Examination Warrant Number 09-PC-138

Report of Examination of

American Millers Insurance Company
Wilkes-Barre, Pennsylvania

As of December 31, 2009

American Millers Insurance Company

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Harrisburg, Pennsylvania
December 3, 2010

Honorable Stephen J. Johnson, CPA
Deputy Insurance Commissioner, Pennsylvania
Insurance Department, Office of Corporate and
Financial Regulation
Commonwealth of Pennsylvania
1345 Strawberry Square
Harrisburg, Pennsylvania 17120

Dear Sir:

In accordance with instructions contained in Examination Warrant Number 09-PC-138, dated, March 20, 2009, an examination was made of

American Millers Insurance Company, NAIC Code: 23477

a Pennsylvania domiciled property and casualty insurance company, hereinafter referred to as "Company" or "American Millers". The examination was conducted at the Company's home office, located at 72 North Franklin Street, Wilkes-Barre, PA 18701.

A report of this examination is hereby respectfully submitted.

SCOPE OF EXAMINATION

The Company was last examined as of December 31, 2004.

This examination covered the five-year period from January 1, 2005 through December 31, 2009 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 each year during the period under examination, the Certified Public Accounting ("CPA") firm of KPMG LLP provided an unqualified audit opinion on the Company's year-end financial statements based on statutory accounting principles. Relevant work performed by the CPA firm, during its annual audit of the Company, was reviewed during the examination and incorporated into the examination workpapers.

The following company was concurrently examined during the above examination:

Company	**NAIC Code**
Penn Millers Insurance Company	14982

HISTORY

The Company was incorporated on August 1, 1985, and commenced business on September 3, 1987.

The Company has had amendments to its Articles of Incorporation and By-laws since as early as April 24, 1986. These amended organizational documents were prepared and submitted in an effort to accommodate the Company's evolution and growth. The amendments were primarily performed to restate the Company's authorized capital stock and par value.

The Company is currently authorized to transact those classes of insurance described in 40 P.S. § 382, subsection (b), paragraphs (1) property and allied lines and (2) inland marine and physical damage, as well as subsection (c), paragraphs (1) fidelity and surety, (3) glass, (4) other liability, (6) burglary and theft, (8) water damage, (9) elevator (11) auto liability and (14) workers' compensation.

MANAGEMENT AND CONTROL

CAPITALIZATION

As of the examination date, December 31, 2009, the Company's total capital and surplus was $7,865,579, consisting of 10,000,000 capital shares of issued common stock with 1,900,000 capital shares of outstanding common stock with a par value of $1.00 per share amounting to $1,900,000, $1,250,000 in gross paid in and contributed surplus; and $4,715,579 of 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 $1,900,000 in capital and

$950,000 in surplus. The Company has met all governing requirements throughout the examination period.

STOCKHOLDERS

The Company's immediate parent is Penn Millers Insurance Company ("Penn Millers"), a concurrent examinee, which is a wholly owned subsidiary of PMMHC Corp, which is a wholly owned subsidiary of Penn Millers Holding Corporation.

During the time period covered under the examination three dividends were paid by the Company to Penn Millers Insurance Company as follows:

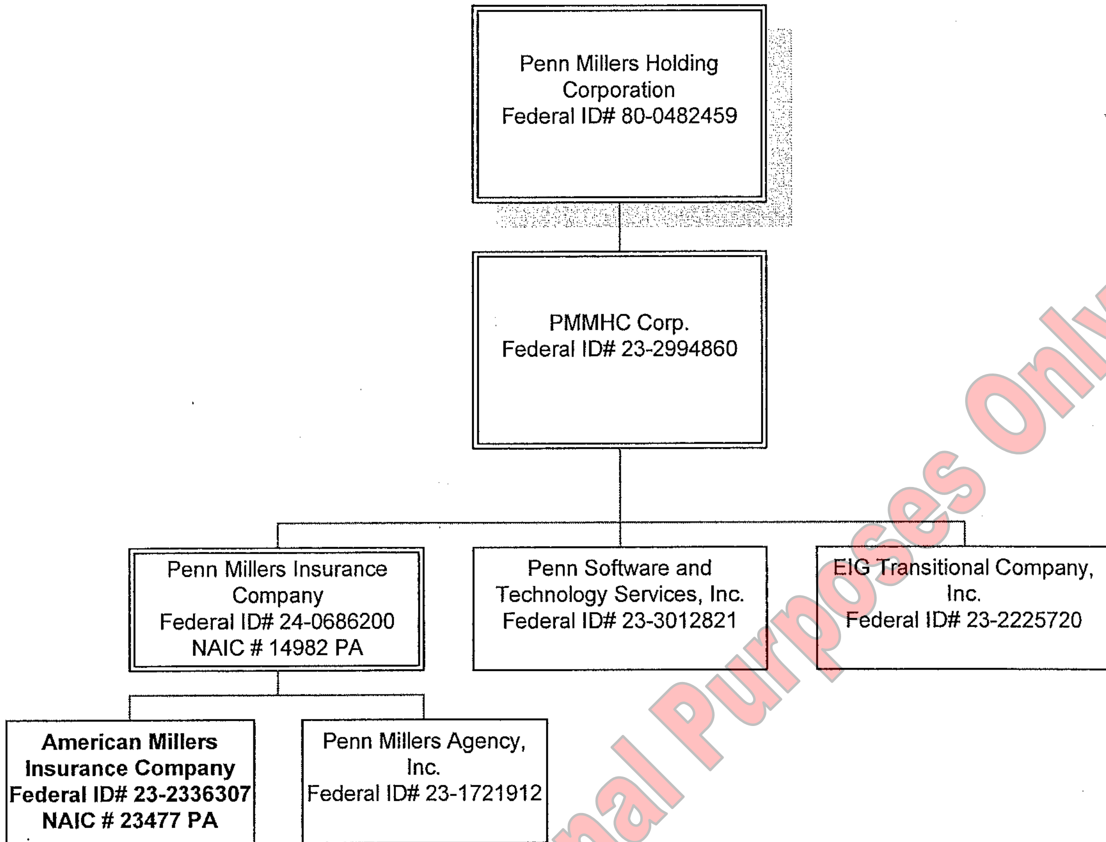
December 12, 2005	$ 500,000	Dividend
February 21, 2007	500,000	Common Stock Dividend
February 19, 2008	500,000	Common Stock Extraordinary Dividend
Total	$ 1,500,000	

The Pennsylvania Insurance Department received prior notice from the Company before the dividends were declared or paid.

INSURANCE HOLDING COMPANY SYSTEM

The Company meets the requirements for filing an Insurance Holding Company System Registration Statement, in compliance with 40 P.S. § § 991.1401-991.1413, and have made all the necessary filings as required by the aforementioned statute.

