

# CERTIFICATION

February 19, 2014

I, Bruce R. Ramage, 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, 2013

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.



STATE OF NEBRASKA  
DEPARTMENT OF INSURANCE  
FEB 19 2015

FILED

STATE OF NEB  
DEPARTMENT OF I

FEB 19

*Bruce R. Ramage*

DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

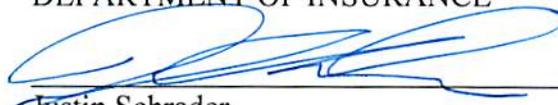
Take notice that the proposed report of the financial examination of

**AMERICAN INTERSTATE INSURANCE COMPANY**

dated as of December 31, 2013, verified under oath by the examiner-in-charge on January 19, 2015 and received by the company on January 26, 2015, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3)(a).

Dated this 9 day of February, 2015.

STATE OF NEBRASKA  
DEPARTMENT OF INSURANCE



Justin Schrader  
Chief Financial Examiner

**STATE OF NEBRASKA**

**Department of Insurance**

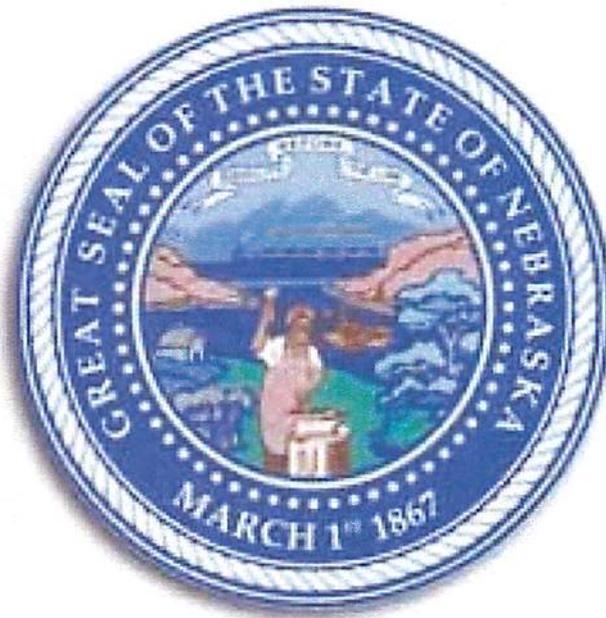
**EXAMINATION REPORT**

**OF**

**AMERICAN INTERSTATE INSURANCE COMPANY**

**as of**

**December 31, 2013**



## TABLE OF CONTENTS

<u>Item</u>	<u>Page</u>
Salutation.....	1
Introduction .....	2
Scope of Examination.....	2
Description of Company:	
History .....	4
Management and Control:	
Holding Company .....	6
Shareholder.....	7
Board of Directors .....	7
Officers.....	9
Committees .....	10
Transactions with Affiliates:	
Cost Sharing Agreement.....	11
Tax Allocation Agreement .....	12
Reinsurance Agreement.....	12
Claims and Safety Services Agreement .....	13
Office Lease Agreement.....	14
Managing General Agent's Contract.....	14
Territory and Plan of Operation.....	14
Reinsurance:	
Assumed .....	15
Ceded.....	16
General .....	18
Body of Report:	
Growth .....	19
Financial Statements .....	19
Examination Changes in Financial Statements .....	23
Compliance with Previous Recommendations .....	23
Commentary on Current Examination Findings.....	23
Summary of Comments and Recommendations:	
Affiliated Agreements.....	24
Acknowledgment.....	25

DeRidder, Louisiana  
December 11, 2014

Honorable Joseph Torti, III  
Chairman, Financial Condition (E) Committee, NAIC  
Deputy Director and Superintendent of Insurance  
Rhode Island Division of Insurance  
1511 Pontiac Avenue, Bldg #69-2  
Cranston, Rhode Island 02920

Honorable John M. Huff  
Chair, Midwestern Zone, NAIC  
Director of Insurance  
Missouri Department of Insurance  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

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

Dear Sirs:

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

**233 South 13<sup>th</sup> Street, Suite 1900  
Lincoln, Nebraska 68508**

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, 2008 by the State of Louisiana. The current financial condition examination covers the intervening period to, and including, the close of business on December 31, 2013, and includes such subsequent events and transactions as were considered pertinent to this report. The State of Texas coordinated the examination of American Interstate Insurance Company of Texas concurrently with this examination.

