

REPORT OF EXAMINATION
OF THE
CSAA INSURANCE EXCHANGE
AS OF
DECEMBER 31, 2015

Filed on May 11, 2017

TABLE OF CONTENTS

	<u>PAGE</u>
SCOPE OF EXAMINATION	1
COMPANY HISTORY	2
MANAGEMENT AND CONTROL:.....	4
Management Agreements.....	7
TERRITORY AND PLAN OF OPERATION.....	9
REINSURANCE:	9
Pooling Agreement	9
Assumed.....	10
Ceded	11
FINANCIAL STATEMENTS:	12
Statement of Financial Condition as of December 31, 2015.....	13
Underwriting and Investment Exhibit for the Year Ended December 31, 2015	14
Reconciliation of Surplus as Regards Policyholders from December 31, 2011 through December 31, 2015.....	15
COMMENTS ON FINANCIAL STATEMENT ITEMS:.....	16
Common Stocks.....	16
Losses and Loss Adjustment Expenses	16
SUBSEQUENT EVENTS	16
SUMMARY OF COMMENTS AND RECOMMENDATIONS:	17
Current Report of Examination	17
Previous Report of Examination	17
ACKNOWLEDGMENT	19

San Francisco, California
March 10, 2017

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

CSAA INSURANCE EXCHANGE

(hereinafter also referred to as the Exchange) at its home office located at 3055 Oak Road, Walnut Creek, California 94597.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Exchange. The previous examination of the Exchange was as of December 31, 2011. This examination covered the period from January 1, 2012 through December 31, 2015.

The examination was conducted in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook (Handbook)*. The Handbook requires the planning and performance of the examination to evaluate the Exchange's financial condition, assess corporate governance, identify current and prospective risks, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Exchange were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment is identified, the impact of such adjustment will be documented separately following the Exchange's financial statements.

This examination report includes findings of fact and general information about the Exchange and its financial condition. There might be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report but separately communicated to other regulators and/or the Exchange.

This was a coordinated examination with California as the lead state of the CSAA Insurance Group. It was conducted concurrently with other insurance entities in the holding company group, including CSAA Affinity Insurance Company, CSAA Mid-Atlantic Insurance Company, and CSAA Mid-Atlantic Insurance Company of New Jersey. The Arizona Department of Insurance and New Jersey Department of Banking and Insurance participated in the examination.

COMPANY HISTORY

The Exchange is a reciprocal insurer which was organized on June 20, 1914 and commenced business on August 14, 1914. Effective April 19, 2013, the Exchange amended its Rules and Regulations to change its name from AAA Northern California, Nevada & Utah Insurance Exchange to CSAA Insurance Exchange. Effective June 4, 2013, the Exchange amended its Certificate of Authority to reflect the name change.

The Exchange was sponsored by interests allied with the California State Automobile Association, now called AAA Northern California, Nevada & Utah (AAA NCNU), an automobile club (Club) incorporated in 1907. The Club is a member of the American Automobile Association, Inc. (AAA) which serves territories of Northern California, Nevada and Utah. The Exchange primarily writes private passenger automobile and homeowners coverage in Northern California. Only members in good standing of the not-for-profit automobile club organized under AAA in select service areas are eligible to buy insurance from the Exchange.

On June 6, 2014, the Exchange applied to amend its Certificate of Authority and Rules and Regulations to replace its attorney-in-fact from individual executives to a corporate attorney-in-fact, CSAA Insurance Services LLC. CSAA Insurance Services LLC is a wholly-owned subsidiary of the Exchange that was organized on December 16, 2013 and commenced business on January 1, 2014. On April 23, 2015, the California Department of Insurance (CDI) determined that CSAA Insurance Services LLC could not serve as attorney-in-fact without first either obtaining a securities permit or converting to a California corporation. Effective August 10, 2015, CSAA Insurance Services LLC converted from a California limited liability company to a California corporation. Upon conversion, the entity's legal name changed to CSAA Insurance Services, Inc.

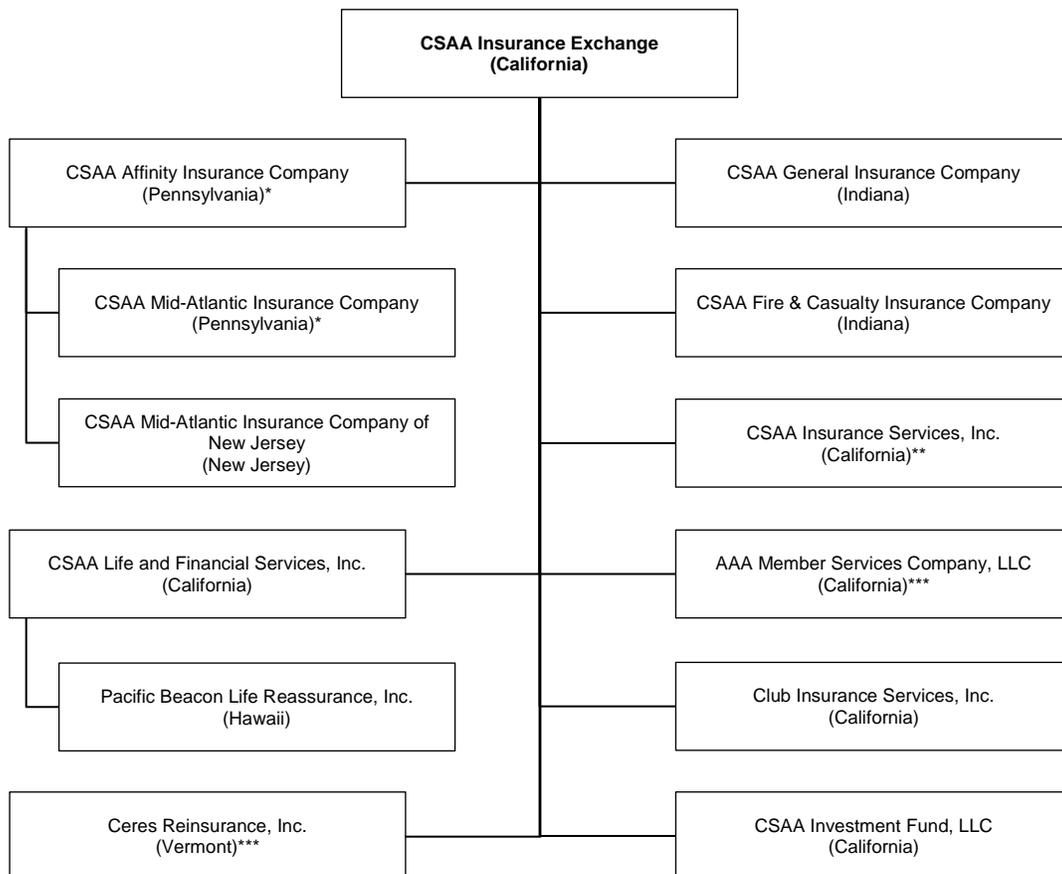
The Exchange's Certificate of Authority and Rules and Regulations were amended to reflect the conversion and name change of its attorney-in-fact. The CDI approved the Exchange's amended Certificate of Authority and Rules and Regulations on November 19, 2015.

The Exchange is a reciprocal insurer without equity owners and its corporate governance structure is designed to replicate the governance structure of a stock corporation. The Exchange's basic corporate governance structure is established by its Rules and Regulations, which are agreed to by the Exchange's subscribers when they become policyholders. The Rules and Regulations, which are similar to the bylaws of a

stock corporation, establish, among other things, that the Insurance Board has oversight over the business and affairs of the Exchange and that the attorney-in-fact, CSAA Insurance Services, Inc., will act as the attorney in fact for subscribers.

