

Report of Examination of

Club Insurance Company
Worthington, Ohio

As of December 31, 2009

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Columbus, Ohio
June 25, 2010

Honorable Mary Jo Hudson
Director
State of Ohio
Department of Insurance (“Department”)
50 West Town Street
3rd Floor – Suite 300
Columbus, Ohio 43215

Dear Madam:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), an examination was made of

Club Insurance Company

an Ohio domiciled, stock, property and casualty insurance company, hereinafter referred to as the “Company.” The examination was conducted at the Company’s home office, located at 90 East Wilson Bridge Road, Worthington, Ohio.

A report of this examination is hereby respectfully submitted.

The Company was last examined as of December 31, 2004, by the Department. Representatives of the Department conducted the current examination covering the intervening period to and including December 31, 2009.

Management and Control

Board of Directors

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date.

Name	Principal Occupation
John E. McClain, Jr.	Retired Business Owner
Charles H. Hire	Retired Attorney
John J. Bognaird	Attorney Krugliak, Wilkins, Griffiths & Dougherty Co., L.P.A.

Thomas J. Eberly	Attorney Eberly & Eberly Law Firm
Thomas A. Dunlap	President AAA Findlay
Sue A. Fouche	Owner Fouche & Associates Tax
Brian W. Thomas	President AAA Akron
William J. Hafer	Insurance Manager AAA Miami Valley
Mark H. Shaw	President AAA Ohio

Officers

As of the examination date, the following officers were elected and serving in accordance with the Company's Bylaws:

Name	Title
Gregory L. Cady	President
Thomas W. Keyes	Secretary and Treasurer

Insurance Holding Company System

The Company is a member of a holding company system as defined in Section 3901.32 of the ORC. The following displays the chain of ownership of the insurance companies as of December 31, 2009:

The Ohio Automobile Club
Club Holding Corporation
Club Insurance Company

Reinsurance

Assumed

In 2005, the Company entered into a quota share reinsurance agreement with Western United Insurance Company to assume 5% of the Ohio private passenger automobile business written by Western United Insurance Company and sold by Auto Club Insurance Agency, Inc., a wholly-owned subsidiary of The Ohio Automobile Club. The quota share

was increased to 10% in 2006 and then reduced to 5% in 2009. Effective January 1, 2010, the quota share has been reduced to 0%.

Ceded

The Company does not cede any reinsurance.

All reinsurance contracts contained requirements outlined in the National Association of Insurance Commissioners (“NAIC”) Examiners Handbook.

Territory and Plan of Operations

The Company was licensed to transact business in the state of Ohio.

Scope of Examination

One of the purposes of the examination was to make an assessment of the financial condition of the Company as of December 31, 2009. To substantiate the various items, tests were made either by complete audits of accounts or by sampling methods prescribed by the NAIC Examiner's Handbook. In selecting the examination procedures used, due consideration was given to the importance of each account to overall solvency. Transactions occurring subsequent to the date of the examination were reviewed to the extent deemed necessary.

For each year during the period under examination, the Certified Public Accounting (CPA) firm of GBQ Partners LLC has provided an unqualified opinion based on statutory accounting principles. Relevant work performed by the CPA firm, during its annual audit of the Company, was reviewed during the examination and incorporated into the examination work papers.

The Department's property and casualty actuary reviewed the relevant work performed by the opining actuary, to report on the adequacy of the carried reserves, and to comment on any other statutory matters relating to reserves.

In addition, the following items were reviewed during the course of this examination:

1. Company history;
2. fidelity bonds and other insurance;
3. officers', employees', and agents' welfare and pension plans;
4. growth of Company;
5. loss experience;
6. pending litigation; and
7. Articles of Incorporation and Bylaws.

Financial Statements

The financial condition and the results of its operations for the five year period under examination, as reported and filed by the Company with the Department and audited by the Company's external auditors, are reflected in the following:

Statement of Assets, Liabilities, Surplus and Other Funds
Statement of Operations
Statement of Changes in the Capital and Surplus Account

Statement of Assets

December 31, 2009

Admitted assets

Cash and invested assets:

Bonds	\$ 9,629,004
Common stocks	3,105,291
Cash	249,510
Short-term investments	880,223
Total cash and invested assets	<u>13,864,028</u>

Accrued investment income	119,575
Uncollected premiums and agents' balances	158,985
Net deferred tax asset	7,423
Total admitted assets	<u>\$14,150,011</u>

Liabilities, Surplus and Other Funds

December 31, 2009

Liabilities:

Losses	\$ 579,315
Commissions payable	82,090
Other expenses	28,000
Unearned premiums	859,700
Payable to parent, subsidiaries and affiliates	131,866
Total liabilities	<u>1,680,971</u>

Capital and surplus:

Common capital stock	1,000,000
Gross paid in and contributed surplus	2,039,944
Unassigned funds	9,429,096
Total capital and surplus	<u>12,469,040</u>
Total liabilities, capital and surplus	<u>\$14,150,011</u>

Statement of Operations

December 31, 2009

Premiums earned	\$ 2,161,539
Losses incurred	622,894
Loss adjustment expenses incurred	54,627
Other underwriting expenses incurred	778,058
Underwriting gain	<u>705,960</u>
Net investment income earned	400,391
Net realized capital gains	40,475
Net investment gain	<u>440,866</u>
Income before dividends to policyholders and before federal and foreign income taxes	1,146,826
Federal income taxes incurred	<u>396,000</u>
Net income	<u>\$ 750,826</u>

Statement of Changes in the Capital and Surplus Account
(In thousands)

	2005	2006	2007	2008	2009
Capital and surplus December 31, previous year	\$ 8,316	\$ 9,605	\$10,782	\$11,884	\$11,886
Net income	1,270	1,025	1,185	634	751
Net unrealized capital gains (losses)	23	243	(140)	(915)	952
Change in net deferred income tax	(4)	(92)	57	284	(320)
Dividends to stockholders					(800)
Net change in capital and surplus	1,289	1,177	1,102	2	583
Capital and surplus December 31, current year	<u>\$ 9,605</u>	<u>\$10,782</u>	<u>\$11,884</u>	<u>\$11,886</u>	<u>\$12,469</u>

Notes to Financial Statements

Investments

The Company's investments were in compliance with Section 3925.08 of the ORC.

Loss and Loss Adjustment Expense Reserves

The Company had an outside actuary, Jeffery W. Scholl, FCAS, MAAA, from Oliver Wyman Actuarial Consulting, Inc., certify the total reserves for the years covered by the examination. The Department's actuary, Mary D. Miller, FCAS, MAAA, reviewed the detailed calculations for the reserves of the major lines of business as of December 31, 2009.

On the basis of the above-mentioned analysis, it was determined that the loss and loss adjustment expense reserves were reasonable as of December 31, 2009.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2009, and is summarized as follows:

Total Admitted Assets	<u>\$14,150,011</u>
Liabilities	\$ 1,680,971
Surplus as Regards Policyholders	<u>12,469,040</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$14,150,011</u>

Acknowledgement

Appreciation is expressed for the assistance extended by the officers and employees of the Company during the course of this examination.

In addition to the undersigned, the following representatives of the Department participated in this examination: Methuselah E. Nyangoro, CPA; Ryan Gibson, CFE; Floyd Meeks, CFE, CPA, AES; and Mary Miller, FCAS, MAAA.

Respectfully,



David A. Cook, CFE
Assistant Chief Examiner
Ohio Department of Insurance

Verification

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2009.

[Signature] 7/14/10
Assistant Chief Examiner Date

State of

County of

Personally appeared before me the above named David A. Cook, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 14 day of July, 2010.

Elizabeth Chase
(Notary Public)

ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2012