REPORT ON EXAMINATION

OF

APOLLO CASUALTY COMPANY OF FLORIDA

POMPANO BEACH, FLORIDA

AS OF

DECEMBER 31, 2007

BY THE

OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

December 12, 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, 2007, of the financial condition and corporate affairs of:

Apollo Casualty Company of Florida
1280 SW 36th AVENUE
Pompano Beach, FL 33069

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

SCOPE OF EXAMINATION

This examination covered the period of January 23, 2005 (date of incorporation) through December 31, 2007. This was the first financial condition examination of the Company conducted by the Florida Office of Insurance Regulation (“Office”).

This examination commenced, with planning at the Office from September 8, 2008 to September 11, 2008. The fieldwork commenced on September 29, 2008, and was concluded as of December 12, 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.

The Financial Condition Examiners Handbook requires that the examination be planned and performed 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 and management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

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, 2007. Transactions subsequent to year-end 2007 were reviewed where relevant and deemed significant to the Company's financial condition.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

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 Company's independent audit report 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.

HISTORY

General

The Company was incorporated in Florida on September 23, 2005 and commenced writing premiums on January 17, 2007.

The Company was party to Consent Order 86538-06-CO filed June 29, 2006 with the Office regarding the application for the issuance of a Certificate of Authority and was compliant. The Company was compliant with all aspects except for the requirements of Executive Order 13224.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2007:

Private passenger auto liability
Private passenger auto physical damage

The articles of incorporation and the bylaws were amended during the period covered by this examination.

Capital Stock

As of December 31, 2007, the Company's capitalization was as follows:

Number of authorized common capital shares	1,000,000
Number of shares issued and outstanding	10,000
Total common capital stock	$1,000,000
Par value per share	$100

Control of the Company was maintained by its parent, Apollo Casualty Company an Illinois domiciled insurance company, which owned 100% of the issued stock.

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.

	2007	2006
Premiums Earned	974,675	0
Net Underwriting Gain/(Loss)	(1,707,191)	(396,354)
Net Income (Loss)	(1,329,717)	(112,561)
Total Assets	10,030,014	8,122,231
Total Liabilities	3,284,486	252,126
Surplus As Regards Policyholders	6,745,528	7,870,106

Dividends to Stockholders

The Company did not pay nor declare a dividend during the period of this examination.

Management

The annual shareholder meetings for the election of directors were held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2007, were:

Directors

Name and Location	Principal Occupation
Glenn S. Morris Deerfield, IL	CEO, Apollo Casualty Company
Marvin D. Himmelstein Riverwoods, IL	COO, Apollo Casualty Company
Ronald A. Cohen Northbrook, IL	President, Total Concepts, Inc.
Kalman Wenig Riverwoods, IL	Retired Certified Public Accountant
Ernest S. Levine Chicago, IL	President, Admiral Tool Company

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

Senior Officers

Name	Title
Glenn S. Morris	Chairman & CEO
Marvin D. Himmelstein	President, COO & Treasurer
Ronald A. Cohen	Secretary
Brian Neader (a)	Chief Financial Officer

(a) Mr. Neader joined the Company in March, 2008.

Following are the principal internal board committees and their members as of December 31, 2007:

Executive Committee	Audit Committee	Investment Committee
Glenn. S. Morris[1]	Kal Wenig [1]	
Marvin D. Himmelstein	Ronald A. Cohen	
	Ernest S. Levine	

[1] Chairman

The Company adopted the audit committee of the parent, American General Holdings, Inc., in compliance with Section 624.424(8), Florida Statutes.

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.

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, including the authorization of investments as required by Section 625.304, Florida Statutes.

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

There were no acquisitions, mergers, disposals, dissolutions or purchases or sales through reinsurance during the period of the examination.

Surplus Debentures

There were no surplus debentures issued by the Company during the period of the examination.