Penn Millers Holding Corporation is named as the ultimate controlling entity in the system. Members of the Holding Company System include the following entities briefly described below:



The various companies within the American Millers Insurance Company holding company structure are briefly described as follows:

Penn Millers Holding Corporation—The Corporation was created and registered with the Commonwealth of Pennsylvania Department of State on April 28, 2009, as a Pennsylvania domiciled stock corporation holding company. The Company has registered with the Securities and Exchange Commission and is publicly traded. The Company is the ultimate controlling entity in the organization and maintains ownership and control of various downstream entities including Penn Millers and its subsidiaries.

PMMHC Corp.—Originally Penn Millers Mutual Holding Company and incorporated on April 1, 1999, as a Pennsylvania mutual corporation holding company. The Company purchased 100% of PMHC Corp's shares. On October 16, 2009, Penn Millers Mutual Holding Company was renamed PMMHC Corp. and PMHC Corp. was merged with and into PMMHC Corp, terminating PMHC Corp's existence.

PMHC Corp.—The Company was formerly known as Penn Millers Holding Corporation and was incorporated on April 1, 1999, as a Pennsylvania domiciled stock corporation holding company for the purpose of acquiring and holding the stock of Penn Millers. On April 22, 2009, the Company was renamed PMHC Corp. and Penn Millers Mutual Holding Company purchased 100% of PMHC Corp's shares.

Penn Millers Insurance Company (Penn Millers) — a Pennsylvania property and casualty stock insurance company.

Penn Software and Technologies Services, Inc. (PSTS) — PSTS is a Pennsylvania software development company which sold off its net assets in July of 2008. The Company is in the process of formally dissolving PSTS and is accounting for the Company as discontinued.

EIG Transitional Company, Inc. (EIG) — EIG is Pennsylvania insurance agency subsidiary, formerly known as Eastern Insurance Group. The Company completed the sale of the EIG's net assets in February of 2009, accepting a non-admitted note receivable for a portion of the sale. The Company is in the process of formally dissolving EIG and is accounting for the Company as discontinued operations.

American Millers Insurance Company (American Millers) — a Pennsylvania property and casualty stock insurance company.

Penn Millers Agency, Inc. (PMA) — a Pennsylvania domiciled insurance agency.

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, 2009:

Name and Address	Principal Occupation
Heather M. Acker Waverly, PA	Chief Financial Officer Gentex Corporation
Franklin Kenneth Ackerman, Jr. Minneapolis, MN	President Clark/Bardes Consulting
Dorrance R. Belin Waverly, PA	Partner/Attorney Oliver, Price & Rhodes
John L. Churnetski Wilkes-Barre, PA	Retired - President Quad Three Group, Inc.
John M. Coleman Moorsetown, NJ	Chief Operating Officer NCI Consulting, LLC
Douglas A. Gaudet Shavertown, PA	President & CEO Penn Millers Insurance Company
Kim E. Michelstein Kingston, PA	Independent Consultant Self-Employed
Robert A. Nearing, Jr. Honesdale, PA	Vice President, Secretary & Treasurer Cochecton Mills, Inc.

Donald A. Pizer Jenkintown, PA	Trustee Abington Memorial Hospital Foundation
James M. Revie Pipersville, PA	Retired – Chairman and CEO Trism, Inc.
J. Harvey Sproul, Jr. * Waverly, PA	President H. B. Sproul Construction Company

* Retired May 12, 2010

Subsequent to December 31, 2009, J. Harvey Sproul, Jr., Chairman of the Board, retired from the Company's Board of Directors and F. Kenneth Ackerman, Jr., Vice Chairman of the Board has assumed the role of Chairman of the Board. The Vice Chairman position has not been filled.

The members of the Board of Directors are elected to serve a term of three years, and those terms are set to expire in varying years so as not to have the entire Board membership change in a single year.

The Company has in place a Conflict of Interest and Business Ethics Statement that applies to directors, officers and other employees within the organization. It is the basic policy of the Company, that no director, officer or employee shall use his/her position or the knowledge gained from it in such a way that a conflict of interest or the appearance of a conflict arises between personal interests and legal or moral responsibilities to the Company. It is considered that a conflict of interest exists when the activities of such person for the Company result in or permit that person to obtain an improper personal advantage or material gain, adversely affects the Company's interests, or permits or results in a third party obtaining an improper advantage. Whenever any such person finds that he/she has a conflict of interest, and even when in doubt as to the existence of such a conflict, it is his/her duty to make a full disclosure of the matter to the appropriate company official(s). On an annual basis the human resource department forwards a "Conflicts of Interest and Business Ethics Questionnaire" for review and signature. The Company maintains the signed statements for the officers, directors and employees which have been selectively reviewed and appear to be in order.

As noted earlier, the Company is part of a holding company system and therefore has interlocking directorates with other insurance and non-insurance holding company entities. The impact of these relationships on American Millers and its holding company affiliates appears to be minimal. Penn Millers is currently the primary operating entity in the group.

The Board of Directors by majority resolution may establish one or more committees consisting of one or more directors of the Company, to serve at the pleasure of the Board. The Company By-laws set forth the following standing committees: Executive and Governance. The appointed standing committees appear to be acting in accordance with the Company's By-laws, although, due to independence requirements, it appears that they are not acting in accordance with the Pennsylvania Holding Company Law as outlined in the section entitled, "Committees".

COMMITTEES

The Directors and Officers were assigned to serve on the following committees as listed below as of December 31, 2009:

EXECUTIVE COMMITTEE
J. Harvey Sproul, Jr., Chairman
F. Kenneth Ackerman, Jr.
Douglas A. Gaudet
Robert A. Nearing, Jr.
John M. Coleman
Donald A. Pizer
James M. Revie
Heather M. Acker
Dorrance R. Belin

FINANCE COMMITTEE
Kim E. Michelstein, Chairman
F. Kenneth Ackerman, Jr.
Douglas A. Gaudet
Heather M. Acker
John M. Coleman
James M. Revie
J. Harvey Sproul, Jr.

AUDIT COMMITTEE
John M. Coleman, Chairman
Heather M. Acker
F. Kenneth Ackerman, Jr.
John L. Churnetski
J. Harvey Sproul, Jr.
Kim E. Michelstein
Dorrance R. Belin
Donald A. Pizer

GOVERNANCE COMMITTEE
F. Kenneth Ackerman, Jr. Chairman
Heather M. Acker
Dorrance R. Belin
Kim E. Michelstein
Robert A. Nearing, Jr.
J. Harvey Sproul, Jr.
John Coleman

COMPENSATION COMMITTEE
John L. Churnetski, Chairman
Heather Acker
F. Kenneth Ackerman, Jr.
Dorrance R. Belin
Robert A. Nearing, Jr.
James M. Revie
J. Harvey Sproul, Jr.
Donald A. Pizer

As noted earlier, the Company is part of a holding company system and therefore has interlocking directorates and Committees' with other insurance and non-insurance holding company entities. The impact of these relationships on American Millers and its holding company affiliates appears to be minimal.

40 P.S.§ 991.1405(c)(3) Standards of management of an insurer within a holding company system, states: "not less than one-third of the directors of a domestic insurer and 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 and who are not beneficial owners of a controlling interest in the voting stock of such insurer of 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 or any committee thereof."

Likewise, 40 P.S. § 991.1405(c)(4), Standards of management of an insurer within a holding company system states: "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 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, reviewing the insurer's financial condition, the scope and results of the independent audit and any internal audit, nominating committees for director for election by 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."

It appears that the Company is not compliant with 40 P.S. § 991.1405(c)(4) and (4.1) Standards of management of an insurer within a holding company system. Two of the Company's Directors' and Officers', J. Harvey Sproul, Jr., Chairman of the Board and F. Kenneth Ackerman, Jr., Vice Chairman of the Board, participate on the Audit, Governance and Compensation Committees. J. Harvey Sproul, Jr., Chairman of the Board and F. Kenneth Ackerman, Jr., Vice Chairman of the Board have been determined to be Corporate Officers' as defined by Article V Officers, Agents and Employees of the Company By-laws. These committees are required by the aforementioned Pennsylvania statute to be 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. **Therefore, it is recommended that the Company establish a Governance, Audit and Compensation Committee compliant with 40 P.S. § 991.1405(c)(4) and (4.1).**

Subsequent to December 31, 2009, J. Harvey Sproul, Jr., Chairman of the Board, has retired from the Company's Board of Directors and therefore no longer participates on the Audit, Governance and Compensation Committees. F. Kenneth Ackerman, Jr., Vice Chairman of the Board has assumed the role of Chairman of the Board and participates on the Audit, Governance and Compensation Committees.

OFFICERS

As of the examination date, December 31, 2009, the following officers were appointed and serving in accordance with the Company's By-laws:

Name	Title
J. Harvey Sproul, Jr. **	Chairman of the Board
F. Kenneth Ackerman, Jr.	Vice Chairman of the Board

Douglas A. Gaudet	President and CEO
Michael O. Banks	Executive Vice President, CFO, Secretary and Treasurer
Jonathan C. Couch	Vice President
William A. Dine, Sr.*	Vice President
Joseph J. Survilla	Vice President
Harold W. Roberts, CPCU	Senior Vice President
Kevin D. Higgins	Senior Vice President
Michael J. Berrini	Assistant Vice President
Christine F. Boyle	Assistant Vice President
Patricia A. Staples	Assistant Vice President

* Resigned March 11, 2010
**Retired May 12, 2010

Subsequent to the examination period ending December 31, 2009, the following Officer resignations and appointments took place: William A. Dine, Sr., Vice President resigned his position with the Company effective March 11, 2010 and Keith A. Fry, Senior Vice President, Commercial Business was offered and accepted employment with the Company, effective February 15, 2010. J. Harvey Sproul, Jr., Chairman of the Board, has retired from the Company's Board of Directors effective May 12, 2010.

CORPORATE RECORDS

MINUTES

A compliance review of the Company's corporate minutes indicated the following:

Annual Stockholder, Board of Director and various Committee meetings are concurrent and generally include; Penn Millers Holding Company, PMMHC Corporation, Penn Software and Technology Services, Inc., Eastern Insurance Group, Inc., Penn Millers Insurance Company, American Millers and Penn Millers Agency, Inc. The review of the minutes indicated that all meetings are generally well attended with quorum's present, all actions are approved, resolved and ratified at the regularly scheduled committee and annual meeting and appear to be held in compliance with the Company's Articles of Incorporation and By-laws.

Officer and Committee appointments were performed at the annual Reorganization Committee Meeting and ratified at the Annual Meeting. Recommendations for nomination and re-election of Directors' are received and evaluated by the Governance Committee and placed in nomination at the Annual Meeting for stockholder election. The appointments, nominations and elections of the Directors', Officers' and Committee members appear to be in compliance with the Company's By-laws.

Review and approval of the Company's cash position, maturities, cash flow, and portfolio transactions has been documented in the Finance Committee meeting minutes and presented to the entire Board of Directors.

Review, discussion and approval of the Company's reinsurance treaties and transactions have not been documented within the Board of Director or applicable Committee meeting minutes.

It is recommended the Company document the review, discussion and approval of the Company's reinsurance treaties and transactions by the Board of Directors.

ARTICLES OF INCORPORATION

On April 22, 2009, the Company had prepared and submitted Articles of Amendment for a Domestic Business Corporation to the Pennsylvania Department of State Corporation Bureau. The amendment adopted submitted by the Company is as follows: "5th: The amount of authorized stock of the Company is 10,000,000 authorized shares of common stock having a par value of $1.00 per share". The Pennsylvania Department of State Corporation Bureau received the Articles of Amendment for a Domestic Business Corporation on April 28, 2009.

BY-LAWS

We have performed a review of the Company's corporate documents and have determined that during the examination period the Company's Board of Directors has approved and implemented various changes to its By-laws to include; formally changing the "Nominating" Committee to the "Governance" Committee; adding the Vice Chair to preside over meetings when the Chair is not in attendance, revising Board member retirement age to 75, and adding an attendance policy in the By-laws.

A review of the Company's filed annual statement general interrogatories for the examination period indicate that the Company has not made any changes to its Charter, By-laws, Articles of Incorporation or deed of settlement. **Therefore, it is recommended that the Company prepare the annual statement filing completely and accurately, in accordance with the NAIC P & C Annual Statement Instructions as set forth in 40 P.S.§ 443(2).**

SERVICE AND OPERATING AGREEMENTS

The Company is party to various service and operating agreements, including intercompany and related party agreements. A review of the intercompany agreements indicated the following agreements were in place at December 31, 2009:

1. A new Expense Sharing Agreement between the Company and Penn Millers Insurance Company which became effective January 1, 2006.

The agreement between the Company and its parent, Penn Millers Insurance Company, appears to clearly set forth the expenses and fee structure for expenses to be shared between the Companies, although clear billing and payment terms are not evident in the agreement. In addition, the 2009 annual statement Notes to Financial Statements No. 10, Information Concerning Parent, Subsidiaries, Affiliates and Other Related Parties, as well as the 2009 Insurance Holding Company System Registration Statement with a date of filing of March 31, 2010 references the outdated January 22, 1992 agreement between the Company and Penn Millers.

