

REPORT ON EXAMINATION

OF

AMERICAN MODERN INSURANCE

COMPANY OF FLORIDA, INC.

JACKSONVILLE, FLORIDA

AS OF

DECEMBER 31, 2006

BY THE

OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION.....	1
HISTORY	2
GENERAL	2
CAPITAL STOCK.....	3
LICENSING CONSENT ORDER	3
PROFITABILITY OF COMPANY	3
MANAGEMENT	4
CONFLICT OF INTEREST PROCEDURE.....	5
CORPORATE RECORDS	5
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE.....	6
SURPLUS DEBENTURES	6
AFFILIATED COMPANIES	7
ORGANIZATIONAL CHART	8
TAX ALLOCATION AGREEMENT.....	9
COST SHARING AGREEMENT.....	9
POOLING AGREEMENT	10
FIDELITY BOND.....	10
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	10
STATUTORY DEPOSITS.....	11
PLAN OF OPERATIONS.....	11
TERRITORY	11
TREATMENT OF POLICYHOLDERS.....	11
REINSURANCE	12
ASSUMED.....	13
CEDED	13
ACCOUNTS AND RECORDS.....	13
CUSTODIAL AGREEMENT	14
INDEPENDENT AUDITOR AGREEMENT.....	15
FINANCIAL STATEMENTS PER EXAMINATION.....	16
ASSETS	17
LIABILITIES, SURPLUS AND OTHER FUNDS	18
STATEMENT OF INCOME.....	19

COMMENTS ON FINANCIAL STATEMENTS..... 20
 LIABILITIES 20
 CAPITAL AND SURPLUS..... 20
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS..... 21
SUMMARY OF FINDINGS 22
SUBSEQUENT EVENTS..... 22
CONCLUSION 23

Tallahassee, Florida

May 7, 2008

Kevin M. McCarty
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2006, of the financial condition and corporate affairs of:

**AMERICAN MODERN INSURANCE COMPANY OF FLORIDA, INC.
1301 RIVER PLACE BOULEVARD
SUITE 1300
JACKSONVILLE, FLORIDA 32207**

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

SCOPE OF EXAMINATION

This examination covered the period of September 8, 2005 through December 31, 2006. This was the Company's first examination by representatives of the Florida Office of Insurance Regulation (Office). The examination commenced with planning at the Office on December 21, 2007, to December 28, 2007. The fieldwork commenced on January 28, 2008, and was concluded as of May 27, 2008.

This financial examination was a statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules 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 of liabilities, as those balances affect the financial solvency of the Company as of December 31, 2006. Transactions subsequent to year-end 2006 were reviewed where relevant and deemed significant to the Company's financial condition.

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 reports, 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) and other reports as considered necessary were reviewed and utilized where applicable within the scope of this examination.

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 CPA, after verifying the statutory requirements, for the following accounts:

- Bonds, Cash and Cash equivalents
- Uncollected premiums
- Funds held by reinsurance companies
- Net deferred tax assets
- Losses and loss adjustment expenses
- Reinsurance payable
- Federal and foreign income taxes
- Unearned premiums

HISTORY

General

The Company was incorporated in Florida on September 8, 2005. The Company began participating in an inter-company pooling agreement with its affiliates during the first quarter of 2006. All of the Company's written premiums for the period were from assumed business.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2006:

Allied lines	Other liability
Homeowners multi peril	Surety
Commercial multi peril	Fire
Private passenger auto physical damage	Accident and health
Private passenger auto liability	Mobile home physical damage
Commercial automobile liability	Ocean marine
Commercial auto physical damage	Inland marine

The articles of incorporation and the bylaws were not amended during the period covered by this examination.

Capital Stock

As of December 31, 2006, the Company's capitalization was as follows:

Number of authorized common capital shares	500,000
Number of shares issued and outstanding	500,000
Total common capital stock	\$1,000,000
Par value per share	\$2.00

Control of the Company was maintained by its parent, American Southern Home Insurance Company, which owned 100% of the stock issued by the Company, which was 100% owned by American Modern Home Insurance Company, which was 100% owned by American Modern Insurance Group, Inc., which was 100% owned by Midland Guardian Company (Midland), which was 100% owned by The Midland Company, an Ohio corporation.

Licensing Consent Order

The Company was party to Consent Order No. 83043-05-CO issued by the Office on September 8, 2005 for issuance of their Certificate of Authority.

Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of examination, as reported in the filed annual statements.

