STATE OF NEBRSKA
DEPARTMENT OF INSURANCE

JAN 09 2019

FILED

CERTIFICATION

January 9, 2019

I, Bruce R. Ramge, Director of Insurance of the State of Nebraska, do hereby certify that the attached is a full and correct copy of the Financial Examination Report of

AMERICAN INTERSTATE INSURANCE COMPANY

as of

DECEMBER 31, 2017

The report is now on file and forming a part of the records of this Department.

I hereto subscribe my name under the seal of my office at Lincoln, Nebraska.

GREAT SEAL OF THE STATE OF NEBRASKA
EQUALITY BEFORE THE LAW
MARCH 1ST 1867

Bruce R. Ramge

DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

Notice of the proposed report for the financial examination of

AMERICAN INTERSTATE INSURANCE COMPANY

dated as of December 31, 2017 verified under oath by the examiner-in-charge on December 19, 2018 and received by the company on December 20, 2018, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3) (a).

Dated this 7th day of January 2019.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

Justin C. Schrader, CFE
Chief Financial Examiner

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

AMERICAN INTERSTATE INSURANCE COMPANY

as of

December 31, 2017

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DeRidder, Louisiana
November 5, 2018

Honorable Bruce R. Ramge
Director of Insurance
Nebraska Department of Insurance
941 "O" Street, Suite 400
Lincoln, Nebraska 68508

Dear Sir:

Pursuant to your instruction and authorizations, and in accordance with statutory requirements, an examination has been conducted of the financial condition and business affairs of:

AMERICAN INTERSTATE INSURANCE COMPANY

which has its Statutory Home Office located at

13321 California Street, Suite 310
Omaha, Nebraska 68154

With its Principal Executive Office located at

2301 U.S. 190 West
DeRidder, Louisiana 70634

(hereinafter also referred to as the "Company") and the report of such examination is respectfully presented herein.

INTRODUCTION

The Company was last examined as of December 31, 2013 by the State of Nebraska. The current financial condition examination covers the intervening period to, and including, the close of business on December 31, 2017, and includes such subsequent events and transactions as were considered pertinent to this report. The State of Texas participated in this examination and assisted in the preparation of this report.

The same examination staff conducted concurrent financial condition examinations of the Company's subsidiaries, Silver Oak Casualty, Inc. and American Interstate Insurance Company of Texas.

SCOPE OF EXAMINATION

This examination was conducted pursuant to and in accordance with both the NAIC Financial Condition Examiners Handbook (Handbook) and Section §44-5904(1) of the Nebraska Insurance Statutes. The Handbook requires that examiners plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including, but not limited to: corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and Annual Statement Instructions, when applicable to domestic state regulations.

The examination was completed under coordination of the holding company group approach with the Nebraska Department of Insurance as the coordinating state and the Texas Department of Insurance. The companies examined under this approach benefit to a large degree from common management, systems and processes, and internal control and risk management functions that are administered at the consolidated or business unit level.

The coordinated examination applies procedures sufficient to comprise a full scope financial examination of each of the companies in accordance with the examination procedures and standards promulgated by the NAIC and by the respective state insurance departments where the companies are domiciled. The objective is to enable each domestic state to report on their respective companies' financial condition and to summarize key results of examination procedures.

A general review was made of the Company's operations and the manner in which its business has been conducted in order to determine compliance with statutory and charter provisions. The Company's history was traced and has been set out in this report under the caption "Description of Company". All items pertaining to management and control were reviewed, including provisions for disclosure of conflicts of interest to the Board of Directors and the departmental organization of the Company. The Articles of Incorporation and By-Laws were reviewed, including appropriate filings of any changes or amendments thereto. The minutes of the meetings of the shareholder, Board of Directors and committees, held during the examination period, were read and noted. Attendance at meetings, proxy information, election of Directors and Officers, approval of investment transactions and authorizations of salaries were also noted.

The fidelity bond and other insurance coverages protecting the Company's property and interests were reviewed, as were plans for employee welfare and retirement. Certificates of Authority to conduct the business of insurance in the various states were inspected and a survey was made of the Company's general plan of operation.

