REPORT OF EXAMINATION
OF THE

AMERICAN INTERNATIONAL INSURANCE
COMPANY OF CALIFORNIA, INC.

AS OF
DECEMBER 31, 2006

Filed June 23, 2008

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Los Angeles, California
June 17, 2008

Honorable Steve Poizner
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

AMERICAN INTERNATIONAL INSURANCE COMPANY
OF CALIFORNIA, INC.

(hereinafter also referred to as the Company) at the primary location of its books and records and its main administrative office, One AIG Center, Wilmington, Delaware 19803. The Company's statutory home office is located at 2730 Gateway Oaks Drive, Suite 100, Sacramento, California 95833.

SCOPE OF EXAMINATION

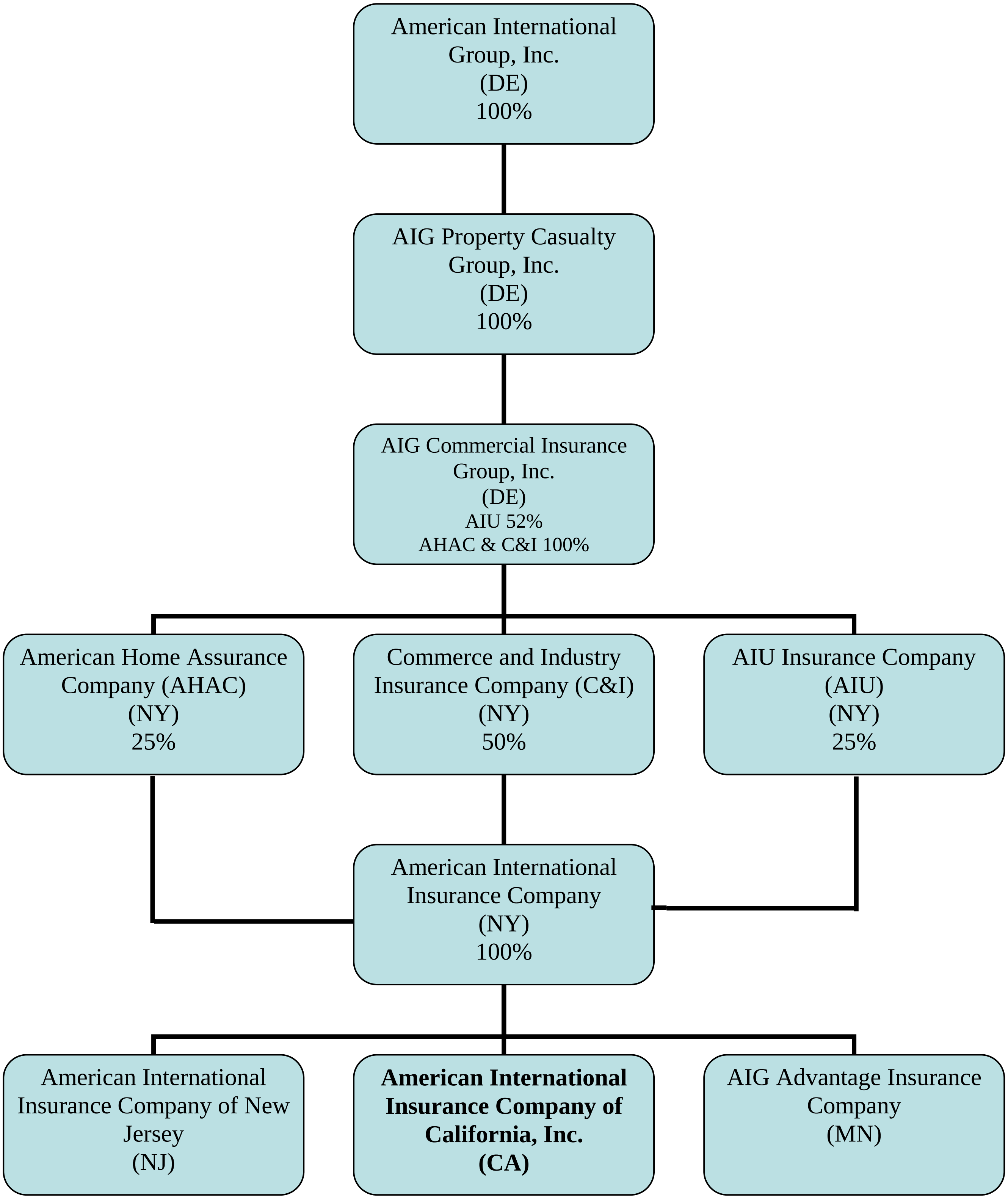
The previous examination of the Company was made as of December 31, 2001. This examination covers the period from January 1, 2002 through December 31, 2006. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2006, as deemed necessary under the circumstances.

The examination was conducted concurrently with the examination of its parent, American International Insurance Company, domiciled in New York.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: company history; corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; loss experience; and sales and advertising.

MANAGEMENT AND CONTROL

The following abridged organizational chart, which is limited to the Company's parent along with its subsidiary insurance companies, depicts the Company's relationship within the holding company system:


American International Group, Inc. (DE) 100%
AIG Property Casualty Group, Inc. (DE) 100%
AIG Commercial Insurance Group, Inc. (DE) AIU 52% AHAC & C&I 100%
American Home Assurance Company (AHAC) (NY) 25%
Commerce and Industry Insurance Company (C&I) (NY) 50%
AIU Insurance Company (AIU) (NY) 25%
American International Insurance Company (NY) 100%
American International Insurance Company of New Jersey (NJ)
American International Insurance Company of California, Inc. (CA)
AIG Advantage Insurance Company (MN)

Management of the Company is vested in a thirteen-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2006 follows:

Directors

Name and Residence	Principal Business Affiliation
M. Bernard Aidinoff New York, New York	Retired Partner Sullivan and Cromwell
Esta L. Cain Bel Air, Maryland	Senior Vice President and General Counsel AIG Marketing, Inc.
Anthony J. DeSantis Wilmington, Delaware	President and Chief Executive Officer AIG Marketing, Inc.
Lucille N. Evans Alpharetta, Georgia	Vice President of AIG Agency Auto Finance Personal Lines Division
J. Ernest Hanson Kenneth Square, Pennsylvania	Retired President and Chief Executive Officer AIG Marketing, Inc.
Michael F. Long Roswell, Georgia	Senior Vice President and Chief Information Officer AIG Marketing, Inc.
William D. Loucks, Jr. Glen Mills, Pennsylvannia	Executive Vice President and Chief Operating Officer AIG Marketing, Inc.
Cecilia E. Norat New York, New York	Director of State Relations American International Group, Inc.
Anthony P. Pavia, Jr. Alpharetta, Georgia	President of AIG Agency Auto Personal Lines Division
Glenn A. Pfeil Wilmington, Delaware	Chief Financial Officer, Executive Vice President and Treasurer AIG Marketing, Inc.
James A. Porcari, III	Senior Vice President

Name and Residence	Principal Business Affiliation
Alpharetta, Georgia	AIG Marketing, Inc.
Donald W. Procopio Aldan, Pennsylvania	Senior Vice President and Chief Actuary AIG Marketing, Inc.
Charles E. Williamson Westfield, New Jersey	President of AIG Private Client Group Personal Lines Division

Principal Officers

Name	Title
Anthony J. DeSantis	President and Chief Executive Officer
Glenn A. Pfeil	Chief Financial Officer, Executive Vice President and Treasurer
Esta L. Cain	Senior Vice President and General Counsel
John G. Colona	Senior Vice President
William D. Loucks, Jr.	Senior Vice President
James A. Porcari, III	Senior Vice President
Donald W. Procopio	Senior Vice President and Chief Actuary
Douglas L. Beck	Vice President and Actuary
Robert B. Laconi	Vice President
Elizabeth M. Tuck	Secretary

Management Agreements

Investment Management Agreement: Effective February 1, 1995, the Company entered into an agreement with AIG Global Investment Corporation (AIGGIC) wherein AIGGIC acts as an investment manager and advisor for the Company. The agreement provides that investment management fees are to be billed annually at a rate of forty cents ($0.40) per thousand dollars of assets under management, plus the pro-rated amount of American International Group, Inc. (AIG) services fees billed to AIGGIC on behalf of the Company. For 2002, 2003, 2004, 2005, and 2006, the Company paid $12,626, $15,281, $17,630, $13,110 and $17,958, respectively, in fees to AIGGIC under the terms of this agreement. The California Department of Insurance (CDI) approved this agreement on December 5, 1995.

