

REPORT OF EXAMINATION
OF THE
INTERINSURANCE EXCHANGE
OF THE AUTOMOBILE CLUB
AS OF
DECEMBER 31, 2015

Filed on February 21, 2017

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Los Angeles, California
December 12, 2016

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

INTERINSURANCE EXCHANGE OF THE AUTOMOBILE CLUB

(hereinafter also referred to as the Exchange) at its home office and the primary location of its books and records, at 3333 Fairview Road, Costa Mesa, California 92626.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Exchange. The previous examination of the Exchange was as of December 31, 2012. This examination covered the period from January 1, 2013 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 serving as the lead state and was conducted concurrently with the examinations of the following insurance entities in the holding company group:

<u>Company</u>	<u>State of Domicile</u>
Automobile Club of Southern California Life Insurance Company	CA
Automobile Club Inter-Insurance Exchange	MO
Auto Club Family Insurance Company	MO
Auto Club Casualty Company	TX
Auto Club Indemnity Company	TX
Auto Club County Mutual Insurance Company	TX

COMPANY HISTORY

The Exchange, a reciprocal insurer organized under the laws of the state of California, was incorporated on October 4, 1912. The Exchange offers automobile, homeowner, watercraft, and personal excess liability insurance primarily to members of its affiliate, the Automobile Club of Southern California (ACSC) and its subsidiaries and affiliates,

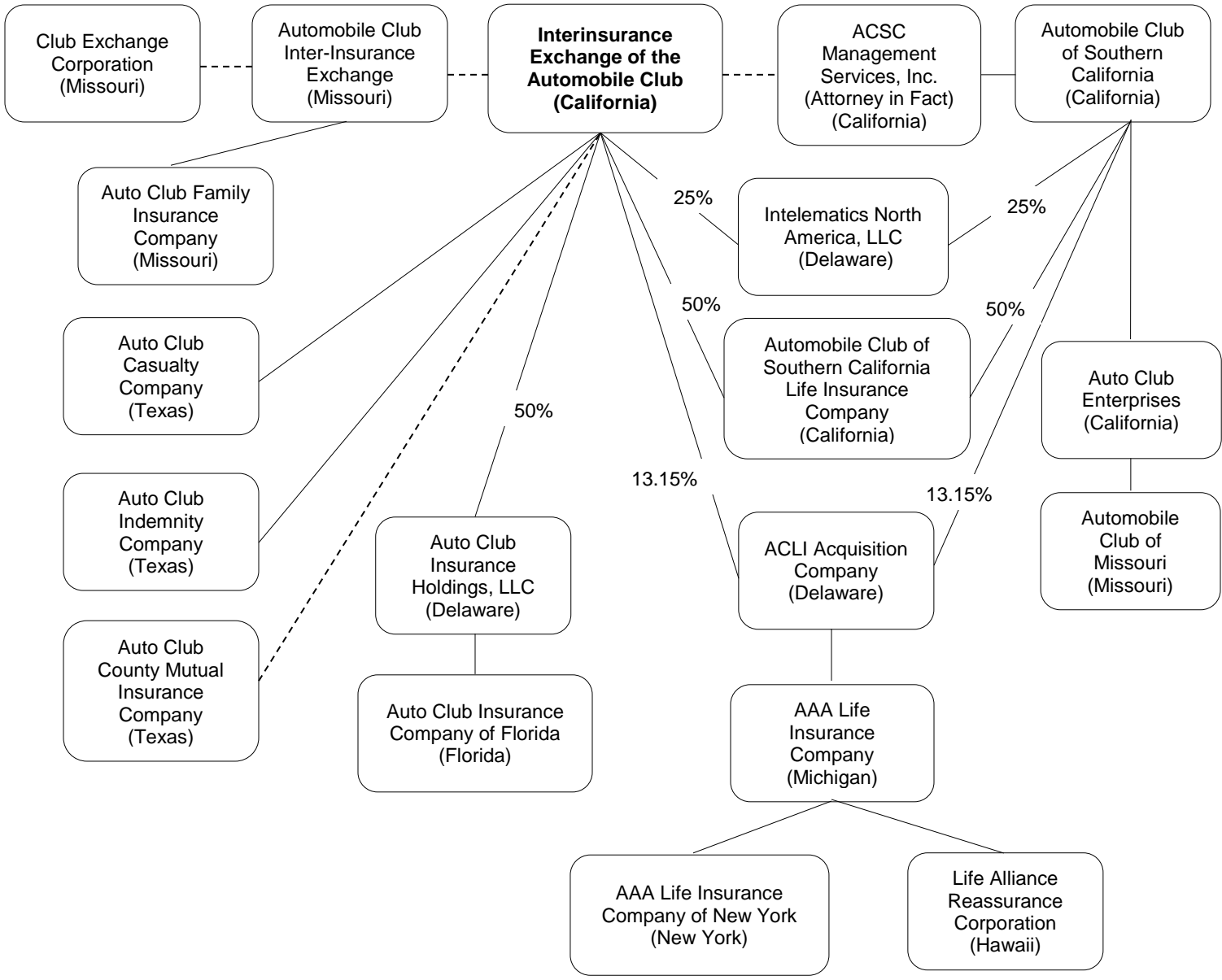
and to other non-affiliated American Automobile Association clubs.

ACSC is a non-profit mutual benefit corporation incorporated in the state of California. The general objective of ACSC is to provide members with services that meet their motoring and travel needs. These services include, but are not limited to, emergency road service, travel agency services, Department of Motor Vehicle related services, financial services, and map distribution.

ACSC Management Services, Inc. (Management Services) is a wholly-owned subsidiary of ACSC and is the corporate attorney-in-fact for the Exchange. Management Services employ all personnel of the Exchange.

MANAGEMENT AND CONTROL

The following abridged organizational chart, which is limited to the Exchange and its affiliated insurance companies, depicts the Exchange's relationship within the holding company system at December 31, 2015. All ownership is 100% unless otherwise indicated.



---- Contractual or other relationship to operate the Exchange

The Exchange is managed and controlled by a seven-member board of governors who are members of, and appointed by, the board of directors of the Automobile Club of Southern California. A listing of the board of governors and principal officers of the Exchange, and principal officers of its Attorney-in-Fact serving on December 31, 2015 follows:

Governors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Peter K. Barker Santa Barbara, California	Retired Partner Goldman, Sachs & Company
David R. Carpenter ^(*) Santa Barbara, California	Chairman of the Board and Chief Executive Officer UniHealth Foundation
Richard S. Hamilton Pittsburgh, Pennsylvania	Chairman and Governing Director AAA East Central
Antonia Hernandez Pasadena, California	President and Chief Executive Officer California Community Foundation
Lawrence M. Higby Newport Beach, California	Retired Chief Executive Officer Apria Healthcare
Thomas V. McKernan Arcadia, California	Chairman and Retired President and Chief Executive Officer Automobile Club of Southern California
Ralph E. Struzziero Bonita Springs, Florida	Independent Business Consultant

^(*) Effective May 19, 2016, David R. Carpenter is no longer a member of the board, and Robert T. Bouttier became a member of the board.

Principal Officers

<u>Name</u>	<u>Title</u>
Gail C. Louis	Corporate Secretary
Avery R. Brown	Assistant Secretary

Principal Officers of ACSC Management Services, Inc. (*)

<u>Name</u>	<u>Title</u>
Robert T. Bouttier	Chief Executive Officer
John F. Boyle	President and Chief Operating Officer
Raju T. Varma	Senior Vice President, Chief Financial Officer, and Treasurer
Gail C. Louis	Corporate Secretary
Avery R. Brown	Senior Vice President, General Counsel, and Assistant Secretary
Christopher M. Baggaley	Senior Vice President
Katherine A. Sieck	Senior Vice President
Michael A. Johnson	Senior Vice President
Rosemary W. Sabins	Senior Vice President

(*) Attorney-in-Fact of the Interinsurance Exchange of the Automobile Club

Management Agreements

Management Agreement: Automobile Club of Southern California (ACSC) and its affiliates, including ACSC Management Services, Inc. (Management Services), the attorney-in-fact for the Exchange, employ all personnel of the Exchange. The Exchange reimburses Management Services for salaries and other employee-related costs through the management service fee. A portion of the employee benefit costs is allocated directly to the Exchange.

