

Report of Examination of

American Modern Surplus Lines 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 Surplus Lines 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 22, 2005, 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. T. 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

Intercompany Pooling

For the period covered by this examination, the Company was a participant in an intercompany pooling agreement with American Modern Home Insurance Company and affiliates. The effect of the agreement is for the 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	0.5%
	<u>100.0%</u>

Territory and Plan of Operations

The Company was licensed to transact business in the 39 states and the District of Columbia.

Percentage of Net Business Written by Line

<u>Description</u>	<u>2009</u>
Fire	58.0%
Allied lines	39.2%
Homeowners multiple peril	1.6%
Commercial multiple peril	0.4%
Commercial auto liability	0.4%
Other	0.4%
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 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 workpapers.

The Department's property and casualty actuary reviewed the relevant work performed by the opening 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 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

\$44,191,415

Cash

442,905

Total cash and invested assets

44,634,320

Accrued investment income

335,742

Uncollected premiums and agents' balances

1,305,817

Deferred premiums, agents' balances and installments booked but deferred and not yet due

441,081

Amounts recoverable from reinsurers

226,322

Funds held by or deposited with reinsured companies

26,522,515

Net deferred tax asset

1,173,596

Total admitted assets

\$74,639,392

Liabilities, Surplus and Other Funds

December 31, 2009

Liabilities:

Losses	\$7,635,343
Reinsurance payable on paid losses	1,340,416
Loss adjustment expenses	998,510
Commissions payable	4,957,860
Other expenses	3,142,118
Taxes, licenses and fees	1,431,212
Current federal and foreign income taxes	157,010
Unearned premiums	17,888,661
Ceded reinsurance premiums payable	2,183,380
Funds held by company under reinsurance treaties	10,991,113
Payable to parent, subsidiaries and affiliates	241,572
Aggregate write-ins for liabilities	11,700
Total liabilities	<u>50,978,894</u>

Capital and surplus:

Common capital stock	5,000,000
Gross paid in and contributed surplus	15,000,000
Unassigned funds	3,660,499
Total capital and surplus	<u>23,660,499</u>
Total liabilities, capital and surplus	<u>\$74,639,392</u>

Statement of Operations

December 31, 2009

Premiums earned	<u>\$41,801,745</u>
Losses incurred	19,248,228
Loss expenses incurred	2,316,349
Other underwriting expenses incurred	<u>17,944,305</u>
Underwriting gain	2,292,863
Net investment income earned	1,057,422
Net realized capital gains (losses)	<u>145,858</u>
Net investment gain	1,203,280
Finance and service charges not included in premiums	<u>13,819</u>
Total other income	13,819
Income before dividends to policyholders and before federal and foreign income taxes	<u>3,509,963</u>
Dividends to policyholders	<u>0</u>
Income after dividends to policyholders but before federal and foreign income taxes	<u>3,509,963</u>
Federal income taxes	<u>1,012,371</u>
Net income	<u>\$2,497,592</u>

Statement of Changes in the Capital and Surplus Account

(In thousands)

	2005	2006	2007	2008	2009
Capital and surplus December 31, previous year	\$0	\$20,014	\$19,160	\$21,156	\$21,335
Net income	14	(1,989)	1,817	152	2,498
Change in net deferred income tax		1,310	377	(90)	(121)
Change in nonadmitted assets		(176)	(197)	117	(51)
Paid in capital	3,000				
Transferred to surplus		2,000			
Paid in surplus	17,000				
Transferred from capital		(2,000)			
Net change in capital and surplus	<u>20,014</u>	<u>(855)</u>	<u>1,996</u>	<u>179</u>	<u>2,326</u>
Capital and surplus December 31, current year	<u>\$20,014</u>	<u>\$19,160</u>	<u>\$21,156</u>	<u>\$21,335</u>	<u>\$23,660</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.

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>\$74,639,392</u>
Liabilities	\$50,978,894
Surplus as Regards Policyholders	<u>23,660,499</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$74,639,392</u>

Acknowledgement

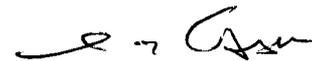
Appreciation is expressed for the assistance extended by the officers and employees of the Company during the course of this examination.

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; 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.

Elizabeth Chase
(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.

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