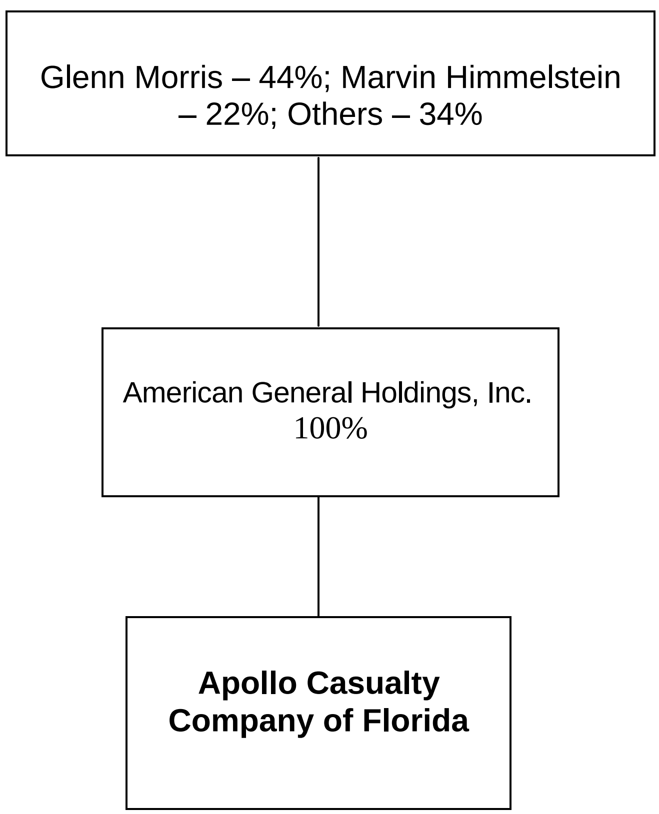
AFFILIATED COMPANIES

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 December 1, 2006, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2007, reflecting the holding company system, is shown below. Schedule Y of the Company's 2007 annual statement provided a list of all related companies of the holding company group.

Apollo Casualty Company of Florida
ORGANIZATIONAL CHART

DECEMBER 31, 2007



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

Tax Allocation Agreement

The Company entered into an agreement, effective with the December 31, 2006 taxation year, with its parent and affiliated companies to file a consolidated federal income tax return. On December 31, 2007, the Company recognized a receivable from its parent company of $202,510 to reflect its proportionate share of the consolidated tax recovery. The agreed upon method of allocation between the Company and its parent and affiliated companies was that the Company's tax liability (or recovery) was allocated on the basis of the percentage of total tax as if computed on a separate tax return basis.

Cost Sharing Agreement

The Company entered into an agreement dated January 1, 2006 with its parent company and several of its affiliated companies to share in the allocation of costs incurred within the affiliated group of companies.

Investment Advisory Agreement

The Company entered into an investment advisory agreement, dated January 1, 2006, with M & C Investments, Inc. ("M & C"), a company controlled by the Company's Chairman and Chief Executive Officer, Mr. Glenn S. Morris. Fees were paid by the Company to M & C of $11,051 in 2006 and $36,450 in 2007.

General Agency Agreement

The Company entered into a general agency agreement, dated January 2, 2006 with New River General Insurance Agency, Inc., ("New River"), an affiliated company, for the provision of general agency services at a commission rate of 17% of net premiums written. Commissions of $578,480 were paid to New River in 2007 although these were not properly disclosed in the notes to the Financial Statements or in Schedule Y of the annual statements. Premiums written through New River, including agents' balances in the course of collection, totaling $748,364 as of December 31, 2007, were not properly disclosed in the notes to the Financial Statements and Schedule Y of the annual statement as provided by SSAP 25 Paragraph 7. Through New River, the Company also received premium income through an affiliated finance company, MAG Premium Finance Company.

Software Licensing Agreement

The Company entered into an agreement with PSI of Illinois, Inc., an affiliated company, on October 19, 2006 for the provision of software services, at a fee of 2% of net premiums written. Fees of $67,921 were paid in 2007.

FIDELITY BOND AND OTHER INSURANCE

The Company was a named insured on fidelity bond coverage up to $500,000 with a deductible of $10,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC. The Company was also a named beneficiary on a commercial general liability policy, a commercial automobile policy and a workers' compensation policy.

