

REPORT ON EXAMINATION
OF
AUTO CLUB INSURANCE COMPANY
OF FLORIDA
TAMPA, FLORIDA

AS OF
DECEMBER 31, 2009

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

February 11, 2011

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 Rule 69O-138.005, Florida Administrative Code, 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, 2009, of the financial condition and corporate affairs of:

**AUTO CLUB INSURANCE COMPANY OF FLORIDA
14055 RIVEREDGE DRIVE, SUITE 500
TAMPA, FLORIDA 33637**

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

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2009, through December 31, 2009. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2008. This examination commenced with planning at the Office on November 15, 2010, to November 18, 2010. The fieldwork commenced on November 29, 2010, and concluded as of February 11, 2011.

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.

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

This report of examination is confined to significant adverse findings, a material change in the financial statements or other information of regulatory significance or requiring regulatory action. The report comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

SUMMARY OF SIGNIFICANT FINDINGS

Current Exam Findings

There were no material findings or exceptions noted during the examination as of December 31, 2009.

Prior Exam Findings

There were no material findings or exceptions noted during the examination as of December 31, 2008.

HISTORY

General

Auto Club Insurance Company of Florida is a domestic stock company that is licensed only in Florida. The Company was incorporated under Florida law on September 11, 2006, and commenced business on December 11, 2007. Auto Club Insurance Company of Florida is a member of a holding company system and the immediate parent is Auto Club Insurance Holdings, LLC, a Delaware corporation.

The Company was party to Consent Order 87063-06-CO filed September 1, 2006, regarding the application for the issuance of a Certificate of Authority. The Company was in compliance with the provisions of the consent order.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2009, Fire, Allied Lines, Homeowners Multi Peril, Inland Marine, Other Liability, Private Passenger Auto Liability, and PPA Physical Damage. The Company writes only homeowners and private passenger auto packages.

The Articles of Incorporation and Bylaws were not amended during the period covered by this examination.

Dividends to Stockholders

The Company did not pay dividends during the period covered by this examination.

Capital Stock and Capital Contributions

As of December 31, 2009, the Company's capitalization was as follows:

Number of authorized common capital shares	10,000
Number of shares issued and outstanding	220
Total common capital stock	\$220
Par value per share	\$1.00

The Company was wholly owned by Auto Club Insurance Holdings LLC, which was owned by Interinsurance Exchange of the Automobile Club (45.5%), Auto Club Insurance Association (45.5%), and AAA Auto Club South (9%).

During 2009, the Company received \$12,116,500 in capital contributions from the parent company:

March 18, 2009	\$1,996,500
June 26, 2009	5,060,000
September 29, 2009	<u>5,060,000</u>
	<u>\$12,116,500</u>

Subsequent event: During 2010, the Company received \$16,600,000 in capital contributions from the parent company:

March 30, 2010	\$3,960,000
June 25, 2010	5,060,000
September 28, 2010	<u>7,040,000</u>
	<u>\$16,060,00</u>

Surplus Debentures

The Company did not have any surplus notes during the period covered by this examination.

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

The Company had no acquisitions, mergers, disposals, dissolutions, and purchases or sales through reinsurance during the period covered by this examination.

CORPORATE RECORDS

The recorded minutes of the shareholder, Board of Directors (Board), 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.

Conflict of Interest

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

MANAGEMENT AND CONTROL

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, 2009, were:

Directors

Name and Location	Principal Occupation
Christopher Michael Baggaley Costa Mesa, California	Senior Vice President Auto Club Southern California
John Francis Boyle Coto De Caza, California	Executive Vice President Auto Club Southern California
Robert Thomas Bouttier Laguna Niguel, California	President and COO Auto Club Southern California
Edward James Fandel Tampa, Florida	Senior Vice President Insurance Agency and Branch Operations Auto Club South
Sean Henry Maloney Grosse Pointe Shores, Michigan	CFO and Treasurer Auto Club Insurance Association
Jack Terry McElroy Northville, Michigan	Executive Vice President Auto Club Group
Robert Allen McKee Palm Harbor, Florida	Senior Vice President, CFO, and Treasurer Auto Club South

Steven Duane Monahan
Waterford, Michigan

President and COO
Auto Club Insurance Association
President and CEO
MEEMIC Insurance Company

John Allen Tomlin
Lutz, Florida

Executive Vice President and COO
Auto Club South

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

Senior Officers

Name	Title
Larry David Patrick	President & CEO
James Craig Santo	Secretary & Chief Underwriting Officer
Sean Henry Maloney	CFO & Treasurer
Steven Wayne Brown	COO
Bobby Shafter Futch	Vice President, Claims
Jennifer Aylward Wiedrick	Vice President & Controller

The Company's Board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following were the principal internal board committees and their members as of December 31, 2009:

Executive Committee	Audit Committee	Finance and Investment Committee
Steven Duane Monahan ¹ John Francis Boyle John Allen Tomlin	John Francis Boyle ¹ John Allen Tomlin Jack Terry McElroy	Sean Henry Maloney ¹ Edward James Fandel Jack Terry McElroy Robert Allen McKee Steven Duane Monahan John Allen Tomlin Christopher Baggaley John Francis Boyle Robert Thomas Bouttier

¹ Chairman

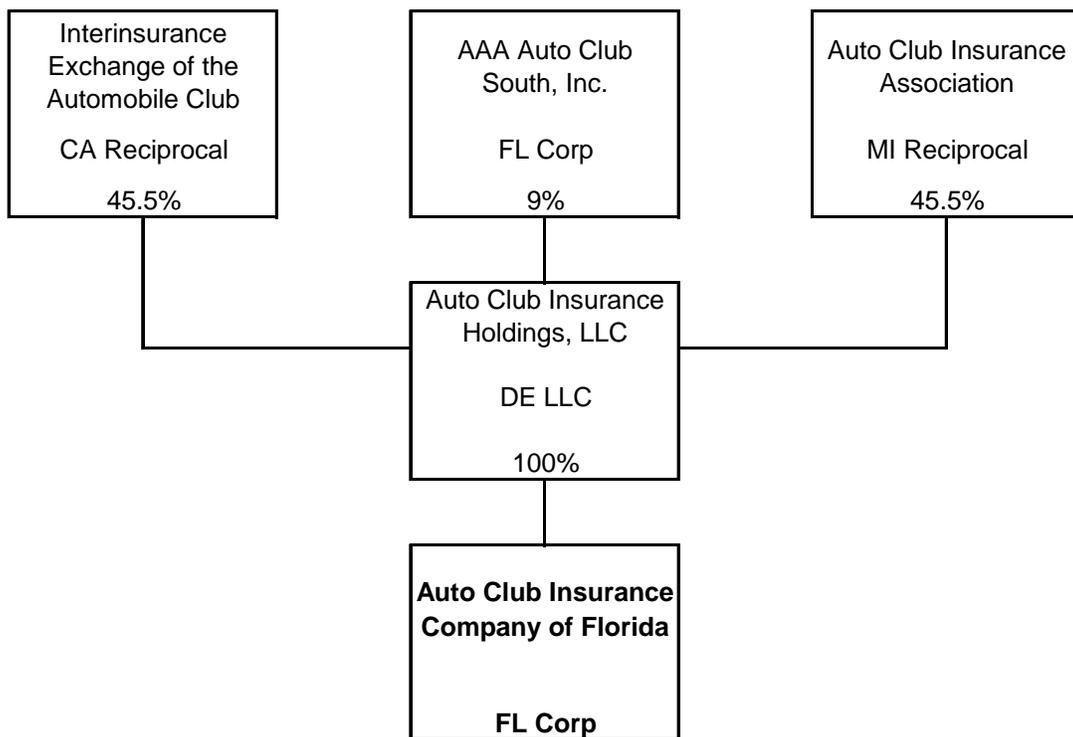
Affiliated Companies

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 July 21, 2010, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

An organizational chart as of December 31, 2009, reflecting the holding company system, is shown below. Schedule Y of the Company's 2009 annual statement provided a list of all related companies of the holding company group.

**AUTO CLUB INSURANCE COMPANY OF FLORIDA
Organizational Chart**

DECEMBER 31, 2009



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

Administration Agreement

The Company had an administration agreement with Auto Club South Insurance Company (ACSIC), an affiliated company, effective September 25, 2006. Under the agreement, ACSIC provided administrative services including collection and handling of premium and other funds, accounting and financial services, marketing support and product development, producer management services, producer commission computation or payment, information technology support, personnel services, facilities support, legal and regulatory compliance services, procurement support, insurance support services, transitional services and other administrative services.

The agreement had an initial term of six months with automatic renewal for five-year periods. The agreement may be terminated with 90 days written notice.

The Company paid actual cost for these services.

Administration Agreement Amended and Restated

The Company had an administration agreement with Auto Club South Insurance Company (ACSIC), an affiliated company, effective June 1, 2007. Under the agreement, ACICS provided executive and managerial services, underwriting services, policyholder services, collection and handling of premium and other funds, accounting and financial services, marketing support and product development, producer management services, producer commission computation or payment, information technology support, personnel services, facilities support, legal and

regulatory compliance services, procurement support, insurance support services, transitional services and other administrative services.

The agreement had an initial term until September 24, 2011, with automatic renewal for five-year periods. The agreement may be terminated with 90 days written notice.

The Company paid actual cost for these services.

Consulting Agreement (ACS) Auto Club Services, Inc

The Company had a consulting agreement with Auto Club Services, Inc. (ACS), an affiliated company, effective June 1, 2007. Under the agreement, ACS provided executive and managerial services; services contributing to product distribution methods, customer service methods, and product design; and additional consulting and support services as agreed upon.

The agreement had an initial term of one year with automatic renewal for one-year terms. The agreement may be terminated with 180 days written notice.

The Company paid actual cost for these services.

Consulting Agreement (ACSIC) Auto Club South Insurance Co

The Company had a consulting agreement with Auto Club South Insurance Company (ACSIC), an affiliated company, effective June 1, 2007. Under the agreement, the Company provided executive

and managerial services, claims management oversight, product management, and other management services as agreed upon.

The agreement had an initial term of one year with automatic renewal for one-year terms. The agreement may be terminated with 180 days written notice.

The Company was paid actual cost for these services.

Consulting Agreement (IEAC) Interinsurance Exchange

The Company had a consulting agreement with the Interinsurance Exchange of the Automobile Club (IEAC), an affiliated company, effective June 1, 2007. Under the agreement, IEAC will provided executive and managerial services; services contributing to product distribution methods, customer service methods, and product design; and additional consulting and support services as agreed upon.

The agreement had an initial term of one year with automatic renewal for one-year terms. The agreement may be terminated with 180 days written notice.

The Company paid actual cost for these services.

Investment Management Agreement

The Company had an investment management agreement with Auto Club Trust (ACT), a federal savings bank, an affiliated company, effective September 25, 2006. Under the agreement, ACT

managed and directed the investment and reinvestment of the Company's investment account in accordance with both the Company's guidelines and the provisions of Florida insurance laws.

The Company paid an annual flat fee based on the market value of the portfolio in the investment account.

The agreement was amended May 1, 2007 to reduce the fee charge and change the fee payments to monthly in arrears.

Subsequent to December 31, 2009, the Company entered into a new investment management agreement.

Investment Management Agreement 2010

The Company had an investment management agreement with Auto Club Services, Inc. (ACS), an affiliated company, effective March 3, 2010. Under the agreement, ACS managed and directed the investment and reinvestment of the Company's investment account in accordance with both the Company's guidelines and the provisions of Florida insurance laws.

The Company paid an annual flat fee based on the market value of the portfolio in the investment account payable quarterly.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$1,000,000 with a deductible of \$2,500, which exceeded the suggested minimum as recommended by the NAIC.

The Company also maintained Directors and Officers (D&O) liability insurance and other property and liability coverage.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

All eligible employees are covered by a 401 (k) defined contribution plan of the employer. Employer contributions are made on a per-pay-period basis and are at the discretion of the employer. The Company's share of this savings plan expense was \$66,648 and \$33,660 in 2009 and 2008, respectively. The Company has no legal obligation for benefits under this plan.

The Company provides employees with health and life insurance coverage.

The Company had no obligations to current or former employees for benefits after their employment ended.

TERRITORY AND PLAN OF OPERATIONS

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 maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1) (i) 3a, Florida Statutes.

COMPANY GROWTH

The Company has been growing organically through the affiliated insurance agency, Insurance Bureau, Inc., which is a wholly owned subsidiary of AAA Auto Club South, a member of the holding company. The Company has also begun to use independent agents in areas that are underserved by the affiliated agency. In 2009, over 96% of policies sold were through the Insurance Bureau, Inc. The Company had 13,214 and 2,240 package policies in force at December 31, 2009 and 2008 respectively.

Since inception, the Company has received a total of \$31.3 million in capital contributions. Future capital calls will be based on actual and anticipated writings in order to maintain the target net written premium to surplus ratio of 1 to 1 for homeowners' multi-peril and 2 to 1 for automobile and all other business. The Company plans to maintain a minimum of \$10 million in surplus.

Profitability of Company

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

	2009	2008	2007	2006
Premiums Earned	15,458,477	1,640,879	1,291	0
Net Underwriting Gain/(Loss)	(3,193,666)	(3,991,265)	(1,631,574)	(787,029)
Net Income	(2,508,898)	(3,599,755)	(1,148,438)	(688,756)
Total Assets	44,306,265	15,930,273	6,983,536	11,162,275
Total Liabilities	23,024,427	4,897,797	199,245	786,030
Surplus As Regards Policyholders	21,281,840	11,032,474	6,784,291	10,376,244

LOSS EXPERIENCE

Since the Company began writing business in 2008, historic loss development is limited. However, as of December 31, 2009, there had been no adverse loss experience.

REINSURANCE

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.

Assumed

The Company did not assume risks during the period of this examination.

Ceded

The Company ceded risk under a catastrophe excess of loss basis to various unauthorized reinsurers. The obligation of those reinsurers was secured by letters of credit. The Company's retention under this agreement was \$1,500,000 per occurrence and the reinsurers' limit of liability was \$7,500,000 per occurrence. The agreement provided for a maximum liability of \$15,000,000 for the reinsurers during the term of the agreement, with one reinstatement available.

The Company also ceded risk under a per risk excess of loss basis to General Reinsurance Corporation, an authorized reinsurer. The agreement provided personal property excess of loss coverage above \$500,000 each and every risk, with reinsurer limits of \$1,000,000 per risk and \$2,000,000 for all occurrences within one year. Additionally, the agreement provided personal liability excess of loss coverage above \$250,000 each and every risk, with reinsurer limits of \$1,250,000 each occurrence and \$2,000,000 each year.

The Company also participated in the Florida Hurricane Catastrophe Fund (FHCF) at the 90% reimbursement level. The Company also elected \$12 billion of TICL (temporary increase in coverage limit) which provided 90% coverage in excess of retention. Premiums and retention levels for the FHCF coverage were calculated as stipulated in Section 215.555, Florida statutes.

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 Tampa, Florida, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements annually for each year since inception, 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 and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with Northern Trust Bank entered into on September 27, 2006. The Company maintained a custodial agreement with the Bank of New York Mellon entered into on June 25, 2008. The Company was in compliance with Rule 69O-143.042, Florida Administrative Code, which stipulates the requirements of a custodial agreement.

Independent Auditor Agreement

The Company contracted with an external independent CPA firm to perform the annual audit of its financial statements as required by Rule 69O-137.002 (7) (c), Florida Administrative Code.

Office Building Lease

This lease agreement was effective May 1, 2007, for the office spaced occupied by the Company, for a term of 60 months. Payments required under the lease agreement per year follow:

Months 1 - 12	\$460,000
Months 13 – 24	\$632,002
Months 25 – 36	\$650,943
Months 37 – 48	\$670,418
Months 49 – 60	\$690,693

Information Technology Report

INS Services, Inc. performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

STATUTORY DEPOSITS

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

STATE	Description	Par Value	Market Value
FL	USTBD, 6%, 02/15/26	<u>\$ 320,000</u>	<u>\$ 414,496</u>
TOTAL FLORIDA DEPOSITS		<u>\$ 320,000</u>	<u>\$ 414,496</u>
TOTAL SPECIAL DEPOSITS		<u><u>\$ 320,000</u></u>	<u><u>\$ 414,496</u></u>

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2009, 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."

AUTO CLUB INSURANCE COMPANY OF FLORIDA
Assets

DECEMBER 31, 2009

	Per Company	Examination Adjustments	Per Examination
Bonds	\$34,762,059		\$34,762,059
Stocks:			
Common	1,984,083		1,984,083
Cash	(103,230)		(103,230)
Short-term Investments	2,463,184		2,463,184
Investment income due and accrued	174,932		174,932
Agents' Balances:			
Uncollected premium	845,880		845,880
Deferred premium	3,847,487		3,847,487
Amounts recoverable from reinsurers	10,765		10,765
Net deferred tax asset	0		0
EDP Equipment	141,680		141,680
Furniture and equipment	0		0
Receivable from parents, subsidiaries and affiliates	179,425		179,425
Aggregate write-in for other than invested assets	0		0
	<hr/>		
Totals	\$44,306,265	\$0	\$44,306,265
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AUTO CLUB INSURANCE COMPANY OF FLORIDA
Liabilities, Surplus and Other Funds

DECEMBER 31, 2009

	Per Company	Examination Adjustments	Per Examination
Losses	\$2,915,150		\$2,915,150
Loss adjustment expenses	663,702		663,702
Commissions payable	32,003		32,003
Other expenses	594,190		594,190
Taxes, licenses and fees	273,311		273,311
Unearned premium	17,512,101		17,512,101
Advance premium	647,981		647,981
Ceded reinsurance premiums payable	(272,629)		(272,629)
Payable for securities	658,618		658,618
Total Liabilities	\$23,024,427	\$0	\$23,024,427
Common capital stock	\$220		\$220
Gross paid in and contributed surplus	31,293,780		31,293,780
Unassigned funds (surplus)	(10,012,160)	0	(10,012,160)
Surplus as regards policyholders	\$21,281,840	\$0	\$21,281,840
Total liabilities, surplus and other funds	\$44,306,267	\$0	\$44,306,267

AUTO CLUB INSURANCE COMPANY OF FLORIDA
Statement of Income

DECEMBER 31, 2009

Underwriting Income

Premiums earned		\$15,458,477
	Deductions:	
Losses incurred		6,406,409
Loss expenses incurred		1,090,364
Other underwriting expenses incurred		11,155,370
Total underwriting deductions		\$18,652,143
Net underwriting gain or (loss)		(\$3,193,666)

Investment Income

Net investment income earned		\$736,254
Net realized capital gains or (losses)		(80,087)
Net investment gain or (loss)		\$656,167

Other Income

Net gain or (loss) from agents' or premium balances charged off		(\$23,526)
Finance and service charges not included in premiums		51,032
Aggregate write-ins for miscellaneous income		1,095
Total other income		\$28,601
Net income before dividends to policyholders and before federal & foreign income taxes		(\$2,508,898)
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		(\$2,508,898)
Federal & foreign income taxes		0
Net Income		(\$2,508,898)

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$11,032,474
Net Income		(\$2,508,898)
Change in net unrealized capital gains or losses		(10,497)
Change in net deferred income tax		664,425
Change in non-admitted assets		(149,165)
Change in provision for reinsurance		137,000
Surplus adjustments: Paid in		12,116,501
Change in surplus as regards policyholders for the year		\$10,249,366
Surplus as regards policyholders, December 31 current year		\$21,281,840

A comparative analysis of changes in surplus is shown below.

AUTO CLUB INSURANCE COMPANY OF FLORIDA
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2009

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, 2009, per Annual Statement	\$21,281,840
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustment			
LIABILITIES:			
No adjustment			
Net Change in Surplus:			<u>0</u>
Surplus as Regards Policyholders December 31, 2009, Per Examination			<u><u>\$21,281,840</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses

\$ 3,578.852

An actuary employed by the Company was appointed by the Board of Directors, and rendered an opinion that the amounts carried in the balance sheet as of December 31, 2009, 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 engaged an independent actuarial firm, INS Consultants, Inc., to review the loss and loss adjustment expense reserves carried in the Company's balance sheet as of December 31, 2009, and was in concurrence with this opinion.

Capital and Surplus

The amount reported by the Company of \$21,281,840, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Auto Club Insurance Company of Florida** as of December 31, 2009, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$21,281,840, which exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Patricia Casey Davis, CPA, CFE, Examiner-In-Charge, and Robert J. McGee, CFE, Participating Examiner, of INS Regulatory Insurance Services, Inc., Robert W. Gardner, FCAS MAAA, Consulting Actuary, and Michael W. Morro, ACAS MAAA Consulting Actuary of INS Consultants, Inc., Paul L. Berkebile, CFSA, CISA, Senior Manager and Claude B. Granese, CPA, Director of Finance and Quality Control of INS Services, Inc., and Fidel S. Gonzalez, Financial Examiner/Analyst Supervisor of the Office participated in the examination.

Respectfully submitted,

Kethessa Carpenter, CPA
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation