

Report of Examination of

American Modern Home Insurance Company
Amelia, Ohio

As of December 31, 2009

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Columbus, Ohio

December 17, 2010

Honorable Mary Jo Hudson
Director
State of Ohio
Department of Insurance
50 West Town Street
3rd Floor – Suite 300
Columbus, Ohio 43215

Dear Madam:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), an examination was made of

American Modern Home Insurance Company

an Ohio domiciled, stock, property and casualty insurance company, hereinafter referred to as the (“Company.”) The examination was conducted at the Company’s home office, located at 7000 Midland Boulevard, Amelia, Ohio.

A report of this examination is hereby respectfully submitted.

The Company was last examined as of December 31, 2004, by the Ohio Department of Insurance (“Department”). Representatives of the Department conducted the current examination covering the intervening period to and including December 31, 2009.

Management and Control

Board of Directors

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date.

Name	Principal Occupation
Anthony J. Kuczinski	Chairman, President and Chief Executive Officer, Munich Re. America, Inc.
John W. Hayden	Chief Executive Officer, The Company
William T. Gray	President, The Company
Michael Flowers	Vice President and Secretary, The Company
James P. Tierney	Senior Vice President- Finance, The Company

Officers

As of the examination date, the following officers were elected and serving in accordance with the Company's Bylaws:

Name	Title
John W. Hayden	Chief Executive Officer
William T. Gray	President
James P. Tierney	Senior Vice President
Juergen E. Kammerlohr	Senior Vice President
Michael L. Flowers	Vice President and Secretary
Craig R. Smiddy	Vice President
Matthew J. McConnell	Treasurer

Note: Effective October 15, 2010, John W. Hayden retired from the Company. Doug Elliot was duly elected and approved by the board as his replacement.

Insurance Holding Company System

The Company is a member of a holding company system as defined in Section 3901.32 of the Ohio Revised Code. On April 3, 2008, the Midland Company consummated the merger with Munich-American Holding Company, and is now a wholly owned subsidiary of Munich Re Group. The Holding Company Registration Statements were filed with the Department by the above mentioned companies on behalf of the insurance companies listed in the following organizational chart:

Company Name

- Munich-American Holding Corporation
 - Midland Company
 - American Modern Insurance Group, Inc.
 - American Modern Life Insurance Company
 - Southern Pioneer Life Insurance Company
 - Union Life Insurance Company
 - Quachita Life Insurance Company
 - Capital Life & Accident Insurance Company
 - Hyneman Life Corp.
 - Arkansas Life Insurance Company
 - American Modern Home Insurance Company
 - American Modern Lloyds Insurance Company
 - First Marine Financial Services
 - First Marine Insurance Company
 - American Western Home Insurance Company
 - Modern Life Insurance Company of Arizona
 - American Southern Home Insurance Company
 - American Modern Insurance Company of Florida, Inc.
 - American Modern Select Insurance Company
 - American Modern Family Home Insurance Company
 - American Modern Surplus Lines Insurance Company

Reinsurance

Ceded:

Reinsurer: Various
Type of contract: Casualty Excess of Loss
Effective date: July 1, 2008 to January 1, 2010
Term: 18 Months
Business covered: Comprehensive Personal Liability, Owners' Landlords & Tenants Mortgage Fire Golf Cart, Homeowners, Watercraft, Motor Home, Collectible Auto, RV Rental, Snowmobile, Motorcycle, Worker's Compensation and PIP Liability
Company retention: \$300,000
Reinsurance limits: 1st Layer \$200,000 excess of \$300,000
2nd Layer \$600,000 excess of \$500,000
3rd Layer \$900,000 excess of \$1,100,000
4th Layer \$3,000,000 excess of \$2,000,000

Reinsurer: Various
Type of contract: Marine Liability Excess of Loss
Effective date: January 1, 2009 to January 1, 2010
Term: One Year
Business covered: Liability on all Watercraft policies new or renewing
Company retention: \$300,000
Reinsurance limits: 100% of \$1,700,000 excess of \$300,000

