



MISSISSIPPI INSURANCE DEPARTMENT

MIKE CHANEY  
Commissioner of Insurance  
State Fire Marshal

MARK HAIRE  
Deputy Commissioner of Insurance

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June 23, 2011

Mr. Tracy Tucker, President  
Indemnity National Insurance Company  
4800 Old Kingston Pike  
Knoxville, TN 37919

VIA CERTIFIED MAIL  
RETURN RECEIPT REQUESTED

**RE: Report of Examination as of December 31, 2009**

Dear Mr. Tucker:

In accordance with Miss. Code Ann. § 83-5-201 et seq. (Rev. 1999), an examination of Indemnity National Insurance Company has been completed. Enclosed herewith is the Order adopting the report and a copy of the final report as adopted.

Pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 1999), the Mississippi Department of Insurance shall continue to hold the content of said report as private and confidential for a period of ten (10) days from the date of the Order. After the expiration of the aforementioned 10-day period, the Department will open the report for public inspection.

If you have any questions or comments, please feel free to contact me.

Sincerely,

MIKE CHANEY  
COMMISSIONER OF INSURANCE

BY Joel R. Jones  
Joel R. Jones  
Special Assistant Attorney General

MC/JRJ/bs  
Encls. Order w/exhibit

**BEFORE THE MISSISSIPPI INSURANCE DEPARTMENT**

**IN RE: REPORT OF EXAMINATION OF  
INDEMNITY NATIONAL INSURANCE COMPANY**

**CAUSE NO. 11-6266**

**ORDER**

**THIS CAUSE** came on for consideration before the Commissioner of Insurance of the State of Mississippi ("Commissioner"), or his designated appointee, in the Offices of the Mississippi Insurance Department ("Department"), 1001 Woolfolk Building, 501 North West Street, 10th Floor, City of Jackson, Hinds County, Mississippi, pursuant to Miss. Code Ann. § 83-5-201 et seq. (Rev. 1999). The Commissioner, having fully considered and reviewed the Report of Examination together with any submissions or rebuttals and any relevant portions of the examiner's work papers, makes the following findings of fact and conclusions of law, to-wit:

**JURISDICTION**

**1.**

That the Commissioner has jurisdiction over this matter pursuant to the provisions of Miss. Code Ann. § 83-5-201 et seq. (Rev. 1999).

**2.**

That Indemnity National Insurance Company is a Mississippi-domiciled company licensed to write Accident and Health; Automobile Physical Damage/Liability; Boiler and Machinery; Casualty/Liability; Fidelity; Fire/Allied Lines; Guaranty; Home/Farm Owners; Industrial Fire; Inland Marine; Legal; Mortgage Guaranty; Ocean Marine; Plate Glass; Surety; Title; and Workers' Compensation lines of insurance.

## FINDINGS OF FACT

### 3.

That the Commissioner, or his appointee, pursuant to Miss. Code Ann. § 83-5-201 et seq. (Rev. 1999), called for an examination of Indemnity National Insurance Company and appointed Joseph May, Examiner-In-Charge, to conduct said examination.

### 4.

That on or about June 7, 2011, the draft Report of Examination concerning Indemnity National Insurance Company for the period of January 1, 2007 through December 31, 2009 was submitted to the Department by the Examiner-In-Charge, Joseph May.

### 5.

That on or about June 15, 2011, pursuant to Miss. Code Ann. § 83-5-209(2) (Rev. 1999), the Department forwarded to the Company a copy of the draft report and allowed the Company a ten (10) day period to submit any rebuttal to the draft report. The Department received the Company's response to the report by email on or about June 22, 2011, and in response thereto, minor revisions were made to the report.

## CONCLUSIONS OF LAW

### 6.

The Commissioner, pursuant to Miss. Code Ann. § 83-5-209(3) (Rev. 1999), must consider and review the report along with any submissions or rebuttals and all relevant portions of examiner work papers and enter an Order: (1) adopting the Report of Examination as final or with modifications or corrections; (2) rejecting the Report of Examination with directions to reopen; or (3) calling for an investigatory hearing.

**IT IS, THEREFORE, ORDERED**, after reviewing the Report of Examination, the written submission, and all relevant examiner work papers, that the Report of Examination of Indemnity National Insurance Company, attached hereto as Exhibit "A", should be and same is hereby adopted as final.

**IT IS FURTHER ORDERED** that a copy of the adopted Report of Examination, accompanied with this Order, shall be served upon Indemnity National Insurance Company by certified mail, postage pre-paid, return receipt requested.

**IT IS FURTHER ORDERED** that the Department shall continue to hold the content of this report as private and confidential for a period of ten (10) days from the date of this Order, pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 1999).

**IT IS FURTHER ORDERED**, pursuant to Miss. Code Ann. § 83-5-209(4) (Rev. 1999), that within thirty (30) days of the issuance of the adopted report, Indemnity National Insurance Company shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related orders.

**IT IS FURTHER ORDERED** that Indemnity National Insurance Company take the necessary actions and implement the necessary procedures to ensure that all recommendations contained in the Report of Examination are properly and promptly complied with.

**SO ORDERED**, this the 23<sup>rd</sup> day of June, 2011.


  
J. MARK HAIRE  
DEPUTY COMMISSIONER OF INSURANCE  
STATE OF MISSISSIPPI

**CERTIFICATE OF MAILING**

I hereby certify that a true and correct copy of the above and foregoing Order and a copy of the final Report of Examination, as adopted by the Mississippi Insurance Department, was sent by certified mail, postage pre-paid, return receipt requested, to:

**Mr. Tracy Tucker, President  
Indemnity National Insurance Company  
4800 Old Kingston Pike  
Knoxville, TN 37919**

This the 23<sup>RD</sup> day of June, 2011.

  
\_\_\_\_\_  
Joel R. Jones  
Special Assistant Attorney General  
Mississippi Department of Insurance  
Post Office Box 79  
Jackson, MS 39205-0079  
(601) 359-3577



# **Mississippi Insurance Department**

## **Report of Examination**

**of**

**Indemnity National Insurance Company  
190 East Capitol Street, Suite 800  
Jackson, Mississippi 39201**

**As of December 31, 2009**

**NAIC Company Code 18468  
NAIC ETS No. MS029-F2**

# Indemnity National Insurance Company

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December 31, 2009

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**EXAMINER'S AFFIDAVIT AS TO STANDARDS AND  
PROCEDURES USED IN THE EXAMINATION**

State of Mississippi,

County of Madison,

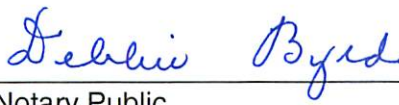
Joseph R. May being duly sworn, states as follows:

1. I have authority to represent the Mississippi Insurance Department in the examination of Indemnity National Insurance Company.
2. The Mississippi Insurance Department 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 Indemnity National Insurance Company was performed in a manner consistent with the standards and procedures required by the Commissioner of Insurance of the State of Mississippi.

The affiant says nothing further.

  
\_\_\_\_\_  
Joseph R. May, CFE, CIE, CFF  
Examiner-in-charge

Subscribed and sworn before me by Joseph R. May on JUNE 22, 2011.

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

My commission expires 9-10-14 [date].







## MISSISSIPPI INSURANCE DEPARTMENT

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**MIKE CHANEY**  
Commissioner of Insurance  
State Fire Marshal

**MARK HAIRE**  
Deputy Commissioner of Insurance

May 23, 2011

Honorable Mike Chaney  
Commissioner of Insurance  
Mississippi Insurance Department  
1001 Woolfolk Building  
501 North West Street  
Jackson, Mississippi 39201

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

Dear Sirs:

Pursuant to the instructions and authorization from the Commissioner of Insurance for the State of Mississippi and in compliance with statutory provisions, an examination as of December 31, 2009, has been conducted of the affairs and financial condition of:

**INDEMNITY NATIONAL INSURANCE COMPANY  
(NAIC COMPANY CODE 18468; NAIC-ETS No. MS029-F2)**

Statutory Home Office:  
190 East Capitol Street, Suite 800  
Jackson, Mississippi 39201

This examination was commenced in accordance with Miss. Code Ann. §83-5-201, et seq., and was performed in Jackson, Mississippi and at the main administrative office of the Company in Knoxville, Tennessee. The report of examination is herewith submitted.

## **INTRODUCTION**

This examination was performed by examiners representing the Mississippi Insurance Department (MID) and covered Indemnity National Insurance Company's ("INIC" or "the Company") operations and financial condition from January 1, 2007 through December 31, 2009, including material transactions and/or events occurring subsequent to the examination date through May 21, 2011.