Pursuant to the Management Agreement, Management Services performs all of the operations of the Exchange. Management Services provides services related to the acquisition and issuance of insurance and the administrative activities associated with the business of the Exchange. In consideration for services rendered, the Exchange pays Management Services the following:

- (1) A sum equal to 1% of the premiums earned less the tax computed according to the provisions of California Insurance Code (CIC) Section 1530; and

- (2) A sum equal to the amount of the operating expenses incurred (i.e. cost reimbursement) by Management Services for the performance of the aforementioned services. Each quarter, cost allocation studies are performed to determine the cost to be allocated to the Exchange.

Fees paid under the terms of the agreement for the years 2013, 2014, and 2015 were \$482,048,000, \$495,544,000, and \$538,642,000, respectively. This agreement went into effect December 19, 1996, before the prior approval provisions of CIC Section 1215.5 (b)(4) went into effect and has never been amended.

Administrative Service Agreement: Effective February 1, 2000, the Exchange entered into an Administrative Service Agreement with Auto Club Indemnity Company (ACIC), a subsidiary. Under the terms of the agreement, the Exchange provides the following services to ACIC: personnel services, financial services, management information systems support, facilities support, procurement support, insurance support services, marketing, advertising and promotional activities, and legal services. The services are provided on a cost allocation/reimbursement basis in accordance with insurance accounting principles. Fees paid by ACIC to the Exchange under the terms of the agreement for the years 2013, 2014, and 2015 were \$22,878,922, \$24,723,921, and \$26,831,251, respectively. This agreement was approved by the California Department of Insurance (CDI) on November 2, 1999.

Administrative Service Agreement: Effective February 1, 2000, the Exchange entered into an Administrative Service Agreement with Auto Club Casualty Company (ACCC), a subsidiary. Under the terms of the agreement, the Exchange provides the following services to ACCC: personnel services, financial services, management information systems support, facilities support, procurement support, insurance support services, marketing, advertising and promotional activities, and legal services. The services are provided on a cost allocation/reimbursement basis in accordance with insurance accounting principles. Fees paid by ACCC to the Exchange under the terms of the

agreement for the years 2013, 2014, and 2015 were \$228, \$206, and \$203, respectively. This agreement was approved by the CDI on November 2, 1999.

Managerial Service Agreement: On September 30, 2002, the Exchange purchased a management agreement that allows it to manage Auto Club County Mutual Insurance Company (ACCMIC), a Texas mutual insurer formerly known as AAA Texas County Mutual Insurance Company. Fees paid by ACCMIC to the Exchange under the terms of the agreement for the years 2013, 2014, and 2015 were \$65,532,933, \$66,650,869, and \$71,244,270, respectively. This agreement was approved by the CDI on November 13, 2002. Effective December 31, 2009, the Exchange entered into an Amendment No. 1 to add new language to promote the timely settlement of amounts owed between the parties in accordance with Statements of Statutory Accounting Principles No. 96 and to provide a right of setoff clause between the parties under the agreement. The amendment was approved by the CDI on January 8, 2010.

Tax Sharing Agreement: The Exchange's federal income tax return is consolidated with ACCC and ACIC. Allocation is based upon separate return calculations with current credit for net losses. Intercompany tax balances are settled annually when tax payments are remitted to the Internal Revenue Service. The Exchange paid taxes in amounts of \$67,036,897, \$102,606,968, and \$50,068,708 in 2013, 2014, and 2015, respectively. The CDI approved this agreement on August 27, 1999.

Affiliation Agreement: The Affiliation Agreement was executed on March 1, 2006 among the Exchange, ACSC, Auto Club Enterprises, Automobile Club of Missouri, Automobile Club Inter-Insurance Exchange, Management Services, and Club Exchange Corporation. The Agreement sets forth provisions for control among the companies and various terms and conditions agreed upon in order to effectuate the consummation of transactions detailed in the agreement.

Pursuant to the Affiliation Agreement, on June 30, 2006, the Exchange purchased a \$50,000,000 surplus note from the MO Exchange. The surplus note has a stated

interest rate of prime plus 1% per annum on the unpaid balance until the scheduled maturity date of June 30, 2026. Any payment of principal and interest shall be paid only with the prior approval of the Director of Insurance of the Missouri Department of Insurance. This Affiliation Agreement was approved by the CDI on June 27, 2006.

Amended and Restated Multiple Cedant Allocation Agreement: Effective January 1, 2008, the Exchange entered into an Amended and Restated Multiple Cedant Allocation Agreement with MO Exchange to allocate reinsurance premiums, reinstatement premiums, and reinsurance recoveries under their single reinsurance program. The allocation method for reinsurance premiums is based on the average annual losses and the reinsurance recoveries are based on the actual claim payments. This agreement was approved by the CDI on March 28, 2008.

Related Party Transactions

The Exchange has a 50% ownership in Automobile Club of Southern California Life Insurance Company (ACSC Life). A written Commitment Letter filed with the CDI on September 11, 2013 requires the Exchange to make capital contributions to ACSC Life in order for that entity to maintain a particular Risk Based Capital (RBC) level. The commitment expires on December 31, 2017. During the examination period, the Exchange made capital cash contributions to ACSC Life in the amounts of \$11.3 million, \$9.85 million, and \$10.2 million in 2013, 2014, and 2015, respectively.

The Exchange has a 13.15% ownership interest in ACLI Acquisition Company (ACLI), a holding company of AAA Life Insurance Company (AAA Life). As part of the Third Amended and Restated Shareholder Agreement, effective June 30, 2014, the Exchange has a contingent commitment to make capital contributions to ACLI in order to maintain a particular RBC level of AAA Life. The Exchange made no capital contributions during the examination period. The agreement was not subject to prior approval by the CDI.

The Exchange has a 50% ownership interest in Automobile Club Insurance Holdings, LLC (ACIH), a holding company for Automobile Club Insurance Company of Florida

(ACICF). Pursuant to the Second Amended and Restated Operating Agreement of ACIH, effective April 1, 2014, the Exchange has a contingent commitment to make capital contributions to ACIH in order to maintain minimum surplus levels of ACICF. During the examination period, the Exchange made capital contributions in the amount of \$2 million in 2013. The agreement was not subject to prior approval by the CDI.

The Exchange has a 25% ownership interest in Intelematics North America, LLC (INA). Pursuant to the Operating Agreement of INA, effective April 3, 2015, the Exchange has a contingent commitment to make capital contributions to INA. Other than an initial \$500,000 capital contribution in 2015, the Exchange made no additional capital contributions during the examination period. The agreement was not subject to prior approval by the CDI.

Pursuant to the Affiliation Agreement described within the “Management Agreements” section of this report, the Exchange has a contingent commitment to maintain the net written premiums to surplus ratio of MO Exchange at not less than 60% after giving effect to the pooling under the Reinsurance Pooling Agreement, either through the purchase of additional surplus notes or through other methods as may be mutually acceptable to the Exchange and the MO Exchange. The surplus of the MO Exchange exceeded the minimum requirement during the examination period, and therefore, no capital contribution was necessary.

During the examination period, the Exchange’s commitments to these affiliates did not have any material impact on the Exchange’s surplus position.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2015, the Exchange was licensed to write various lines of property and casualty business in the following ten states:

California	New Mexico	Texas
Hawaii	Ohio	Vermont
Maine	Pennsylvania	Virginia
New Hampshire		

In 2015, the Exchange wrote \$2.5 billion in direct premiums. Of the direct premiums written, \$2.4 billion (94.7%) was written in California, and \$132.7 million (5.3%) was written in eight other states. The Exchange is licensed in Ohio, but does not write policies on a direct basis. The Exchange is also an accredited reinsurer in Florida, Michigan, and Missouri.

During 2015, \$2.457 billion (98.4%) of the Exchange's direct business written was automobile and homeowners insurance. The Exchange offers insurance to members of the Automobile Club of Southern California (ACSC) and its affiliated motor clubs as well as non-members in some states. Business is predominantly acquired through the agents of ACSC, affiliated through ACSC's ownership of its attorney-in-fact, ACSC Management Services, Inc., which manages the Exchange.

REINSURANCE

Intercompany Pooling Agreement

Effective July 1, 2006, the Exchange is party to a Reinsurance Pooling Agreement with its affiliates, Automobile Club Inter-Insurance Exchange (MO Exchange) and Auto Club Family Insurance Company (ACFIC). This Reinsurance Pooling Agreement was a part of the previously noted Affiliation Agreement described within the "Management Agreements" section of this report. The following are the pooling participation percentages under the terms of this agreement:

<u>Company</u>	<u>State of Domicile</u>	<u>Pooling Share</u>
Interinsurance Exchange of the Automobile Club	CA	95%
Automobile Club Inter-Insurance Exchange	MO	4%
Auto Club Family Insurance Company	MO	<u>1%</u>
Pool Total		<u>100%</u>

Effective December 31, 2010, the Reinsurance Pooling Agreement was amended to revise the definition of reinsurance recoveries to provide that any uncollectible external reinsurance receivables are to be deducted from the amount retroceded by the Exchange to MO Exchange and ACFIC. In addition, the amendment revised certain commencement and termination provisions, and run-off of liabilities following termination. The amendment also adds a new section to provide for the reapportionment of the quota share percentages applicable to each pool member upon the termination of the MO Exchange or ACFIC. The amendment was approved by the California Department of Insurance (CDI) on December 13, 2010.

Assumed

The Exchange assumes 100% of the private passenger automobile business written by its subsidiary, Auto Club Casualty Company, and 100% of the homeowners, inland marine, other liability, and private passenger automobile business written by its subsidiary, Auto Club Indemnity Company, through two quota-share reinsurance agreements. This agreement was approved by the CDI on November 2, 1999.

The Exchange also assumes 100% of the private passenger automobile business written by the Auto Club County Mutual Insurance Company (formerly known as AAA Texas County Mutual Insurance Company) through a quota-share reinsurance agreement. This agreement was approved by the CDI on November 13, 2002.

Effective January 1, 2007, the Exchange entered into a 50% Quota Share Reinsurance Agreement where the Exchange assumes 50% of the business written in the state of

Ohio from Member Select Insurance Company (MSIC), a non-affiliated insurance entity, domiciled in Michigan.

As an expansion of the above 50% Quota Share Reinsurance Agreement, effective June 1, 2007, the Exchange assumes 50% of the business written in the state of West Virginia and Kentucky by Auto Club Property-Casualty Insurance Company (ACPC), a non-affiliated insurance entity, domiciled in Iowa.

Effective March 1, 2012, the quota share agreements with MSIC and ACPC were amended, whereby, MSIC and ACPC will now cede to the Auto Club Insurance Association, a non-affiliated insurance entity, domiciled in Michigan, then retrocede to the Exchange. The Exchange is an accredited reinsurer in the state of Michigan.

Prior to March 31, 2014, the Exchange assumed 50% of the premiums written in the state of Georgia by the Auto Club South Insurance Company, a non-affiliated insurance entity, domiciled in Florida. Effective March 31, 2014, the Exchange commuted this assumed quota share reinsurance agreement. The commutation resulted in the net settlement of all balances (receivables, payables, unearned premium, and loss and loss adjustment expense reserves). As a result of the settlement, all related unearned premiums and losses and loss adjustment expense reserves were eliminated through the net cash settlement. No gain or loss was recognized as part of the commutation.

As of December 31, 2015, the Exchange reported total premiums assumed of \$727.2 million with 93.7% from its affiliated entities.

Ceded

The following is a summary of the ceded reinsurance treaties inforce as of December 31, 2015:

Type of Contracts	Reinsurer(s) Name	Exchange's Retention	Reinsurer's Maximum Limits
1 st Layer (*)	Various Authorized and Unauthorized	(A) \$100,000 per Risk (B) \$200,000 per Risk	\$150,000 per Risk
2 nd Layer (*)	Various Authorized and Unauthorized	(A) \$250,000 per Risk (B) \$350,000 per Risk	\$200,000 per Risk
3 rd Layer (*)	Various Authorized and Unauthorized	(A) \$450,000 per Risk (B) \$550,000 per Risk	\$350,000 per Risk
4 th Layer	Various Authorized and Unauthorized	(A) \$800,000 per Risk (B) \$900,000 per Risk	\$ 50,000 per Risk
5 th Layer	Various Authorized and Unauthorized	(A) \$850,000 per Risk (B) \$950,000 per Risk	\$ 25,000 per Risk

(*) The Exchange participates at a rate of 5% in the 1st, 2nd, and 3rd Layer.

(A) All Other Markets

(B) California Market Only

Effective January 1, 2007, the Exchange entered into a 50% Quota Share Reinsurance Agreement where the Exchange cedes 50% of the business written in the state of Pennsylvania to Auto Club Insurance Association (ACIA), a non-affiliated insurance entity, domiciled in Michigan. ACIA is an accredited reinsurer in the state of California.

As of December 31, 2015, reinsurance recoverables (gross of ceded balances payable) for all ceded reinsurance totaled \$151.1 million or 2.7% of surplus as regards policyholders. Of the total reinsurance recoverables, \$140.7 million (or 93.1%) was from affiliates under the terms of the Intercompany Pooling Agreement. All of the recoverables are from authorized reinsurers.

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 Exchange for the period ended December 31, 2015. The accompanying comments to the amounts reported in the annual statements should be considered an integral part of the financial statements. There were no examination adjustments made to surplus as a result of the examination.

Statement of Financial Condition as of December 31, 2015

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

Reconciliation of Surplus as Regards Policyholders from December 31, 2012
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	\$4,524,467,177	\$	\$4,524,467,177	
Common stocks	3,126,302,215		3,126,302,215	(1)
Real estate	171,324,252		171,324,252	
Cash and short-term investments	26,489,210		26,489,210	
Other invested assets	134,697,860		134,697,860	
Receivable for securities	2,037,655		2,037,655	
Investment income due and accrued	60,400,698		60,400,698	
Premiums and agents' balances in course of collection	141,624,781	630,588	140,994,193	
Premiums, agents' balances and installments booked but deferred and not yet due	462,468,702		462,468,702	
Amounts recoverable from reinsurers	10,762,576		10,762,576	
Current federal and foreign income tax recoverable and interest thereon	23,220,722		23,220,722	
Guaranty funds receivable or on deposit	122,054		122,054	
Electronic data processing equipment and software	42,052,563	24,172,025	17,880,538	
Furniture and equipment, including health care delivery assets	10,808,944	10,808,944	0	
Receivables from parent, subsidiaries and affiliates	2,330,800		2,330,800	
Aggregate write-ins for other than invested assets	<u>28,573,316</u>	<u>25,061,126</u>	<u>3,512,190</u>	
 Total assets	 <u>\$8,767,683,525</u>	 <u>\$60,672,683</u>	 <u>\$8,707,010,842</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses and loss adjustment expenses			\$1,038,957,431	(2)
Reinsurance payable on paid loss and loss adjustment expenses			41,091,895	
Other expenses			8,188,553	
Taxes, licenses and fees			14,200,473	
Net deferred tax liability			333,596,000	
Unearned premiums			1,447,740,684	
Advance premiums			31,241,320	
Dividends declared and unpaid: policyholders			46,550,000	
Ceded reinsurance premiums payable			54,626,751	
Amounts withheld or retained by company for account of others			5,167,240	
Remittances and items not allocated			1,546,517	
Payable to parent, subsidiaries and affiliates			29,490,996	
Payable for securities			9,304,950	
Aggregate write-ins for liabilities			<u>11,601,398</u>	
 Total liabilities			 3,073,304,208	
 Unassigned funds (surplus)		 <u>\$5,633,706,634</u>		
 Surplus as regards policyholders			 <u>5,633,706,634</u>	
 Total liabilities, surplus and other funds			 <u>\$8,707,010,842</u>	

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

Statement of Income

Underwriting Income

Premiums earned		\$2,930,261,539
Deductions:		
Losses and loss expenses incurred	\$2,107,304,618	
Other underwriting expenses incurred	<u>715,825,125</u>	
Total underwriting deductions		<u>2,823,129,743</u>
Net underwriting gain		107,131,796

Investment Income

Net investment income earned	\$ 210,915,375	
Net realized capital losses	<u>(4,482,075)</u>	
Net investment gain		206,433,300

Other Income

Net loss from agents' or premium balances charged off (amount recovered \$848,273 amount charged off \$5,862,057)	\$ (5,013,784)	
Finance and service charges not included in premiums	62,822,299	
Aggregate write-ins for miscellaneous income	<u>532</u>	
Total other income		<u>57,809,047</u>
Net income before dividends to policyholders, after capital gains tax and before federal and foreign income taxes		371,374,143
Dividends to policyholders		<u>172,689,182</u>
Net income after dividends to policyholders, after capital gains tax and before federal and foreign income taxes		198,684,961
Federal and foreign income taxes incurred		<u>15,520,131</u>
Net income		<u>\$ 183,164,830</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2014		\$5,496,749,256
Net income	\$183,164,830	
Change in net unrealized capital gains or (losses), net of tax	(57,895,915)	
Change in net deferred income tax	8,075,000	
Change in nonadmitted assets	<u>3,613,463</u>	
Change in surplus as regards policyholders for the year		<u>136,957,378</u>
Surplus as regards policyholders, December 31, 2015		<u>\$5,633,706,634</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2012 through December 31, 2015

Surplus as regards policyholders, December 31, 2012 per Examination			\$4,609,670,184
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 653,654,250	\$	
Net unrealized capital gains	351,678,090		
Change in net deferred income tax	20,281,000		
Change in nonadmitted assets		1,577,556	
Change in provision for reinsurance	<u>666</u>		
Total gains and losses	<u>\$1,025,614,006</u>	<u>\$ 1,577,556</u>	
Net increase in surplus as regards policyholders			<u>1,024,036,450</u>
Surplus as regards policyholders, December 31, 2015, per Examination			<u>\$5,633,706,634</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Common Stocks

The Exchange received an extension of a permitted practice from the California Department of Insurance (CDI) to characterize its passively managed equity securities portfolio as one mutual fund for purposes of applying tests of other than temporary investment impairment. The permitted practice differs from the National Association of Insurance Commissioners Statutory Accounting Practices and Procedures, which requires analysis for other-than-temporary-impairment at the individual security level.

Additionally, the Exchange has a permitted practice from the CDI to admit its investment in its subsidiary, Auto Club Casualty Company, which has received an exemption from the Texas Department of Insurance from filing audited financial statements.

For the year ended December 31, 2015, the application of these permitted practices increased \$11.8 million in net income and \$2.8 million in surplus.

(2) Losses and Loss Adjustment Expenses

Based on an analysis by a CDI Casualty Actuary, 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 purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

None.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Attorney-in-Fact's officers and employees during the course of this examination.

Respectfully submitted,

/S/ _____

Sayaka Dillon, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California

/S/ _____

Vivien Fan, CFE
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California