

REPORT ON EXAMINATION
OF THE
AMERICAN GENERAL
PROPERTY INSURANCE COMPANY OF FLORIDA
JACKSONVILLE, FLORIDA

AS OF
DECEMBER 31, 2003

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida
October 1, 2004

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Dear Sirs:

Pursuant to your instructions, in compliance with Section 624.316, FS, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners, we have conducted an examination as of December 31, 2003, of the financial condition and corporate affairs of:

**AMERICAN GENERAL
PROPERTY INSURANCE COMPANY OF FLORIDA
American General Center-Nashville
Nashville, TN 37250**

Hereinafter referred to as the "Company". Such report of examination is herewith respectfully submitted.

INTRODUCTION

This examination covered the period of January 1, 2001 through December 31, 2003. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2000. This examination commenced with planning at the Office on July 22, 2004. The fieldwork commenced on July 28, 2004, and was concluded as of October 1, 2004. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

SCOPE OF EXAMINATION

This financial examination was an association zone statutory financial examination conducted in accordance with the Financial Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the National Association of Insurance Commissioners (NAIC) as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code (FAC), with due regard to the statutory requirements of the insurance laws, rules and regulations of the State of Florida.

In this examination, emphasis was directed to the quality, value and integrity of the statement of assets and the determination or estimation of liabilities, as it affects the financial solvency of the Company.

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio report, the

A.M. Best Report, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) were reviewed and utilized where applicable within the scope of this examination.

We valued and/or verified the amounts of the Company's assets and liabilities as reported by the Company in its annual statement as of December 31, 2003. Transactions subsequent to year-end 2003 were reviewed where relevant and deemed significant to the Company's financial condition.

This report of examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which are deemed to require special explanation or description.

Based on the review of the Company's control environment and the materiality level set for this examination, reliance was placed on work performed by the Company's CPAs, after verifying the statutory requirements, for the following account:

Deferred Tax Liability

Status of Adverse Findings from Prior Examination

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 1999, along with resulting action taken by the Company in connection therewith.

1. The Company did not report the correct amount of authorized shares as stated in Article III of the articles of incorporation.

Resolution: The Company was now reporting this correctly on annual and quarterly statement filings.

2. The Company did not have an audit committee as required in Section 624.424 (8) (c), FS.

Resolution: The Company established an audit committee on July 31, 2002.

3. The Company did not include in the minutes of the Board of Directors the review and approval of the prior examination report.

Resolution: The Company reviewed and approved the prior examination report for the year 2000 and documented the review in the minutes of the Board of Directors.

4. The Company had not recorded the appointment of the CPA before year-end.

Resolution: The Company recorded in the minutes of the Board of Directors such hiring or appointment according to Section 624.424 (8) (c), FS.

5. The Company did not appoint the Actuary before year-end.

Resolution: The Company appointed the Actuary prior to the year-end and recorded the appointment in the minutes of the Board of Directors.

HISTORY

General

The Company was incorporated as a wholly-owned subsidiary of Independent Fire Insurance Company on April 20, 1970, under the laws of the State of Florida as a stock property and casualty insurer and commenced business on July 1, 1970, with the name of Herald Fire Insurance Company. Effective January 1, 1981, through a corporate reorganization, Independent Insurance Group, Inc., of Jacksonville, Florida, a holding company, became the parent company of the Independent Life and Accident Insurance Company and its wholly-owned subsidiaries, including the Company.

Article I of the articles of incorporation was amended on April 14, 1997, changing the name of the Company from Independent Fire Insurance Company of Florida to American General Property Insurance Company of Florida. The bylaws were amended and restated on November 19, 2001, amending Article III Section 1 (a), in reference to the Board of Directors. The number of directors was changed to a minimum of three, but later changed on March 6, 2002 to a minimum of five directors as required by Section 628.081, FS.

In accordance with Section 624.401(1), FS, the Company was authorized to transact the following insurance coverage in the State of Florida on December 31, 2003:

Fire
Allied Lines

Capital Stock

As of December 31, 2003, the Company's capitalization was as follows:

Number of authorized common capital shares	1,000,000
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Number of shares issued and outstanding	150,000
Total common capital stock	\$1,500,000
Per value per share	\$ 10.00

On March 30, 1999, the Company became a wholly-owned subsidiary of American General Property Insurance Company (AGPIC) under an agreement and plan of reorganization.

AGPIC owned 100 percent of the stock issued by the Company and maintained control of the Company. American General Life and Accident Insurance Company (AGLA) owned 48.15% of AGPIC and AGC Life Insurance Company (AGCL) directly owned the remaining 51.85% of AGPIC. The ultimate parent was American General Corporation (AGC).

Profitability of Company

The Company had a net underwriting gain of \$1,628,278, \$1,787,639 and \$1,514,071 for 2001, 2002 and 2003, respectively. Net income during the same period was \$2,011,196, \$2,327,450 and \$1,930,901.

Dividends to Shareholders/Policyholders

Dividends of \$8,000,000 were paid to shareholders during 2003 with the prior approval of the State of Florida. No dividends were paid in 2001 and 2002.

Management

The annual meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, FS. Directors serving as of December 31, 2003, were:

Directors

Name and Location	Principal Occupation
Merton B. Aidinoff New York, NY	Insurance Executive
Gregory A. Hayes Nashville, TN	Insurance Executive
David I. Herzog New York, NY	Insurance Executive
Rodney O. Martin, Jr. Houston, TX	Insurance Executive
Nicholas A. O’Kulich New York, NY	Insurance Executive
Ernest T. Patrikis New York, NY	Insurance Executive
Gary D. Reddick Houston, TX	Insurance Executive
Martin John Sullivan New York, NY	Insurance Executive
Christopher J. Swift Houston, TX	Insurance Executive
James W. Weakley Nashville, TN	Insurance Executive

The Board of Directors, in compliance with the Company’s bylaws, appointed the following senior officers:

Senior Officers

Name	Title
Rodney O. Martin, Jr. James W. Weakley	Sr. Chairman of the Board President and CEO

Christopher J. Swift
Gary D. Reddick
Gregory A. Hayes
Charles K. Gibson
Elizabeth M. Tuck

Chief Financial Officer
Chief Administrative Officer
Treasurer
Controller
Secretary

The Company had an Executive Committee in accordance with Section 607.0825, FS, which was comprised of all the members of the Board of Directors.

The Company had a formal audit committee referred to as the Corporate Affairs Committee as required by Section 624.424(8)(c), FS. The Committee members were Richard Bender, Gregory Hayes and David Herzog.

Conflict of Interest Procedure

The Company had adopted a policy statement that required written annual disclosure of conflicts of interest, in accordance with Section 607.0832, FS. No exceptions were noted during this examination period.

Corporate Records

The recorded minutes of the meetings by the Shareholder and the Board of Directors were reviewed for the period under examination. The minutes adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, FS, including the authorization of investments as required by Section 625.304, FS.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales through Reinsurance

There were no mergers, disposals, dissolutions, purchases, or sales through reinsurance as of December 31, 2003.

Surplus Debentures

The Company had no surplus debentures.

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), FAC. The latest holding company registration filing with the State of Florida, as required by Section 628.801, FS, and Rule 69O-143.046, FAC, was made on April 29, 2004.

On December 31, 2003, the following agreements were in effect between the Company and its affiliates:

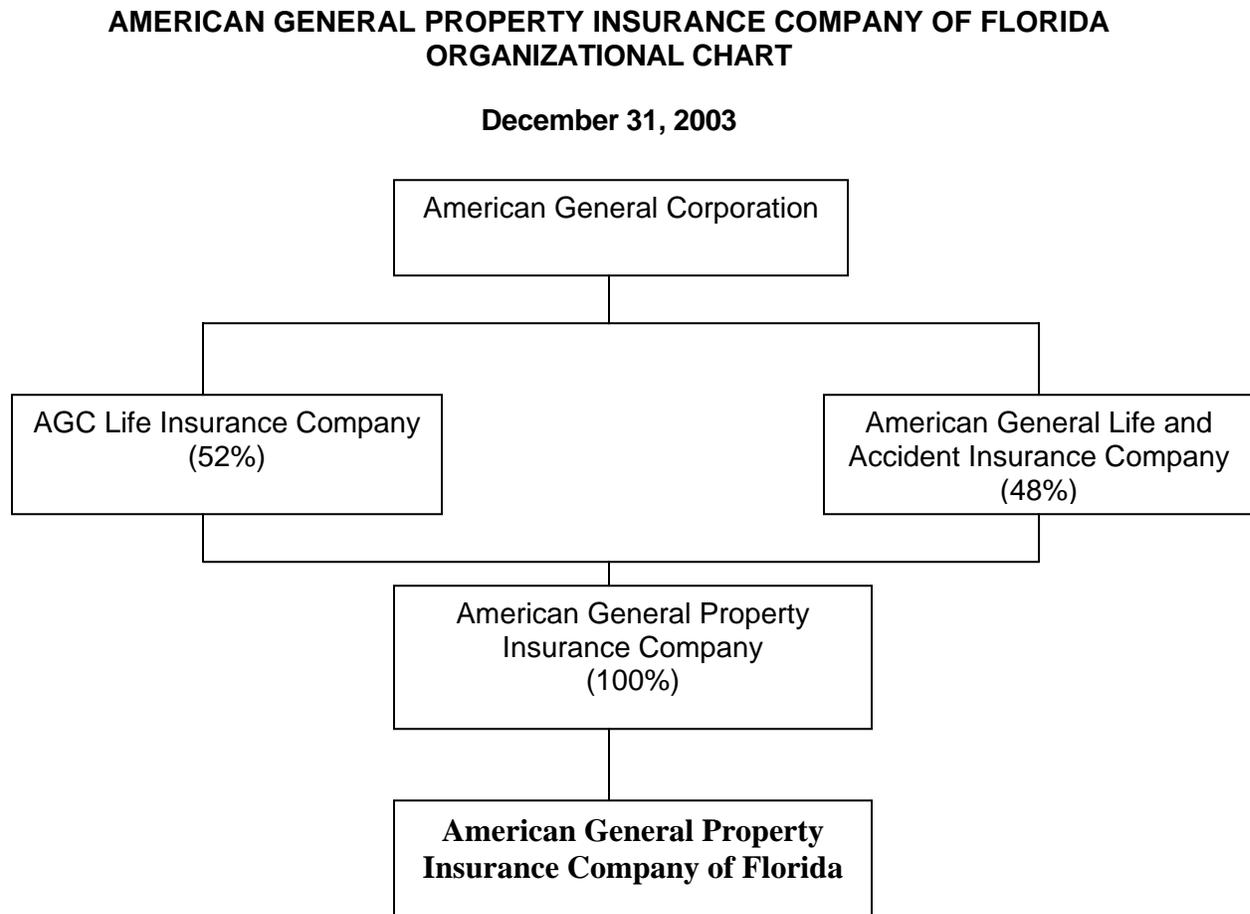
Tax Allocation Agreement

The Company filed a consolidated Federal Income Tax return with AGC. On December 31, 2003, the method of allocation between the Company and its ultimate parent was such that the Company paid what would have been required if tax liabilities were paid on a separate basis. The allocation of the consolidated tax liability was computed in the manner provided by U.S. Treasury Regulation Section 1.1502-33(d)(2)(ii), in conjunction with the method described in U.S. Treasury Regulation Section 1.1552.1(a)(2).

Investment Management Agreement

The Company had an investment management agreement with American General Investment Management, LP (AGIM). The general terms of the agreement called for AGIM to invest and manage the assets of the Company. On January 1, 2002, the Company executed an agreement transferring the responsibilities of AGIM to AIG Global Investment Corporation (AIGGIC).

A simplified organizational chart as of December 31, 2003, reflecting the holding company system, as shown below. The Schedule Y of the 2003 Annual Statement provided a list of all related companies of AGC.



FIDELITY BOND AND OTHER INSURANCE

As of December 31, 2003, the Company maintained fidelity bond coverage up to \$100,000,000 with a maximum deductible of \$5,000,000 each claim. This policy adequately covered the suggested minimum amount as recommended by the NAIC. The Company carried other insurance coverage as required or deemed necessary.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company had no employees.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, FS, and with various state officials as required or permitted by law:

State	Description	Par Value	Market Value
GA	US Treasury Bonds, 5.250%, 11/15/28	\$ 36,000	\$ 36,259
LA	US Treasury Notes, 3.625%, 5/15/13	105,000	100,931
SC	US Treasury Notes, 3.625%, 5/15/13	150,000	144,188
VA	US Treasury Notes, 3.625%, 5/15/13	265,000	254,731
FL	US Treasury Notes, 3.625%, 5/15/13	<u>420,000</u>	<u>403,725</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 976,000</u>	<u>\$ 939,834</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

The Company was in run-off. They wrote only renewal business in 2003 and notified the Office on January 30, 2004 of their intent to discontinue writing the only two lines of business remaining on their certificate of authority, Fire and Allied Lines.

Territory and Plan of Operation

The Company was authorized to transact insurance in the following states, in accordance with Section 624.401 (2), FS:

Arkansas
Indiana
Virginia

Florida
Oklahoma

Georgia
South Carolina

Treatment of Policyholders

The Company had established procedures for handling written complaints in accordance with Section 626.9541(1)(j), FS. The Company's claims management maintained a claims procedure manual that included detailed procedures for handling each type of claim.

REINSURANCE

The reinsurance agreements reviewed as of December 31, 2003, were found to meet NAIC regulations with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

Assumed

The Company did not assume risk.

Ceded

The Company ceded risk under catastrophe excess of loss and property catastrophe aggregate agreements. The reinsurance agreements covered business classified as property business with effective dates beginning January 1 of each year.

The catastrophe excess of loss reinsurance agreements carried coverage in the first layer was 95% of \$8,000,000 in excess of \$2,000,000 and the second layer was 95% of \$15,000,000 in excess of \$10,000,000. Beginning in 2004, reinsurance was arranged through AIG. The coverage for 2004 was 100% of \$21,000,000 in excess of \$2,000,000. The Company had purchased catastrophe protection from the Florida Hurricane Catastrophe Fund (FHCF).

The property catastrophe aggregate reinsurance agreement was not renewed in 2004. The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory basis financial statement for the years 2001, 2002 and 2003 in accordance with Section 624.424 (8), FS. The supporting work papers prepared by the CPA were in accordance with Rule 69O-137.002, FAC.

The Company's accounting records were maintained on a computerized system in accordance with Section 607.1601 (2), FS. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office. The agents' balances and uncollected premiums aging report was not prepared on a regular basis.

The Company maintained its principal operational offices in Jacksonville, Florida; however the examination was conducted at the administrative offices in Nashville, Tennessee.

On December 31, 2003, the following agreements were in effect between the Company and non-affiliates:

Custodial Agreement

The Company had an agreement with State Street Bank and Trust Company, Boston Massachusetts. The agreement was in compliance with Rule 69O-143.042, FAC.

CPA Agreement

The Company had acquired the services of PriceWaterhouseCoopers, LLC to conduct the annual audit in accordance with Section 624.424(8)(a), FS.

Risk-Based Capital

The Company's risk-based capital was reported at an adequate level.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2003, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

**AMERICAN GENERAL
PROPERTY INSURANCE COMPANY OF FLORIDA
Assets**

DECEMBER 31, 2003

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	\$13,704,331		\$13,704,331
Cash:			
Cash/Short-term investments	207,865		207,865
Receivable for Securities	945		945
Agents' Balances:			
Uncollected premium	160,994		160,994
Net deferred tax asset	26,324		26,324
Interest and dividend income due & accrued	208,426		208,426
Receivable from PSA's	245,755		245,755
Totals	\$14,554,640	\$0	\$14,554,640