MANAGEMENT AND CONTROL

As a reciprocal insurer, the Exchange has no shareholders and is not directly owned by any party. As of December 31, 2015, the Exchange is the ultimate parent of a holding company system with thirteen directly owned and fourteen indirectly owned subsidiaries. The following organizational chart depicts the entities the Exchange had interrelationships with during the examination period (all ownership is 100% unless otherwise indicated):



(*) On November 18, 2015, CSAA Affinity Insurance Company and CSAA Mid-Atlantic Insurance Company filed applications to re-domesticate from the Commonwealth of Pennsylvania to the State of Arizona. The application was approved by the State of Arizona on January 1, 2016.

(**) CSAA Insurance Services, Inc. acts as attorney-in-fact to CSAA Insurance Exchange.

(***) AAA Member Services Company, LLC and Ceres Reinsurance, Inc. were dissolved effective July 5, 2016 and August 17, 2016, respectively.

An Insurance Board comprising of thirteen (13) Directors has oversight over the business and affairs of the Exchange. The Chief Executive Officer of the Exchange and AAA Club Partners, Inc. are ex-officio voting members of the Insurance Board. The remaining eleven Directors are elected and authorized to serve on the Insurance Board for a 3-year term. The following are members of the Insurance Board and Principal Officers of the Exchange serving at December 31, 2015:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Robert N. Barone Reno, Nevada	Principal Universal Value Advisors
Jack E. Brown Cincinnati, Ohio	Retired
Gilbert W. Chester Phoenix, Arizona	Principal Westcor Development Partners/WDP Partners, LLC
Kenneth L. Coleman Los Altos Hills, California	Independent Consultant (Self-employed)
Paula R. Collins San Francisco, California	Chief Executive Officer WDG Ventures, Inc.
Mary B. Cranston San Rafael, California	Retired
Allen J. DeWalle Richmond, Virginia	Retired

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Paula F. Downey Walnut Creek, California	President and Chief Executive Officer CSAA Insurance Exchange
Donald R. Gagnon Wilmington, Delaware	President and Chief Executive Officer AAA Club Partners, Inc.
Edgar H. Grubb Walnut Creek, California	Retired
Mary R. Hennessy Moorestown, New Jersey	Independent Consultant (Self-employed)
Ralph S. Michael Cincinnati, Ohio	Executive Vice President and Regional Group President Fifth Third Bancorp
Gerald W. Pettitt Bethesda, Maryland	Chairman and Chief Executive Officer CHA Management, LLC

Principal Officers

<u>Name</u>	<u>Title</u>
Paula F. Downey*	President and Chief Executive Officer
Deirdre L. Henry	Principal Financial & Accounting Officer and Controller
Michael J. Zukerman*	Chief Legal Officer and Secretary
Gregory A. Meyer	Chief Operating Officer
Stephen J. O'Connor	Chief Information Officer
Marie L. Andel	Chief Administrative Officer
Debora B. Tomlin	Chief Marketing and Distribution Officer

(*) Paula F. Downey and Michael J. Zukerman serves as both a Director and Officer of CSAA Insurance Services, Inc., the Exchange's attorney-in-fact.

The following changes in management occurred subsequent to the examination date:

- J. Paul McCaffrey, Jr. was appointed as the Exchange's Chief Financial Officer and Treasurer effective April 11, 2016. Mr. McCaffrey also serves as a Director and Officer of CSAA Insurance Services, Inc., the Exchange's attorney-in-fact.
- Deirdre L. Henry stepped down as Principal & Financial Accounting Officer effective April 11, 2016. Ms. Henry remained as Controller until her retirement effective March 15, 2017.

Management Agreements

Technology Usage & Service Agreement: Effective January 1, 2014, the Exchange entered into a Technology Usage & Service Agreement (Agreement) with its attorney-in-fact, CSAA Insurance Services, Inc. (CSAA IS). Pursuant to the Agreement, CSAA IS will provide the following services to the Exchange: information technology acquisitions, development, management, maintenance, support services and other related responsibilities. The Exchange will reimburse CSAA IS all direct and indirect costs for providing the services and will include a reasonable charge for overhead costs. The Agreement was last amended on January 1, 2015 and was conditionally approved by the California Department of Insurance (CDI) on February 13, 2015, with conditions met by the Exchange effective November 19, 2015. The total fees incurred by the Exchange for services rendered under this Agreement in 2014 and 2015 were \$3,547,329 and \$510,698, respectively.

First Restated Services Agreement: Effective January 1, 2015, the Exchange entered into a First Restated Services Agreement (Agreement) with its attorney-in-fact, CSAA IS. Pursuant to the Agreement, CSAA IS will provide the following services to the Exchange: facilities, accounting, tax, auditing, information technology, advertising and marketing, insurance production and servicing, policy and claims administration, investments, act as attorney-in-fact, and other functional support services. The Exchange will reimburse CSAA IS all direct and directly allocable expenses plus a reasonable charge for direct overhead for all services rendered except for policy and claims administration. Policy and claims administration will be reimbursed to CSAA IS equal to the cost of providing the service. The Agreement was conditionally approved by the CDI on February 13, 2015, with conditions met by the Exchange effective November 19, 2015. The total fees incurred by the Exchange for services rendered under this Agreement in 2015 were \$431,312,409.

CSAA Investment Fund, LLC: Effective July 1, 2013, CSAA Investment Fund, LLC, a wholly-owned subsidiary of the Exchange, was formed to provide asset management

services to the Exchange and/or its affiliates. The purpose of CSAA Investment Fund, LLC was to acquire non-publicly traded interests in partnerships, limited liability companies, trusts, associations, corporations or other ventures with other persons or entities with capital contributions made from the Exchange. It was noted that there was not an agreement in place that would govern investment transactions made by CSAA Investment Fund, LLC on behalf of the Exchange. It is recommended that the Exchange enter into an Investment Management Agreement (Agreement) with CSAA Investment Fund, LLC. Additionally, it is recommended that the Agreement be filed with the CDI in accordance with CIC Section 1215.5(b)(4).

Second Amended Restated Tax Allocation Agreement: Effective January 1, 2011, the Exchange entered into a Second Amended Restated Tax Allocation Agreement (Agreement) with the following subsidiaries and affiliates: Ceres Reinsurance, Inc., Club Insurance Services, Inc., CSAA Affinity Insurance Company, CSAA Fire & Casualty Insurance Company, CSAA General Insurance Company, CSAA Life and Financial Services, Inc., CSAA Mid-Atlantic Insurance Company, CSAA Mid-Atlantic Insurance Company of New Jersey, and Pacific Beacon Life Reassurance, Inc. The Agreement allocates federal income taxes among the companies on a separate company basis. The Agreement supersedes the Restated Intercompany Tax Allocation Agreement which was approved by the CDI on August 1, 2005. The purpose of this amendment was to add CSAA Affinity Insurance Company, CSAA Mid-Atlantic Insurance Company and CSAA Mid-Atlantic Insurance Company of New Jersey as participants to the tax allocation agreement. The amendment did not require filing with the CDI pursuant to CIC Section 1215.5(b)(4).

Secondment Agreement: Effective January 1, 2015, the Exchange entered into a Secondment Agreement (Agreement) with CSAA IS and AAA Member Services Company, LLC (MSC). Pursuant to the Agreement, CSAA IS will second employees to the Exchange, who in turn will sub-second such employees to MSC in order for MSC to fulfill call center services it provides to various parties. The Exchange or MSC will pay

CSAA IS the actual costs for each employee. The Agreement was conditionally approved by the CDI on February 13, 2015, with conditions met by the Exchange effective November 19, 2015. The Exchange did not incur any expenses under this Agreement in 2015. MSC subsequently dissolved effective July 5, 2016 and the Agreement was terminated.