	2006	2005
Premiums Earned	13,187,686	0
Net Underwriting Gain/(Loss)	(873,129)	0
Net Income	(876,001)	80,892
Total Assets	16,098,296	6,285,946
Total Liabilities	10,239,712	5,054
Surplus As Regards Policyholders	5,858,584	6,280,892

Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2006, were:

Directors

Name and Location

Principal Occupation

John Weber Hayden
Cincinnati, OH

CEO, American Modern Ins. Co. of Florida

Joseph Page Hayden III
Cincinnati, OH

Director, American Modern Ins. Co of Florida

Paul Frederick Gelter
Cincinnati, OH

Director, American Modern Ins. Co. of Florida

John Ignatius Von Lehman
Cincinnati, OH

Director, American Modern Ins. Co. of Florida

Paul Thomas Brizzolara
Loveland, OH

Director, America Modern Ins. Co. of Florida

The Board of Directors in accordance with the Company's bylaws appointed the following senior officers:

Senior Officers

Name	Title
John Weber Hayden	President & CEO
James Paul Tierney	Senior Vice President
Michael Lynn Flowers	Vice President & Secretary
William Todd Gray	Senior Vice President
John Ignatius Von Lehman (a)	Senior Vice President
Matthew Joseph McConnell	Treasurer

(a) Resigned on October 25, 2007 due to his retirement.

The Company's Board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following are the principal internal board committees and their members as of December 31, 2006:

Executive Committee	Audit Committee	Finance Committee
John Weber Hayden ¹	John Weber Hayden ¹	John Ignatius Von Lehman ¹
Joseph Page Hayden III	Paul Frederick Gelter	Paul Frederick Gelter
John Ignatius Von Lehman	John Ignatius Von Lehman	Paul Thomas Brizzolara

¹ Chairman

Conflict of Interest Procedure

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook. No exceptions were noted during this examination period.

Corporate Records

The recorded minutes of the shareholder, Board of Directors, and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board

adequately documented its meetings and approval of Company transactions and events in accordance with Section 607.1601, Florida Statutes, with the following exceptions.

The minutes of the Board of Directors meetings did not indicate that the Board authorized or approved of the Company's investments. Section 625.304, Florida Statutes, requires that an insurer shall not make any investment or loan unless authorized or approved by the insurer's Board of Directors and documented in the Board minutes.

Subsequent Event:

The Board of Directors designated a Finance Committee to approve investments of the Company. The investment activity of the Finance Committee was ratified by the Board of Directors in the March 2006 minutes.

The minutes of the Board of Directors meetings did not indicate that the Board appointed or hired the CPA to prepare the audit of the Company. Section 624.424(8)(c), Florida Statutes, requires that the Board of Directors of an insurer hire the CPA to perform the audit, and document that action in the Board minutes.

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

There were no acquisitions, mergers, disposals, dissolutions, and purchase or sales through reinsurance during the period under examination.

Surplus Debentures

The Company had no surplus debentures.

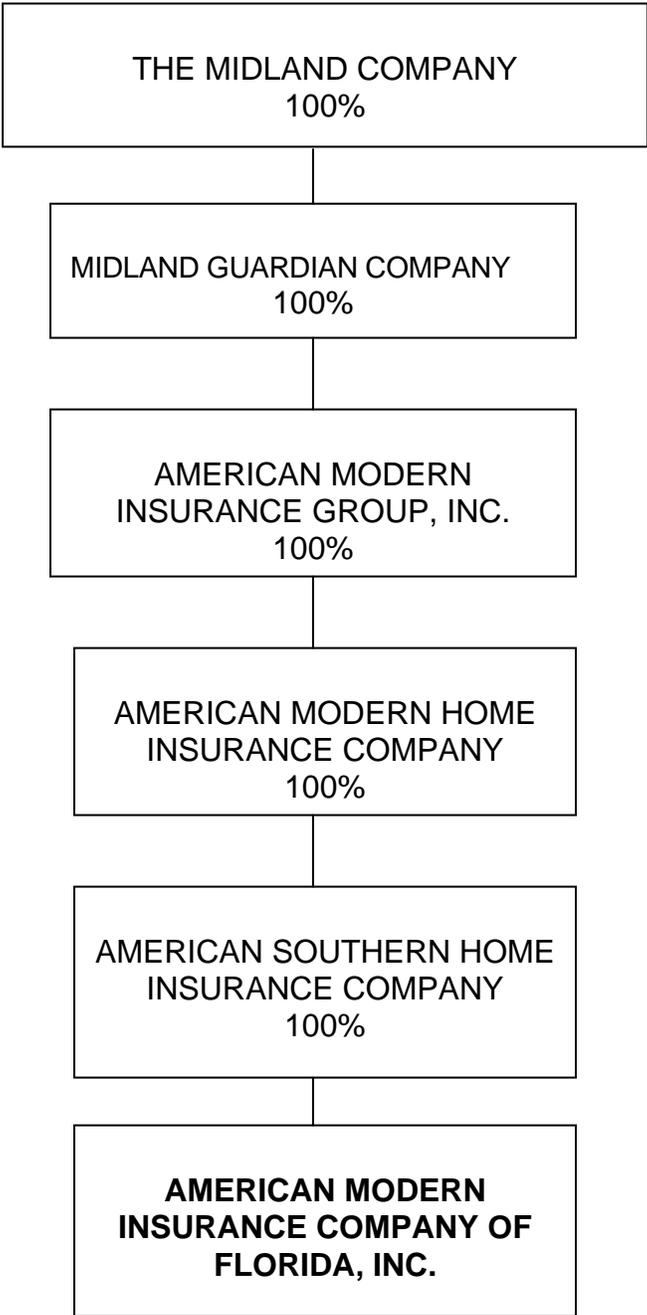
AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on September 30, 2006, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