2. A new Tax Sharing Agreement which includes Penn Millers Holding Corporation, PMMHC Corporation, Penn Millers Insurance Company, American Millers Insurance Company, Penn Software & Technology Services, Inc., Penn Millers Agency, Inc. and EIG Transitional Company, Inc. was entered into on October 16, 2009.

   The agreement between the Company, its ultimate parent and subsidiaries appears to clearly set forth the terms of the tax sharing agreement, allocation and billing and payment terms. The tax sharing agreement has been disclosed in the 2009 Annual statement Notes to Financial Statements No. 9, Income Taxes, as well as in the 2009 Insurance Holding Company System Registration Statement with a date of filing of March 31, 2010.

3. The Company maintains a property excess of loss reinsurance agreement with Penn Millers. American Millers Insurance Company has accepted from Penn Millers Insurance Company the initial $50,000 excess of $450,000 loss layer for property excess of loss reinsurance for 1.6% of net subject written premium with a 30% ceding commission. (See Reinsurance Assumed, page 17)."

As a result of our review of the above intercompany agreements we believe these agreements meet the fair and reasonable standards as set forth by Pennsylvania Insurance Company Law however, we are recommending the following:

It is recommended that the Company review and maintain intercompany and expense sharing agreements to reflect the Company's current operating practices in compliance with 40 P.S. §991.1405(a).

It is recommended that the Company prepare the annual statement filing completely and accurately, in accordance with the official NAIC P & C Annual Statement Instructions as set forth in 40 P.S.§ 443(2).

It is recommended that the Company prepare Forms B and C of the Insurance Holding Company System Registration Statements completely and accurately, in accordance with the 40 P.S. §991.1404(a) and (b).

REINSURANCE

CEDED

Although, the only business written by American Millers are cessions from Penn Millers, American Millers has been named a participant in the majority of Penn Millers reinsurance programs and contracts. The Company is a named participant in the following reinsurance programs:

The general business and agribusiness property catastrophe program is brokered by Towers Perrin and consists of 5 layers of excess of loss coverage up to $45,000,000. The first layer retention is $2,000,000 per event. The reinsurers keep 95% participation in each layer and Penn Millers and American Millers participates in the remaining 5%. Subsequent to year end, December 31, 2009, the Company increased its retention to $3,000,000. The chart below summarizes the structure of the 2009 general business and agribusiness property catastrophe program:

PENN MILLERS INSURANCE COMPANY & AMERICAN MILLERS INSURANCE COMPANY

2009 GENERAL BUSINESS AND AGRIBUSINESS PROPERTY CATASTROPHE PROGRAM

		INCREMENTAL	CUMULATIVE
45,000,000	TPFC PROPERTY FIFTH CATASTROPHE EXCESS 95% OF $20,000,000 EXCESS OF $25,000,000 RETENTION 5% PARTICIPATION ABOVE $25,000,000 1.6207% OF NET SUBJECT EARNED PREMIUM FOR THE CONTRACT PERIOD DEPOSIT PREMIUM OF $560,017 DIVIDED QUARTERLY WITH $448,014 MINIMUM	1,000,000	4,150,000
25,000,000	TPFC PROPERTY FOURTH CATASTROPHE EXCESS 95% OF $15,000,000 EXCESS OF $10,000,000 RETENTION 5% PARTICIPATION ABOVE $10,000,000 1.6496% OF NET SUBJECT EARNED PREMIUM FOR THE CONTRACT PERIOD DEPOSIT PREMIUM OF $570,003 DIVIDED QUARTERLY WITH $456,003 MINIMUM	750,000	3,150,000
10,000,000	TPFC PROPERTY THIRD CATASTROPHE EXCESS 95% OF 5,000,000 EXCESS OF 5,000,000 RETENTION 5% PARTICIPATION ABOVE $5,000,000 1.0654% OF NET SUBJECT EARNED PREMIUM FOR THE CONTRACT PERIOD DEPOSIT PREMIUM OF $368,139 DIVIDED QUARTERLY WITH $294,511 MINIMUM	250,000	2,400,000
5,000,000	TPFC PROPERTY SECOND CATASTROPHE EXCESS 95% OF 2,000,000 EXCESS OF 3,000,000 RETENTION 5% PARTICIPATION ABOVE $3,000,000 .8520 OF NET SUBJECT EARNED PREMIUM FOR THE CONTRACT PERIOD DEPOSIT PREMIUM OF $294,400 DIVIDED QUARTERLY WITH $235,520 MINIMUM	100,000	2,150,000
3,000,000	TPFC PROPERTY FIRST CATASTROPHE EXCESS 95% OF 1,000,000 EXCESS OF 2,000,000 RETENTION 5% PARTICIPATION ABOVE $2,000,000 .7970 OF NET SUBJECT EARNED PREMIUM FOR THE CONTRACT PERIOD DEPOSIT PREMIUM OF $275,396 DIVIDED QUARTERLY WITH $220,316 MINIMUM	50,000	2,050,000
2,000,000	2,000,000 PENN MILLERS AND AMERICAN MILLERS RETENTION	2,000,000	2,000,000

The general business and agribusiness property and casualty excess of loss program is partially brokered by Towers Perrin and partially placed with direct writers and consists of various layers. The Company retains the first $450,000. The initial $50,000 excess of $450,000 loss layer for property was placed with American Millers. The next layer is a $500,000 excess of $500,000 loss layer with a 52.5% retention for both the property and casualty excess of loss program. Subsequent to that layer are three layers of excess of loss coverage for property up to a $20,000,000 limit. Subsequent to that layer on the property side is a supplemental Gen Re Property Per Risk Facultative Excess of Loss contract of up to $50,000,000. On the casualty side, after the $500,000 excess of $500,000 loss layer with a 52.5% retention, there are two layers of excess of loss coverage for casualty up to a $10,000,000 limit. The entire property program provides excess of loss coverage of $19,237,500 excess of the $762,500 retained by Penn Millers and American Millers. The entire casualty program provides excess of loss coverage of $9,237,500 excess of the $762,500 retained by Penn Millers and American Millers. Subsequent to year end, December 31, 2009, the Company increased its property and casualty retention from 52.5% to 60%.

PENN MILLERS INSURANCE COMPANY and AMERICAN MILLERS INSURANCE COMPANY

2009 GENERAL BUSINESS AND AGRIBUSINES PROPERTY AND CASUALTY PROGRAM

	PROPERTY	CASUALTY
20,000,000	TPFC 3RD PROPERTY PER RISK EXCESS OF LOSS 100 % PARTICIPATION $10,000,000 EXCESS OF $10,000,000 1.382% OF SUBJECT MATTER PREMIUM INCOME DEPOSIT $550,000 DIVIDED QUARTERLY $550,000 MIN. 3.04% OF COMPANY PREMIUM .0285 MIN EXCESS RATE	
10,000,000	TPFC 2ND PROPERTY PER RISK EXCESS OF LOSS 100 % PARTICIPATION $5,000,000 EXCESS OF $5,000,000 1.7% OF SUBJECT MATTER PREMIUM INCOME DEPOSIT $676,635 DIVIDED QUARTERLY $541,300 MIN.	TPFC 2ND CASUALTY PER RISK EXCESS OF LOSS 100 % PARTICIPATION $5,000,000 EXCESS OF $5,000,000 .7866% OF SUBJECT MATTER PREMIUM INCOME DEPOSIT OF $380,974 DIVIDED QUARTERLY WITH $304,780 MIN.
5,000,000	TPFC 1ST PROPERTY PER RISK EXCESS OF LOSS 100 % PARTICIPATION $4,000,000 EXCESS OF $1,000,000 8.5% OF SUBJECT MATTER PREMIUM INCOME DEPOSIT $3,383,175 DIVIDED QUARTERLY $2,706,540 MIN.	TPFC 1ST CASUALTY PER RISK EXCESS OF LOSS 100 % PARTICIPATION $4,000,000 EXCESS OF $1,000,000 2.39% OF SUBJECT MATTER PREMIUM INCOME DEPOSIT $1,157,548 DIVIDED QUARTERLY $926,038 MIN.
1,000,000	TPFC PROPERTY AND CASUALTY PER RISK EXCESS 47.5 % PARTICIPATION $500,000 EXCESS OF $500,000 RETENTION 52.5 % PARTICIPATION $500,000 EXCESS OF $500,000 7.0% OF SUBJECT MATTER PREMIUM INCOME DEPOSIT PREMIUM OF $6,176,452 DIVIDED QUARTERLY WITH $4,941,161 MINIMUM	
500,000	PENN MILLERS AND AMERICAN MILLERS RETENTION COMBINED FOR PROPERTY AND CASUALTY @ $500,000 AMERICAN MILLERS 100% of $50,000 EXCESS OF $450,000 1.6 % OF NET SUBJECT WRITTEN PREMIUM PROPERTY ONLY	500,000 PENN MILLER RETENTION CASUALTY ONLY
450,000	450,000 PENN MILLER RETENTION PROPERTY ONLY	

The umbrella program covers the agribusiness and commercial umbrella policies. The program is placed direct with either General Reinsurance Corporation or brokered through Towers Perrin. It is a combination quota share / excess of loss program. Penn Millers and

American Millers retain 25% of the first $1,000,000 and cede 75% of the first $1,000,000 through Towers Perrin. The losses which exceed $1,000,000 are covered on the excess of loss portion of the treaty and are covered up to an additional $4,000,000 for the commercial business and agribusiness. The general business and agribusiness are covered on an additional layer of $5,000,000 excess $5,000,000 on a facultative basis. This is placed either direct with General Reinsurance Corporation or brokered through Towers Perrin.

PENN MILLERS and AMERICAN MILLERS INSURANCE COMPANY

2009 UMBRELLA PROGRAM

10,000,000	GENERAL RE 100% LAYER 5,000,000 EXCESS OF 5,000,000 (INDIVIDUAL FAC COVERAGE/CERTIFICATES) 27.5% Commission OR TPFC 100% LAYER 5,000,000 EXCESS OF 5,000,000 (INDIVIDUAL FAC COVERAGE/CERTIFICATES)FACULTATIVE RENSURANCE 27.5% Commission
5,000,000	TPFC 100% LAYER 4,000,000 EXCESS OF 1,000,000 100% OF PROPORTIONATE SHARE OF UNEARNED PREMIUM LESS 32% CEDING COMMISSION
1,000,000	TPFC - 75% QUOTA SHARE PENN MILLERS - 25% RETENTION 100% OF PROPORTIONATE SHARE OF UNEARNED PREMIUM LESS 32% CEDING COMMISSION

The Company also maintains the following reinsurance protections:

The Company has an arrangement with Factory Mutual Insurance Company (Factory) formerly known as Arkwright Mutual Insurance Company to cede 100% of the Company's boiler & machinery risk up to total cessions of $50,000,000 to Factory in return for a 35% ceding commission. The contract includes a profit sharing clause.

The Company has an arrangement with Hartford Steam Boiler Inspection and Insurance Company to cede 100% of the Company's employment practices liability coverage up to $250,000 per wrongful employment act in return for a 30% ceding commission. The contract includes a profit sharing clause.

The Company has an arrangement with Hartford Steam Boiler Inspection and Insurance Company to cede 100% of the Company's miscellaneous professional liability coverage up to $1,000,000 per wrongful employment act in return for a 30% ceding commission. The contract does not include a profit sharing clause.

In order to provide additional protection for capital above the underlying reinsurance program, the Company also maintains a whole account, accident year aggregate excess of loss reinsurance (stop loss) contract for accident years 2008 and 2009. Towers Perrin is the intermediary on this contract and the contract provides coverage in the event that the total Company's accident year loss and LAE ratios for 2008 and 2009 exceed 72%. The contract includes a funds withheld account, profit sharing and commutation clauses determined on a cumulative basis over the term of the contract. The minimum ceded premium and deposit amount to be paid under the contract is $2,400,000 per year payable to a funds withheld account. Losses and reinsurer expenses for contract administration are deducted from the funds withheld account. Reinsurer expenses are payable semiannually by wire and interest is credited monthly. As of December 31, 2009, the contract has been treated as if it will be commuted. The Company has not renewed the stop loss contract for 2010 due to the additional capital raised as a result of the ultimate parent IPO.

The Company's reinsurers are either licensed or authorized unlicensed reinsurers in the Commonwealth of Pennsylvania. They are rated A- or higher by A.M. Best and Standard & Poors and meet various minimum financial, capital, surplus and external CPA audit opinion requirements.

All contracts appear to meet the transfer of risk test and contain the appropriate insolvency and arbitration clauses. The Company's reinsurance intermediary, Towers Perrin is licensed by the Department as required by 40 P.S. §321.2 (a) Reinsurance intermediaries; licensing. The Company also has this program operating pursuant to a properly executed written authorization between the Company and Towers Perrin as required by 40 P.S. §321.3 Written Authorization.

ASSUMED

The Company is a wholly owned subsidiary of Penn Millers Insurance Company (Penn Millers) and acts as a captive reinsurer. Penn Millers cedes business to American Millers. The cessions made to American Millers are the only business written by American Millers and provide excess of loss coverage for Penn Millers on all the property coverage offered by Penn Millers. The current contract has American Millers assuming losses of $50,000 excess of $450,000 per risk up to a maximum of $150,000 per occurrence. Other than the assumed business from Penn Millers, the Company participates in the various mandatory pools throughout their territory of operations. However, with the exception of the aforementioned, the Company does not actively assume any reinsurance.