Tax Payment Allocation Agreement: Effective January 1, 2002, the Company and its affiliates are part of a consolidated federal tax payment allocation agreement with its ultimate parent, AIG. Allocation of taxes is based upon separate return calculations with inter-company tax balances settled within ninety-days after the filing of the consolidated return. This agreement was not filed with the CDI. It is recommended that the Company submit the agreement to the CDI for approval, pursuant to California Insurance Code (CIC) Section 1215.5(b)(4).

Managing General Agent Agreement: Effective February 1, 1995, the Company entered into an agreement with AIG Marketing, Inc. (AIGM). The agreement provides for AIGM to solicit, bind and write automobile, homeowners, inland marine, and personal excess liability insurance on behalf of the Company. AIGM is compensated for services performed based on a percentage of gross premiums written. This agreement was approved by the CDI on December 5, 1995. For 2002, 2003, 2004, 2005 and 2006 the Company paid $15,046,402, $21,891,028, $29,831,000, $43,219,545, and $55,869,790, respectively in fees to AIGM.

Service and Expense Agreement: Effective April 26, 1996 the Company entered into a service and expense agreement with other AIG companies. The Company and the other AIG companies, which are parties to this agreement, receive office and other services from AIG and certain of its subsidiaries and are billed quarterly based on actual costs. The CDI approved this agreement on September 28, 1995.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2006, the Company is solely licensed in California. The Company was licensed to transact multiple lines of property and casualty insurance. The Company writes personal lines insurance through the American International Group, Inc. (AIG)'s Personal Lines Pool (PLP), which consists primarily of private passenger auto, homeowners and other personal lines products. The PLP segments written by the Company follows:

- AIG Direct (Wilmington, DE)
- Private Client Group (Berkeley Heights, NJ)
- Assigned Risk (previously the Robert Plan, now Wilmington, DE)

AIG Direct writes preferred and standard personal auto risks on a direct response and mass marketing basis through direct mail and/or telemarketing, endorsement of sponsoring affinity groups and the internet. AIG Direct also markets personal umbrella. PLP offers homeowners insurance through a third party relationship with Homesite Insurance Company.

The Private Client Group (PCG) targets high net worth individuals (over $5 million of net worth and more than $1 million primary residences) marketed through agents, brokers and bank owned agencies. The PCG writes homeowners, auto, private collection, high limit excess liability, yacht, aviation, kidnap and ransom, and security services.

The Assigned Risk segment covers automobile residual market business written through the various state Assigned Risk Programs. The policy administration services are being handled by AIG Marketing, Inc., an affiliated agency.

The following is a listing of the Company's direct premiums written by PLP segment:

Lines of Business/PLP Segments	Premiums Written in 2006
Allied Lines	
PCG	$1,881,198
Homeowners Multiple Peril	
PCG	68,078,468
AIG Direct	(82.00)
Inland Marine	
PCG	24,795,125

Lines of Business/PLP Segments	Premiums Written in 2006
Earthquake	
PCG	27,541,892
Workers' Compensation	
PCG	2,080,296
Other Liability	
PCG	59,342
Other Private Passenger Auto Liability	
Assigned Risk (In run-off)	860,378
PCG	4,778,518
AIG Dreict	44,864,626
Other Commercial Auto Liability	
Assigned Risk (In run-off)	1,093
Private Passenger Auto Physical Damage	
PCG	(10,294)
AIG Direct	36,681,401
TOTAL	$211,611,961

REINSURANCE

Intercompany Pooling Agreement

The Company is a participant in an intercompany pooling agreement. The participants in the pool are as follows:

COMPANY	POOLING %
American International Insurance Company (AIIC)	31%
AIG Centennial Insurance Company (AIGCI)	18%
AIG Premier Insurance Company (AIGPI)	13%
New Hampshire Indemnity Company, Inc. (NHI)	12%
AIG Hawaii Insurance Company, Inc. (AIGH)	8%
American International Insurance Company of California, Inc. (AIICCA)	3%
AIG Advantage Insurance Company (AIGA)	3%
AIG Preferred Insurance Company (AIGPR)	3%
American International Insurance Company of New Jersey (AIICNJ)	2%
AIG Indemnity Insurance Company (AIGIIC)	2%
AIG National Insurance Company, Inc. (AIGNIC)	2%
AIG Auto Insurance Company of New Jersey (AIGNJ)	2%
American Pacific Insurance Company, Inc. (APIC)	1%
Total	100%

Under the pooling agreement, 100% of the net business of each participating company is ceded to American International Insurance Company (AIIC). AIIC cedes 50% of this business to National Union Fire Insurance Company of Pittsburgh, Pennsylvania, an affiliate, under a 50% quota share agreement. After this cession, each of the companies assume their respective share of the net business. All lines are subject to the pooling agreement.

AIIC, the lead company in the Personal Lines Pool and the Company’s direct parent, is not authorized to transact insurance business nor is it an approved accredited reinsurer in the State of California. At December 31, 2006, the Company had taken reinsurance credit of $60.9 million in loss reserves and $89.5 million in unearned premium reserves relative to its participation in the pooling agreement. Pursuant to California Insurance Code Section 922.4, the assuming insurer who is not authorized nor accredited in California must provide the respective pool members a clean, irrevocable, unconditional letter of credit in order for the Company to take any reinsurance credit. On May 30, 2007, Intesa Sanpaolo, S.p.A and Westpac Bank Corporation issued letters of credit on behalf of the Company in the amount of $16.0 million and $134.5 million, respectively. The Company was approved as an accredited reinsurer in the State of California on December 6, 2007.

Subsequent to the exam period, the Company submitted an amended intercompany pooling agreement to the California Department of Insurance (CDI) to add 21st Century Insurance Company, 21st Century Casualty Company, 21st Century Insurance Company of the Southwest, and American International Insurance Company of Delaware (all companies are affiliates) and change the pooling percentages for the applicable companies who are part of the agreement. The Company is currently awaiting an approval from the CDI.

Assumed

The Company does not assume any reinsurance other than its participation in the intercompany pooling agreement.

Ceded

The Company does not cede any reinsurance other than its participation in the intercompany pooling agreement.

As of December 31, 2006, the net amount recoverable for losses, loss adjustment expenses, and unearned premiums from reinsurance totaled $150.4 million or 659% of surplus as regards policyholders all of which is a result of the intercompany pooling agreement.

ACCOUNTS AND RECORDS

Risk Management and Internal Controls

During the course of the examination, as part of the Company's internal audits and Sarbanes-Oxley Act compliance, certain control deficiencies were noted in the areas of underwriting, claims, information technology and taxes. The deficiencies did not have a material impact on the Company's financial condition as of the examination date. However, it is recommended that the Company remediate these control deficiencies.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2006

Underwriting and Investment Exhibit for the Year Ended December 31, 2006

Reconciliation of Surplus as Regards Policyholders
from December 31, 2001 through December 31, 2006

Statement of Financial Condition
as of December 31, 2006

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 56,474,595	$	$ 56,474,595	
Cash and short-term investments	219,808		219,808	(1)
Investment income due and accrued	807,217		807,217	
Premiums and considerations:				
Premiums and agents' balances in course of collection	3,274,040	25,683	3,248,357	(1)
Premiums, agents' balances and installments booked but deferred and not yet due	13,027,640		13,027,640	
Accrued retrospective premiums	68,521		68,521	
Net deferred tax asset	1,835,299	216,901	1,618,398	
Total assets	$ 75,707,120	$ 242,584	$ 75,464,536	

Liabilities, Surplus and Other Funds			
Losses		$ 24,059,741	(2)
Loss adjustment expenses		5,167,484	(2)
Commissions payable, contingent commissions and other similar charges		82,379	
Other expenses		520,563	
Taxes, licenses and fees		792,363	(3)
Current federal and foreign income taxes		37,938	
Unearned premiums		17,360,058	
Payable to parent, subsidiaries and affiliates		4,106,695	
Aggregate write-ins for liabilities		510,444	
Total liabilities		52,637,665	
Common capital stock	$ 2,600,000		
Gross paid-in and contributed surplus	9,678,380		
Unassigned funds (surplus)	10,548,491		
Surplus as regards policyholders		22,826,871	
Total liabilities, surplus and other funds		$ 75,464,536	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2006

Statement of Income

Underwriting Income		
Premiums earned		$ 48,013,968
Deductions:		
Losses incurred	$ 27,394,788	
Loss expense incurred	6,264,310	
Other underwriting expenses incurred	12,564,173	
Aggregate write-ins for underwriting deductions	47,938	
Total underwriting deductions		46,271,209
Net underwriting gain		1,742,759
Investment Income		
Net investment income earned	$ 2,383,323	
Net realized capital losses	(8,259)	
Net investment gain		2,375,064
Other Income		
Net loss from agents' balances charged off	$ (577,971)	
Finance and service charges not included in premiums	1,310,153	
Aggregate write-ins for miscellaneous income	(343,108)	
Total other income		389,074
Net income before federal income taxes		4,506,897
Federal income taxes incurred		716,168
Net income		$ 3,790,729

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2005		$ 19,029,915
Net income	$ 3,790,729	
Change in net deferred income tax	(306,782)	
Change in nonadmitted assets	205,127	
Aggregate write-ins for gains in surplus	107,882	
Change in surplus as regards policyholders		3,796,956
Surplus as regards policyholders, December 31, 2006		$ 22,826,871

Reconciliation of Surplus as Regards Policyholders
from December 31, 2001 through December 31, 2006

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2001, per Examination			$ 15,014,640
Net income	$ 7,918,160	$	
Change in net deferred income	1,036,881		
Change in nonadmitted assets		124,754	
Aggregate write-ins for losses in surplus		1,018,056	
Totals	$ 8,955,041	$ 1,142,810	
Net increase in surplus as regards policyholders for the examination			7,812,231
Surplus as regards policyholders, December 31, 2006, per Examination			$ 22,826,871

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Cash and Short-term Investments
Premiums and Considerations: Premiums and Agents' Balances in Course of Collection

The Company's unapplied cash is netted against agents' balances in course of collection. Statements of Statutory Accounting Principles (SSAP) No. 67, paragraph 4 of the National Association of Insurance Commissioners Accounting Practices and Procedures Manual (NAIC AP&P) states that for cash receipts that cannot always be identified for a specific purpose, or for other reasons, applied to a specific account when received, the reporting entity shall record a liability for the cash receipts when the funds are received. Based on SSAP No. 67, paragraph 4, the Company should establish a liability for cash receipts that cannot be identified for a specific purpose. It is recommended that the Company comply with SSAP 67, paragraph 4 of the NAIC AP&P Manual.

(2) Losses and Loss Adjustment Expenses

As previously mentioned, the Company is a participant in an intercompany pooling agreement. The lead company in the pool is the Company's parent, American International Insurance Company (New York). Because the business of the Company is pooled it was necessary to review the loss and loss adjustment expense reserves on a group-wide basis. Based on an analysis of the loss and loss adjustment expense reserves by INS Consultants, Inc., which was retained by the New York State Insurance Department (NYSID), and the review of their work by a Casualty Actuary from NYSID and the California Department of Insurance (CDI), the Company's December 31, 2006 reserves for loss and loss adjustment expenses were determined to be reasonably stated and have been accepted for the purposes of this examination.

(3) Taxes, Licenses and Fees

California Insurance Code (CIC) Section 1872.8 (a) states, in part, that each insurer doing business in the State of California must pay an annual Vehicle Fraud Assessment Fee for each vehicle insured under an insurance policy it issues in California. The fee provides funding for the increased investigation and prosecution of fraudulent automobile insurance claims and automobile theft in California.