The Company also maintained Directors and Officers (D&O) liability insurance coverage with limits of $4 million with a self-insured retention of $75,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company did not maintain a pension plan for its employees although it did maintain a 401(k) savings plan, to which the Company's contributions are based on its profitability for the prior year. It also maintained a contributory major medical plan and a non-contributory short term disability plan.

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	USTBDS, 3.75%, 05/15/08	$ 300,000	$ 300,480
FL	USTBDS 3.875%, 05/15/09	300,000	302,940
FL	USTBDS 3.875%, 05/15/10	250,000	254,550
TOTAL FLORIDA DEPOSITS		$ 850,000	$ 857,970
TOTAL SPECIAL DEPOSITS		$ 850,000	$ 857,970

INSURANCE PRODUCTS AND RELATED PRACTICES

The Company only wrote personal passenger auto liability, at the minimum legal limits, and physical damage coverage, to a maximum of $35,000, in the Florida counties of Palm Beach, Broward and Miami-Dade, during the period of the examination.

Territory

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

Treatment of Policyholders

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

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(i)3(a), Florida Statutes.

REINSURANCE

The Company only wrote minimum limits of personal passenger auto liability coverage and a maximum limit of $35,000 of personal passenger auto physical damage limits and, accordingly, did not cede any reinsurance during the period of the examination. The Company also did not assume any reinsurance during the period of the examination.

ACCOUNTS AND RECORDS

The Company maintained the main administrative office in Des Plaines, IL where this examination was conducted and the principal operational office in Pompano Beach, FL.

An independent CPA audited the Company's statutory basis financial statements for the year ended December 31, 2007, in accordance with Section 624.424(8), Florida Statutes. 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 had the following agreements with non-affiliated companies:

Custodial Agreement

The Company entered into a custody agreement with UBS Financial Services, Inc., dated November 1, 2005, to act as custodian of the Company’s securities. However, the agreement did not comply with Rule 69O-143.042(2) (a) through (i) and (k) through (o), Florida Administrative Code.. The specific areas of non-compliance are described as follows:

(a) Securities' certificates held by the custodian shall be held separate from the securities certificates of the custodian and of all of its other customers.

(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. Said records shall identify which securities are held by the custodian or by its agent and which securities are in a clearing corporation. If the securities are in a clearing corporation, said records shall also identify where the securities are and if in a clearing corporation, the name of the clearing corporation and if through an agent, the name of the agent.

(c) All custodied securities that are registered shall 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 shall be held subject to the instructions of the insurance company and shall be withdrawable upon the demand of the insurance company, except that custodied securities used to meet the deposit requirements set forth in Section 624.411, F.S., shall, to the extent required by that section, be under the control of the Office and shall not be withdrawn by the insurance company without the approval of the Office.

(e) The custodian shall be required to send or cause to be sent 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 shall be required to furnish no less than monthly the insurance company with reports of holdings of custodied securities at such times and containing such information as may be reasonably requested by the insurance company. 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. Reports and verifications may be transmitted in electronic or paper form.

(f) During the course of the custodian's regular business hours, any officer or employee of the insurance company, any independent accountant selected by the insurance company and any representative of an appropriate regulatory body shall be entitled to examine, on the premises of the custodian, the custodian's records relating to custodied securities, but only upon furnishing the custodian with written instructions to that effect from an appropriate officer of the insurance company.

(g) The custodian and its agents shall be required 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.

(h) The custodian shall maintain records sufficient to determine and verify information relating to custodied securities that may be reported in the insurance company's Annual Statement and supporting Schedules and information required in any audit of the financial statements of the insurance company.

(i) The custodian shall provide, upon written request from the Office or from an appropriate officer of the insurance company, the appropriate affidavits, on Forms OIR-A1-341 (A), (B), or (C) (rev. 12-07), or substantially similar forms with respect to custodied securities. Forms OIR-A1-341 (A), (B) and (C) (rev. 12-07), entitled "Custodian Affidavit," are hereby incorporated by reference. These forms shall become effective on the effective date of these rules and may be obtained from the Office of Insurance Regulation, Larson Building, Tallahassee, Florida.