TERRITORY AND PLAN OF OPERATION

The Exchange is licensed to write business in California, Nevada, Utah, and Wyoming. \$2.0 billion (99.9%) of the Exchange's direct premium is written in Northern California and only members in good standing of the not-for-profit automobile club organized under American Automobile Association, Inc. (AAA) in select service areas are eligible to apply for insurance. The Exchange's primary lines of business written include private passenger automobile physical damage with \$751.6 million (37.2%) followed by other private passenger automobile liability with \$735.1 million (36.4%) and homeowner multiple peril with \$496.1 million (24.5%).

The Exchange is the lead insurer within the holding company group (Group) with five insurance subsidiaries. As of December 31, 2015, the Group operated in 23 states and the District of Columbia and business is produced mostly through 19 AAA auto clubs.

REINSURANCE

Pooling Agreement

Reinsurance Pooling Agreement: Effective January 1, 2011, the Exchange entered into a Reinsurance Pooling Agreement (Agreement) with five of its subsidiaries: CSAA General Insurance Company, CSAA Fire & Casualty Insurance Company, CSAA Affinity Insurance Company, CSAA Mid-Atlantic Insurance Company, and CSAA Mid-Atlantic Insurance Company of New Jersey. Pursuant to the Agreement, the Exchange is the lead insurer and each company cedes 100% of its premiums written, unearned

premium, losses, loss reserves and loss adjustment expenses incurred, policy fees, installment fees, other ancillary income items, and other underwriting expenses incurred to the Exchange. The Exchange then retrocedes a prorated amount to each company based on its pool participation percentage. All business written, including all underlying assumed and ceded by each of the pool participants is subject to the intercompany pooling arrangement. This Agreement was approved by the CDI on March 7, 2011 and last amended on March 18, 2013. The amendment did not require filing with the CDI pursuant to California Insurance Code (CIC) Section 1215.5(b)(4).

As of December 31, 2015, the pooling percentages under the Agreement are as follows:

Company Name and Percentage of Participation

CSAA Insurance Exchange	94.1%
CSAA General Insurance Company	3.0%
CSAA Fire & Casualty Insurance Company	0.5%
CSAA Affinity Insurance Company	1.5%
CSAA Mid-Atlantic Insurance Company of New Jersey	0.6%
CSAA Mid-Atlantic Insurance Company	<u>0.3%</u>
Total	100%

Assumed

The majority of the Exchange's assumed premiums come from the following non-affiliated small reinsurance contracts: a quota share arrangement with BCAA Insurance Corporation to insure property, personal lines liability insurance and automobile physical damage for accident years 2013 (10% quota share), 2014 (5% quota share) and 2015 (4% quota share); and a variable quota share arrangement with Renaissance Reinsurance Ltd. for U.S. risks, European wind risk and Japanese earthquake and typhoon risk on a risks incepting basis. Premiums assumed by the Exchange under these various agreements were immaterial at December 31, 2015.

Ceded

The Exchange is party to a four-layer catastrophe excess of loss treaty and cedes to various subscribing reinsurers, brokered through AON Benfield, for business defined as Homeowners Multiple Peril (property sections only), Automobile Physical Damage (comprehensive only), Earthquake, Fire, and Inland Marine. The following is a summary of ceded reinsurance agreements in effect as of December 31, 2015:

<u>Type of Contract</u>	<u>Reinsurer's Name</u>	<u>Company's Retention</u>	<u>Reinsurers Limits</u>
Catastrophe Excess of Loss Covers catastrophic property loss on homeowner multiple peril (property sections only), automobile physical damage, earthquake, fire and inland marine.	30 reinsurers with varying participations	1st Layer: 30% of \$50 million in excess of \$200 million per occurrence 2nd Layer: 25% of \$100 million in excess of \$250 million per occurrence 3rd Layer: 10% of \$200 million in excess of \$350 million per occurrence 4th Layer: 10% of \$300 million in excess of \$550 million per occurrence	1st Layer: 70% of \$50 million in excess of \$200 million per occurrence, limited to \$100 million aggregate during the term 2nd Layer: 75% of \$100 million in excess of \$250 million per occurrence, limited to \$200 million aggregate during the term 3rd Layer: 90% of \$200 million in excess of \$350 million per occurrence, limited to \$350 million aggregate during the term 4th Layer: 90% of \$300 million in excess of \$550 million per occurrence, limited to \$550 million aggregate during the term

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Exchange with the California Department of Insurance and present the financial condition of the Company for the period ending December 31, 2015. There were no examination adjustments made to surplus as a result of the examination. The accompanying comments to the amounts reported in the annual statements should be considered an integral part of the financial statements.

Statement of Financial Condition as of December 31, 2015

Statement of Income for the Year Ended December 31, 2015

Reconciliation of Surplus as Regards Policyholders from December 31, 2011
through December 31, 2015

Statement of Financial Condition
as of December 31, 2015

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 2,890,649,979	\$	\$ 2,890,649,979	
Preferred stocks	91,075,202		91,075,202	
Common stocks	2,153,555,763		2,153,555,763	(1)
Real estate occupied by the company	133,540,672		133,540,672	
Cash and short-term investments	129,429,265		129,429,265	
Derivatives	5,228,148		5,228,148	
Other Invested Assets	302,738,242	50,806,370	251,931,972	
Receivable for securities	3,593,203		3,593,203	
Aggregate write-ins for invested assets	859,291		859,291	
Investment income due and accrued	32,007,026		32,007,026	
Uncollected premium and agents' balances in course of collection	367,916,059	1,392,969	366,523,090	
Deferred premiums and agents' and installments Booked but deferred and not yet due	418,118,467		418,118,467	
Amounts recoverable from reinsurers	12,430,661		12,430,661	
Current federal income tax recoverable and interest thereon	55,045,665		55,045,665	
Furniture and equipment	500,996	500,996		
Receivables from parent, subsidiary and affiliates	30,971,178	13,032,482	17,938,696	
Aggregate write-ins for other than invested assets	<u>11,230,997</u>	<u>836,949</u>	<u>10,394,048</u>	
 Total assets	 <u>\$ 6,638,890,914</u>	 <u>\$ 66,569,765</u>	 <u>\$ 6,572,321,149</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses			\$ 1,224,990,612	(2)
Reinsurance payable on paid losses and LAE			74,938,125	
Loss adjustment expenses			206,266,308	(2)
Commissions payable, contingent commission and other similar charges			33,001,188	
Other expenses			(3,504,774)	
Taxes, licenses and fees			3,367	
Borrowed money			10,330,500	
Unearned premiums			1,509,007,751	
Advance premium			18,689,210	
Cede reinsurance premium payable			59,018	
Amounts withheld or retained by company for account of others			5,541,510	
Remittance and items not allocated			1,806,829	
Provision for reinsurance			9,830	
Payable to parent, subsidiaries and affiliates			80,215,490	
Derivatives			7,438,920	
Payable for securities			8,141,830	
Aggregate write-ins for liabilities			<u>3,735,672</u>	
 Total liabilities			 3,194,245,980	
 Aggregate write-ins for special surplus funds		 \$ (351,408,531)		
Unassigned funds (surplus)		<u>3,726,483,699</u>		
Surplus as regards policyholders			<u>3,378,075,169</u>	(1)
 Total liabilities, surplus and other funds			 <u>\$ 6,572,321,149</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2015

Underwriting Income

Premiums earned		\$3,011,284,545
Deductions:		
Losses incurred	\$ 2,138,864,076	
Loss adjustment expenses incurred	317,310,671	
Other underwriting expenses incurred	<u>929,398,515</u>	
Total underwriting deductions		<u>3,385,573,261</u>
Net underwriting loss		\$ (374,288,716)

Investment Income

Net investment income earned	\$ 144,976,698	
Net realized capital gains	<u>42,244,230</u>	
Net investment gain		187,220,928

Other Income

Net (loss) from agents' or premium balances charged off	(4,497,102)	
Finance and service charges not included in premiums	<u>\$ 33,918,167</u>	
Total other income		25,814,524
Net loss, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes		(161,253,264)
Federal and foreign income taxes incurred		<u>40,472,163</u>
Net loss		<u>\$ (120,781,101)</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2014		\$3,749,259,462
Net loss	\$ (120,781,101)	
Change in net unrealized capital gains or (losses)	(449,679,446)	
Change in net realized foreign exchange capital gain (loss)	(42,316,706)	
Change in net deferred income tax	(147,579,898)	
Change in nonadmitted assets	389,133,372	
Change in provision for reinsurance	(9,830)	
Aggregate write-ins for gains and losses in surplus	<u>49,311</u>	
Change in surplus as regards policyholders		<u>(371,184,298)</u>
Surplus as regards policyholders, December 31, 2015		<u>\$3,378,075,169</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Common Stocks

Subsequent to filing the December 31, 2015 annual statement, adjustments were made within the 2015 audited financial statements to correct the transfer of accumulated pension and post-retirement costs to CSAA Insurance Services, Inc. The net impact of these adjustments resulted in a deferred tax asset valuation allowance adjustment, which decreased the Exchange's investment in CSAA Insurance Services, Inc.'s common stock and reduced the Exchange's policyholders' surplus by \$20,015,000.

(2) Losses and Loss Adjustment Expenses

Based on an analysis by a Casualty Actuary from the California Department of Insurance (CDI), the Exchange's loss and loss adjustment expense reserves as of December 31, 2015 were found to be reasonably stated and have been accepted for the purpose of this examination.

SUBSEQUENT EVENTS

Effective April 11, 2016, J. Paul McCaffrey, Jr. was appointed as Chief Financial Officer. Deirdre L. Henry stepped down as Principal & Financial Accounting Officer effective April 11, 2016 and remained as Controller until her retirement effective March 15, 2017.

AAA Member Services Company, LLC and Ceres Reinsurance, Inc. were dissolved effective July 5, 2016 and August 17, 2016, respectively.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management Agreements – CSAA Investment Fund, LLC (Page 7): Effective July 1, 2013, CSAA Investment Fund, LLC, a wholly-owned subsidiary of the Exchange, was formed to provide asset management services to the Exchange and/or its affiliates. The purpose of CSAA Investment Fund, LLC was to acquire non-publicly traded interests in partnerships, limited liability companies, trusts, associations, corporations or other ventures with other persons or entities with capital contributions made from the Exchange. It is recommended that the Exchange enter into an Investment Management Agreement (Agreement) with CSAA Investment Fund, LLC. Additionally, it is recommended that the Agreement be filed with the California Department of Insurance (CDI) in accordance with California Insurance Code (CIC) Section 1215.5(b)(4).

Previous Report of Examination

Management and Control – Related Party Agreements (Page 5): If the Disclaimer of Affiliation with AAA Northern California, Nevada & Utah (Club) is disallowed, it was then recommended the Exchange file the following agreements with the California Department of Insurance (CDI) pursuant to California Insurance Code (CIC) Section 1215.5(b)(4).

- Transition Services Agreement
- Employee Transfer Agreement
- Agreement on Branch Offices
- Producer Agreement
- Marketing Channel Agreement/Joint Marketing & Services Agreement

The Disclaimer of Affiliation filing is still pending CDI review.

Accounts and Records (Page 14) - It was recommended that the Exchange continue to address the recommendations made regarding its information systems controls. The Exchange has complied with this recommendation.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Exchange's officers and employees during the course of this examination.

Respectfully submitted,

/S/_____

Donavan Han, CFE
Examiner-In-Charge
Senior Insurance Examiner, Specialist
Department of Insurance
State of California

/S/_____

Kyo Chu, CFE
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California