An organizational chart as of December 31, 2006, reflecting the holding company system, is shown below. Schedule Y of the Company's 2006 annual statement provided a list of all related companies of the holding company group.

**AMERICAN MODERN INSURANCE COMPANY OF FLORIDA, INC.
ORGANIZATIONAL CHART**

DECEMBER 31, 2006



The following agreements were in effect between the Company and its affiliates:

Tax Allocation Agreement

The Company's Federal income tax return was consolidated with The Midland Company and its affiliates: M/G Transport Services, Inc., The Atlas Insurance Agency, Inc., American Modern Insurance Group, Inc., Marbury Agency, Inc., American Modern Life Insurance Company, American Modern Home Insurance Company, American Modern Home Service Company, American Western Home Insurance Company, Modern Life Insurance Company of Arizona, Inc., American Southern Home Insurance Company, American Family Home Insurance Company, American Modern Select Insurance Company, American Modern Lloyds Insurance Company (by its attorney-in-fact), Lloyds Modern Corporation, Modern Services Group, Inc., MGT Services, Inc., Midwest Enterprises, Inc., Sunbelt General Agency, Inc., Manufactured Homes Acceptance Corporation, MHAC Insurance Agency, Inc., Service Sentry Warranty Corporation, Copper Leaf Research, AMH Insurance Agency of Georgia, Inc., Longhorn Insurance Agency, Inc., American Modern Financial Services, Inc., River System Logistics, Inc., American Modern Insurance Company of Florida, Inc., and American Modern Surplus Lines Insurance Company, whereby all taxes and credits were allocated among the individual members of the consolidated group on a quarterly basis.

Cost Sharing Agreement

The Company was party to an agreement with Midland, whereby Midland provided to the Company such services and materials as the Company deemed necessary for the conduct of its business. The Company agreed to reimburse Midland for the actual costs of providing such services and materials.

Pooling Agreement

The Company was party to an agreement by and between the following affiliates: American Modern Home Insurance Company which acted as the lead company in the pooling agreement, American Family Home Insurance Company, American Southern Home Insurance Company, American Western Home Insurance Company, American Modern Select Insurance Company, American Modern Lloyds Insurance Company, and American Modern Surplus Lines Insurance Company. The parties to the pooling agreement were obligated to cede to the lead company 100% of their direct insurance and assumed reinsurance liability under all policies. American Modern Home Insurance Company ceded to the members of the pool various percentages of its direct insurance and assumed reinsurance liability. The Company's percentage participation in the business assumed from the pool was 2%.

FIDELITY BOND

The Company maintained fidelity bond coverage as a named insured with coverage up to \$6,000,000 with a deductible of \$75,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no pension, stock ownership, or insurance plans as of December 31, 2006.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes:

State	Description	Par Value	Market Value
FL	US Treasury Note	\$ 310,000	\$ 315,642
FL	US Treasury Note	<u>20,000</u>	<u>20,726</u>
TOTAL FLORIDA DEPOSITS		<u>\$ 330,000</u>	<u>\$ 336,368</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 330,000</u>	<u>\$ 336,368</u>

PLAN OF OPERATIONS

Territory

The Company was authorized to transact insurance only in the state of Florida.

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1)(j), Florida Statutes.

The Company adopted and implemented procedures for proper investigation of claims as required by Section 626.9541(1)(i)3a, Florida Statutes.

REINSURANCE

Effective January 1, 2006, the Company entered into a pooling agreement in an affiliated group of insurance companies, of which American Modern Home Insurance Company was the lead Company. The agreement was amended on May 1, 2006. The members of the pool, American Family Home Insurance Company, American Southern Home Insurance Company, American Western Home Insurance Company, American Modern Select Insurance Company, American Surplus Lines Insurance Company, and American Modern Insurance Company of Florida all agreed to cede 100% of their direct and assumed insurance to American Modern Home Insurance Company. American Modern Home Insurance Company agreed to cede back to the companies of the pool in the following percentages: American Family Home Insurance Company – 27%, American Southern Home Insurance Company – 4%, American Western Home Insurance Company – 9%, American Modern Select Insurance Company – 5%, American Surplus Lines Insurance Company – 5%, and American Modern Insurance Company of Florida – 2%.

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

The reinsurance contract with American Modern Home Insurance Company did not contain all the required terms of SSAP No. 62. SSAP No. 62 Paragraph (8)(b) requires that recoveries due the ceding entity be available without delay for payment of losses and claim obligations incurred under the agreement in a manner consistent with orderly payment of incurred policy obligations by the ceding entity. SSAP No. 62 Paragraph (8)(c) requires that the agreement constitute the entire contract between the parties and must provide no guarantee of profit, directly or indirectly from the reinsurer to the ceding entity or from the ceding entity to the reinsurer.

Assumed

The Company assumed 2% of the combined retained business of the pool. American Modern Home Insurance Company was the lead Company in the pool.

Ceded

The Company did not cede any risks.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Amelia, Ohio, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements for the year 2006, in accordance with Section 624.424(8), Florida Statutes. The CPA audit was performed on a consolidated basis for the combined financial statements of the American Modern Insurance Group Inc., of which the Company was a member. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

The Company's accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company had a custodial agreement with PNC Bank, NA, effective May 26, 2005, which did not contain all of the requirements of Rule 69O-143.042(2), (b), (c), (d), (e), (g), (m), (n), Florida Administrative Code defined as follows:

- (b) Securities held indirectly by the custodian and securities in a clearing corporation shall be separately identified on the custodian's official records as being owned by the insurance company.
- (c) All custodied securities be registered in the name of the company or in the name of a nominee of the company or in the name of the custodian or its nominee or, if in a clearing corporation, in the name of the clearing corporation or its nominee.
- (d) Custodied securities be held subject to the instructions of the insurance company and withdrawable upon the demand of the insurance company, except that custodied securities used to meet the deposit requirements set forth in Section 624.411, Florida Statutes, be under the control of the Office and not be withdrawn by the insurance company without the approval of the Office.
- (e) The custodian to send to the insurance company a confirmation of all transfers of custodied securities to or from the account of the insurance company. In addition, the custodian was required to furnish no less than monthly the insurance company with reports of holdings of custodied securities such information as may be reasonably requested by the insurance company. Also, the custodian's trust committee's annual report of its review of the insurer's trust accounts shall also be provided to the insurance company.

(g) The custodian and its agents to send to the insurance company all reports which they receive from a clearing corporation, their respective systems of internal accounting control and reports prepared by outside auditors on the custodians or its agent's internal accounting control of custodied securities that the insurance company may reasonably request.

(m) The agreement may provide that the custodian will not be liable for any failure to take any action required to be taken under the agreement in the event and to the extent that the taking of such action is prevented or delayed.

(n) In the event that the custodian gains entry in a clearing corporation through an agent, there shall be an agreement between the custodian and the agent under which the agent shall be subject to the same liability for loss of custodied securities as the custodian.

Subsequent Event:

The Company entered into a custodial agreement of May 23, 2008 with State Street Bank and Trust Company.

Independent Auditor Agreement

The Company had an agreement with Deloitte and Touche, LLP, to perform a combined audit of the statutory financial statements for the years 2006 and 2005 of American Modern Insurance Group, Inc., of which the Company was a member.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2006, 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 MODERN INSURANCE COMPANY OF FLORIDA, INC.
Assets

DECEMBER 31, 2006

	Per Company	Examination Adjustments	Per Examination
Bonds	\$5,939,087		\$5,939,087
Cash:	1,062,671		1,062,671
Agents' Balances:			
Uncollected premium	543,748		543,748
Reinsurance recoverable	8,014,243		8,014,243
Net deferred tax asset	453,695		453,695
Interest and dividend income due & accrued	84,852		84,852
Totals	\$16,098,296	\$0	\$16,098,296

AMERICAN MODERN INSURANCE COMPANY OF FLORIDA, INC.
Liabilities, Surplus and Other Funds

DECEMBER 31, 2006

	Per Company	Examination Adjustments	Per Examination
Losses	\$2,338,181		\$2,338,181
Reinsurance payable on paid losses and loss adjustment expenses	440,468		440,468
Loss adjustment expenses	441,531		441,531
Other expenses	7,707		7,707
Taxes, licenses and fees	4,750		4,750
Current federal and foreign income taxes	78,521		78,521
Unearned premium	6,932,804		6,932,804
Ceded reinsurance premiums payable	(15,866)		(15,866)
Payable to parent, subsidiaries and affiliates	11,616		11,616
Total Liabilities	\$10,239,712	\$0	\$10,239,712
Common capital stock	\$1,000,000		\$1,000,000
Gross paid in and contributed surplus	5,200,000		5,200,000
Unassigned funds (surplus)	<u>(341,416)</u>		<u>(341,416)</u>
Surplus as regards policyholders	<u>\$5,858,584</u>		<u>\$5,858,584</u>
Total liabilities, surplus and other funds	<u>\$16,098,296</u>	\$0	<u>\$16,098,296</u>

AMERICAN MODERN INSURANCE COMPANY OF FLORIDA, INC.
Statement of Income

DECEMBER 31, 2006

Underwriting Income		
Premiums earned		\$13,187,686
	Deductions:	
Losses incurred		4,703,396
Loss expenses incurred		1,297,708
Other underwriting expenses incurred		8,059,711
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		<u>\$14,060,815</u>
Net underwriting gain or (loss)		(\$873,129)
Investment Income		
Net investment income earned		\$283,388
Net realized capital gains or (losses)		(1,521)
Net investment gain or (loss)		<u>\$281,867</u>
Other Income		
Net gain or (loss) from agents' or premium balances charged off		\$0
Total other income		<u>\$0</u>
Net income before dividends to policyholders and before federal & foreign income taxes		(\$591,262)
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		(\$591,262)
Federal & foreign income taxes		<u>284,739</u>
Net Income		(\$876,001)
Capital and Surplus Account		
Surplus as regards policyholders, December 31 prior year		\$6,280,892
Net Income		(\$876,001)
Change in net deferred income tax		\$524,017
Net unrealized capital gains or losses		0
Change in non-admitted assets		(70,322)
Examination Adjustment		0
Change in surplus as regards policyholders for the year		<u>(\$422,306)</u>
Surplus as regards policyholders, December 31 current year		<u><u>\$5,858,586</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$2,779,712

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2006, 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 contracted with Kufera Consulting, Inc., an independent actuarial firm, to perform an actuarial review. The independent actuary was in concurrence with the Company is appointed actuary.

Capital and Surplus

The amount reported by the Company of \$5,858,584, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**AMERICAN MODERN INSURANCE COMPANY OF FLORIDA, INC.
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2006

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 December 31, 2006, per Annual Statement	\$5,858,584
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustment			\$0
LIABILITIES:			
No adjustment			\$0
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2006, Per Examination			\$5,858,584

SUMMARY OF FINDINGS

Current examination comments and corrective action

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2006.

The appointment of the CPA to prepare the financial audit of the Company was not documented in the minutes of the Board of Directors. **We recommend that the Board of Directors document the annual appointment of the CPA as required by Section 624.424 (8)(c), Florida Statutes.**

SUBSEQUENT EVENTS

On April 3, 2008, Munich Re Group acquired 100% of The Midland Company, parent of American Modern Insurance Company of Florida, Inc.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **America Modern Insurance Company of Florida, Inc.** as of December 31, 2006, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$5,858,584, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Michael F. Hampton, CPA, DABFA, CFE, CPM, Financial Examiner/Analyst Supervisor, and James Collins, Reinsurance/Financial Specialist participated in the examination. We acknowledge the participation of Kay Kufera, FCAS, MAAA of Kufera Consulting, Inc. in this examination.

Respectfully submitted,

Mike Young
Financial Examiner/Analyst II
Florida Office of Insurance Regulation