Data reflecting the Company's growth during the period under review, as developed from the Company's filed annual statements, is reflected in the financial section of this report under the caption "Body of Report".

The Company's reinsurance facilities were ascertained and noted, and have been commented upon in this report under the caption "Reinsurance". Accounting records and procedures were tested to the extent deemed necessary through the risk-focused examination process. The Company's method of claims handling and procedures pertaining to the adjustment and payment of incurred losses were also noted.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This included a review of workpapers prepared by Ernst & Young, LLP, the Company's external auditors, during their audit of the Company's accounts for the year ended December 31, 2017. Portions of the auditor's workpapers have been incorporated into the workpapers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination. This utilization was performed pursuant to Title 210 (Rules of the Nebraska Department of Insurance), Chapter 56, Section 013.

Any failure of items to add to the totals shown in schedules and exhibits appearing throughout this report is due to rounding.

DESCRIPTION OF COMPANY

HISTORY

The Company was incorporated in Georgia, under the name of American Interstate Insurance Company of Georgia, on October 24, 1973. The petition of charter was filed December 21, 1973. The Company commenced business on April 12, 1974, with the stated purpose of engaging in the business of a property, casualty, marine and transportation insurer.

Prior to commencing business, the outstanding shares of the Company were acquired by American Interinsurance Exchange (AIE), a reciprocal insurer organized under the laws of Indiana. In 1985, Gulf Universal Holdings, Inc. (now AMERISAFE, Inc.), a Texas Insurance Holding Company, acquired all the outstanding shares of the Company from AIE.

The Company re-domesticated to Louisiana and amended its Articles of Incorporation on June 30, 1993 (approved, by the Louisiana Commissioner of Insurance, for recordation on July

12, 1993). At that time the "of Georgia" was dropped from the name. The new name became American Interstate Insurance Company.

On September 2, 1997, AMERISAFE, Inc. (AMERISAFE) was re-capitalized by the acquisition of approximately 68% of its issued and outstanding capital stock by Welsh, Carson, Anderson, and Stowe VII, L.P., a Delaware limited partnership making Welsh, Carson, Anderson, and Stowe VII, L.P. the ultimate controlling entity at that time. This acquisition was approved by the Louisiana Department of Insurance on August 27, 1997.

On November 17, 2005, AMERISAFE completed its initial public offering, issuing 8 million shares of common stock at $9 per share. A second public offering, held November 15, 2006, offered 7,888,326 shares of common stock by its selling shareholders. AMERISAFE did not receive any proceeds from the sale of the common stock in this offering. Additionally, the selling shareholders granted an over-allotment option to sell up to 1,183,250 additional shares of common stock. Upon completion of this offering, the over-allotment option was exercised in full. Welsh, Carson, Anderson, and Stowe no longer owns any shares of AMERISAFE common stock.

In December 1993, the Company acquired all the issued and outstanding stock of Silver Oak Casualty, Inc. (SOCI), DeRidder, Louisiana, at that time a Louisiana domiciled Company. In 2004, the Company formed a Texas domiciled subsidiary, American Interstate Insurance Company of Texas (AIICTX) to write workers' compensation risks in Texas.

The Articles of Incorporation and By-Laws were last amended on September 30, 2013 for the purpose of redomesticating to Nebraska. The amended and restated Articles of Incorporation were filed November 27, 2013. The amended and restated By-Laws were filed with the Department on November 14, 2013.

MANAGEMENT AND CONTROL

Holding Company

The Company is a member of an insurance holding company system as defined by Nebraska Statute. An organizational listing flowing from the 'Ultimate Controlling Person", as reported in the 2017 Annual Statement, is represented by the following (subsidiaries are denoted through the use of indentations, and unless otherwise indicated, all subsidiaries are 100% owned):

AMERISAFE, Inc. (Texas)
- Amerisafe Risk Services, Inc.
- Amerisafe General Agency, Inc.
- American Interstate Insurance Company (Nebraska)
  - Silver Oak Casualty, Inc. (Nebraska)
  - American Interstate Insurance Company of Texas (Texas)

AMERISAFE is a publicly held Texas corporation and holding company. AMERISAFE's stock is traded on the NASDAQ Stock Exchange under the symbol AMSF.

Shareholder

Per the Company's Articles of Incorporation, "the aggregate number of shares which the corporation shall have to the authority to issue is one hundred thousand (100,000) shares of common stock of One Hundred Dollars ($100) par value per share." As of December 31, 2017, the issued and outstanding common stock was 30,010 shares for a total capital of $3,001,000. Paid-in and contributed surplus was $53,497,855. The issued and outstanding shares did not change during the period under examination.

Per the Company's By-Laws, "the annual meeting of shareholders shall be held on or before the 30th day of June in each and every calendar year, for the purpose of receiving the report of its Officers and Directors, electing Directors and for the transaction of such other business as may come before the meeting."

Dividends paid to the shareholder, AMERISAFE, during the period under examination were $25,000,000 in 2014, $50,000,000 in 2015, $67,000,000 in 2016, and $78,900,000 in 2017. These dividends were not considered extraordinary by Nebraska statutes.

Dividends received during the period under examination from the Company's subsidiary, SOCI, were $10,000,000 in 2015, $16,000,000 in 2016, and $12,800,000 in 2017.

Dividends received during the period under examination from the Company's subsidiary, AIICTX, were $4,000,000 in 2017.

Board of Directors

According to the By-Laws, "the number of Directors of the corporation shall be no fewer than five (5), the exact number to be determined by the shareholders. Each Director shall hold office until the next annual meeting of shareholders, and until his or her successor shall have been elected and qualified, or until his or her death, resignation or removal. Each Director shall qualify as a Director of the corporation under applicable insurance laws of the State of Nebraska and at least one Director shall be a resident of the State of Nebraska. The permissible number of Directors may be increased or decreased from time to time by amendment to these By-Laws, but no decrease shall have the effect of shortening the term of any incumbent Director."

According to the By-Laws, "a regular meeting of the Board of Directors shall be held without other notice than this By-Law immediately after and at the same place as the annual meeting of shareholders. The Board of Directors may provide for the time and place, either within or without the State of Nebraska, for the holding of additional regular meetings, without other notice than that furnished by the resolution calling such meeting or meetings."

As of December 31, 2017, the Board of Directors consisted of eight members, all of which were employees of the Company. A regular meeting of the Board is held immediately after and at the same place as the annual meeting of shareholders.

The following persons were serving as Directors at December 31, 2017:

Name and Residence	**Principal Occupation**
G. Janelle Frost DeRidder, LA	Chairman of the Board, President and Chief Executive Officer
Neal A. Fuller DeRidder, LA	Executive Vice President, Chief Financial Officer and Treasurer
Vincent J. Gagliano DeRidder, LA	Executive Vice President and Chief Risk Officer
Henry O. "Chris" Lestage, IV DeRidder, LA	Senior Vice President, Claims
David R. Morton DeRidder, LA	Senior Vice President, Sales and Marketing
Angela W. Pearson DeRidder, LA	Vice President and Corporate Controller
Kathryn H. Shirley DeRidder, LA	Executive Vice President, Secretary and General Counsel
Wallace B. Thomas Ashland, NE	Field Safety Professional

According to Company By-Laws, "by resolution of the Board of Directors, Directors may be paid their expense of attendance at each meeting." Per Company management, fees are not paid to Board members by the Company. Non-employee Board members of AMERISAFE are paid compensation in the form of cash and restricted common stock by AMERISAFE. Board committees, other than Investment Committee, only exist at the AMERISAFE level, but, according to Company management, govern activities within their responsibilities enterprise-wide.

Officers

According to the Company's By-Laws, "the Officers of the corporation shall be a President, a Secretary and a Treasurer, each of whom shall be elected by the Board of Directors. Such other Officers and Assistant Officers as may be deemed necessary, including Chair of the Board or one or more Vice Presidents, may be elected or appointed by the Board of Directors… Any two (2) or more offices may be held by the same person except as may otherwise be required by law."

The following is a partial listing of Senior Officers elected and serving the Company at December 31, 2017:

Name and Residence	Office
G. Janelle Frost	President and Chief Executive Officer
Neal A. Fuller	Executive Vice President, Chief Financial Officer and Treasurer
Vincent J. Gagliano	Executive Vice President and Chief Risk Officer
Kathryn H. Shirley	Executive Vice President, General Counsel and Secretary
Kelly R. Goins	Senior Vice President – Underwriting Operations
Leon J. Lagneaux	Senior Vice President – Safety Operations
Henry O. "Chris" Lestage, IV	Senior Vice President – Claims Operations
David R. Morton	Senior Vice President – Sales and Marketing
Paul P. "Sonny" Marks	Deputy General Counsel and Assistant Secretary
Angela W. Pearson	Vice President and Controller

Committees

The Company's Articles of Incorporation and By-Laws do not address required or allowed Board committees. All of the Company's Board committees, with the exception of the Management Investment Committee, were dissolved in 2006. The Audit, Compensation, Nominating and Corporate Governance, and Risk Committees exist at the AMERISAFE level only.

The following persons were serving on the Management Investment Committee at December 31, 2017:

G. Janelle Frost	Neal A. Fuller
Vincent J. Gagliano	Kathryn H. Shirley

TRANSACTIONS WITH AFFILIATES

The Company has various agreements with related parties as discussed below in this section. For agreements other than reinsurance and tax allocation, amounts receivable and payable are offset and reported net in the annual statement as receivable or payable from parent, subsidiaries, and affiliates. This treatment is allowed under Statement of Statutory Accounting Principles (SSAP) No. 64 – *Offsetting and Netting of Assets and Liabilities*, which provides that a valid right to offset exists when each of the two parties owes the other a determinable amount. For each year under examination, Company offset amounts due from related parties with amounts payable to other related parties and reported a net receivable or payable to parent, subsidiaries and affiliates in violation of SSAP No. 64. Aggregate net receivables from related parties should have been reported as “Receivables from parent, subsidiaries, and affiliates”, and aggregate net payables should have been reported separately as “Payables to parent, subsidiaries, affiliates”. The amounts are not considered material to the financial statements, so no adjustment was made to this report. Additionally, the only related party agreement that includes a clause allowing for the right to offset is the Cost Sharing Agreement discussed below. Under SSAP 64, a valid right to offset must exist by contract or otherwise; therefore, a clause specifically allowing for offset must be included in each agreement. Other agreements discussed in this section did not include such a clause allowing for offset.

Cost Sharing Agreement

The Company participates in a Cost Sharing Agreement with AMERISAFE, SOCI, AIICTX, Amerisafe Risk Services, Inc. (ARSI), and Amerisafe General Agency, Inc. (AGAI), under which the participants utilize goods and services, including but not necessarily limited to shared personnel services, as well as management services provided by AMERISAFE and the Company. The services provided by AMERISAFE include payroll administration, human resource services, employee benefit administration, management services, and related administrative support. Services provided by the Company include regulatory and filing services and consultation, assistance on market conduct exams and other regulatory audits, accounting services, underwriting services, policy services, audit services, and related administrative support. The costs are allocated 80 percent to the Company, 15 percent to SOCI, and five percent to AIICTX. Upon redomestication to Nebraska, the cost sharing agreement (effective January 1, 2005) was amended and restated to be effective December 10, 2013. The agreement was amended in 2016 to include the right to offset amounts owed with amounts due pursuant to Statement of Statutory Accounting Principles (SSAP) No. 64 – *Offsetting and Netting of Assets and Liabilities*. The Second Amended and Restated Cost Sharing Agreement was "not disapproved" June 1, 2016.

Tax Allocation Agreement

The Company participates in a Tax Allocation Agreement with its Parent, AMERISAFE, and other affiliated companies. Tax is computed first by allocating the affiliated group's tax liability amongst the participants in accordance with the ratio of the consolidated taxable income attributable to each participant to the consolidated taxable income of the group. Secondly, an additional amount is allocated to each participant equal to 100% of the excess of the separate return tax liability for the participant over the group tax liability already allocated to the participant. Lastly, any additional amounts allocated pursuant to the second step will be credited to the earning and profits of those participants which had income, deductions, or credits to which such additional allocated amounts were attributable. This agreement was effective January 1, 2005.

Claims and Safety Services Agreement

The Company is party to a Claims and Safety Services Agreement with ARSI. Claims services refer to all unallocated loss adjustment expenses arising from claims and demands made on the Company. Safety services refer to the complete cost of pre-quotation safety inspection, reports, post binding inspections, post-accident inspections, consultation with Company underwriters and periodic reports as requested by the Company. In return for services, the Company is to pay a sum equal to actual expenses. The effective date of this agreement is January 1, 2003 and continues until terminated by either party with 30 days' notice. The amounts paid by the Company under this agreement were $19,492,809 in 2017, $19,183,201 in 2016, $19,067,136 in 2015, and $18,516,724 in 2014.

This agreement was amended on January 8, 2015 to require quarterly payments of amounts due, no more than 45 days after the close of the quarter. The amended agreement was "not disapproved" by the Department on January 14, 2015.

Managing General Agent's Contract

AGAI has a Managing General Agent Contract with the Company and AMERISAFE under which business is marketed and sold for the Company. The agreement also permits AGAI to negotiate and assist in settling claims on behalf of the Company. The net expenses of AGAI and the Company are to be paid by AMERISAFE. This agreement was amended effective

September 28, 2015 for the States of Indiana and Nevada primarily to require AGAI to submit to the Company all money due to the Company not less than once each month. The original agreement requires AGAI to remit all funds due under the contract to the Company not more than 45 days after the close of the quarter.

TERRITORY AND PLAN OF OPERATION

As evidenced by current or continuous Certificates of Authority, the Company is licensed to transact business in all states, with the exception of Connecticut, New Jersey and Ohio, and the District of Columbia and the U.S. Virgin Islands.

The Company’s business is focused on select hazardous core trade groups, including construction, trucking, lumber, manufacturing, oil and gas, and agriculture. Hazardous industry employers tend to have less frequent but more severe claims compared to other industries. Injuries often involve death, dismemberment, and paralysis. The Company remains focused on small to mid-sized accounts with loss control and safety engineering strongly emphasized.

Through ARSI the Company utilizes field auditors, safety engineers, and field case managers located in areas where most of the business is written. The Company's insurance business is marketed by both independent agents and through AGAI.

REINSURANCE

Pooling

The Company was a party to a reinsurance pooling agreement with SOCI and AIICTX throughout the examination period. Pursuant to the agreement, which was amended and restated effective December 9, 2013, the companies pooled direct business according to the following schedule:

Ceding Company	Assuming Company	Percentage of Business
SOCI	The Company	100% after 1/1/1998 (direct liability)
AIICTX	The Company	100% after 1/1/2005 (direct liability)
The Company	SOCI	20% 1/1/;1998 through 12/31/2004 (net liability) 15% on or after 1/1/2005 (net liability)
The Company	AIICTX	5% on or after 1/1/2005 (net liability)

Net Liability means gross direct liability, less all outside ceded reinsurance and net voluntary and involuntary assumed liability. Direct liabilities include the following:

- Direct written and unearned premiums
- Losses and loss adjustment expenses for accident year 1998 and thereafter
- Underwriting expenses incurred
- Premium balances charged off
- Policyholder dividends
- Other miscellaneous liabilities related to the production of income

The accounts are rendered quarterly with balances settled within 45 days of the end of the quarter. Interim settlements may be made more often.

Assumed

The Company, SOCI, and AIICTX are required by many of the states in which business is conducted to participate in a program to provide workers' compensation insurance to those employers who have not or cannot obtain coverage from a carrier on a negotiated basis. The companies fulfill this requirement in one of two ways:

1. Direct assignment whereby the Company administers the policy issuance, claims, loss control, audit and other policy management function.
2. Participation in reinsurance pools where the results of all policies provided through the pool are shared by the participating companies. The Company participates in

mandatory pooling arrangements with NCCI, Indiana and Mississippi. At December 31, 2017 the assumed premium and losses for the mandatory pools were as follows:

Premium - $7,861,782
Paid Loss and LAE- $1,545,041
Case/IBNR- $8,792,023

Ceded

The Company, SOCI and AIICTX are parties to reinsurance agreements with unaffiliated reinsurers. In 2017, the unaffiliated reinsurance coverage consisted of three layers of excess of loss reinsurance to $60,000,000 on all casualty business. The Company retained $2,000,000, subject to annual aggregate deductibles.

The following table depicts both the Workers Compensation coverage and the General Liability coverage as of December 31, 2017.

Description	Coverage	Percentage of Coverage and Reinsurer
Casualty Excess of Loss - Effective January 1, 2017 to January 1, 2020	Per occurrence coverage: $8,000,000 excess $2,000,000	Allianz Risk Transfer (Bermuda) – 25% Hannover RE (Ireland) – 75%
Part A	Subject to an annual aggregate deductible equal to the greater of 1.5% of NEP or $4,445,000 The Reinsurer's liability with respect to all losses occurring during any one contract year shall not exceed the lesser of: 5% of NEP for the applicable contract year or $22,225,000 each contract year. The Reinsurer's liability with respect to all losses occurring during the term of the contract shall not exceed the lesser of: 3.33% of NEP for all contract years or $44,450,000.	Allianz Risk Transfer (Bermuda) – 25% Hannover RE (Ireland) – 75%

Part B	Subject to an annual aggregate deductible equal to the sum of i) the annual aggregate deductible under Part A plus ii) 5% of NEP for the applicable year (or 6.5% of NEP). The Reinsurer's liability in respect to all losses occurring during any one contract year shall not exceed the lesser of: 3% of NEP for the applicable year, or $13,335,000 each contract year. The reinsurer's liability in respect to all losses occurring during the term of the contract shall not exceed the lesser of: 1% of NEP for all contract years or $13,335,000.	Allianz Risk Transfer (Bermuda) – 25% Hannover RE (Ireland) – 75%
Casualty Catastrophe Excess – Effective January 1, 2017 to January 1, 2018	Per occurrence coverage: $60,000,000 excess $10,000,000 Maximum any one Life - $10,000,000 Aggregate limit of $120,000,000	7.5% - Arch Reinsurance Company ...5% - The Cincinnati Insurance Company ...5% - Markel Global Reinsurance Company 10% - Munich Reinsurance America, Inc. 10% - XL Reinsurance America Inc. 10% - Houston Casualty Company Bermuda Reinsurers: ...5% - BRIT Syndicate 2987 ...5% - Beazley Syndicate 2623 Lloyds of London syndicates: 4.5% - Ascot 1414 4.5% - Advent 0780 7.5% - Barbican 1955 10% - Chaucer 1084 ...1% - Canopius 4444 10% - Liberty 4472 ...5% - Markel 3000

The Company, as a part of the AMERISAFE Insurance Group is a member of the Workers' Compensation Reinsurance Association (WCRA). The Minnesota workers' compensation business is required, by Minnesota law, to be reinsured by the WCRA. The Company, as a member of the WCRA is required to select a low, high, or super retention limit each calendar year. The limit selected by the Company for the 2017 calendar year was the super retention level of $2,000,000.

General

All contracts reviewed contained standard insolvency, arbitration, errors and omissions, and termination clauses where applicable. All contracts contained the clauses necessary to assure reinsurance credits could be taken.

