

Report of Examination of

American Modern Life 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 Life Insurance Company

an Ohio domiciled, stock, life 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

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
Juergen E. Kammerlohr	Chief Financial Officer, Specialty Insurance Division, Munich Re. America, Inc
Michael L. Flowers	Vice President and Secretary, The Company
James P. Tierney	Senior Vice President- Finance, The Company
Paul F. Gelter	Head of Operations, Specialty Insurance Division, Munich Re. America, Inc

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
William R. Horbatt	Actuary

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

The Company cedes business that is produced under certain programs to a variety of reinsurers.

Assumed

There is no significant amount of business is assumed by the Company.

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").

Territory and Plan of Operations

The Company operations are conducted on a general managing agency basis. It specializes in the writing and reinsurance of credit life and accident and health coverage primarily through banks, sales and consumer finance companies, credit unions, and mobile home dealerships. The Company was licensed to transact business in all states except New Hampshire and New Jersey.

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 either made 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.

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	\$40,491,376
Common Stocks	15,932,479
Cash	<u>3,033,726</u>
Total cash and invested assets	59,457,581

Accrued investment income	254,283
Uncollected premiums and agents' balances	299,089
Amounts recoverable from reinsurers	1,273,958
Other amounts receivable under reinsurance contracts	1,768,122
Net deferred tax asset	<u>335,966</u>
Total admitted assets	<u>\$63,388,999</u>

Liabilities, Surplus and Other Funds

December 31, 2009

Liabilities:

Aggregate reserve for life contracts	\$25,934,269
Aggregate reserve for accident and health contracts	8,119,459
Life contract claims	891,767
Accident and health contract claims	658,365
Provision for experience rating refund	1,389,831
Commissions to agents due or accrued-foe and annuity contracts	120,336
General expenses due or accrued	2,755
Taxes, licenses and fees due or accrued	269,713
Asset valuation reserve	1,165,503
Funds held under reinsurance treaties with unauthorized reinsurers	1,615,646
Payable to parent, subsidiaries and affiliates	188,895
Aggregate write-ins for liabilities	2,209,499
Total liabilities	<u>42,566,038</u>

Capital and surplus:

Common capital stock	2,500,000
Gross paid in and contributed surplus	7,000,000
Unassigned funds	11,322,961
Total capital and surplus	<u>20,822,961</u>
Total liabilities, capital and surplus	<u>\$63,388,999</u>

Statement of Operations

December 31, 2009

Premiums and annuity considerations for life and accident and health contracts	\$11,052,041
Net investment income	1,050,386
Amortization of interest maintenance reserve	(161,483)
Commissions and expense allowances on reinsurance ceded	<u>10,534,021</u>
Total	<u>22,474,965</u>
Death benefits	3,344,860
Disability benefits	2,222,734
Increase in aggregate reserves	<u>(1,838,431)</u>
Total	<u>3,729,163</u>
Commissions on premiums, annuity considerations, and deposit-type contract funds	12,485,427
Commissions and expense allowances on reinsurance assumed	214,359
General insurance expenses	2,206,159
Insurance taxes, licenses and fees	<u>1,038,009</u>
Total	<u>19,673,117</u>
Net gain from operations before dividends to policyholders before federal income taxes	<u>2,801,848</u>
Dividends to policyholders	<u>0</u>
Net gain from operations after dividends to policyholders but before federal income taxes	<u>2,801,848</u>
Federal income taxes	<u>(27,154)</u>
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains	<u>2,829,002</u>
Net realized capital losses	<u>(37,041)</u>
Net income	<u><u>\$2,791,961</u></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>\$20,321</u>	<u>\$24,520</u>	<u>\$21,153</u>	<u>\$22,068</u>	<u>\$18,348</u>
Net income	4,343	1,611	(934)	(2,687)	2,792
Net unrealized capital gains (losses)	(25)	435	968	(180)	(1,293)
Change in net deferred income tax	(63)	2,420	(1,868)	1,530	(1,036)
Change in nonadmitted assets	(83)	(7,024)	2,117	(2,397)	2,254
Change in liability for reinsurance in unauthorized companies		(153)	72	81	
Change in asset valuation reserve	48	(566)	(98)	75	(100)
Cumulative effect of changes in accounting principles		(89)			
Change in surplus as a result of reinsurance			656	(143)	(143)
Net change in capital and surplus	<u>4,199</u>	<u>(3,367)</u>	<u>915</u>	<u>(3,720)</u>	<u>2,475</u>
Capital and surplus December 31, current year	<u>\$24,520</u>	<u>\$21,153</u>	<u>\$22,068</u>	<u>\$18,348</u>	<u>\$20,823</u>

Notes to Financial Statements

Investments

The Company's investments were in compliance with Section 3907.14 of the ORC.

Loss and Loss Adjustment Expense Reserves

The Company had an appointed actuary, William R Horbatt, FSA, MAAA, certify the total reserves for the years covered by the examination. The Department's actuary, Peter Weber, FSA, MAAA, reviewed the detailed calculations for the reserves of the major lines of business as of December 31, 2009.

Based on 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>\$63,388,999</u>
Liabilities	\$42,566,038
Surplus as Regards Policyholders	<u>20,822,961</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$63,388,999</u>

Acknowledgement

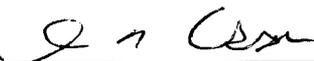
Appreciation is expressed for the assistance extended by the officers and employees of the Company during the course of this examination.

In addition to the undersigned, the following representatives of the Department participated in this examination: Floyd Meeks, AES, CFE, CIDM, CISA, CPA, MBA, Mohammad Arif, AES, CFE, CIDM, CISA, CISSP, Larry G. Rice, AES, CFE, CPA, CISA, Leroy J. Moster, CFE, CPA; Peter Weber, ASA,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.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2012
My Commission Expires

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.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2012
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