The same examination staff conducted a concurrent financial condition examination of the Company's subsidiary, Silver Oak Casualty, Inc.

## **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 shareholders, 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 pension. 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 work papers prepared by Ernst & Young, the Company's external auditors, during their audit of the Company's accounts for the year ended December 31, 2013. Portions of the auditor's work papers have been incorporated into the work papers 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. 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, Inc. 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, Inc. 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, Inc. common stock.

In December 1993, the Company acquired all the issued and outstanding stock of Silver Oak Casualty, Inc. (SOCl), 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 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 2013 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, Inc. (Texas)
    - KCL Georgia Credit Partners I, LLC (.000001%)

AMERISAFE, Inc. 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, 2013, 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 30<sup>th</sup> 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, Inc.) during the period under examination were \$10,000,000 in 2009, \$32,399,932 in 2010, \$32,000,000 in 2011, \$21,000,000 in 2012, and \$15,000,000 in 2013. These dividends were not considered extraordinary by Louisiana statutes, the Company's State of domicile until 2013.

### **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, 2013, 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, 2013:

<b><u>Name and Residence</u></b>	<b><u>Principal Occupation</u></b>
Clifford Allen Bradley, Jr. DeRidder, LA	Chairman of the Board of Directors and Chief Executive Officer
G. Janelle Frost DeRidder, LA	President and Chief Operating Officer
Geoffrey R. Banta Omaha, NE	Executive Vice President, Corporate Development
Vincent J. Gagliano DeRidder, LA	Executive Vice President and Chief Technology Officer
Brendan D. Gau DeRidder, LA	Executive Vice President and Chief Investment Officer
Michael F. Grasher DeRidder, LA	Executive Vice President and Chief Financial Officer
Craig P. Leach DeRidder, LA	Executive Vice President, Sales and Marketing

**Name and Residence**

**Principal Occupation**

Kathryn H. Rowan  
DeRidder, LA

Senior Vice President, Secretary, and General  
Counsel

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, Inc. are paid compensation in the form of cash and restricted common stock by AMERISAFE, Inc. Board committees, other than Investment Committee, only exist at the AMERISAFE, Inc. 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 and 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 listing of Officers elected and serving the Company at December 31, 2013:

**Name**

**Office**

C. Allen Bradley, Jr.

Chief Executive Officer

G. Janelle Frost

President and Chief Operating Officer

Geoffrey R. Banta

Executive Vice President – Corporate  
Development

Vincent J. Gagliano

Executive Vice President – Chief Technology  
Officer

<u>Name</u>	<u>Office</u>
Brendan D. Gau	Executive Vice President and Chief Investment Officer
Michael F. Grasher	Executive Vice President and Chief Financial Officer
<sup>1</sup> Bruno P. Falvo	Senior Vice President – Enterprise Risk Management
Craig P. Leach	Executive Vice President – Sales and Marketing
Kelly R. Goins	Senior Vice President – Underwriting Operations
<sup>2</sup> Cynthia P. Harris	Senior Vice President – Human Resources, Client Services, Administration, Training, Payroll, and Imagin
Leon J. Lagneaux	Senior Vice President – Safety Operations
Henry O. “Chris” Lestage, IV	Senior Vice President – Claims Operations
Kathryn H. Rowan	Senior Vice President, Secretary, and General Counsel
Robert A. Brown, Jr.	Vice President – Field Safety
Mark A. Burger	Vice President – Sales, Midwest Region
Walter E. DeBord	Vice President – Field Safety
Edward V. Ennis, III	Vice President – Sales, Eastern Region
H. Ronald Fluker	Vice President – Sales, South Central Region
James T. Leonard	Vice President – Claims, Eastern Region
Garrett S. Little	Vice President – Field Safety
Barbra E. McCrary	Vice President – Premium Audit
Angela W. Pearson	Vice President and Controller
Tyson W. Reed	Vice President – Sales, Southeastern Region
Laura A. Blackmon	Regional Vice President of Underwriting
Nancy E. Hunt	Regional Vice President of Underwriting
Joyce R. Whiddon	Regional Vice President of Underwriting

### 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 Investment Committee, were dissolved in 2006. The Audit, Compensation, Nominating and Corporate Governance, and Risk Committees exist at the AMERISAFE, Inc. level only. The following persons were serving on the Investments Committee at December 31, 2013:

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<sup>1</sup> This officer is no longer with the Company as of July 1, 2014.

<sup>2</sup> This officer is no longer with the Company as of February 28, 2014.

C. Allen Bradley, Jr.  
Geoffrey R. Banta  
Kathryn H. Rowan  
G. Janelle Frost

Brendan D. Gau  
Vincent J. Gagliano  
Michael F. Grasher

## **TRANSACTIONS WITH AFFILIATES**

### **Cost Sharing Agreement**

The Company participates in a Cost Sharing Agreement with AMERISAFE, Inc., SOCI, AIICTX, Amerisafe Risk Services, Inc. (ARS), and Amerisafe General Agency, Inc., 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, Inc. and the Company. The services provided by AMERISAFE, Inc. 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 amounts paid by the Company under this agreement \$74,357,397 in 2013, \$70,062,113 in 2012, \$68,189,533 in 2011, \$55,311,035 in 2010, and \$61,793,773 in 2009.

This Agreement was the subject of a Form D filing made on December 16, 2013, which was “not disapproved” February 27, 2014. The Agreement was revised in 2014 to reflect the allocation of expenses between AIIC, SOCI, and AIICTX as described above. The revised agreement was “not disapproved” by the Department on September 5, 2014.

### **Tax Allocation Agreement**

The Company participates in a Tax Allocation Agreement with its Parent, AMERISAFE, Inc., 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.

### **Reinsurance Agreement**

The Company participates in a reinsurance pooling agreement with its wholly owned subsidiaries, SOCI and AICTX. The agreement provides for SOCI and AICTX to cede 100 percent of their direct written and unearned premium, losses and loss adjustment expenses, underwriting expenses incurred, premium balances charged off, policyholder dividends, and other miscellaneous liabilities related to the production of premium to the Company. The Company then cedes 15 percent of its net after reinsurance business to SOCI and five percent to AICTX. Upon redomestication to Nebraska, the reinsurance pooling agreement (effective January 1, 2007) was amended and restated to be effective December 10, 2013. The amended agreement was the subject of a Form D filing made on December 16, 2013, which was "not disapproved" February 27, 2014.

The Company and its subsidiary, SOCI, through AMERISAFE, Inc. purchased reinsurance to reduce their net liability on individual risk and claims and to protect against catastrophic losses. Excess of loss reinsurance is written in layers in which our reinsurers accept a band of coverage up to a specified amount.

#### **Claims and Safety Services Agreement**

The Company is party to a Claims and Safety Services Agreement with Amerisafe ARS. “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 agreement is to continue unless terminated by either party with 30 days written notice. The amounts paid by the Company under this agreement \$17,590,631 in 2013, \$16,851,431 in 2012, \$16,681,033 in 2011, \$16,027,638 in 2010, and \$16,137,353 in 2009.

This agreement does not contain a specific due date for the timely settlement of amounts owed as required under NAIC Accounting Practices and Procedures, SSAP No. 25, paragraph 6. SSAP 25, paragraph 6 requires transactions between related parties to be in the form of a written agreement that includes a specified due date of amounts owed. If the due date is not addressed by the written agreement, any uncollected receivable is nonadmitted. It is 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.

### **Office Lease Agreement**

An Office Lease Agreement provides for AMERISAFE, Inc. to lease office space from the Company. The lease automatically renews each year unless either party gives 60 days' notice prior to the end of the lease year. Renewal rental is to be in an amount mutually agreed upon by both parties. The amounts paid to the Company under this agreement \$40,000 in 2013, \$40,000 in 2012, \$40,000 in 2011, \$40,000 in 2010, and \$40,000 in 2009.

### **Managing General Agent's Contract**

Amerisafe General Agency, Inc. has a Managing General Agent's Contract, Marketer Agreement and Producer Agreement with the Company under which business is marketed and sold for the Company.

### **TERRITORY AND PLAN OF OPERATION**

As evidenced by current or continuous Certificates of Authority, the Company is licensed to transact business in most states, the District of Columbia and the U.S. Virgin Islands. The Company is not licensed in Connecticut, New Jersey, and Ohio.

Business is focused on select hazardous core trade groups, including construction, trucking, 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. Business remains focused on small to mid-sized accounts with loss control and safety engineering strongly emphasized.

Through Amerisafe Risk Services, Inc., a wholly-owned AMERISAFE, Inc. company, 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 AMERISAFE, Inc.'s wholly-owned insurance agency, Amerisafe General Agency, Inc.

## **REINSURANCE**

As noted in the "Transactions with Affiliates" section, the Company participates in a Reinsurance Pooling Agreement whereby the Company assumes 100% of business written by SOCI and AIICTX. The Company then purchases excess of loss reinsurance from outside reinsurers for all of its direct and assumed business and cedes 15 percent of the remaining business to SOCI and five percent to AIICTX.

### **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, 2013 the assumed premium and losses for the mandatory pools were as follows:

Premium - \$7,925,586  
Paid Loss and LAE- \$3,086,508  
Case/IBNR- \$12,580,974

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 January 1, 2007, the companies pooled direct business according to the following schedule:

<u>Ceding Company</u>	<u>Assuming Company</u>	<u>Percentage of Business</u>
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.

This Agreement was the subject of a Form D filing made on December 16, 2013, which was “not disapproved” February 27, 2014.

**Ceded**

The Company, SOCI and AIICTX are parties to reinsurance agreements with unaffiliated reinsurers. In 2013, the unaffiliated reinsurance coverage consisted of three layers of excess of loss reinsurance to \$ 50,000,000 on all casualty business. The Company retained \$1,000,000 plus an annual aggregate deductible of 6.5% of Net Earned Premium in each of the years of the

three year contract. The following table depicts both the Workers Compensation coverage and the General Liability coverage as of December 31, 2013.

<u>Description</u>	<u>Coverage</u>	<u>Percentage of Coverage and Reinsurer</u>
Retention	\$1,000,000 plus 6.5% of NEP Annual Aggregate Deductible	
First Casualty Excess – Effective January 1, 2011 to January 1, 2014	Workers Compensation: Per occurrence coverage: \$4,000,000 excess \$1,000,000 General Liability – maximum recovery of \$10,000,000 each contract year	75% - Hannover – Ireland 25% - Tokio Millenium
Second Casualty Excess – Effective January 1, 2012 to January 1, 2015	Per occurrence Coverage: \$5,000,000 excess \$5,000,000  Maximum Liability equal to \$10,000,000 in any one contract year and \$20,000,000 over all contract years  General Liability – maximum net subject policy limit \$2,000,000	75% - Hannover – Ireland 25% - Tokio Millenium

Casualty Catastrophe Excess – Effective January 1, 2013 to January 1, 2014	Per occurrence Coverage: \$40,000,000 excess \$10,000,000	10% - Lloyd's Syndicate 4472 (LIB) 5% - Lloyd's Syndicate 5151 (MAL) 10% - Lloyd's Syndicate 3000 (MKL) 7.5% - Lloyd's Syndicate 1955 (BAR)
	Maximum any one Life - \$10,000,000	10% - Lloyd's Syndicate 1084 (CSL) 10% - Lloyd's Syndicate 2003 (Catlin) 5% - Alterra Reins USA
	One reinstatement	7.5% - Arch Reinsurance Co. 10% - Munich Re America 5% - Tokio Millenium 10% - Houston Casualty 10% - Lloyd's Syndicate 2987 (BRT)

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 limits selected by the Company for the 2013 calendar year were \$940,000.

**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:

	<b><u>2009</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2012</u></b>	<b><u>2013</u></b>
Bonds	\$539,783,404	\$558,775,358	\$594,354,970	\$ 576,544,066	\$ 624,951,813
Admitted assets	935,819,225	915,425,720	922,556,473	1,001,760,532	1,093,745,218
Losses	340,461,408	333,504,101	341,865,600	370,771,700	407,643,862
Total liabilities	612,342,153	595,037,659	608,159,609	677,828,469	739,452,480
Capital and surplus	323,477,069	320,388,061	314,396,864	323,932,063	354,292,738
Premiums earned	201,538,097	175,672,501	201,341,862	233,448,291	265,422,020
Net investment income	27,515,210	24,311,996	24,196,180	23,144,286	20,282,110
Losses incurred	110,845,748	105,706,485	129,480,567	151,592,950	156,073,587
Net income	46,257,478	24,847,508	22,273,128	25,444,750	35,349,929

### **FINANCIAL STATEMENTS**

The following statement of admitted assets and liabilities, together with the accompanying summary of operations, reflects the financial condition of the Company at December 31, 2013 and its transactions during the year 2013 as determined through this examination. A reconciliation of the capital and surplus account for the period under review is also included.

**FINANCIAL STATEMENT**  
**December 31, 2013**

<b><u>Assets</u></b>	<b><u>Assets</u></b>	<b><u>Assets Not Admitted</u></b>	<b><u>Net Admitted Assets</u></b>
Bonds	\$ 624,951,813		\$ 624,951,813
Common stocks	93,872,361		93,872,361
Real estate	5,343,739		5,343,739
Cash, cash equivalents, and short-term investments	<u>125,732,286</u>		<u>125,732,286</u>
Subtotal, cash and invested assets	\$ 849,900,209		\$ 849,900,209
Investment income due and accrued	9,138,396		9,138,396
Uncollected premiums and agents' balances in the course of collection	17,926,888	\$1,542,480	16,384,408
Deferred premiums, agents' balances and installments booked but deferred and not yet due	159,194,899	223,637	158,971,262
Amounts recoverable from reinsurers	1,031,794		1,031,794
Net deferred tax asset	25,516,631		25,516,631
Guaranty funds receivable	3,608,046		3,608,046
Security deposit	5,863	5,863	
Prepaid expenses	1,277,797	1,277,797	
Leasehold improvements	25,112	25,112	
State assessment recoverable	492,567		492,567
Experience rating commission receivable	26,130,099		26,130,099
Interest receivable	<u>2,571,806</u>		<u>2,571,806</u>
Totals	<u>\$1,096,820,107</u>	<u>\$3,074,889</u>	<u>\$1,093,745,218</u>

**Liabilities, Surplus, and Other Funds**

Losses	\$ 407,643,862
Reinsurance payable on paid losses and loss adjustment expenses	1,815,704
Loss adjustment expense	48,212,690
Commission payable and contingent commissions	3,359,065
Other expenses	4,432,248
Taxes, licenses, and foreign income taxes	26,610,755
Current federal income taxes	1,566,296
Unearned premiums	133,659,928
Ceded reinsurance premiums payable	31,435,534
Funds held by company under reinsurance	32,517,582
Amounts withheld or retained by company for account of others	3,210,519
Payable to parent, subsidiaries and affiliates	558,719
Security deposits	<u>44,429,578</u>
Total liabilities	<u>\$ 739,452,480</u>
Common capital stock	\$ 3,001,000
Gross paid in and contributed surplus	53,497,855
Unassigned funds (surplus)	<u>297,793,883</u>
Total capital and surplus	<u>\$ 354,292,738</u>
Totals	<u>\$1,093,745,218</u>

## STATEMENT OF INCOME

### Underwriting Income

Premiums earned	\$265,422,020
Losses incurred	156,073,587
Loss adjustment expenses incurred	28,233,066
Other underwriting expenses incurred	<u>49,893,072</u>
Total underwriting deductions	<u>\$234,199,725</u>
Net underwriting gain	<u>\$ 31,222,295</u>

### Investment Income

Net investment income earned	\$ 21,092,587
Net realized capital gain (losses)	<u>(810,477)</u>
Net investment gain	<u>\$ 20,282,110</u>

### Other Income

Net gain from agents or premium balances charged off	\$ (1,425,394)
Miscellaneous income	187,884
Penalties and fines	<u>(3,156)</u>
Total other income	<u>\$ (1,240,666)</u>
Net income before dividends to policyholders and federal income taxes	\$ 50,263,739
Dividends to policyholders	1,363,235
Federal and foreign income taxes incurred	<u>13,550,575</u>
Net income	<u>\$ 35,349,929</u>

## CAPITAL AND SURPLUS ACCOUNT

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Capital and surplus, beginning	\$276,338,104	\$323,477,069	\$320,388,061	\$314,396,864	\$323,932,063
Net income	46,257,478	24,847,508	22,273,128	25,444,750	35,349,929
Change in net unrealized capital gains	11,660,746	3,799,528	4,899,357	5,370,608	9,184,858
Change in net deferred income tax	(6,875,937)	238,988	(513,751)	(394,923)	(68,782)
Change in nonadmitted assets	6,026,510	312,293	(649,931)	114,765	894,670
Change in provision for reinsurance	70,169	12,607			
Dividends to stockholders	<u>10,000,000</u>	<u>(32,299,932)</u>	<u>(32,000,000)</u>	<u>(21,000,000)</u>	<u>(15,000,000)</u>
Net change for the year	<u>\$ 47,138,966</u>	<u>\$ (3,089,008)</u>	<u>\$ (5,991,197)</u>	<u>\$ 9,535,199</u>	<u>\$ 30,360,675</u>
Capital and surplus, ending	<u>\$323,477,069</u>	<u>\$320,388,061</u>	<u>\$314,396,864</u>	<u>\$323,932,063</u>	<u>\$354,292,738</u>

## EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of \$297,793,883, as reported in the Company's 2013 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 previous examination was performed by the Louisiana Department of Insurance. No recommendations were made as a result of the previous examination.

## COMMENTARY ON CURRENT EXAMINATION FINDINGS

There were no additional findings warranting comment in the report as a result of this examination.

## **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

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

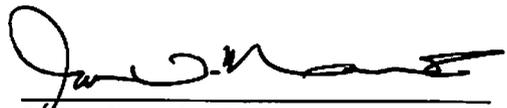
1. **Affiliated Agreement** - It is recommended that the Company amend its Claims and Safety Services Agreement to contain a specific due date in accordance with NAIC Accounting Practices and Procedures, SSAP 25, paragraph 6.

## **ACKNOWLEDGEMENT**

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

In addition to the undersigned, Erin Garvin, CFE, Joseph Hofmeister, CFE, Brian Davis, Financial Examiners with the Nebraska Department of Insurance; Jason Dunn, CPA, CISA, Anders Erickson, CISA, CISSP, CRISC, Steven Wood, CPA, Kelsie DeBroeck, Information Systems Specialists all with Eide Bailly LLP and contracted by the Nebraska Department of Insurance; and Gordon Hay, FCAS, MAAA, CPCU, Senior P&C Actuarial Examiner with the Nebraska Department of Insurance and James Summers, CFE, Financial Examiner, and Brock Childs, Actuarial Examiner with the Texas Department of Insurance; participated in this examination and assisted in the preparation of this report.

Respectfully submitted,



James Menck, CFE  
Examiner-in-Charge  
Eide Bailly LLP  
Representing the Department of Insurance  
State of Nebraska

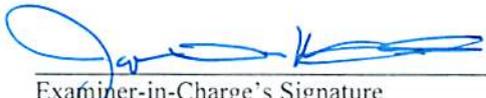
State of Nebraska,

County of Lancaster,

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

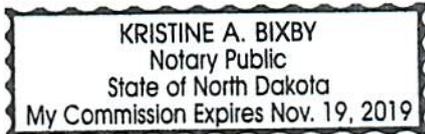
1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of American Interstate Insurance Company.
2. The Department of Insurance of the State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards 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 in person on this 19 day of January, 20 15.

(SEAL)



  
\_\_\_\_\_  
Notary Public

My commission expires NOV. 19, 2019 [date].