During the course of this examination, it was noted that the Company did not accurately calculate its vehicle count used for the Vehicle Fraud Assessment Fee as required by the Code. The total amount due is $430,334.10 plus additional late charges assessed based on CIC Section 12995 and is summarized by quarter as follows:

Quarter	Fee/Vehicle	Vehicle Count	Amount Due
01/01/02 - 03/31/02	$0.45	43,472	$19,562.40
04/01/02 - 06/30/02	$0.45	42,668	$19,200.60
07/01/02 - 09/30/02	$0.45	41,730	$18,778.50
10/01/02 - 12/31/02	$0.45	41,617	$18,727.65
01/01/03 - 03/31/03	$0.45	58,033	$26,114.85
04/01/03 - 06/30/03	$0.45	41,048	$18,471.60
07/01/03 - 09/30/03	$0.45	41,525	$18,686.25
10/01/03 - 12/31/03	$0.45	41,055	$18,475.00
01/01/04 - 03/31/04	$0.45	41,186	$18,533.70
04/01/04 - 06/30/04	$0.45	42,766	$19,244.00
07/01/04 - 09/30/04	$0.45	52,762	$23,742.90
10/01/04 - 12/31/04	$0.45	60,292	$27,131.40
01/01/05 - 01/31/05	$0.45	81,715	$36,771.75
04/01/05 - 06/30/05	$0.45	100,852	$45,383.40
07/01/05 - 09/30/05	$0.45	80,795	$36,357.75
10/01/05 - 12/31/05	$0.45	69,110	$31,099.50
01/01/06 - 03/31/06	$0.45	42,483	$19,117.35
04/01/06 - 06/30/06	$0.45	17,009	$7,654.05
07/01/06 - 09/30/06	$0.45	13,835	$6,225.75
10/01/06 - 12/31/06	$0.45	2,345	$1,055.25
Total		**956,298**	**$430,334.10**

It is recommended that the Company remit the amount due to CDI and implement procedures to insure future compliance. The Company submitted amended filings and remitted the additional amount due to the CDI in April, 2008. The Company has also implemented procedures and methodologies to insure future compliance.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control: Management Agreements – Tax Payment Allocation Agreement (Page 6): It is recommended that the Company submit the Tax Payment Allocation Agreement to the California Department of Insurance (CDI) pursuant to California Insurance Code (CIC) Section 1215.5(b)(4) for approval.

Accounts and Records: Risk Management and Internal Controls (Page 10): It is recommended that the Company continue to monitor and remediate the control deficiencies as an on-going effort to enhance its control environment.

Comments on Financial Statement Items: Cash and Short-term Investment and Premiums and Considerations: Premiums and Agents' Balances in Course of Collection (Page 15): It is recommended that the Company comply with Statements of Statutory Accounting Principles 67, paragraph 4 of the National Association of Insurance Commissioners (NAIC) Accounting Practices and Procedures Manual to account for all cash receipts that cannot be identified for a specific purpose in the Remittances and Items Not Allocated account line item of the Annual Statement.

Previous Report of Examination

Summary of Significant Findings (Page 2): The Company's surplus as regards policyholders as of December 31, 2001 was reduced by $10 million to $4.9 million. The total reduction was due to examination increases in the Company's loss and loss adjustment expense reserves. The Company's December 31, 2006 reserves for loss and loss adjustment expenses were determined to be reasonably stated and have been accepted for the purposes of this examination.

Accounts and Records – Premiums and Agent's Balances in Course of Collection (Page 8): It was recommended that the Company report agent's balances in accordance with the NAIC annual statement instructions. It was also recommended that the Company write-off all uncollectible premium balances and purge the database of these premiums. The Company has complied.

Accounts and Records – Escheat Procedures (Page 8): It was recommended that the Company establish a procedure to escheat stale dated checks or drafts to the State of California in accordance with the Unclaimed Property Law. The Company has implemented this recommendation.

Comments on Financial Statement Items – Loss and Loss Adjustment Expenses (Page 14): It was recommended that the Company maintain appropriate records, worksheets, correspondence and other documents pertaining to the actuarial work product and make them available for review. The Company has implemented this recommendation.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

_______/S/____________________
Francis Matejik, CFE
Examiner-In-Charge
Contract Insurance Examiner
Department of Insurance
State of California