TERRITORY AND PLAN OF OPERATIONS

The Company is licensed in Pennsylvania and Tennessee and is a captive reinsurer used solely to reinsure its ultimate parent, Penn Millers Insurance Company, on a limited basis. Given the Company's position as a captive reinsurer there is no distribution system, all business written is ceded to them by virtue of an excess of loss treaty. Any underwriting of the assumed risks was performed at the ceding company level therefore no actual underwriting policy has been formed.

The following depicts the premiums assumed by American Millers during the period under examination;

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Written Premium	Percentage of Total
Reinsurance - Non-proportional Assumed Property	$ 80,099	$ 0	$ 80,099	41.2 %
Reinsurance - Non-proportional Assumed Liability	114,141	0	114,141	58.8 %
Totals	$ 194,240	$ 0	$ 194,240	100.0 %

SIGNIFICANT OPERATING 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	$ 1,132,458	100.0 %
Losses incurred	$ 738,159	65.2 %
Loss expenses incurred	41,681	3.7 %
Other underwriting expenses incurred	466,835	41.2 %
Net underwriting gain or (loss)	(114,217)	(10.1)%
Totals	$ 1,132,458	100.0 %

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

	2009	2008	2007	2006	2005
Admitted assets	$ 8,208,564	$ 7,931,481	$ 8,622,762	$ 8,912,948	$ 8,539,966
Liabilities	$ 342,985	$ 397,178	$ 331,432	$ 343,241	$ 363,660
Surplus as regards policyholders	$ 7,865,579	$ 7,534,303	$ 8,291,330	$ 8,569,707	$ 8,176,306
Gross premium written	$ 194,240	$ 235,086	$ 234,487	$ 230,538	$ 238,109
Net premium written	$ 194,240	$ 235,086	$ 234,487	$ 230,538	$ 238,109
Underwriting gain/(loss)	$ 73,271	$ (217,862)	$ (14,938)	$ 108,872	$ (63,560)
Investment gain/(loss)	$ 321,452	$ 21,891	$ 337,571	$ 381,612	$ 392,664
Other gain/(loss)	$ 20	$ 267	$ 0	$ 357	$ 0
Net income	$ 404,423	$ (216,056)	$ 216,403	$ 368,857	$ 239,495

The Company, as depicted in the five-year comparison shown above, has failed to produce an underwriting gain for three of the five years under examination but has produced net income in four of the last five years.

ACCOUNTS AND RECORDS

The Company's information technology environment primarily consists of two operating platforms; an IBM iSeries AS400 platform, housing core insurance applications for the underwriting, losses and benefits, accounts payable and general ledger systems and a Dell

PowerEdge Windows Server platform, housing the network operating system and various Windows based support applications.

The Company's information systems ("IS") function was outsourced to Penn Software and Technology Services, Inc. ("PSTS"), an affiliated company owned by the Company's ultimate parent, Penn Millers Holding Corporation. During the examination period, select PSTS staff and equipment were reassigned to Penn Millers and substantially all of the remaining net assets were sold. Penn Millers in-house staff assumed the responsibility for the information systems ("IS") function. Subsequent to the examination, PSTS was formally dissolved.

The primary system utilized by the Company is known as Solutions. This is an integrated internally developed application that serves as the Company's policy administration system, as well as providing functionality for corporate accounting functions such as accounts payable, accounts receivable, and general ledger. The Company's policyholder and claim applications have been developed by PSTS and assumed by Penn Millers in-house staff as they continue to enhance and support those applications. Application development is done on a separate AS/400. The Company's data center, in its home office building, is operated and maintained by Penn Millers in-house staff.

The Company's AS/400 based applications are accessed at the desktop over a Windows NT local area network using IBM Client Access/400. Access privileges to the AS/400 applications are determined by user department management, and are enforced by the built-in security features of the AS/400.

The Company uses The Freedom Group's FFS-Enterprise Suite hosted on a Windows NT server for its general ledger and accounts payable applications. The Company's local area network relies on the security features of Windows NT. Access privileges are determined by user department management, and all changes in access profiles must go through the Company's security administrator.

The Company uses Conning Asset Management to process investments and does not maintain an in-house investment system.

Accounting, investment, policy and claim records are kept and maintained at the Company's home office in Wilkes-Barre, Pennsylvania.

The Company's record keeping system is mainly automated. Cash books, general journal, and general ledger accounting entries are entered through the system. The programs interface with the requirements of the annual statement for premiums and losses, together with income and disbursements, in addition to providing statistics for the various rating bureaus as required. The automation is also used to facilitate underwriting operations through use in such areas as policy printing, billing and policy rating. The Company has an agency interface which allows agents to quote policies on line and electronically submit applications to Penn Millers. The Company has developed an automated agency interface underwriting policy system where by automated policy submissions are entered by the agent, automatically underwritten and issued.

However, at this point it is used on a selective and limited basis and all policies submitted through the interface have either limited or more extensive reviews performed or are still reviewed and manually underwritten or verified.

Hard copy and electronic accounting records, together with premium and loss reports are produced monthly and as needed from the system. A test of items of income and disbursements from source documents to cash books and final entry into the general ledger and annual statements indicated that accounting controls are adequate and provide for a satisfactory audit trail.

The Department utilized internal credentialed IT examination staff to perform a review of the Company's information systems ["I/S"] controls. This review was based on a COBIT assessment, NAIC Information Technology Questionnaire and guidance provided by the COBIT Maturity Model. After reviewing the Department's IT examination staff report and supporting documentation concerning the I/S controls, it was concluded that the Company's control environment generally provides for a documented effective internal control and risk management environment. The IT examination staff recommended that due to the overall low assessment of risk the exam team should consider placing a high reliance on automated controls, thereby requiring limited substantive testing to be performed. The examination staff utilized the IT examination staff's recommended approach in planning and executing the examination and determined that the Department can reasonably rely on data obtained from the Company's automated systems for the year ended December 31, 2009.

PENDING LITIGATION

The review of the legal representation letters appears to indicate that there is no significant pending litigation other than that litigation which is considered in the normal course of business.

