

REPORT ON EXAMINATION
OF
STATE FARM FLORIDA INSURANCE
COMPANY
WINTER HAVEN, FLORIDA

AS OF
DECEMBER 31, 2009

BY THE
OFFICE OF INSURANCE REGULATION

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TALLAHASSEE, FLORIDA

March 4, 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, Rule 690-138.005, 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:

**STATE FARM FLORIDA INSURANCE COMPANY
7401 CYPRESS GARDENS BLVD
WINTER HAVEN, FLORIDA 33888**

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, 2005, through December 31, 2009. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2004. This examination commenced with planning at the Office on July 6, 2010, to July 9, 2010. The fieldwork commenced on July 12, 2010, and concluded as of March 4, 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

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2004, along with resulting action taken by the Company in connection therewith.

General

The Company's custodial agreement did not meet the requirements of Rule 69O-143.042, (2)(o), Florida Administrative Code. In addition, the Company did not submit a copy of its custodial agreement to the Office. **Resolution:** The Company amended its custodial agreement to comply with the requirements of Rule 69O-143.042,(2)(o), Florida Administrative Code and filed a copy with the Office.

HISTORY

General

The Company was incorporated in Florida on December 7, 1998, and commenced business on December 30, 1998, as State Farm Florida Insurance Company.

In accordance with Section 624.401(1), Florida Statutes, the Company was authorized to transact the following insurance coverage in Florida on December 31, 2009:

Homeowners multi peril	Medical Malpractice
Commercial multi peril	Earthquake
Inland Marine	Other Liability
Mobile Home multi peril	

There were no changes to the Company's Articles of Incorporation and the Bylaws during the period covered by this examination.

Dividends to Stockholders

The Company did not declare or pay dividends to its stockholder in 2009.

Capital Stock and Capital Contributions

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

Number of authorized common capital shares	8,000,000
Number of shares issued and outstanding	6,075,000
Total common capital stock	\$516,375,000
Par value per share	\$85.00

Control of the Company was maintained by its parent, State Farm Mutual Automobile Insurance Company, who owned 100% of the stock issued by the Company.

Surplus Debentures

The Company issued two surplus debentures to its parent in 2004. One surplus note was in the amount of \$250 million and the other surplus note was in the amount of \$500 million.

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. During 2009, a change was made to the policy which placed reliance upon the Code of Conduct and Senior Leadership Questionnaires.

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
Sandra F. Arnold Bloomington, Illinois	State Farm Executive
Brian V. Boyden Bloomington, Illinois	State Farm Executive
Ronnie C. Fluker Bloomington, Illinois	State Farm Executive
Roderick M. Matthews Bloomington, Illinois	State Farm Executive
James M. Thompson South Tampa, Florida	State Farm Executive

The Board in accordance with the Company's bylaws appointed the following senior officers as of December 31, 2009:

Senior Officers

Name	Title
James M. Thompson	President and CEO
Paul J. Smith	Vice President and Treasurer
Kim M. Brunner	Vice President, Chief Legal Officer and Secretary

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

James M. Thompson¹
Brian V. Boyden
Ronnie C. Fluker

Investment Committee

James M. Thompson¹
Sandra F. Arnold
Brian V. Boyden

¹ Chairman

The Company did not maintain an audit committee. The audit committee of its parent was utilized which was in compliance with Section 624.424(8) (c), Florida Statutes.

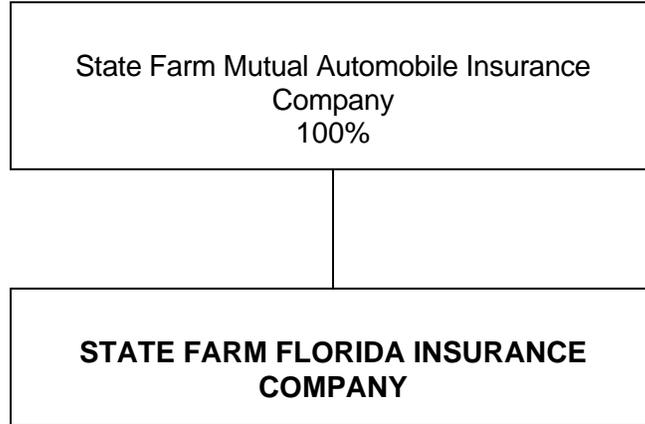
Affiliated Companies

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 April 26, 2010, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2009, reflecting the holding company system, is shown below. Schedule Y of the Company's 2008 annual statement provided a list of all related companies of the holding company group.

**STATE FARM FLORIDA INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2009



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

Short-term Investment Pooling Agreement

The parent, along with some of its affiliates and the Company, created a limited liability company under the name State Farm Liquidity Pool, LLC, so that each affiliated company may participate as a member in a short-term investment pool. The pool reduced the need for transactions between affiliates and reduced transaction costs.

Operating Agreement – Liquidity Pool

The Company, and other affiliated members of the State Farm Liquidity Pool, LLC, had an agreement to transact all lawful business related to participation in permitted investments as specified in the pooling agreement in accordance with applicable laws, providing all necessary and appropriate financial and administrative services and support for such activities and other powers as necessary.

Federal Income Tax Allocation Agreement

The Company and its affiliates had an agreement to file a consolidated federal incomes tax return and allocate the total consolidated federal income tax liability in accordance with Section 1552(a)(2) of the Internal Revenue Code. The consolidated federal income tax liability was apportioned to each company in accordance with an agreement authorized by each company's Board of Directors. The allocation was based upon separate return calculations for regular and alternative minimum tax with current credits for net losses and tax credits.

Florida Corporate Income Tax Allocation Agreement

The Company and its affiliates had an agreement to file a consolidated Florida corporation income tax return. The total Florida income tax was allocated as follows: the estimated annual individual company income tax was divided by the sum of the estimated annual combined company income taxes.

Illinois Insurance Corporation Income Tax Allocation Agreement

The Company and its affiliates had an agreement to file a combined Illinois corporation income tax return as part of an Illinois unitary business group that apportioned Illinois based income according to insurance premiums. The total tax was allocated as follows: the estimated annual individual company income tax was divided by the sum of all the estimated annual combined company income taxes. The Company was party to the agreement for the purposes of the tax computation.

New York Franchise Tax Allocation Agreement

The Company and its affiliates had an agreement to file a combined New York franchise tax return and a combined New York Metropolitan Transportation Business Tax Surcharge Return. The total tax was allocated to each corporation based upon the ratio of each corporation's taxable New York premiums to the sum of all of the taxable New York premiums. The Company was party to the agreement for the purposes of the tax computation.

Trainee Agent Cost Allocation Agreement

The Company and its parent had an agreement which itemized the cost and value of services rendered by the parent to the Company for the compensation of trainee agents. The parent provided for the developmental financing costs and compensation of the trainee agents selling and servicing State Farm products under the provision of the applicable trainee agents agreement between the parent and the trainee agents. The Company agreed to pay the parent an amount equal to all compensation of trainee agents with respect to the Company's business which would have been paid these agents as if they were non-trainee agents.

Affiliated Service Agreement

The Company and its parent had an agreement whereby the parent renders the following services and provides facilities for the Company to the extent not provided by the Company itself or other service agents: underwriting services, policy issuing and billing services, auditing and record keeping, preparation of reports to governmental agencies, collection of premiums, provision of policies and other printed supplies, and office space and accommodations, etc. The Company agreed to reimburse all reasonable expenses incurred and allocated by the parent to the performance and provision of such services and facilities on a equitable and reasonable basis in conformity with customary insurance accounting principals consistently applied. The Company also had an affiliate service agreement with State Farm Fire and Casualty Company and another service agreement with State Farm Fire and Casualty Company, State Farm Mutual and State Farm General Company, all of whom are affiliates. These three service agreements were in effect until December 31, 2006. Beginning January 1, 2007, these three agreements were replaced by a Services and Facilities agreement which consolidated these into one master agreement.

Common Clearing Account Agreement

The Company and its affiliates had an agreement where the companies implemented a comprehensive cash balance system whereby premium payments and other cash receipts were deposited into one or more deposit clearing accounts pending transmittal by electronic funds transfer to the operating bank account of the company to whom the funds belong. The companies also implemented a comprehensive cash disbursement system whereby disbursements were processed through one or more common disbursement clearing accounts. The operating bank account of the company on whose behalf the disbursement was made was adjusted accordingly.

Demand Line of Credit Agreement

The Company's parent established a revocable line of credit agreement in 2007 for the use of the Company. Pursuant to this, the Company may borrow up to the aggregate principal amount (\$500 million) at any one time. As of December 31, 2009, the Company had not drawn upon this line of credit.

FIDELITY BOND

The Company and its affiliates maintained fidelity bond coverage of \$5,000,000 with a deductible of \$500,000, which adequately covered the suggested minimum amount of coverage for the Company and its affiliates as recommended by the NAIC.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company participated in a qualified defined benefit pension plan which covered all employees. Pension costs were allocated among participating companies based upon plan provisions.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance in the states of Florida and Illinois. Although licensed in Illinois, it only wrote premiums 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

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.

	2009	2008	2007	2006	2005
Premiums Earned	492,736,054	734,931,230	1,013,451,158	972,649,320	952,704,970
Net Underwriting Gain/(Loss)	(463,890,653)	(235,521,744)	72,138,166	173,840,521	(16,167,297)
Net Income	(180,387,397)	(184,519,559)	108,116,528	133,987,649	26,928,870
Total Assets	1,830,575,171	2,138,084,575	2,343,588,860	2,391,685,554	2,432,109,255
Total Liabilities	1,464,280,941	1,530,437,599	1,521,366,207	1,672,835,082	1,870,680,978
Surplus As Regards Policyholders	366,294,230	607,646,976	822,222,652	718,850,472	561,428,277

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 any risk during the period of this examination.

Ceded

The Company maintained Excess of Loss coverage to protect the loss impact of large single risks. State Farm Fire and Casualty Company (an affiliate) reinsures the Personal Liability Umbrella Policies and Commercial Liability Umbrella Policies of the Company up to \$5 million excess of \$5 million. This contract was discontinued April 1, 2008 and was replaced by an external \$20 million excess of \$5 million reinsurance contract.

The Company also has excess of loss reinsurance agreements with the parent and other external reinsurers to manage the catastrophe exposures within the Company. These catastrophe excess reinsurance contracts were renewed with State Farm Mutual Automobile Insurance Company (SFMAIC) and external reinsurers. Under the terms of the contracts, the Company's retention limits are \$175,000,000 with coverage up to \$6,425,000,000 for contract year 2007-2008; \$6,012,000,000 for contract year 2008-2009 and \$5,053,000,000 for contract year 2009-2010.

The Company also renewed the aggregate excess catastrophe contract with SFMAIC to provide aggregate coverage for qualifying events in excess of the Company's retention. Recovery under this contract was net of other available reinsurance recoveries and was not subject to a reinstatement provision. Under these contracts, the Company's retention was \$250,000,000 (years 2005, 2006, 2009) and \$350,000,000 (years 2007, 2008) with contract limits of \$500,000,000 for all years.

The Company additionally has a reinsurance contract in place with the Florida Hurricane Catastrophe Fund (FHCF) to provide excess hurricane coverage to the Company in the State of Florida. In addition to the mandatory FHCF coverage, optional FHCH coverage was purchased only in the 2008-2009 and 2007-2008 contract years. This Temporary Increase in Coverage Limit was made available as a result of the 2007 special legislative session which increased the reinsurance capacity of FHCF. The contract year limit for both FHCF coverages represents 90% of reinsurance coverage in excess of the contract attachment point as follows: 2007-2008 mandatory contract attachment point \$657,908,000, mandatory contract year limit \$1,773,016,000; 2008-2009 mandatory contract attachment point \$646,976,000, mandatory contract year limit \$1,672,638,000; 2009-2010 mandatory contract attachment point \$592,966,000, mandatory contract year limit \$1,426,211,000.

SFMAIC assumes 100% of losses between the Company retention and the FHCF contract attachment point. SFMAIC also provides coverage up to stated limits for losses above the FHCF attachment point that are not eligible for the FHCF.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

ACCOUNTS AND RECORDS

Although the Company maintained its principal operational offices in Winter Haven, Florida, this examination was conducted in Bloomington, Illinois at the corporate headquarters. The Company had a consent order with the Office which required the Company to maintain its records in the State of Florida. This order was amended on November 20, 2001, to allow the Company to request permission on an annual basis to hold its office, records, and assets out of state. Requests were granted to the Company for the period covered by this examination.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2005, 2006, 2007, 2008 and 2009, 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 had a custody agreement with Mellon Trust of Florida, N.A., dated December 10, 1998, for the safekeeping of its securities at December 31, 2009. The agreement was in compliance with Rule 69O-143.042(2), Florida Administrative Code.

Independent Auditor Agreement

The Company engaged PriceWaterhouseCoopers LLP, for the purpose of auditing and reporting on the statutory financial statements of the Company.

Information Technology Report

Ryan Donahue, CPA, CISA, AES, of Eide Bailly 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, and with various state officials as required or permitted by law:

STATE	Description	Par Value	Market Value
FL	USTNTS, 4.625%, 11/15/2018	<u>\$ 2,750,000</u>	<u>\$ 2,975,363</u>
	TOTAL FLORIDA DEPOSITS	<u>\$ 2,750,000</u>	<u>\$ 2,975,363</u>
	TOTAL SPECIAL DEPOSITS	<u><u>\$2,750,000</u></u>	<u><u>\$2,975,363</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."

STATE FARM FLORIDA INSURANCE COMPANY
Assets

DECEMBER 31, 2009

	Per Company	Examination Adjustments	Per Examination
Bonds	\$1,407,906,693		\$1,407,906,693
Cash:	130,431,934		130,431,934
Receivable for securities	863,352		863,352
Agents' Balances:			
Uncollected premium	14,210,730		14,210,730
Deferred premium	137,648,743		137,648,743
Reinsurance recoverable	9,217,432		9,217,432
Current federal and foreign income tax recoverable	79,009,061		79,009,061
Interest and dividend income due & accrued	15,781,024		15,781,024
Aggregate write-in for other than invested assets	35,506,202		35,506,202
Totals	\$1,830,575,171	\$0	\$1,830,575,171

STATE FARM FLORIDA INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2009

	Per Company	Examination Adjustments	Per Examination
Losses	\$398,535,328		\$398,535,328
Loss adjustment expenses	149,718,270		149,718,270
Other expenses	227,189,936		227,189,936
Taxes, licenses and fees	1,139,879		1,139,879
Unearned premium	293,220,976		293,220,976
Advance premium	21,657,612		21,657,612
Ceded reinsurance premiums payable	260,982,675		260,982,675
Amounts withheld or retained by company	7,259,287		7,259,287
Remittances and items not allocated	(76,190)		(76,190)
Drafts outstanding	49,797,179		49,797,179
Payable to parent, subsidiaries and affiliates	13,076,968		13,076,968
Payable for securities	2,408,536		2,408,536
Aggregate write-ins for liabilities	39,370,487		39,370,487
Total Liabilities	\$1,464,280,941	\$0	\$1,464,280,941
Aggregate write-ins for special surplus funds	\$131,250,000		\$131,250,000
Common capital stock	516,375,000		516,375,000
Surplus Notes	750,000,000		750,000,000
Gross paid in and contributed surplus	91,125,000		91,125,000
Unassigned funds (surplus)	(1,122,455,770)		(1,122,455,770)
Surplus as regards policyholders	\$366,294,230		\$366,294,230
Total liabilities, surplus and other funds	\$1,830,575,171	\$0	\$1,830,575,171

STATE FARM FLORIDA INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2009

Underwriting Income

Premiums earned		\$492,736,054
	Deductions:	
Losses incurred		\$535,468,367
Loss expenses incurred		126,980,059
Other underwriting expenses incurred		294,178,280
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		<u>\$956,626,706</u>
Net underwriting gain or (loss)		(\$463,890,653)

Investment Income

Net investment income earned		\$54,018,551
Net realized capital gains or (losses)		8,573,504
Net investment gain or (loss)		<u>\$62,592,055</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off		\$34,982
Finance and service charges not included in premiums		3,490,332
Aggregate write-ins for miscellaneous income		133,341,691
Total other income		<u>\$136,867,005</u>
Net income before dividends to policyholders and before federal & foreign income taxes		(\$264,431,593)
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		(\$264,431,593)
Federal & foreign income taxes		<u>(84,044,196)</u>
Net Income		<u><u>(\$180,387,397)</u></u>

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$607,646,976
Net Income		(\$180,387,397)
Net unrealized capital gains or losses		(1,664)
Change in non-admitted assets		(84,682,420)
Change in net deferred income tax		26,589,596
Aggregate write-ins for gains and losses in surplus		(2,870,861)
Examination Adjustment		
Change in surplus as regards policyholders for the year		<u>(\$241,352,746)</u>
Surplus as regards policyholders, December 31 current year		<u><u>\$366,294,230</u></u>

A comparative analysis of changes in surplus is shown below.

STATE FARM FLORIDA INSURANCE COMPANY
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 \$366,294,230

	<u>PER</u> <u>COMPANY</u>	<u>PER</u> <u>EXAM</u>	<u>INCREASE</u> <u>(DECREASE)</u> <u>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>\$366,294,230</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$548,253,598

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, 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 contract firm that conducted the examination engaged an independent actuarial firm, Streff and Associates for the loss and loss expenses portion of the examination. They were in concurrence with this opinion.

Capital and Surplus

The amount reported by the Company of \$366,294,230, exceeded the minimum of \$146,428,094 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 **STATE FARM FLORIDA INSURANCE COMPANY** 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 \$366,294,230, which exceeded the minimum of 146,428,094 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Richard J. Nelson, CFE, CIE, Principal; James C. Williams, CFE, CIE, Senior Manager; Audrey Wade, CFE, Financial Examiner; Tim Klemz, CPA, Financial Examiner; and Ryan Donahue, CPA, CISA, AES, AFE, IT Manager, of Eide Bailly participated in the examination. We also recognize Steven J. Streff, ACAS, MAAA, Actuarial Consultant, and James P. Streff, FCAS, MAAA, Actuarial Consultant, of Streff & Associates participation in the examination.

Respectfully submitted,

Mary James, CFE, CPM
Chief Examiner
Florida Office of Insurance Regulation