Reinsurer: Various
Type of contract: Property Catastrophe
Effective date: January 1, 2009 to January 1, 2010
Term: One Year
Business covered: Property, Automobile Physical Damage, Mobile Home Physical Damage, Mortgage Fire Business, Homeowners, Dwelling Fire, Flood and Earthquake, Commercial Property, Collectible Automobile, Motor Home, Long Haul Trucking Physical Damage and Watercraft Physical Damage
Company retention: \$20,000,000
Reinsurance limits: 1st Layer \$20,000,000 excess of \$20,000,000
2nd Layer \$40,000,000 excess of \$40,000,000
3rd Layer \$80,000,000 excess of \$80,000,000
4th Layer \$90,000,000 excess of \$160,000,000
5th Layer \$100,000,000 excess of \$250,000,000

Reinsurer: Various
Type of contract: Property Per Risk
Effective date: January 1, 2009 to January 1, 2010
Term: One Year
Business covered: Property, Automobile Physical Damage, Mobile Home Physical Damage, Mortgage Fire Business, Collateral Protection, Homeowners, Dwelling Fire, Flood and Earthquake, Commercial Property, Collectible Automobile, Motor Home, Long Haul Trucking Physical Damage and Watercraft Physical Damage
Company retention: \$250,000
Reinsurance limits: 1st Layer \$250,000 excess of \$250,000
2nd Layer \$1,500,000 excess of \$500,000
3rd Layer \$3,000,000 excess of \$2,000,000

Reinsurer: Various
Type of contract: Recreational Vehicle Underlying Property Per Risk
Effective date: January 1, 2009 to January 1, 2010
Term: One Year
Business covered: Motor Home and Travel Trailer Physical Damage
Company retention: \$150,000
Reinsurance limits: \$100,000 excess of \$150,000

Reinsurer: Various
Type of contract: Non-Admitted Excess Casualty
Effective date: February 1, 2009 to February 1, 2010
Term: One Year
Business covered: Casualty business, produced by Bell & Clements Limited, London, England, and Bell & Clements, Inc., Reston, Virginia, including but not limited to Comprehensive Personal Liability, Commercial General Liability, Homeowners (Section II) and Dwelling Fire (Liability Section only)
Company retention: \$500,000
Reinsurance limits: 40% of \$600,000 excess of \$500,000

Assumed

Reinsured: American Modern Life Insurance Company
Type of contract: Quota Share
Effective date: Jan 1, 1986
Term: Continuous
Business covered: A & Health Insurance produced by TNS Insurance Agency
Company retention: 40%
Reinsurance limits: 60% of Policy limits

Reinsured: Consumers County Mutual Insurance Company
Type of contract: 100% Quota Share Agreement
Effective date: November 1, 1983
Term: Continuous
Business covered: Automobile PD, Mobile Home PD and Travel Trailer PD
Company retention: None
Reinsurer limits: 100% of Policy Limits

Reinsured: American Modern Lloyds Insurance Company
Type of contract: 100% Quota Share Agreement
Effective date: January 3, 1983
Term: Continuous
Business covered: All Policies, contracts or agreements of insurance written by the Company in the state of Texas
Company retention: None
Reinsurer limits: 100% of Policy Limits

All contracts contained an insolvency clause, intermediary clause, errors and omission clause, arbitration clause and a service of suit clause applicable to foreign reinsurers, which meet the guidelines prescribed by the National Association of Insurance Commissioners ("NAIC.")

Intercompany Pooling

For the period covered by this examination, the Company was the lead participant in an intercompany pooling agreement with its subsidiaries and affiliates. The effect of the agreement is for the subsidiaries and affiliates to transfer all direct and assumed business to the Company and then to assume a specific percentages of the net underwriting results of the pool. The specified percentages of participation as of December 31, 2009 were as follows:

American Modern Home Insurance Company	47.5%
American Family Home Insurance Company	27.0%
American Western Home Insurance Company	9.0%
American Southern Home Insurance Company	4.0%
American Modern Select Insurance Company	5.0%
American Modern Surplus Lines Insurance Company	5.0%
American Modern Insurance Company of Florida	2.0%
First Marine Insurance Company	<u>0.5%</u>
	100.0%

Territory and Plan of Operations

The Company was licensed to transact business in all states and the District of Columbia, Guam, and Puerto Rico.

<u>Percentage of Net Business Written by Line</u>	
<u>Description</u>	<u>2009</u>
Fire	21.9%
Allied lines	12.9%
Homeowners multiple peril	41.3%
Commercial multiple peril	4.3%
Auto physical damage	11.1%
Other	8.5%
Total	<u>100.0%</u>

Scope of Examination

One of the purposes of the examination was to make an assessment of the financial condition of the Company as of December 31, 2009. To substantiate the various items, tests were made either by complete audits of accounts or by sampling methods prescribed by the NAIC Examiner's Handbook. In selecting the examination procedures used, due consideration was given to the importance of each account to overall solvency. Transactions occurring subsequent to the date of the examination were reviewed to the extent deemed necessary.

For each year during the period under examination, the Certified Public Accounting (CPA) firms of Deloitte & Touche (2005 – 2008) and KPMG LLP (2009) provided an unqualified opinion based on statutory accounting principles. Relevant work performed by the CPA firms, during its annual audit of the Company, was reviewed during the examination and incorporated into the examination work papers.

The Department's property and casualty actuary reviewed the relevant work performed by the opining actuary, to report on the adequacy of the carried reserves, and to comment on any other statutory matters relating to reserves.

In addition, the following items were reviewed during the course of this examination:

1. Company history;
2. fidelity bonds and other insurance;
3. officers', employees', and agents' welfare and pension plans;
4. growth of Company;
5. loss experience;
6. pending litigation; and
7. Articles of Incorporation and Bylaws.

Financial Statements

The financial condition and the results of its operations for the five year period under examination as reported and filed by the Company with the Department and audited by the Company's external auditors, are reflected in the following:

Statement of Assets, Liabilities, Surplus and Other Funds
Statement of Operations
Statement of Changes in the Capital and Surplus Account

Statement of Assets

December 31, 2009

Admitted assets

Cash and invested assets:	
Bonds	\$273,751,806
Common Stocks	131,089,520
Cash	15,590,255
Other invested assets	300,000
Total cash and invested assets	<u>420,731,581</u>
Accrued investment income	2,653,235
Uncollected premiums and agents' balances	71,777,385
Deferred premiums, agents' balances and installments booked but deferred and not yet due	44,831,995
Amounts recoverable from reinsurers	37,811,584
Funds held by or deposited with reinsured companies	374,901,346
Net deferred tax asset	11,381,791
Guaranty funds receivable or on deposit	130,461
Electronic data processing equipment and software	755,357
Receivables from parent, subsidiaries and affiliates	624,315
Total admitted assets	<u>\$965,599,050</u>

Liabilities, Surplus and Other Funds

December 31, 2009

Liabilities

Losses	\$72,535,764
Reinsurance payable on paid losses	18,671,261
Loss adjustment expenses	9,485,852
Commissions payable	18,392,221
Other expenses	13,840,965
Taxes, licenses and fees	5,763,063
Current federal and foreign income taxes	(975,558)
Unearned premiums	169,942,276
Ceded reinsurance premiums payable	58,748,823
Funds held by company under reinsurance treaties	278,486,572
Provision for reinsurance	6,931
Payable to parent, subsidiaries and affiliates	8,081,876
Aggregate write-ins for liabilities	5,584,953
Total liabilities	<u>658,564,999</u>
Capital and surplus:	
Common capital stock	5,000,000
Gross paid in and contributed surplus	43,105,258
Unassigned funds	258,928,793
Total capital and surplus	<u>307,034,051</u>
Total liabilities, capital and surplus	<u>\$965,599,050</u>

Statement of Operations

December 31, 2009

Premiums earned	<u>\$397,116,376</u>
Losses incurred	182,867,656
Loss expenses incurred	22,005,310
Other underwriting expenses incurred	<u>170,660,027</u>
Underwriting gain	21,583,383
Net investment income earned	12,584,983
Net realized capital gains	<u>1,492,382</u>
Net investment gain	14,077,365
Finance and service charges not included in premiums	5,335,563
Aggregate write-ins for miscellaneous income	<u>(790,199)</u>
Total other income	4,545,364
Income before dividends to policyholders and before federal and foreign income taxes	<u>40,206,112</u>
Dividends to policyholders	<u>0</u>
Income after dividends to policyholders but before federal and foreign income taxes	<u>40,206,112</u>
Federal income taxes	<u>9,031,252</u>
Net income	<u>\$31,174,860</u>

Statement of Changes in the Capital and Surplus Account

(In thousands)

	2005	2006	2007	2008	2009
Capital and surplus December 31, previous year	<u>\$218,864</u>	<u>\$237,367</u>	<u>\$273,234</u>	<u>\$282,623</u>	<u>\$272,680</u>
Net income	40,942	43,230	37,600	7,436	31,175
Net unrealized capital gains (losses)	1,593	11,096	18,419	(8,418)	5,432
Change in net deferred income tax	2,484	(366)	6,369	(2,999)	(4,458)
Change in non-admitted assets	(10,260)	(8,592)	(17,876)	(4,122)	2,154
Change in provision for reinsurance	(198)	(3)	(4,023)	4,760	51
Paid in surplus					
Dividends to stockholders	(15,780)	(9,498)	(31,100)	(6,600)	
Aggregate write-ins for gains and losses in surplus	(278)				
Net change in capital and surplus	<u>18,503</u>	<u>35,867</u>	<u>9,389</u>	<u>(9,943)</u>	<u>34,354</u>
Capital and surplus December 31, current year	<u>\$237,367</u>	<u>\$273,234</u>	<u>\$282,623</u>	<u>\$272,680</u>	<u>\$307,034</u>

Notes to Financial Statements

Investments

The Company's investments were in compliance with Section 3925.08 of the ORC.

Loss and Loss Adjustment Expense Reserves

The Company had an outside actuary, Jeffery Scott, FCAS, MAAA, opine of the reasonableness of the total reserves for the years covered by the examination. The Department's actuary, Mary D. Miller, FCAS, MAAA, reviewed the detailed calculations for the reserves of the major lines of business as of December 31, 2009.

On the basis of the above-mentioned analysis, it was determined that the loss and loss adjustment expense reserves were reasonable as of December 31, 2009.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2009, and is summarized as follows:

Total Admitted Assets	<u>\$965,599,050</u>
Liabilities	\$658,564,999
Surplus as Regards Policyholders	<u>307,034,051</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$965,599,050</u>

Acknowledgement

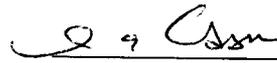
Appreciation is expressed for the assistance extended by the officers and employees of the Company during the course of this examination.

In addition to the undersigned, the following representatives of the Department participated in this examination: Floyd Meeks, AES, CFE, CIDM, CISA, CPA, MBA, Mohammad Arid, AES, CFE, CIDM, CISA, CISSP, Larry G. Rice, AES, CFE, CPA, CISA, Leroy J. Muster, CFE, CPA; Mary Miller, FCAS, MAAA; Jyotika V. Patel, CPA; and Patricia Severs, CPA.

Respectfully,



Donnie G. Wells, CFE
Examiner-In-Charge
Ohio Department of Insurance



David A. Cook, CFE
Assistant Chief Examiner
Ohio Department of Insurance

Verification

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2009.

[Signature]
Examiner-In-Charge

2/28/11
Date

[Signature]
Assistant Chief Examiner

2/28/11
Date

State of Ohio
County of Franklin

Personally appeared before me the above named, Donnie G. Wells, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 28 day of February, 2011.

[Signature]
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
My Commission Expires **MAY 22, 2012**

State of Ohio
County of Franklin

Personally appeared before me the above named, David A. Cook, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 28 day of February, 2011.

[Signature]
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
My Commission Expires **MAY 22, 2012**