STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of Automobile Club Family Insurance Company December 31, 2009

ORDER

After full consideration and review of the report of the financial examination of Automobile Club Family Insurance Company for the period ended December 31, 2009, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant findings, subsequent events, company history, corporate records, management and control, fidelity bond and other insurance, pension, stock ownership and insurance plans, territory and plan of operations, growth of the company and loss experience, reinsurance, accounts and records, statutory deposits, financial statements, and comments on financial statement items.

Based on such findings and conclusions, I hereby ORDER, that the report of the Financial Examination of Automobile Club Family Insurance Company as of Automobile Club Family Insurance Company, be and is hereby ADOPTED as filed and for Automobile Club Family Insurance Company to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with each item, if any, mentioned in the Comments on Financial Statement Items and/or Summary of Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 15th day of June, 2011.

John M. Huff, Director
Department of Insurance, Financial Institutions and Professional Registration

REPORT OF

FINANCIAL EXAMINATION

Auto Club Family Insurance Company

As of:

DECEMBER 31, 2009

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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April 7, 2011

Honorable Joseph Torti III, Superintendent
Division of Insurance Regulation
State of Rhode Island
Chairman, Financial Condition (E) Committee, NAIC

Honorable Stephen Robertson, Commissioner
Department of Insurance
State of Indiana
Secretary, Midwestern Zone, NAIC

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Dear Gentlemen:

In accordance with your financial examination warrant, a comprehensive financial examination has been made of the records, affairs and financial condition of

Auto Club Family Insurance Company

also referred to as "Family" or the "Company." The examination was conducted at the Company's home office 12901 North Forty Drive, St. Louis, Missouri 63141, telephone number (314) 523-7350. This examination began on March 15, 2010, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The last full scope association financial examination of the Company was made as of December 31, 2005, by examiners from the state of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners ("NAIC") with no other zones participating.

The current full scope financial examination covers the period from January 1, 2006, through December 31, 2009, and was conducted by examiners from the state of Missouri representing the Midwestern Zone of the NAIC with no other zones participating. This examination also included material transactions or events occurring subsequent to December 31, 2009.

Procedures

This examination was conducted using guidelines set forth in the Financial Condition Examiners Handbook ("Handbook") of the NAIC, except where practices, procedures, and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration ("DIFP") or statutes of the state of Missouri prevailed. The Handbook requires that we plan and perform the examination 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 systems 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. The following key activities were identified: Affiliated Companies, Treasury, Investments, Premiums and Underwriting, Claims Handling, Reserves, Debt and Surplus, and Reinsurance.

This examination was conducted in coordination with the examination by the California Department of Insurance ("CDI") of the Interinsurance Exchange of the Automobile Club ("IEAC"), a California domiciled company with which the Company is affiliated. IEAC administers various activities for the Company including three of the key activities identified above: Affiliated Companies, Investments and Reinsurance. California was the lead state for this coordinated examination and the examiners relied upon information and workpapers provided by the CDI for the examination of the Company's activities that are administered by IEAC.

The examiners relied upon information and workpapers provided by the Company's independent auditor, Ernst & Young LLP, of Los Angeles, California, for its audits covering the periods from January 1, 2007, through December 31, 2009. Such reliance included fraud risk analysis, internal control narratives, tests of internal controls and substantive testing.

SUMMARY OF SIGNIFICANT FINDINGS

The Automobile Club of Missouri ("ACMO") and its subsidiaries, including the Company's parent, Automobile Club Inter-Insurance Exchange ("Exchange"), entered into an Affiliation Agreement with the Automobile Club of Southern California ("ACSC") and its subsidiaries as of March 1, 2006. Pursuant to this Affiliation Agreement the Company and Exchange entered into a reinsurance Pooling Agreement with IEAC. The Pooling Agreement provides that all participants shall pool all of their net underwriting business after cessions to non-affiliated reinsurers. As the significantly larger company, IEAC became the pool leader and retains 95% of the total pool. Exchange and the Company assume the other 5% (4% and 1% to Exchange and the Company respectively). The Affiliation Agreement also requires that IEAC shall maintain Exchange's ratio of surplus to net premiums at not less than 60% (in effect, a 167% or lower net premiums to surplus ratio) at all times until the termination of the Pooling Agreement.

SUBSEQUENT EVENTS

None

COMPANY HISTORY

General

The Company was incorporated under the laws of Missouri on June 22, 1987, and commenced business on June 27, 1987, as Alternative Insurance Company of North America, Inc. The Company was purchased by Exchange on January 1, 1990, and the current name was adopted on January 11, 1990.

Capital Stock and Paid-In Surplus

The Company is authorized to issue 12,000 shares of common stock with a par value of $100 per share. As of December 31, 2009, 12,000 shares were issued and outstanding to the sole shareholder, Exchange, resulting in capital stock of $1,200,000.

When the Company was acquired by Exchange, gross paid-in and contributed surplus was $1,136,694. Additional contributions to surplus were made in 1991, 1995, 1996 and 2006 for $450,000, $2,500,000, $4,252,657 and $5,000,000 respectively, to bring total gross paid-in and contributed surplus to $13,339,351 at December 31, 2009.

Dividends

The Company has not paid any dividends since its acquisition by Exchange.

Acquisitions, Mergers and Major Corporate Events

On March 1, 2006, ACMO, Exchange and its attorney-in-fact, Club Exchange Corporation ("CEC"), entered into an affiliation agreement with IEAC and its following California affiliates: ACSC, ACSC Management Services Inc., and Auto Club Enterprises ("ACE"). As a result of the affiliation agreement, ACSC became the ultimate controlling entity of the Company. The Affiliation Agreement provides for the pooling of all net business written by the Company and Exchange (after cessions to non-affiliated reinsurers) with the business written by IEAC. IEAC is the pool leader and it retains 95% of the pooled business and cedes 4% of the pooled business to Exchange and 1% to the Company.

Surplus Debentures

The Company did not have any surplus debentures issued or outstanding during the examination period.

CORPORATE RECORDS

A review was made of the Articles of Incorporation and Bylaws of the Company. No amendments were made to the Articles of Incorporation or Bylaws during the examination period.

The minutes of the meetings of the shareholder and the board of directors meetings were reviewed for the period under examination and provided sufficient documentation of major corporate transactions. The minutes of the July 2007 meeting reflect that the prior examination report was reviewed and accepted by the board of directors of Club Exchange Corporation, the attorney-in-fact for the Company's parent.

MANAGEMENT AND CONTROL

Board of Directors

The Board of Directors of the Company consists of nine members duly elected at the annual meeting of Exchange, the sole shareholder, as authorized by the Articles of Incorporation. The members elected and serving as of December 31, 2009, were as follows:

Name	Principal Occupation
Michael C. Berkley St. Louis, Missouri	Director, Finance Automobile Club of Missouri
Dean L. Burden Chesterfield, Missouri	Director, Sales Automobile Club of Missouri
Arthur W. Johnson St. Louis, Missouri	President and CEO Automobile Club of Missouri
Carl D. Kraft St. Louis, Missouri	Assistant Secretary Automobile Club of Missouri
Karri L. Master Wildwood, Missouri	Vice President, Sales Automobile Club of Missouri
David M. Mattingly Chesterfield, Missouri	Vice President, Financial Operations and Treasurer Automobile Club of Missouri
Michael J. Right St. Louis, Missouri	Vice President, Public Affairs Automobile Club of Missouri
Robert J. Schreiber Chesterfield, Missouri	Vice President, Insurance Automobile Club of Missouri
James R. Strike St. Louis, Missouri	Director, Claims Automobile Club of Missouri

Officers

The officers of the Company elected and serving as of December 31, 2009, were as follows:

Name	Office
Arthur W. Johnson	President and CEO
David M. Mattingly	Vice President, CFO and Treasurer
Michael J. Right	Vice President
Robert J. Schreiber	Vice President
Gail C. Louis	Secretary
Carl D. Kraft	Assistant Secretary

Committees

The Company does not have its own investment or audit committees. The investment and audit committees of its parent, Automobile Club Inter-Insurance Exchange, act on behalf of the Company. Members serving on these committees as of December 31, 2009, were as follows:

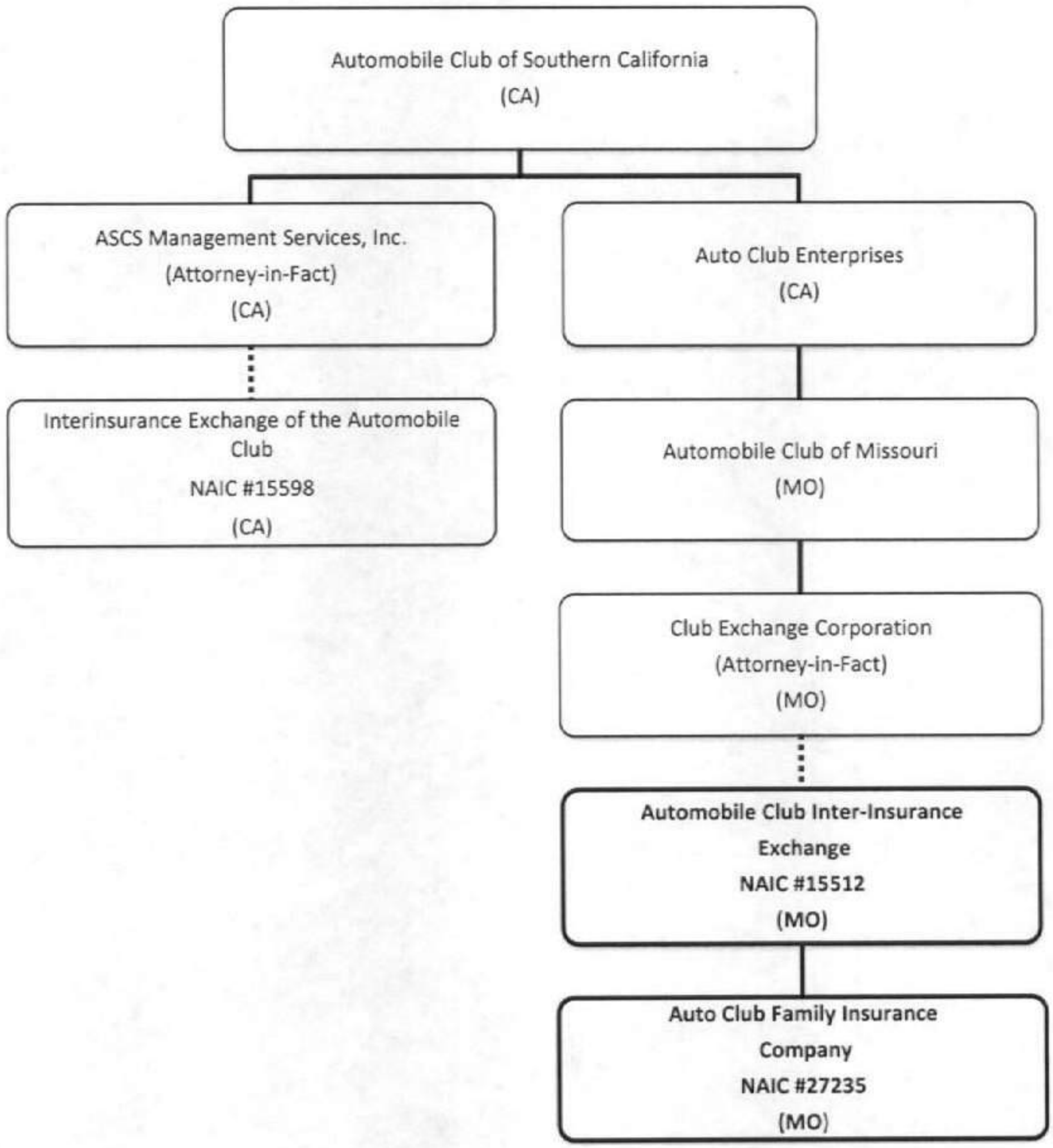
Investment Policy Committee	Audit Committee
Peter K. Barker	Peter K. Barker
David R. Carpenter	Kenneth A. Johnson
Raymond R. Martin	Raymond R. Martin
Willis B. Wood, Jr.	Gilbert T. Ray

Holding Company, Subsidiaries and Affiliates

The Company is part of an Insurance Holding Company System as defined by Section 382.010 RSMo (Definitions). The Company is wholly owned by Exchange, which is a reciprocal inter-insurance exchange. The affairs of Exchange are managed by CEC, the attorney-in-fact that is appointed by the subscribers of Exchange. CEC is wholly owned by ACMO, an affiliate of the American Automobile Association. ACSC is the ultimate controlling entity.

Organization Chart

The following organization chart depicts the insurance holding company system as of December 31, 2009. Only entities that have direct and indirect ownership of the Company or that have a contractual relationship with the Company are listed. Dotted lines indicate a contractual relationship.



<u>Affiliated Transactions</u>
The Company and Exchange have entered into various agreements with affiliates. These agreements are discussed below.

Affiliation Agreement

Parties: Exchange, ACMO, CEC, IEAC, ACSC, ACSC Management Services, Inc. and ACE.

Effective: March 1, 2006

Terms: The parties agreed to take the following actions pursuant to this agreement:

- The Board of Directors and other internal governing bodies were consolidated to accommodate representation of all companies.

- The Company and Exchange commuted their existing 100% inter-company reinsurance pooling treaty. In turn, a new inter-company reinsurance pooling treaty between the Company, Exchange and IEAC was executed with the Company and Exchange ceding 100% of all premiums written to the pool, after outside reinsurance, and the pool retroceding 4% and 1% of the pooled premiums to the Exchange and the Company respectively.

- ACE and ACMO entered into a service agreement whereby the parties provide certain services to each other following the closing.

- Exchange issued a surplus note in the principal amount of $50 million to IEAC. $22 million of the proceeds of the new surplus note was used to retire the $20 million surplus note that was previously issued by Exchange to ACMO.

- IEAC agreed to maintain the "surplus ratio" of Exchange at no less than 60% (in effect, a 167% or lower net premiums to surplus ratio) after giving effect to the new inter-company pooling agreement between the parties.

- IEAC agreed to become licensed, accredited or qualified in the state of Missouri in order for Exchange and the Company to take full reserve credit for amounts ceded to IEAC under the new inter-company reinsurance pooling agreement between the parties.

- Exchange and the Company agreed to become accredited in the state of California in order for IEAC to take full reserve credit for amounts retroceded to Exchange and the Company under the new inter-company reinsurance pooling agreement.

- In order to effectuate the accreditation of the Company as a reinsurer in California, Exchange contributed $5 million to the surplus of the Company to place its surplus position above $20 million. Exchange also provided a minimum surplus guaranty of $20 million for the Company.

Rate(s): The Company did not earn or incur any fees in 2009 under this agreement.

Reinsurance Pooling Agreement

Parties: Exchange, Family and IEAC.

Effective: July 1, 2006

Terms: Under this agreement Exchange and the Company cede 100% of their net premiums, after outside reinsurance, to IEAC. In turn IEAC retrocedes 4% and 1% of the pooled premiums to Exchange and the Company respectively, and retains 95% of the premiums for itself. All losses, loss adjustment and other expenses related to this pooled business are allocated to Exchange and the Company on the same basis as the original retrocession percentages.

Rate(s): The Company did not earn or incur any fees in 2009 under this agreement.

Intercompany Tax Allocation Agreement

Parties: Exchange and Family.

Effective: January 1, 1990

Terms: This agreement provides that the parties will file a consolidated federal income tax return. The consolidated income tax liability is allocated to each of the parties on the basis of its contribution to the consolidated taxable income. Tax benefits from net operating losses and tax credits are allocated to the party generating the operating loss or tax credit.

Rate(s): The Company did not earn or incur any fees in 2009 under this agreement.

Parental Guarantees

Parties: Exchange and Family

Effective: August 29, 1991 (Guarantee to Kansas)
June 28, 2006 (Guarantee to California)

Terms: Exchange has provided a guarantee to the Insurance Department of the state of Kansas that the surplus of the Company will not fall below $1.25 million at any point in time. This guarantee was requested by Kansas as a contingency for approval of the Company to write homeowners business in Kansas. No fees are exchanged between Exchange and the Company for this guarantee. The size of this guarantee did not require a filing for approval for Exchange or the Company prior to its issuance. In addition, it is not expected that this guarantee will ever require any action on the part of Exchange because the minimum surplus required of the Company under Missouri statutes is $2.4 million, well above the Kansas requirement. Additionally, Exchange has provided to the state of California a guarantee that the surplus of the Company will not fall below $20 million at any time, which was a requirement for the initial registration of the Company as an accredited reinsurer in California.

Rate(s): The Company did not earn or incur any fees in 2009 under this agreement.

Service Agreement

Parties: Exchange, Family, CEC and ACMO

Effective: October 12, 2009

Terms: The Company is a party to a Service Agreement under which ACMO agrees to provide all of the personnel, office furniture, fixtures and supplies (excluding data processing systems and equipment owned and provided by the Company) necessary to perform the following services on behalf of Exchange, CEC and the Company:

- Sales, sales promotion and administration
- Public relations and advertising
- Investment of surplus and reserves
- Claims and claims adjustment
- Underwriting
- Actuarial
- Data processing
- Occupancy of premises (i.e. custodial, maintenance, etc.)
- General office and secretarial
- Legal, accounting and auditing
- General management and administration

As compensation, the Company pays ACMO a management fee based on gross premiums written. In addition, the Company reimburses ACMO for the direct costs and overhead costs incurred by ACMO on behalf of the Company. Direct costs include those departments (such as underwriting and claims) that provide services only to Exchange and the Company. Overhead costs consist of other departments and functions that provide services to the insurance companies and other non-insurance affiliates. Appendix A of the agreement is re-determined periodically and represents the procedure used by ACMO to allocate expenses to Exchange and the Company.

Rate(s): The Company incurred $23,870,420 and paid $26,146,080 in 2009 relating to this agreement.

Multiple Cedent Allocation Agreement

Parties: Exchange, Family and IEAC.

Effective: January 1, 2008

Terms: The purpose of this agreement is to properly allocate and record reinsurance premiums, reinstatement premiums, and recoveries among the parties as cedents to a multiple-cedent reinsurance arrangement as required by SSAP 62. Premiums are allocated in accordance with schedules contained in the agreement. The schedules are developed using the required premium deposit amounts for each reinsurance contract at the beginning of a treaty year.

Rate(s): The Company did not earn or incur any fees in 2009 under this agreement.

FIDELITY BOND AND OTHER INSURANCE

The Company is insured on a fiduciary policy purchased by the Automobile Club of Southern California that provides aggregate coverage of $25,000,000 with a $100,000 per loss deductible. This coverage complies with the suggested minimum amount of coverage according to NAIC guidelines.

The Company was also a named insured on other coverages, which include but are not limited to directors' and officers' liability, errors and omissions liability, commercial liability, excess crime, property insurance, commercial auto and commercial excess umbrella.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company does not have any direct employees. Services are provided by employees of ACMO pursuant to a service agreement.

The benefits received by the personnel covered in the above mentioned service agreement include but are not limited to, paid holidays, paid vacations, paid sick leave, workers' compensation, unemployment insurance, excused absences, leave of absence, tuition reimbursement, access to the employee assistance program and ACMO membership. In addition, ACMO provides employees a flexible benefit plan under which each employee receives an allowance (partially based on age, earnings and the cost of medical and dental coverage) which may be used to purchase the individual benefits and coverages desired. The benefits and coverages available include group life insurance, group health/dental/vision care, accidental death and dismemberment, long term disability, 401(k) profit sharing plan and defined benefit pension plan.

TERRITORY AND PLAN OF OPERATIONS

Territory and Plan of Operations

The Company is licensed by the Missouri DIFP under Chapter 379 RSMo (Insurance other than life) to write property, liability, accident & health and miscellaneous insurance. The Company is also licensed in the states of Alabama, Arkansas, Illinois, Indiana, Kansas, Louisiana, Mississippi and Ohio. The Company was previously licensed in Oklahoma but surrendered its Oklahoma license in 2009. Approximately 58% of the 2009 direct premiums were written in Missouri.

The Company markets non-standard private passenger automobile insurance, homeowners insurance and rental dwelling insurance through 229 licensed captive agents who are employed by the ACMO and located in 72 branch offices, and through 302 independent agents, who accounted for 17.3% of direct premium in 2009. Beginning in November 2010, insurance is only sold to members of ACMO.

The employees of ACMO also sell standard private passenger automobile insurance and personal umbrella insurance for Exchange, the Company's parent. In addition, the employees sell memberships for ACMO as well as life, health and other insurance products for non-affiliated licensed insurance companies.

Treatment of Policyholders

The Missouri DIFP has a market conduct staff which performs a review of these issues and generates a separate market conduct report. The most recent market conduct report covered the period 2003-2005 and resulted in a forfeiture of $14,138. The impact of this examination was immaterial to the financial statements.

GROWTH OF COMPANY

The Company's financial position has improved since the affiliation agreement with the California Exchange became effective. The Company has reported net income in three of the last five years. Total Capital and Surplus has increased in three of the last four years. The lone exception was the decrease in surplus experienced in 2008. This decrease was primarily due to realized and unrealized capital losses on investments. As shown below, Capital and Surplus has increased by nearly 30% since 2005:

Year	Net Income	Change in Net Unrealized Capital Gains	Paid In Surplus	Dividends to Stockholders	Year End Capital & Surplus
2005	$ 2,129,588	$ 16,702	$ 8,339,352	$ -	$ 21,653,060
2006	(1,360,630)	64,356	13,339,352	-	24,680,508
2007	1,124,679	170,084	13,339,352	-	26,149,335
2008	(453,173)	(2,116,926)	13,339,352	-	23,339,064
2009	2,581,363	791,721	13,339,352	-	28,128,835

LOSS EXPERIENCE

The following exhibit reflects the annual underwriting results of the Company over the last five years:

Year	Premium Earned	Total Benefits & Expenses	Investment Income	Net Income
2005	$ 42,219,799	$ 41,716,287	$ 1,605,390	$ 2,129,588
2006	31,802,467	37,235,953	2,262,868	(1,360,630)
2007	25,305,654	24,129,344	1,579,579	1,124,679
2008	25,132,871	23,356,249	(810,767)	(453,173)
2009	24,921,637	21,328,617	1,038,706	2,581,363

Net premiums and benefits have decreased significantly as a result of the pooling agreement with IEAC. This is because the Company assumes 1% of the activity from the reinsurance pool whereas the percentage ceded to the pool is higher. While net premiums have decreased, direct premiums actually increased in 2007 and 2008 after the affiliation, before falling somewhat in

2009. Direct losses paid spiked in 2005 and 2006 due to the effects of Hurricanes Katrina and Rita and have decreased in recent years as claims from the hurricanes have diminished.

REINSURANCE

General

Premiums written during the current examination period were as follows:

Premiums	2009	2008	2007	2006
Direct Business	$ 84,307,922	$ 93,879,171	$ 97,612,269	$ 94,077,170
Reinsurance Assumed	24,808,267	25,388,284	25,288,662	28,747,009
Reinsurance Ceded	84,465,301	94,070,601	97,850,709	94,199,083
Net Premiums	$ 24,650,888	$ 25,196,854	$ 25,050,222	$ 28,625,096

Assumed

The Company participates in a reinsurance pooling agreement with the IEAC and Exchange. Under this agreement Exchange and the Company cede 100% of their net premiums and losses after outside reinsurance to IEAC. In turn IEAC retrocedes 4% and 1% of the pooled premiums and losses to Exchange and the Company respectively, and retains 95% for itself.

The Company assumes an insignificant amount of reinsurance from the following mandatory pools: Missouri Property Insurance Placement Facility (FAIR Plan), the Louisiana Coastal and Joint Reinsurance Plans, the Kansas FAIR Plan, the Alabama Insurance Underwriting Association and the Mississippi Windstorm Underwriting Association.

Ceded

The Company participates in a reinsurance program with other members of the ACSC organization including Exchange, AAA Texas County Mutual Insurance Company, Auto Club Casualty Company and Auto Club Indemnity Company. The organization uses two reinsurance intermediaries, Guy Carpenter and BMS, to manage the program. Below is a summary of the limits of liabilities under the treaties (all numbers are in 000's):

Type of Contract	Reinsurer(s) Name	Company's Retention	Reinsurer's Maximum Limits
Property Catastrophe Excess of Loss (*)			
1st Layer	Various/Authorized and Unauthorized	(A) $150,000 per Risk (B) $50,000 per Risk	$50,000 per Risk
2nd Layer	Various/Authorized and Unauthorized	(A) $200,000 per Risk (B) $100,000 per Risk	$150,000 per Risk
3rd Layer	Various/Authorized and Unauthorized	(A) $350,000 per Risk (B) $250,000 per Risk	$200,000 per Risk

4th Layer	Various/Authorized and Unauthorized	(A) \$550,000 per Risk (B) \$450,000 per Risk	\$350,000 per Risk
5th Layer	Various/Authorized and Unauthorized	(A) \$900,000 per Risk (B) \$800,000 per Risk	\$50,000 per Risk
6th Layer	Various/Authorized and Unauthorized	(A) \$950,000 per Risk (B) \$850,000 per Risk	\$25,000 per Risk
Property Per Risk Excess of Loss			
Property Per Risk Excess of Loss	Various/Authorized and Unauthorized	\$3,000 per Risk	\$5,000 per Risk \$10,000 per Occurrence
85% Personal Umbrella Quota Share			
1st Layer	Various Authorized	15% Retention	85% of \$5,000 Per Risk
2nd Layer	Various Authorized	15% Retention	85% of \$5,000 in excess of \$5,000

(*) The ACE companies participate at a rate of 50% in the 1st Layer and 5% in all other Layers.
(A) California Market
(B) All Other Markets

ACCOUNTS AND RECORDS

Independent Auditor

The Company's financial statements were audited by PricewaterhouseCoopers for the year 2006. Subsequent to the execution of the Affililation Agreement discussed previously in this report, the Company changed auditors to Ernst & Young LLP, which performed the audits for the years 2007 to 2009. The workpapers and reports of the most recent independent audit were reviewed for this examination. These workpapers and reports were used in the course of this examination as deemed appropriate.

Independent Actuaries

Reserves and related actuarial accounts reported in the financial statements were reviewed and certified by Christopher Walker, FCAS, MAAA of PricewaterhouseCoopers LLP on behalf of the Company.

As a result of the Company's participation in the Reinsurance Pooling Agreement with IEAC, 100% of the Company's reserves are assumed from the pool. Since IEAC assumes 95% of the total pool reserves and is the pool leader, this examination relied on the actuarial review of the entire pool reserves performed by the independent actuary employed by the CDI for its examination of IEAC rather than contracting with a separate actuary to review the Company's share of the pool reserves. The CDI actuary's report stated that the methods used to produce the pool reserves were appropriate, appeared to be conservative, and that the reported loss and LAE reserves were reasonable.

Information Systems

In conjunction with this examination, Andrew Balas, AES, Information Systems Financial Examiner with the DIFP, conducted a review of the Company's information systems. His evaluation did not identify any significant weaknesses.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance, Financial Institutions and Professional Registration as of December 31, 2009, as reflected below, were deemed sufficient in par and market value to meet the $1,200,000 deposit requirement of the state of Missouri per Section 379.098(1) RSMo (Securities deposits). The Special Deposits with the Missouri Department of Insurance, Financial Institutions and Professional Registration are held for the benefit of all policyholders, claimants and creditors of the Company.

Security	Par Value	Market Value	Statement Value
U.S. Treasury Bond	$ 100,000	$ 137,898	$ 112,559
U.S. Treasury Note	1,400,000	1,440,514	1,398,133
Totals	$ 1,500,000	$ 1,578,412	$ 1,510,692

Deposits with Other States

The Company maintains funds on deposit with other states in which it is licensed to satisfy their statutory deposit requirements. The funds on deposit with other states, which are not held for the benefit of all policyholders, claimants and creditors of the Company, as of December 31, 2009, are listed below.

State	Security	Par Value	Market Value	Statement Value
Arkansas	U.S. Treasury Note	$ 365,000	$ 429,156	$ 373,164
Oklahoma	U.S. Treasury Note	340,000	355,140	340,392
	Totals	$ 705,000	$ 784,296	$ 713,556

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2009, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Comments on Financial Statements" which follow the financial statements.

There may have been additional differences found in the course of this examination that are not shown in the "Comments on Financial Statements." These differences were determined to be immaterial in relation to the financial statements and therefore were only communicated to the Company and noted in the workpapers for each individual annual statement item.

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$ 31,798,076	$ -	$ 31,798,076
Common stocks	9,090,593	-	9,090,593
Cash and short-term investments	1,782,596	-	1,782,596
Receivables for securities	82,366	-	82,366
Investment income due and accrued	336,814	-	336,814
Uncollected premiums	9,259,697	31,161	9,228,536
Deferred premiums	3,472,358	-	3,472,358
Amounts recoverable from reinsurers	12,223,596	-	12,223,596
Current federal income tax recoverable	250,000	-	250,000
Net deferred tax asset	1,642,333	677,885	964,448
Guaranty funds receivable or on deposit	668	-	668
Receivables from affiliates	1,557,254	-	1,557,254
California Fair Plan	(106,524)	(86,373)	(20,151)
Missouri premium tax credit	2	-	2
Total Assets	$ 71,389,829	$622,673	$ 70,767,156

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	$	6,518,558
Reinsurance payable		3,990,457
Loss adjustment expenses		1,701,901
Other expenses		46,443
Taxes, licenses and fees		85,898
Unearned premiums		11,799,108
Advance premium		240,357
Policyholders dividends declared and unpaid		760,000
Ceded reinsurance premiums payable		15,790,288
Amounts withheld or retained by company		33,013
Remittances and items not allocated		7,770
Payable to parent, subsidiaries and affiliates		1,545,540
Payable for securities		73,441
Accounts payable miscellaneous		42,547
Litigation reserve		3,000
Total Liabilities	$	42,638,321
Common capital stock	$	1,200,000
Gross paid in and contributed surplus		13,339,352
Unassigned funds (surplus)		13,589,483
Total Surplus	$	28,128,835
Total Liabilities and Surplus	$	70,767,156

STATEMENT OF INCOME

UNDERWRITING INCOME		
Premiums earned	$	24,921,637
DEDUCTIONS		
Losses incurred		12,896,098
Loss adjustment expenses incurred		2,488,862
Other underwriting expenses incurred		5,943,657
Total underwriting deductions	$	21,328,617
Net underwriting gain	$	3,593,020
INVESTMENT INCOME		
Net investment income earned		1,892,809
Net realized capital losses		(854,103)
Net investment gain	$	1,038,706
OTHER INCOME		
Net loss from agents' or premium balances charged off		(46,175)
Finance and service charges not included in premiums		553,519
Miscellaneous income		(65,036)
Total other income	$	442,308
Net income before dividends and FIT	$	5,074,034
Dividends to policyholders		1,510,354
Federal and foreign income taxes incurred		982,317
Net income	$	2,581,363

CAPITAL AND SURPLUS

Surplus as regards policyholders, December 31 prior year	$	23,339,064
Net income		2,581,363
Change in net unrealized capital gains or (losses) less capital gains tax		791,721
Change in net deferred income tax		51,287
Change in nonadmitted assets		811,764
Cumulative effect of changes in accounting principles		553,636
Change in surplus as regards policyholders for the year	$	4,789,771
Surplus as regards policyholders, December 31 current year	$	28,128,835

COMMENTS ON FINANCIAL STATEMENTS

There are no comments on the Company's financial statements.

GENERAL COMMENTS OR RECOMMENDATIONS

There are no general comments or recommendations.

ACKNOWLEDGEMENT

The assistance and cooperation extended by the officers and employees of Auto Club Family Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, John Boczkiewicz, CFE, CPA, examiner for the Missouri Department of Insurance, Financial Institutions and Professional Registration participated in this examination.

VERIFICATION

State of Missouri)
) ss
County of St. Louis)

I, Richard Hayes, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Richard P Hayes

Richard Hayes, CFE
Examiner-in-Charge
Department of Insurance, Financial Institutions
and Professional Registration

Sworn to and subscribed before me this 28 day of February 2011
My commission expires: 2-1-2015

Sally A Sneed

Notary Public

SALLY A SNEED
Notary Public-Notary Seal
State of Missouri, Jefferson County
Commission # 11003415
My Commission Expires Feb 1, 2015

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

Michael R. Shadowens

Michael Shadowens, CFE
Audit Manager, St. Louis
Missouri Department of Insurance, Financial Institutions and Professional Registration