FINANCIAL STATEMENTS

The financial condition of the Company, as of December 31, 2009, and the results of its operations for the five-year period under examination, are 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,

	2009	2008	2007	2006	2005
Bonds	$ 7,218,477	$ 6,649,754	$ 7,528,957	$ 7,892,436	$ 7,565,354
Common stocks	0	0	648,694	675,484	616,866
Cash, cash equivalents, and short term investments	892,389	1,127,572	344,422	242,703	245,209
Receivable for securities	0	0	4,305	0	0
Subtotals, cash and invested assets	8,110,866	7,777,326	8,526,378	8,810,623	8,427,429
Investment income due and accrued	92,933	87,436	96,384	102,325	110,711
Premiums and agents' balances due	0	0	0	0	1,826
Net deferred tax asset	4,765	66,719	0	0	0
Total	$ 8,208,564	$ 7,931,481	$ 8,622,762	$ 8,912,948	$ 8,539,966
Losses	$ 175,000	$ 377,007	$ 127,007	$ 79,998	$ 230,000
Reinsurance payable on paid loss and loss adjustment expenses	55,564	158	53,270	33,967	1,960
Loss adjustment expenses	5,134	10,745	5,248	5,636	7,915
Other expenses	291	449	0	0	0
Current federal and foreign income taxes	104,995	7,201	92,419	140,528	104,451
Net deferred tax liability	0	0	34,516	55,025	16,711
Payable to parent, subsidiaries and affiliates	2,001	1,618	1,354	1,231	2,623
Payable for securities	0	0	17,618	26,856	0
Total liabilities	342,985	397,178	331,432	343,241	363,660
Common capital stock	1,900,000	1,900,000	1,900,000	1,900,000	1,900,000
Gross paid in and contributed surplus	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000
Unassigned funds (surplus)	4,715,579	4,384,303	5,141,330	5,419,707	5,026,306
Surplus as regards policyholders	7,865,579	7,534,303	8,291,330	8,569,707	8,176,306
Totals	$ 8,208,564	$ 7,931,481	$ 8,622,762	$ 8,912,948	$ 8,539,966

Comparative Statement of Income
For the Year Ended December 31,

Underwriting Income	2009	2008	2007	2006	2005
Premiums earned	$ 194,240	$ 235,086	$ 234,487	$ 230,537	$ 238,108
Deductions:					
Losses incurred	25,000	350,000	150,000	18,571	194,588
Loss expenses incurred	11,179	7,839	8,378	13,896	389
Other underwriting expenses incurred	84,790	95,109	91,047	89,198	106,691
Total underwriting deductions	120,969	452,948	249,425	121,665	301,668
Net underwriting gain or (loss)	73,271	(217,862)	(14,938)	108,872	(63,560)
Investment Income					
Net investment income earned	314,883	341,017	374,868	371,218	379,218
Net realized capital gains or (losses)	6,569	(319,126)	(37,297)	10,394	13,446
Net investment gain or (loss)	321,452	21,891	337,571	381,612	392,664
Other Income					
Aggregate write-ins for miscellaneous income	20	267	0	357	0
Total other income	20	267	0	357	0
Net income before dividends to policyholders and before federal and foreign income taxes	394,743	(195,704)	322,633	490,842	329,104
Federal and foreign income taxes incurred	(9,680)	20,352	106,230	121,985	89,609
Net income	$ 404,423	$ (216,056)	$ 216,403	$ 368,857	$ 239,495

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

	2009	2008	2007	2006	2005
Surplus as regards policyholders, December 31, previous year	$ 7,534,303	$ 8,291,330	$ 8,569,707	$ 8,176,306	$ 8,476,843
Net income	404,423	(216,056)	216,403	368,857	239,495
Net unrealized capital gains or (losses)	0	(93,857)	(10,089)	41,486	(45,625)
Change in net deferred income tax	(61,954)	52,886	15,309	(16,942)	5,593
Dividends to stockholders	0	(500,000)	(500,000)	0	(500,000)
Aggregate write-ins for gains and losses in surplus	(11,193)	0	0	0	0
Change in surplus as regards policyholder for the year	331,276	(757,027)	(278,377)	393,401	(300,537)
Surplus as regards policyholders, December 31, current year	$ 7,865,579	$ 7,534,303	$ 8,291,330	$ 8,569,707	$ 8,176,306

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

	2009	2008	2007	2006	2005
Cash from Operations					
Premiums collected net of reinsurance	$ 194,240	$ 235,085	$ 234,488	$ 232,364	$ 236,282
Net investment income	343,699	386,785	420,217	423,561	448,093
Miscellaneous income	20	267	0	357	0
Total income	537,959	622,137	654,705	656,282	684,375
Benefit and loss related payments	171,601	153,112	83,688	136,566	117,406
Commissions, expenses paid and aggregate write-ins for deductions	101,594	97,437	99,813	105,373	127,066
Federal and foreign income taxes paid (recovered)	(92,897)	92,310	135,126	91,262	140,384
Total deductions	180,298	342,859	318,627	333,201	384,856
Net cash from operations	357,661	279,278	336,078	323,081	299,519
Cash from Investments					
Proceeds from investments sold, matured or repaid:					
Bonds	2,045,656	2,293,978	913,475	1,835,881	1,232,426
Stocks	0	1,245,404	157,622	169,043	163,914
Miscellaneous proceeds	0	4,305	0	26,856	0
Total investment proceeds	2,045,656	3,543,687	1,071,097	2,031,780	1,396,340
Cost of investments acquired (long-term only):					
Bonds	2,638,884	1,435,884	606,997	2,209,465	905,712
Stocks	0	1,086,579	185,044	146,509	185,996
Miscellaneous applications	0	17,618	13,543	0	0
Total investments acquired	2,638,884	2,540,081	805,584	2,355,974	1,091,708
Net cash from investments	(593,228)	1,003,606	265,513	(324,194)	304,632
Cash from Financing and Miscellaneous Services					
Other cash provided (applied):					
Dividends to stockholders (paid)	0	(500,000)	(500,000)	0	(500,000)
Other cash provided or (applied)	384	266	128	(1,393)	2,631
Net cash from financing and miscellaneous sources	384	(499,734)	(499,872)	(1,393)	(497,369)
Reconciliation of cash and short-term investments:					
Net change in cash and short-term investments	(235,183)	783,150	101,719	(2,506)	106,782
Cash and short-term investments:					
Beginning of the year	1,127,572	344,422	242,703	245,209	138,427
End of the year	$ 892,389	$ 1,127,572	$ 344,422	$ 242,703	$ 245,209

SUMMARY OF EXAMINATION CHANGES

There were no examination changes to the preceding financial statements as filed with regulatory authorities during this examination.

NOTES TO FINANCIAL STATEMENTS

INVESTMENTS

As of December 31, 2009, the Company's invested assets were distributed as follows:

	Amount	Percentage
Bonds	$ 7,218,477	89.0 %
Cash	185,405	2.3 %
Short-term investments	706,984	8.7 %
Totals	$ 8,110,866	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	$ 7,018,607	88.6 %
2 - high quality	906,854	11.4 %
Totals	$ 7,925,461	100.0 %

Years to Maturity	**Amount**	**Percentage**
1 year or less	$ 1,678,309	21.2 %
2 to 5 years	4,743,400	59.8 %
6 to 10 years	1,483,225	18.7 %
11 to 20 years	19,978	0.3 %
over 20 years	549	0.0 %
Totals	$ 7,925,461	100.0 %

As depicted above, the Company investment portfolio primarily consists of bonds and short-term investments.

The Company's bond and short-term investment holdings are diversified and include industrial and miscellaneous bonds from the US, Canada and other countries, US Special Revenue and Assessment Obligations, Government, and US States, Territories and Political Subdivisions. The bonds are rated with an NAIC high or highest credit quality with maturities varying from 1 to 20 years, with the majority maturing in 2 to 5 years.

The Company maintains a written investment policy as required by 40 P.S. § 653b (b). The investment policy is reviewed and approved by the Board of Directors on an annual basis. The Company, at December 31, 2009, appears to be following its investment policy.

The Company's investment portfolio is held with M & T Bank in a custodial account under the terms of a written custodial agreement with the exception of the Company's securities on deposit with the following states: Pennsylvania and Tennessee. The custodial agreement was reviewed and determined to lack various provisions and terminology required to be in compliance with 31 Pa. Code § 148a.3(b). The provisions requiring inclusion and revision were discussed in detail with Company representatives. **Therefore, it is recommended that the Company amend its custodial agreement to comply with all provisions and terminology required by 31 Pa. Code § 148a.3(b).**

LOSSES $175,000
LOSS ADJUSTMENT EXPENSES $ 5,134

The Company reported reserves in the amount of $175,000 for Losses and $5,134 for Loss Adjustment Expenses on its 2009 annual statement.

The Company's Loss and Loss Adjustment Expense Reserves are developed by Penn Millers Insurance Company senior management and staff upon completion of the review and recording of Penn Millers' Loss and Loss Adjustment Expense Reserves including those reserves resulting in cessions on the excess of loss treaty to American Millers. Senior management considers the impact of Penn Millers' review on the Company and includes historical experience of its reserve developments and supplements this analysis with information provided by claims, underwriting and other operational personnel and determines its conservative best estimate of loss reserves, which is then recorded in the Company's financial statements.

The Company has been exempt from the requirement of an actuarial opinion attesting to their reserves each year under the examination.

Due to American Millers reliance on Penn Millers Loss and Loss Adjustment Expense Reserve processes and the limited nature of the Company's assumptions from Penn Millers, we have not performed extensive review of American Millers Loss and Loss Adjustment Expense Reserves. Instead we have relied on the work performed and documented in the Penn Miller's work programs and examination report. The work performed includes the following:

- As relates the valuation of Penn Millers' unpaid loss and LAE reserve estimates and based on all exam related worked performed, we have obtained sufficient evidence to support that Penn Millers' Loss and LAE reserve estimates appear reasonable as of December 31, 2009.

This examination, in consideration of the testing conducted and the reports obtained, including the Department actuary's risk focused review, accepts the Company's loss and loss adjustment expense reserves as adequate provisions for the discharge of all of its outstanding claim obligations as of the examination date. As a result of all exam work we performed, we make no recommendations to be included as comment within a management letter or the exam report.

SUBSEQUENT EVENTS

In addition to the items noted under each applicable heading above and subsequent to the examination period ending December 31, 2009, the following events and conditions were noted:

The volatility in the financial markets has caused the need to review investment portfolios for potential adjustments in 2009 values of securities held by the Company. There has been no material adjustments to the December 31, 2009 reported surplus as a result of the subsequent review of the investment portfolio.

The Company's parent Penn Millers, is utilizing a consultant, Amper Politzer, to review and strengthen the Company's processes, procedures and internal control's and implement a Sarbanes Oxley Compliance Program. The process was started in 2009 and is planned to be completed by December 31, 2010.

The Company and its ultimate parent, Penn Millers Holding Corporation, modified and introduced several employee benefit programs including termination of the Company's Supplemental Executive Retirement Plan and COLI plans and implementation of stock based incentive plans.

RECOMMENDATIONS

PRIOR EXAMINATION

The prior examination report contained the following recommendations:

1. It is recommended that the Company improve its Information Systems Control environment.

   The Company has complied with this recommendation.

2. It is recommended that the custodian agreement be amended to include all provisions of Requirements for Custodial Agreements P.S. 31 § 148.1a (3) (b) (1-14)).

   The Company has not complied with this recommendation and it is reiterated in this report.

CURRENT EXAMINATION

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

1. It is recommended that the Company establish a Governance, Audit and Compensation Committee compliant with 40 P.S. § 991.1405(c) (4) and (4.1). (See "Committees", page 7).

2. It is recommended the Company document the review, discussion and approval of the Company's reinsurance treaties and transactions by the Board of Directors. (See "Minutes", page 9).

3. It is recommended that the Company prepare the annual statement filing completely and accurately, in accordance with the official NAIC P & C Annual Statement Instructions as set forth in 40 P.S.§ 443(2). (See "By-Laws", page 10 and "Service and Operating Agreements", page 10).

4. It is recommended that the Company review and maintain intercompany and expense sharing agreements to reflect the Company's current operating practices in compliance with 40 P.S. §991.1405(a) (See "Service and Operating Agreements", page 10).

5. It is recommended that the Company prepare the Forms B and C Insurance Holding Company System Registration Statements completely and accurately, in accordance with the 40 P.S. §991.1404(a) and (b). (See "Service and Operating Agreements", page 10).

6. It is recommended that the Company amend its custodial agreement to comply with all provisions and terminology required by 31 Pa. Code § 148a.3 (b). (See "Investments", page 24).

CONCLUSION

As a result of this examination, the financial condition of American Millers Insurance Company, as of December 31, 2009, was determined to be as follows:

	Amount	Percentage
Admitted assets	$ 8,208,564	100.0 %
Liabilities	$ 342,985	4.2 %
Surplus as regards policyholders	7,865,579	95.8 %
Total liabilities and surplus	$ 8,208,564	100.0 %

Since the previous examination, made as of December 31, 2004, the Company's assets decreased by $645,068, its liabilities decreased by $33,805, and its surplus decreased by $611,263.

This examination was conducted by Barbara Kowalski, April Tom, AFE, William Umbaugh, CFE, CISA, Stephanie Ohnmacht, CFE and Joseph Evans, CFE with the latter in charge.

Respectfully

David G. DelBiondo, CPA
Director, Bureau of Financial Examinations

William Fedak, CFE
Examination Manager

Joseph Evans, CFE
Examiner-in-Charge

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