentage
1 year or less	$ 3,069,536	12.8 %
2 to 5 years	15,931,250	66.3 %
6 to 10 years	4,009,820	16.7 %
11 to 20 years	25,901	0.1 %
over 20 years	986,811	4.1 %
Totals	$ 24,023,318	100.0 %

Since the prior exam, the Company's common stock portfolio increased from approximately $8.5 million to approximately $12.7 million at December 31, 2011. As a percentage of invested assets, common stocks represent 31.8% of invested assets at December 31, 2011 as compared to 18.5% as of the prior exam date, December 31, 2006. This change is attributable to an increase in the parent, subsidiary and affiliates investment valuation (i.e. BIIC surplus growth) and a change in the Company's investment policy, which now allows the Company to invest in equities. Non-affiliated equity investments are valued at approximately

$2.3 million, with a cost of approximately $2.8 million and an unrealized loss of approximately $502,000 at December 31, 2011.

The overall quality of the Company's bond portfolio, which comprises the largest portion of the Company's invested assets at 53.3%, is invested in high quality issues with 97.9% of these issues being rated at the NAIC's highest designations of (1-highest quality) and (2-high quality).

The primary goal of the Company's investment portfolio is to maximize the after tax total return on invested assets while controlling the risk of the portfolio. This is to be accomplished within the specified guidelines and identified constraints of the portfolio. Listed below are the primary objectives of the investment portfolio:

- To ensure sufficient cash flow and liquidity to fund expected liability payments and otherwise support the Company's underwriting strategy.
- To preserve and grow the capital and surplus in order to improve the Company's competitive position and support the success of its insurance operations.
- To achieve favorable risk adjusted total returns.

The Company utilizes the services of Conning Asset Management Company for portfolio asset management and for investment accounting and reporting services.

The Company has an Other Than Temporary Impairment ("OTTI") policy in place. Based on testing performed by the examination team of the OTTI process; no impairments were recorded nor should have been recorded at December 31, 2011.

The Company has a written investment policy as required by 40 P.S. § 653b (b). The investment policy is reviewed and approved on an annual basis by the Board. It was noted that during the examination period, the Company did not always follow its investment policy whereby purchases were made outside of the guidelines stated. While the Board approved these transactions after the fact, there is a risk that the Company enters into investment transactions that were not contemplated in its product pricing decisions or within its strategic plans regarding its risk appetite.

It is recommended that the Company follow the investment guidelines as approved by the Board of Directors.

During the period under examination, the Company held assets under a Custodial Agreement with M&T Bank. The Custodial Agreement with M&T Bank is compliant with the provisions of 31 Pa. Code § 148a.3.

LIABILITIES

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

The Company reported reserves in the amount of $ $13,659,283 for losses and $2,646,053 for loss adjustment expenses on the December 31, 2011 annual statement.

For the years under examination, the Board appointed three different independent qualified actuaries to provide the Statement of Actuarial Opinion ("Opinion") on the Company's loss and loss adjustment expenses ("LAE") reserve amounts carried on the balance sheet at each respective year-end date, as follows:

December 31,	Actuary	Firm
2007	Nancy L. Arico, ACAS, MAAA	KPMG LLP
2008-2010	Steven J. Regnier, ACAS, MAAA, FCCA	Regnier Consulting Group, Inc.
2011-2012	Kim E. Piersol, FCAS, MAAA	Huggins Actuarial Services, Inc.

For each year ended reflected above, each respective actuary rendered an Opinion concluding that the Company's reserves made a reasonable provision for all unpaid loss and LAE obligations of the Company under the terms of its policies and agreements.

The Department engaged the services of Risk and Regulatory Consulting, LLC ("RRC") of Farmington, Connecticut to perform an independent actuarial analysis of select segments of the AIC Group's loss and LAE reserves as of December 31, 2012 that were judged to present the most risk for deviation as determined by the risk focused examination process. The December 31, 2012 year-end was chosen for this review as the Company informed us that there was some adverse development recorded in 2012 and, as examination fieldwork was not completed yet, the information was available for review.