## **SCOPE OF EXAMINATION**

We have performed our full-scope financial examination of INIC. For purposes of this examination report, the examination period is defined as January 1, 2007 through December 31, 2009, and the examination date is defined as December 31, 2009. The Company was previously examined by the MID as of December 31, 2006.

We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook ("Handbook"). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks.

An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, when applicable to domestic state regulations. All accounts and activities of the company were considered in accordance with the risk-focused examination process.

Reporting in the comments and recommendations section of this report was by exception; therefore, items that were tested and deemed acceptable by the examiners without material change receive little or no comment.

## **COMMENTS AND RECOMMENDATIONS OF PREVIOUS EXAMINATION**

The comments and recommendations included in the previous examination report were addressed by the Company in a manner deemed to be acceptable by the MID.

## **HISTORY OF THE COMPANY**

The Company was incorporated as Great River Insurance Company ("Great River") on December 2, 1993 under the laws of the State of Mississippi and commenced business on that date.

The purpose for which the Company was formed, as stated in the Articles of Association, was to enter into all forms of insurance contracts insuring perils similar to those described within Miss. Code Ann. § 83-19-1 "Class One (1) – Fire and Casualty", and to carry on any other business activities and financial services that an insurance company can lawfully conduct under the laws of the State of Mississippi.

On July 1, 2004 Great River entered into a 100% Transfer and Assumption Agreement with a former affiliate, Union Insurance Company (“Union”), under which all policies in force, all policy liabilities, and all non-policy liabilities were transferred to Union. This transaction was approved by the domiciliary insurance departments of both companies.

On December 15, 2005 the Mississippi Commissioner of Insurance approved the sale of all of the issued and outstanding shares of Great River to Knox Holdings, Inc. Knox Holdings, Inc. is a holding company organized in August 2005 as a corporation under the laws of Tennessee for the purpose of acquiring Great River.

On December 27, 2005 Great River amended its Articles of Association to change the name of the Company to Indemnity National Insurance Company.

**CORPORATE RECORDS**

The minutes of the meetings of the stockholders and Board of Directors (“Board”), regarding the Company’s business affairs as recorded during the period covered by the examination, were reviewed and appeared to be complete and in order with regard to recording action on matters brought up at the meetings for deliberation, which included the approval and support of the Company’s transactions and events, as well as the review of its audit and examination report.

**MANAGEMENT AND CONTROL**

**Stockholders**

As of December 31, 2009, the Company had issued and outstanding thirty-three thousand three hundred thirty-four (33,334) shares of common capital stock with a par value of \$60.00 per share. Knox Holdings, Inc. owned 93.23% and various investors, some representing management, owned the balance of the outstanding shares. An extraordinary dividend in the amount of \$1,500,000 was approved by the MID on October 17, 2008 and paid to the shareholders during 2008. No other dividends were paid during the examination period.

**Board of Directors**

The Articles of Association and Bylaws vest the management and control of the Company’s business affairs with the Board. The members of the duly elected Board, along with their place of residence, number of years as Director, and principal occupation, at December 31, 2009, were as follows:

Name and City of Residence	Number of Years as Director	Principal Occupation
Matthew Tracy Tucker Knoxville, Tennessee	4	President, Indemnity National Company
Charles Kyle Slatery Memphis, Tennessee	4	Chief Executive Officer, NFC Investments, LLC
James Donald Lackie Memphis, Tennessee	4	President, Lackie Trading, Inc.

**Officers**

The following are the officers that were duly elected by the Board and holding office at December 31, 2009.

Name	Position
Matthew Tracy Tucker	President
Charles Kyle Slatery	Secretary
James Donald Lackie	Treasurer

**Committees**

All matters affecting the Company deemed by the Board to be of significance are addressed by the full Board. Separate committees of the Board of Directors did not exist during the period covered by this examination.

**Conflict of Interest**

The Company has a written conflict of interest policy requiring disclosure by directors and officers to the Board of any potential financial or other interests that impair or appear to impair their independence in their responsibilities to the Company. This policy was signed by all directors and officers of the Company.

**CORPORATE GOVERNANCE**

Upon review of the corporate governance structure, the overall corporate structure was determined to be reasonable based upon the Company's size and structure. Management is stable with the key personnel and Board members having been with the Company since it was acquired by the current owners and became an issuer of coal mining reclamation bonds. There did not appear to be any compensation arrangements that caused unusual emphasis on earnings. Management records, such as Board minutes, were reviewed with no exceptions noted.

The Board's involvement and oversight along with its independence from management was considered during the course of our examination. Other key variables in our consideration of the Board's involvement included but were not limited to factors such as: (1) the frequency of BOD meetings, (2) the type of information communicated to the Board prior to meetings and the topics discussed along with the depth and quality of discussions, (3) key communication channels to and from management to the Board along with the overall "tone at the top". Information regarding the Board members, committees and other related information can be found in the Management and Control section of this report. One of the three Board members also serves as president of the Company and is involved in the day to day operations of the Company. Another of the three Board members manages the day to day investment related decisions of the Company. The third member of the Board serves more in an oversight capacity, having no operational responsibilities.

The appropriateness of the entity's organizational structure, and its ability to provide the necessary information flow to manage its activities were considerations in obtaining our understanding of the organizational structure. This includes consideration of the entity's centralized structure and its ability to communicate information upstream, downstream and across all business activities. Our consideration also encompassed understanding the assignment of authority and responsibility. There were no material concerns regarding the entities organizational structure, its ability to provide for necessary information flow to manage its activities or assignment of authority and responsibility.

Our consideration of corporate governance encompassed the risk management function through discussions with senior management and members of the Board and through gaining and understanding of the risk management function including inspection of relevant risk management documentation. Upon our review and consideration of these components and functions, there were no material concerns or exceptions noted.

Management competence is a consideration in overall assessment of corporate governance. In our review of this area; we considered factors such as (1) experience level within the Company of key management, (2) management/employee turnover and (3) previous experience of key management. There were no material concerns noted upon our consideration of this area. As indicated in the Management and Control section of this report, key management has been with the Company since it was acquired by the current owners and became an issuer of coal mining reclamation bonds. Further, it was noted that the president of the Company has significant experience in the coal mining bond reclamation industry. However, it did appear that this knowledge base was concentrated with the president of the Company. This concentration was further evidenced by the reinsurance agreements providing the reinsurer the right to review the terms of the agreement and/or issue notice of cancellation should Mr. Tucker cease to be employed by INIC or cease to underwrite or in any way no longer be responsible for the business covered under the reinsurance agreements.

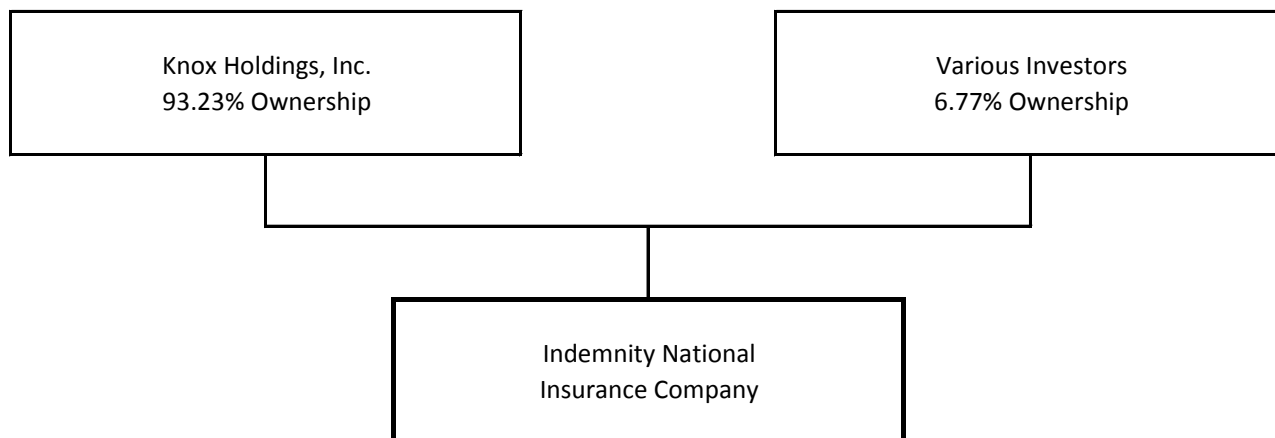
During our consideration of corporate governance, it was noted that the Company did not have an internal audit department due to its overall size.

### **HOLDING COMPANY STRUCTURE**

The Company was a member of an insurance holding company system as defined within Miss. Code Ann. § 83-6-1. The Company completed and filed with the MID the necessary documentation to comply with Miss. Code Ann. § 83-6-5 and § 83-6-9 for the period under examination. The statements and applicable amendments filed with the MID during the examination period were reviewed and it appeared that any changes and/or material transactions by and between the Company and its affiliates were appropriately disclosed.

## Organizational Chart

The following organizational chart depicts the ownership and affiliated companies:



**Knox Holdings, Inc. (“Knox”):** Knox Holdings, Inc. is a Tennessee corporation organized in August 2005 for the purpose of acquiring Great River Insurance Company. Through its subsidiary, INIC, it is primarily engaged in the business of coal reclamation surety bonds.

**Various Investors:** Various investors, some representing management of the Company, currently own 6.77% or 2,257 shares of outstanding shares of the outstanding stock of the Company.

## Related Party Transactions

### Investment Advisory Agreement

Effective January 1, 2006, the Company entered into an investment advisory agreement with CKS Advisors, LLC whereby CKS Advisors, LLC provided investment advice and investment management services. During 2006, CKS Advisors, LLC changed its name to NFC Investments, LLC. For the year ended December 31, 2009 INIC paid NFC Investments, LLC (f/k/a CKS Advisors, LLC) \$82,497.

### Intercompany Tax Allocation Agreement

Effective January 1, 2006 the Company entered into a tax sharing agreement with Knox Holdings, Inc. (the parent company) for the purpose of the companies being included in a consolidated US corporation income tax return.

## FIDELITY BOND AND OTHER INSURANCE

The Company maintained commercial general liability and commercial property insurance, as well as other policies, as deemed appropriate by the Company’s management. The Company maintained a financial institution bond with a \$500,000 aggregate limit of liability, which exceeded the minimum fidelity coverage suggested by the NAIC for a company of this size.

During the examination period, INIC also maintained a key-man life insurance policy on Tracy Tucker, President of INIC, in the amount of \$5,000,000.

### **PENSIONS, STOCK OWNERSHIP, AND INSURANCE PLANS**

The Company had three employees that performed its day-to-day operations. The Company provided paid vacation, holidays, and sick leave for these employees. The Company does not currently offer pension, stock ownership and insurance plans to its employees.

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

The Company is licensed in the following states:

Alabama	Arizona	Arkansas	Colorado
Georgia	Kentucky	Louisiana	Mississippi
Nevada	New Mexico	Oklahoma	South Carolina
Tennessee	Texas	Utah	

The Company currently writes coal reclamation surety bonds. These bonds warrant that land used for coal mining will be returned to its pre-existing condition. For the year ended 2009, approximately 94% of the direct premiums written were in the State of Kentucky. It was also noted that approximately 70% of the bonds outstanding were written through the Willis agency.

### **GROWTH OF THE COMPANY**

	<b>2009</b>	<b>2008</b>	<b>2007</b>
Total net admitted assets	\$ 16,622,000	\$ 13,128,000	\$ 12,949,000
Total liabilities	\$ 4,775,000	\$ 2,616,000	\$ 1,692,000
Total capital and surplus	\$ 11,847,000	\$ 10,512,000	\$ 11,257,000
Net cash from operations	\$ 1,879,000	\$ 1,710,000	\$ 917,000
Total adjusted risk-based capital	\$ 11,847,000	\$ 10,512,000	\$ 11,257,000
Authorized control level risk-based capital	\$ 538,000	\$ 434,000	\$ 451,000
Premiums earned	\$ 1,924,000	\$ 1,528,000	\$ 1,246,000
Net underwriting gain	\$ 499,000	\$ 453,000	\$ 229,000
Net investment income earned	\$ 493,000	\$ 399,000	\$ 376,000
Net realized capital gains (losses)	\$ 904,000	\$ (925,000)	\$ (68,000)
Net income	\$ 1,552,000	\$ (77,000)	\$ 524,000
Pre-tax income to earned premium	98.60%	-4.70%	43.10%
Net underwriting gain to PHS	4.20%	4.30%	2.00%
Investment profit ratio	72.60%	-34.40%	24.70%
Return on surplus	17.10%	-3.00%	0.70%
Net loss ratio	28.90%	19.60%	37.80%
Yield on invested assets	3.50%	3.20%	2.90%
Non-investment grade bonds to total bonds	24.00%	1.00%	0.00%

## REINSURANCE

### Reinsurance Intermediary:

The Company used the services of Integro Insurance Brokers Limited, ("Integro"), a reinsurance intermediary, to place reinsurance with various Lloyd's Underwriting Syndicates and R&V Allgemeine Versicherung Ag. Integro is a Mississippi licensed reinsurance intermediary.

### Ceded Reinsurance Agreement:

The Company has two reinsurance agreements in force as of the examination date. These agreements are excess of loss ("XOL") agreements with various Lloyd's Underwriting Syndicates and R&V Allgemeine Versicherung Ag and provide reinsurance on any occurrence in excess of \$2,000,000 up to \$22,500,000 per principal.

## ACCOUNTS AND RECORDS

The 2009 trial balance of the Company's accounts was tied to the balance sheet of the Company's statutory annual statement filed with the MID, with no exceptions noted. The Company was audited annually by an independent CPA firm.

## STATUTORY DEPOSITS

The Company's statutory deposits with the State of Mississippi complied with Miss. Code Ann. §83-19-31(2). The following chart displays the Company's total statutory deposits as held by the various states at December 31, 2009.

<b>Type of Security</b>	<b>State Deposited</b>	<b>Par Value</b>	<b>Book Value</b>	<b>Fair Value</b>
Bonds	Mississippi	\$ 1,700,000	\$ 1,700,041	\$ 1,711,973
Total Held in Mississippi		1,700,000	1,700,041	1,711,973
Bonds	Arkansas	210,000	210,441	223,913
Bonds	Georgia	75,000	75,149	79,969
Certificate of Deposit	Louisiana	70,000	72,171	75,701
Bonds	Nevada	300,000	304,343	305,934
Bonds	New Mexico	620,000	658,630	705,619
Total Held in all Other States		1,275,000	1,320,734	1,391,136
Total		\$ 2,975,000	\$ 3,020,775	\$ 3,103,109



**INDEMNITY NATIONAL INSURANCE COMPANY  
FINANCIAL STATEMENTS  
EXAMINATION AS OF DECEMBER 31, 2009**

**Introduction**

The following financial statements as determined by the examination, consists of a Statement of Assets, Liabilities, Surplus and Other Funds - Statutory as of December 31, 2009, a Statement of Income - Statutory for the year ended December 31, 2009, a Reconciliation of Surplus as Regards Policyholders – Statutory for the examination period ended December 31, 2009 and a Reconciliation of Examination Adjustments to Surplus - Statutory as of December 31, 2009.

# Indemnity National Insurance Company

## Statement of Assets, Liabilities, Surplus and Other Funds - Statutory

<i>December 31,</i>	<b>2009</b>
<b>Assets</b>	
Bonds	\$ 10,160,072
Common stocks	2,851,193
Preferred stock	217,500
Cash, cash equivalents and short-term investments	1,911,742
Receivables for securities	1,011,491
Investment income due and accrued	152,310
Uncollected premiums and agents' balances in course of collection	310,244
Net deferred tax asset	7,789
<b>Total assets</b>	<b>\$ 16,622,341</b>
<b>Liabilities, Surplus and Other Funds</b>	
Losses	\$ 1,112,277
Loss adjustment expenses	417,757
Other expenses	24,821
Taxes, licenses and fees	59,855
Current federal income taxes	263,488
Unearned premiums	1,082,361
Ceded reinsurance premiums payable	802,822
Payable for securities	1,011,570
<b>Total liabilities</b>	<b>4,774,951</b>
Common capital stock	2,000,040
Gross paid in and contributed surplus	10,499,960
Unassigned funds (surplus)	(652,610)
<b>Capital and surplus</b>	<b>11,847,390</b>
<b>Total liabilities, surplus and other funds</b>	<b>\$ 16,622,341</b>

# Indemnity National Insurance Company

## Statement of Income - Statutory

<i>For the Year Ended December 31,</i>	<b>2009</b>
<b>Underwriting Income</b>	
Premiums earned	\$ 1,923,561
<u>Deductions</u>	
Losses incurred	349,026
Loss adjustment expenses incurred	206,675
Other underwriting expenses incurred	868,918
Total underwriting deductions	1,424,619
Net underwriting gain or (loss)	498,942
<b>Investment Income</b>	
Net investment income earned	492,817
Net realized capital gains (losses)	903,997
Net investment gain (loss)	1,396,814
Net income before dividends to policyholders and before federal income taxes	1,895,756
Less: Federal income taxes incurred	343,507
<b>Net income</b>	<b>\$ 1,552,249</b>

# Indemnity National Insurance Company

## Reconciliation of Surplus as Regards Policyholders - Statutory

*For the examination period ended December 31,*

	2007	2008	2009
Capital and surplus, beginning of the year	\$ 12,715,782	\$ 11,257,088	\$ 10,512,245
Net income (loss)	524,040	(76,563)	1,552,249
Change in net unrealized capital gains	(441,814)	(253,515)	357,881
Change in net deferred income tax	(140,654)	329,467	(498,461)
Change in non-admitted assets	(1,400,266)	755,768	(76,524)
Dividends to stockholders	-	(1,500,000)	-
Examination adjustments	-	-	-
Surplus as Regards Policyholders, years ended	\$ 11,257,088	\$ 10,512,245	\$ 11,847,390

# Indemnity National Insurance Company

## Reconciliation of Examination Adjustments to Surplus - Statutory

For the examination period ended December 31, 2009

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As a result of this examination, there have been no adjustments affecting Surplus as regard policyholders reported by the Company in the December 31, 2009 annual statement. The Surplus as regards policyholders reported by the Company of \$11,847,390 is accepted as reasonably stated for purposes of the balance sheet per the examination.

## **MARKET CONDUCT ACTIVITIES**

A full scope market conduct examination was not performed; however, limited procedures were performed on specific areas of the Company's market conduct which included: agents' licensing, complaints, policy forms, and premiums. No significant exceptions were noted.

## **COMMENTS AND RECOMMENDATIONS**

The following three comments relate to proper completion and disclosures contained within the annual statement filing with the MID. Pursuant to the following comments, it is recommended that the Company properly prepare and complete all NAIC annual statements, and other related documents filed with the MID, in accordance with the relevant NAIC instructions.

1. General Interrogatory 4.1 of the 2009 annual statement asks whether any agency controls more than 20% of any major line of business measured on direct premiums. The Company's response to this interrogatory was "No". However, approximately 70% of the Company's direct premiums for 2009 were from customers of the Willis HRH agency which indicates the answer to General Interrogatory 4.1 is "Yes".
2. SSAP No. 10R requires disclosure of statutory valuation allowances used to reduce the amount of deferred tax assets before determining their admissibility. Note 5 of the Company's 2009 audited financial statements includes disclosure of a statutory valuation allowance in the amount of \$340,000 that fully reduced the Company's deferred tax asset related to non-admitted Schedule BA investments. However, Note 9, Part A of the Company's 2009 annual statement did not disclose the existence of the deferred tax asset and the related valuation allowance pertaining to non-admitted Schedule BA investments.
3. At December 31, 2009 bonds, with a total par value of \$300,000, were pledged to the State of Nevada. These assets, however, do not appear on Schedule E – Part 3 of the 2009 annual statement. However, it was noted that this specific exception was corrected on the 2010 annual statement.

## **SUBSEQUENT EVENTS**

On March 15, 2010, the Company paid dividends to stockholders totaling \$992,000 which were determined by the MID to be extraordinary pursuant to Miss. Code Ann. § 83-6-25 and Regulation 2009-2, section 18 and requiring prior approval of the MID. This extraordinary dividend was approved by the MID on July 21, 2010. The Company also declared ordinary dividends of \$1,055,354 on March 4, 2011 and paid these dividends on March 11, 2011.

On December 29, 2010, the Company issued 95 shares of \$60 par common stock to Tucker Holdings, LLC, which is owned by the President of the Company, for \$50,061. The transaction was accounted for on the 2010 annual statement with the full amount of \$50,061 being credited to the common stock capital account. The shares were issued as part of a plan to increase its capital stock to the minimum requirements of the State of Texas. As part of this plan, the Company must increase its capital stock by at least \$49,996 annually for nine more years to meet the minimum requirements of \$2,500,000.

William Van Thompson, III was added as Chief Financial Officer during the first quarter of 2011.

## ACKNOWLEDGMENT

The examiners representing the Mississippi Insurance Department and participating in this examination were:

Examiner-in-charge	Joseph R. May, CMA, CFE, CIE, CFF
Supervising Examiner	R. Dale Miller, CFE, CFF
Automation Examiner	Francois Houde, CISA, CA
Senior Examiner	Steven T. Page

The courteous cooperation of the officers and employees responsible for assisting in the examination is hereby acknowledged and appreciated.

Respectfully submitted,

  
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Joseph R. May, CMA, CFE, CIE, CFF  
Examiner-in-charge