(k) The custodian shall be obligated to indemnify the insurance company for any loss of custodied securities occasioned by the negligence or dishonesty of the custodian's officers or employees, or burglary, robbery, holdup, theft or mysterious disappearance, including loss by damage or destruction.

(l) In the event that there is a loss of custodied securities for which the custodian shall be obligated to indemnify the insurance company as provided in paragraph (k) above, the custodian shall promptly replace the securities or the value thereof and the value of any loss of rights or privileges resulting from said loss of securities.

(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 by war (whether declared or not and including existing wars), revolution, insurrection, riot, civil commotion, act of God, accident, fire, explosion, stoppage of labor, strikes or other differences with employees, laws, regulations, orders or other acts of any governmental authority, or any other cause whatever beyond its reasonable control.

(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, provided, however, that, if the agent shall be subject to regulation under the laws of a jurisdiction which is different from the jurisdiction the laws of which regulate the custodian, the Director may accept a standard of liability applicable to the agent which is different from the standard of liability applicable to the custodian.

(o) The custodian shall provide written notification to the Office if the custodial agreement with the insurer has been terminated or if 100% of the account assets in any one custody account have been withdrawn. This notification shall be remitted to the Office within three (3) business days of the receipt by the custodian of the insurer's written notice of termination or within three (3) business days of the withdrawal of 100% of the account assets.

Office Lease

The Company entered into a lease agreement, dated September 12, 2007 for a lease on its office premises at 1280 SW 36th Avenue, Pompano Beach, FL 33069. This lease covered the period from November 1, 2007 through October 31, 2012 at a base monthly rental ranging from $5,059 during the first year of the lease to $6,158 in the last year of the lease, plus common area costs.

Other Leases

The Company entered into a lease agreement for a furnished apartment in Ft. Lauderdale, FL at a monthly rental of $2,950. This lease expires on November 15, 2009.

The Company also entered into two automobile leases, one for $650 per month and the other for $590 per month. These leases both expire on July 9, 2010 and may involve certain residual payments on that date based on the mileage and condition of the vehicles at that time.

Information Technology Report

Joe Detrick, CPA, CFE, AES of Jennan Enterprises performed a computer systems evaluation on the Company. Results of the evaluation were noted in the Information Technology (IT) report provided to the Company.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2007, 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."

Apollo Casualty Company of Florida
Assets

DECEMBER 31, 2007

	Per Company	Examination Adjustments	Per Examination
Bonds	$7,302,830	$ -	$7,302,830
Cash	1,603,888		1,603,888
Investment income due and accrued	51,103		51,103
Agents' Balances:			
Uncollected premium	748,364	-	748,364
Net deferred tax asset	229,692		229,692
EDP Equipment	10,311	-	10,311
Receivable from parent, subsidiaries and affiliates	0	202,510	202,510
Aggregate write-in for other than invested assets	83,826	(74,810)	9,016
Totals	$10,030,014	$127,700	$10,157,714

Apollo Casualty Company of Florida
Liabilities, Surplus and Other Funds

DECEMBER 31, 2007

	Per Company	Examination Adjustments	Per Examination
Losses	$619,562		$619,562
Loss adjustment expenses	125,963		125,963
Taxes, licenses and fees	7,624		7,624
Unearned premiums	2,421,382		2,421,382
Drafts outstanding	23,311		23,311
Payable to parent, subsidiaries and affiliates	67,921		67,921
Aggregate write-ins for liabilities	18,723		18,723
Total Liabilities	3,284,486	-	3,284,486
Common capital stock	1,000,000		1,000,000
			-
Gross paid in and contributed surplus	7,000,000		7,000,000
			-
Unassigned funds (surplus)	(1,254,472)	127,700	(1,126,772)
Surplus as regards policyholders	6,745,528	127,700	6,873,228
Total liabilities, surplus and other funds	$10,030,014	$127,700	$10,157,714