The following segments were reviewed, which represented 70% of the AIC Group's loss and LAE reserves:

- AIIC Bodily Injury for the State of Pennsylvania.
- PSIC Personal Injury Protection for the State of New Jersey.
- OIC and Indemnity Bodily Injury and Uninsured Motorists Bodily Injury for all states combined.
- For Apollo and Delphi, performed a review of the internal company reserve process.
- For the unallocated loss adjustment expense reserves ("ULAE"), performed a review of the internal company reserve process.

The actuarial examiners concluded that the appointed actuary's central estimates of loss and LAE reserves are reasonable for those segments that were tested as of December 31, 2012. Therefore, as AIC Group records the actuarial central estimate for those segments; those recorded reserves are reasonable as well as of December 31, 2012. Based on the aforementioned analysis of the reserving process surrounding these segments, the loss and LAE reserves carried by the AIC Group as of December 31, 2011 are deemed to be adequate.

SUBSEQUENT EVENTS

PSIC ADVERSE EXTRA CONTRACTUAL OBLIGATION JUDGMENT

In early 2012 one of the Company pool members, PSIC, received an adverse judgment on an extra contractual obligations claim in suit in the amount of $10.0 million. The Company counsel believes that several technical and procedural errors during trial provide significant opportunity for a successful appeal of the jury's decision in the case. Management has engaged additional counsel experienced to represent it in such appeals processes and intends to exercise its full legal rights and options in this matter. The maximum net exposure to the AIC Group after reinsurance, income taxes, contributing insurance coverage and any general extra contractual obligations reserves posted by the group as of December 31, 2011 is estimated at approximately $4.5 million, of which the Company's share is $950,000 based upon its share of the AIC Group's intercompany reinsurance pool. However, the AIC Group ultimately believes, based on the advice of counsel, that any final settlement will be either reversed entirely or reduced by a significant amount on appeal, and therefore any loss associated with this claim is neither probable nor estimable, and as such, did not record an accrual as of December 31, 2011. The Company recorded a reserve to surplus on March 31, 2012 by non-admitting invested assets in the amount of $950,000. PSIC purchased and posted an appeal bond in the amount of $10.0 million on March 23, 2012.

RECOMMENDATIONS

PRIOR EXAMINATION

The prior examination report contained the following recommendations:

1. It is recommended that the Company maintain a stock ledger recording the issuance and cancellation of stock, and reissue the stock certificate in the name of the current parent, American Independent Companies, Inc.

   The Company complied with this recommendation.

2. It is recommended that the Company keep complete and accurate records of all official proceedings of its stockholder, board of directors, and committees in compliance with 15 Pa. C.S. § 1508(a).

   The Company complied with this recommendation.

3. It is recommended that the Company amend its By-laws to reflect its home office as 1000 River Road, Conshohocken, PA.

   The Company complied with this recommendation.

4. It is recommended that the Company increase the limit on its fidelity bond from $500,000 to $900,000 in order to comply with 40 P.S. § 443.

   The Company complied with this recommendation.

5. It is recommended that the Company revise its Cost Sharing Agreement, Tax Allocation Agreement, and Inter-Company Pooling Agreement to include a provision for penalties and interest in case of late payments in order to comply with 40 P.S. § 991.1405. It is further recommended that the Company comply with the settlement terms as specified in its Cost Sharing Agreement, Tax Allocation Agreement, and Inter-Company Pooling Agreement.

   The Company complied with this recommendation.

6. It is recommended that the Company revise its Cost Sharing Agreement in accordance with 40 P.S. § 991.1405 to include all affiliates they have business transactions with in the normal course of business. Specifically:

   American Independent Services Company, Inc.
   American Independent Companies, Inc.
   Independent Insurance Investments, Inc.
   Bankers Independent Insurance Company
   The Personal Service Insurance Company
   Florida Independent Insurance Holding Company
   Florida Independent Insurance Company
   Florida Independent Services Company
   Omni Insurance Company

   The Company complied with this recommendation.

7. It is recommended that the Company report receivables resulting from the Tax Allocation Agreement in accordance with the NAIC Annual Statement Filing Instructions.

   The Company complied with this recommendation.

8. It is recommended that the Company report the deferred pooling balances in the appropriate individual lines of the annual statement in compliance with the NAIC Annual Statement Filing Instructions.

   The Company complied with this recommendation.

9. It is recommended that the Company begin reflecting the correct breakdown of LAE into the DCC and A&O components in future annual statements in compliance with the NAIC Annual Statement Filing Instructions.

   The Company complied with this recommendation.

10. It is recommended that the Company correctly reflect pooling in Schedule P of future annual statements in accordance with NAIC Annual Statement Filing Instructions.

    The Company complied with this recommendation.

11. It is recommended that, in the future, the actuary prepare a single report for the AIC Group, which includes detailed support for reserves addressed in the statement of actuarial opinion.

    The Company complied with this recommendation.

CURRENT EXAMINATION

As a result of the current examination, the following recommendations are being made:

1. It is recommended that the Company comply with the requirements of 40 P.S. § 991.1405(c)(4), (4.1) and (5) and form a committee or committees of its Board comprised solely of directors who are not officers or employees of the insurer or of any entity controlling, controlled by or under common control with the insurer and who are not beneficial owners of a controlling interest in the voting stock of the insurer or any such entity. The committee or committees shall have the responsibility for recommending the selection of independent certified public accountants and reviewing the insurer's financial condition, the scope and results of the independent audit and any internal audit, recommending candidates to be nominated by the board of directors, in addition to any other nominations by voting shareholders, for election as directors by voting shareholders, evaluating the performance of officers deemed to be principal officers of the insurer and recommending to the board of directors the selection and compensation of the principal officers. The Company's By-laws should accurately reflect specific designated authorities and responsibilities of the committee or committees that are established by the Board in compliance with this recommendation (See "Management and Control – Committees", page 8).

2. It is recommended that the Company report the By-law changes made on September 27, 2011 and any By-law changes made in the future to the Department in a timely manner (See "Corporate Records – By-laws", page 10).

3. It is recommended that the Company follow the investment guidelines as approved by the Board of Directors (See "Notes to the Financial Statements – Investments", page 19).

CONCLUSION

As a result of this examination, the financial condition of American Independent Insurance Company, as of December 31, 2011, was determined to be as follows:

	Amount	Percentage
Admitted assets	$ 53,580,210	100.0 %
Liabilities	$ 30,732,780	57.4 %
Surplus as regards policyholders	22,847,430	42.6 %
Total liabilities and surplus	$ 53,580,210	100.0 %

Since the previous examination, made as of December 31, 2006, the Company's assets decreased by $56,129,446, its liabilities decreased by $48,928,481, and its surplus decreased by $7,200,965.

This examination was conducted by: Dennis Williams and Melissa Greiner of the Pennsylvania Insurance Department; David A. Martinez, CFE, AIE and Wayne Weber, CFE, CPA of Huff, Thomas and Company representing Illinois; David A. Clayton, CFE, Larry E. Cross, CFE, CIE, Charles Carter, CFE, Jeffrey Jones, CFE of Clayton Consulting Company, LLC representing Pennsylvania; Jenny L. Jeffers, CISA, AES of Jennan Enterprises representing Pennsylvania; Deborah M. Rosenberg, FCAS, MAAA, Barry Ash and Joseph G. Jacobs, CFE of Risk & Regulatory Consulting, LLC representing Pennsylvania, with the latter in charge.

Respectfully

Annette B. Szady

Annette B. Szady, CPA
Director, Bureau of Financial Examinations

Joseph Jacobs / Joe

Joseph G. Jacobs, CFE
Examination Manager and
Examiner-in-Charge

The CFE designation has been conferred by an organization not affiliated with the federal or any state government. However the CFE designation is the only designation recognized by the NAIC for the purposes of directing statutory Association examinations of insurance companies.