BODY OF REPORT

GROWTH

The following comparative data reflects the growth of the Company during the period covered by this examination:

	2014	2015	2016	2017
Bonds	$ 771,371,431	$ 794,067,915	$ 806,887,754	$ 859,018,336
Admitted assets	1,185,591,641	1,207,740,770	1,225,519,934	1,234,544,237
Losses	453,718,241	470,875,722	478,822,659	497,131,786
Total liabilities	807,849,633	836,375,671	831,503,968	852,482,738
Capital and surplus	377,742,008	371,365,099	394,015,966	382,061,499
Premiums earned	302,355,189	302,598,084	296,691,967	278,523,159
Net investment income	20,937,548	28,190,238	35,831,587	38,607,147
Losses incurred	168,533,701	144,092,286	133,900,535	143,200,061
Net income	40,345,081	66,937,324	78,953,165	65,478,311

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the State of Nebraska Department of Insurance and present the financial condition of the Company for the period ending December 31, 2017. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements. A reconciliation of the capital and surplus account for the period under review is also included.

FINANCIAL STATEMENT
December 31, 2017

Assets	**Assets**	**Assets Not Admitted**	**Net Admitted Assets**
Bonds	$ 859,018,336		$ 859,018,336
Common stocks	114,750,610		114,750,610
Cash, cash equivalents, and short-term investments	45,270,384		45,270,384
Subtotal, cash and invested assets	$1,019,039,330		$1,019,039,330
Investment income due and accrued	8,369,189		8,369,189
Uncollected premiums and agents' balances in the course of collection	22,434,457	$5,518,060	16,916,397
Deferred premiums, agents' balances and installments booked but deferred and not yet due	156,964,338	16,414	156,947,924
Amounts recoverable from reinsurers	3,575,809		3,575,809
Current federal income tax recoverable and interest thereon	1,518,316		1,518,316
Net deferred tax asset	16,125,139	90,288	16,034,851
Guaranty funds receivable	377,275		377,275
Receivable from parent, subsidiaries and affiliates	235,830		235,830
Security deposit	5,276	5,276	
Prepaid expenses	794,155	794,155	
Experience rating commission receivable	4,690,497		4,690,497
Interest receivable	5,472,470		5,472,470
State tax recoverable	1,366,349		1,366,349
Totals	$1,240,968,430	$6,424,193	$1,234,544,237

Liabilities, Surplus, and Other Funds

Losses	$ 497,131,786
Reinsurance payable on paid losses and loss adjustment expenses	2,115,846
Loss adjustment expense	56,097,314
Commission payable and contingent commissions	3,453,081
Other expenses	4,892,055
Taxes, licenses, and fees	29,528,211
Unearned premiums	127,107,380
Ceded reinsurance premiums payable	35,167,591
Funds held by company under reinsurance	33,758,673
Amounts withheld or retained by company for account of others	4,060,356
Payable for securities	13,103,658
Security deposits	46,066,787
Total liabilities	$ 852,482,738
Common capital stock	$ 3,001,000
Gross paid in and contributed surplus	53,497,855
Unassigned funds (surplus)	325,562,644
Total capital and surplus	$ 382,061,499
Totals	$1,234,544,237

STATEMENT OF INCOME – 2017

Underwriting Income

Premiums earned	$278,523,159
Losses incurred	143,200,061
Loss adjustment expenses incurred	25,219,153
Other underwriting expenses incurred	62,019,488
Total underwriting deductions	$230,438,702
Net underwriting gain	$ 48,084,457

Investment Income

Net investment income earned	$ 39,055,176
Net realized capital gain (losses)	(448,029)
Net investment gain	$ 38,607,147

Other Income

Net gain from agents or premium balances charged off	$ (2,093,131)
Miscellaneous income	133,841
Penalties and fines	(12,787)
Total other income	$ (1,972,077)
Net income before dividends to policyholders and federal income taxes	$ 84,719,527
Dividends to policyholders	1,212,322
Federal income taxes incurred	18,028,894
Net income	$ 65,478,311

CAPITAL AND SURPLUS ACCOUNT

	2014	2015	2016	2017
Capital and surplus, beginning	$354,292,738	$377,742,008	$371,365,099	$394,015,966
Net income	$ 40,345,081	$ 66,937,324	$ 78,953,165	$ 65,478,311
Change in net unrealized capital gains	8,967,929	4,917,126	983,202	(5,595,242)
Change in net deferred income tax	2,690,598	9,171,330	709,585	(21,908,056)
Change in nonadmitted assets	(3,554,338)	(37,770,402)	9,004,915	28,970,520
Dividends to stockholders	(25,000,000)	(50,000,000)	(67,000,000)	(78,900,000)
Prior period tax adjustment		367,713		
Net change for the year	$ 23,449,270	$ (6,376,909)	$ 22,650,867	$ (11,954,467)
Capital and surplus, ending	$377,742,008	$371,365,099	$394,015,966	$382,061,499

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of $325,562,644, as reported in the Company's 2017 Annual Statement, has been accepted for examination purposes. Examination findings, in the aggregate, were considered to have no material effect on the Company's financial condition.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

The recommendations appearing in the previous report of examination are reflected below together with the remedial actions taken by the Company to comply therewith:

> **Affiliated Agreement** – It was recommended that the Company amend its Claims and Safety Services Agreement to contain a specific due date in accordance with NAIC Accounting Practices and Procedures, SSAP 25, paragraph 6.
>
> **Action:** The Company has complied with this recommendation.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

Violation of SSAP No. 25

The Company paid $21,000,000 to its subsidiary, SOCI, in 2014. The funds were reported as equity in affiliated common stock in the Company's annual statement and as additional paid in capital in the SOCI's annual statement. The transaction was disclosed on Schedule Y, Part 2 of the annual statement; however, it was not disclosed in Note 10 of the Notes to the Financial Statements, which is in violation of Statement of Statutory Accounting Principles (SSAP) No. 25: *Affiliates and Other Related Parties*. For transactions that meet disclosure requirements, SSAP 25 requires reporting of information in addition to what is included in Schedule Y, including: date of transaction, explanation of transaction, description of assets received by reporting entity, statement value of assets received by reporting entity.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

The following comments and recommendations have been made as a result of this examination:

Violation of SSAP No. 25 – It is recommended the Company comply with SSAP No. 25 disclosure requirements going forward.

Violation of SSAP No. 64 – It is recommended that the Company comply with SSAP No. 64 and report amounts receivable from and amounts due to parents, subsidiaries and affiliates separately in the annual statement going forward.

ACKNOWLEDGMENT

The courteous cooperation extended by the Officers and employees of the Company during this examination is hereby acknowledged.

In addition to the undersigned, Joseph Hofmeister, CFE, Nicole Drake, and Santosh Ghimire, Financial Examiners; Gary Evans, CFE, CISA, Information Systems Specialist; and Gordon Hay, FCAS, MAAA, CPCU, Senior P&C Actuarial Examiner; all with the Nebraska Department of Insurance and Financial Examiners, Information Systems Specialists, and Actuarial Examiners with the Texas Department of Insurance; participated in this examination and assisted in the preparation of this report.

Respectfully submitted,

James W. Menck, CFE	Andrea Johnson, CFE
Examiner-in-Charge	Assistant Chief Examiner – Field
Eide Bailly LLP	Department of Insurance
Representing the Department of Insurance	State of Nebraska
State of Nebraska	

State of Nebraska,

County of Lancaster,

James W. Menck, being duly sworn, states as follows:

1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of American Interstate Insurance Company.

2. The Department of Insurance of the State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.

3. I have reviewed the examination work papers and examination report, and the examination of American Interstate Insurance Company was performed in a manner consistent with the standards and procedures required by the Department of Insurance of the State of Nebraska.

The affiant says nothing further.

Examiner-in-Charge's Signature

Subscribed and sworn before me by James Menck on this 19 day of December, 20 18.

(SEAL) KEVIN J. MCNEIL JR. Notary Public STATE OF TEXAS ID#13111440-8 My Comm. Exp. May 3, 2021

Notary Public

My commission expires May 3, 2021 [date].