Apollo Casualty Company of Florida
Statement of Income

DECEMBER 31, 2007

Underwriting Income	
Premiums earned	$974,675
Deductions:	
Losses incurred	821,923
Loss expenses incurred	518,944
Other underwriting expenses incurred	1,340,999
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	$2,681,866
Net underwriting gain or (loss)	($1,707,191)
Investment Income	
Net investment income earned	$302,664
Net realized capital gains or (losses)	0
Net investment gain or (loss)	$302,664
Other Income	
Net gain or (loss) from agents' or premium balances charged off	$0
Finance and service charges not included in premiums	0
Aggregate write-ins for miscellaneous income	0
Total other income	$0
Net income before dividends to policyholders and before federal & foreign income taxes	($1,404,527)
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	($1,404,527)
Federal & foreign income taxes	(74,810)
Net Income	($1,329,717)
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	$7,870,106
Net Income	($1,329,717)
Net unrealized capital gains or losses	0
Change in non-admitted assets	(47,518)
Change in provision for reinsurance	
Change in deferred income tax	252,657
Surplus adjustments: Paid in	0
Aggregate write-ins for gains and losses in surplus	0
Examination Adjustment	127,700
Change in surplus as regards policyholders for the year	($996,878)
Surplus as regards policyholders, December 31 current year	$6,873,228

COMMENTS ON FINANCIAL STATEMENTS

Assets

Receivables from parent, subsidiaries and affiliates	$ 202,510
Aggregate write-ins for other than invested assets	$ 9,016

The Company incorrectly classified $74,810 in federal income taxes receivable due from the parent as an aggregate write-in for other than invested assets. In addition, the company did not report their federal income taxes receivable in the amount of $127,700 due from their parent in accordance with the tax allocation agreement. Adjustments were made to properly reflect the balance of “Amounts due from parent, subsidiaries and affiliates” on the annual statement.

Liabilities

Losses and Loss Adjustment Expenses	$745,525

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, 2007, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

A consulting actuary, Taylor-Walker & Associates, Inc., reviewed work papers provided by the Company and was in concurrence with this opinion.

Capital and Surplus

The amount reported by the Company of $6,873,228, exceeded the minimum of $4,000,000 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

Apollo Casualty Company of Florida
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS

DECEMBER 31, 2007

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

	PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS	
Surplus as Regards Policyholders December 31, 2007, per Annual Statement				$6,745,528
ASSETS:				
Receivable from affilates	$0	$202,510	$202,510	
Aggregate write-in for other than invested assets	$83,826	9,016	74,810	
LIABILITIES:			No adjustment	
Net Change in Surplus:				127,700
Surplus as Regards Policyholders December 31, 2007, Per Examination				$6,873,228

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, 2007.

General

The Company did not disclose in the notes to the financial statements or in Schedule "Y" that commissions of $578,480 were paid to an affiliated company, New River General Agency, Inc. the Company's MGA, ("New River"), nor did it disclose that the premiums were written through New River as an intermediary nor that agents' balances in the course of collection, totaling $748,364, were receivable from New River as at December 31, 2007. **We recommend that the Company comply with the provisions of SSAP No. 25, paragraph 17, which requires disclosure of all related party transactions.**

The Company did not have procedures in place to conform with the Executive Order with respect to terrorism. **We recommend that the Company adopt procedures to comply with Presidential Order no. 13224 on Terrorism.**

The Company's custody agreement with UBS Financial Services, Inc. did not comply in all respects with Rule 69O-143.042, **Florida Administrative Code**. See Custodial Agreement Section for details. **We recommend that the Company amend its agreement with UBS to comply with Rule 69O-143.042, Florida Administrative Code.**

Subsequent Events

On February 18, 2008, the Office granted the Company permission to change its general agency agreement with New River to a managing general agency agreement. On October 18, 2008, the Office granted permission to increase the commissions charged by New River to 18% from 17%.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Apollo Casualty Company of Florida** as of December 31, 2007, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was $6,873,228, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Todd Fatzinger, CFE, Rebecca Belanger-Walkins, CFE, David C. Schleit, CPA, CFE, Glenn Taylor, ACAS, MAAA, and Joe Detrick, CPA, CFE, AES, representing Examination Resources, LLC, participated in the examination.

Respectfully submitted,

____
Kethessa Carpenter, CPA
Financial Examiner/Analyst Supervisor