**AMERICAN GENERAL
PROPERTY INSURANCE COMPANY OF FLORIDA
Liabilities, Surplus and Other Funds**

DECEMBER 31, 2003

Liabilities	Per Company	Examination Adjustments	Per Examination
Losses	\$ 474,499		474,499
Loss adjustment expenses	35,855		35,855
Commissions payable, contingent & other charges	3,023		3,023
Other expenses	1,059		1,059
Taxes, licenses and fees	89,305		89,305
Current federal & foreign income taxes	151,562		151,562
Unearned premiums	284,030		284,030
Advance premiums	232,032		232,032
Ceded reinsurance premiums payable	(24,681)		(24,681)
Remittances and items not allocated	\$6,900		6,900
Payable to PSA's	141,709		141,709
Aggregate write-ins for liabilities	\$56,930		56,930
Total Liabilities	<u>\$ 1,452,223</u>		<u>1,452,223</u>
Common capital stock	1,500,000		1,500,000
Gross paid in and contributed surplus	2,500,000		2,500,000
Unassigned funds (surplus)	9,102,417		9,102,417
Surplus as regards policyholders	<u>\$ 13,102,417</u>	<u>0</u>	<u>13,102,417</u>
Total liabilities, capital and surplus	<u>\$ 14,554,640</u>	<u>0</u>	<u>\$14,554,640</u>

**AMERICAN GENERAL
PROPERTY INSURANCE COMPANY OF FLORIDA**

Statement of Income

DECEMBER 31, 2003

Underwriting Income

Premiums earned	\$5,776,503
DEDUCTIONS:	
Losses incurred	2,358,140
Loss expenses incurred	255,391
Other underwriting expenses incurred	1,648,901
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$4,262,432</u>
Net underwriting gain or (loss)	<u>\$1,514,071</u>

Investment Income

Net investment income earned	\$1,060,100
Net realized capital gains or (losses)	422,489
Net investment gain or (loss)	<u>\$1,482,589</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$0
Finance and service charges not included in premiums	
Aggregate write-ins for miscellaneous income	(3,788)
Total other income	<u>(\$3,788)</u>

Net income before dividends to policyholders and before federal & foreign income taxes	\$2,992,872
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	<u>\$2,992,872</u>
Federal & foreign income taxes	<u>1,061,971</u>

Net Income \$1,930,901

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year \$19,185,546
Gains and (Losses) in Surplus

Net Income	\$1,930,901
Net unrealized capital gains or losses	0
Change in net deferred income tax	(10,444)
Change in non-admitted assets	(3,675)
Change in provision for reinsurance	89
Dividends to stockholders	(8,000,000)
Change in surplus as regards policyholders for the year	<u>(\$6,083,129)</u>

Surplus as regards policyholders, December 31 current year \$13,102,417

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses

\$35.855

An in-house Actuary, appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet, as of December 31, 2003, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office Actuary reviewed work papers provided by the Company and was in concurrence with this opinion.

**AMERICAN GENERAL
PROPERTY INSURANCE COMPANY OF FLORIDA
Comparative Analysis of Changes in Surplus**

DECEMBER 31, 2003

The following is a reconciliation of surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders per December 31, 2003, Annual Statement	\$13,102,417
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	<u>PER</u> <u>COMPANY</u>	<u>PER</u> <u>EXAM</u>	INCREASE (DECREASE) <u>IN SURPLUS</u>
ASSETS:			
No adjustments			
LIABILITIES:			
No adjustments			
Net Change in Surplus:			\$0
Surplus as Regards Policyholders December 31, 2003, Per Examination			\$13,102,417

SUMMARY OF FINDINGS

Compliance with previous directives

The Company had taken the necessary actions to comply with the comments made in the 2000 Examination Report issued by the Office.

Current examination comments and corrective action

There are no comments or findings.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of the **American General Property Insurance Company of Florida** as of December 31, 2003, consistent with the Insurance Laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$13,102,417, which was in compliance with Section 624.408, FS.

In addition to the undersigned, March Fisher, Senior Actuarial Analyst and Joe Boor, FCAS, participated in the examination.

Respectfully submitted,

JOEL V. BENGIO
Financial Examiner/Analyst II
Florida Office of Insurance Regulation

MICHAEL HAMPTON, CPA, CFE, DABFA, CFE, CPM
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation