

Report of Examination of

Club Insurance Company
Worthington, Ohio

As of December 31, 2014

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Columbus, Ohio
February 18, 2016

Honorable Mary Taylor
Lt. Governor/Director
State of Ohio
Department of Insurance
50 West Town Street
3rd Floor – Suite 300
Columbus, Ohio 43215

Dear Lt. Governor/Director:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

Club Insurance Company

an Ohio domiciled, stock, property and casualty insurance company, hereinafter referred to as the “Company.”

Scope of Examination

We have performed a single-state examination of the Company. The last examination covered the period of January 1, 2005, through December 31, 2009. This examination covers the period of January 1, 2010, through December 31, 2014.

We conducted our examination in accordance with the NAIC *Financial Condition Examiners Handbook* (“Handbook”). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company 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 Company 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 Company’s financial statements.

This examination report includes significant findings of fact, as mentioned in Section 3901.07 of the ORC and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.),

are not included within the examination report but separately communicated to other regulators and/or the Company.

For all years under examination, the Certified Public Accounting firm of GBQ Partners LLC provided an unqualified opinion on the financial statements of the Company based on Statutory Accounting Principles. Representatives of the Department reviewed the independent auditors' reports during the examination.

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 J. Bognaird	Attorney Krugliak, Wilkins, Griffiths, & Dougherty Co., L.P.A.
Thomas A. Dunlap	President AAA Findlay
Thomas J. Eberly	Attorney Eberly & Eberly
Sue A. Fouche	Owner Fouche & Associates
William J. Hafer	Insurance Manager AAA Miami Valley
Charles H. Hire	Retired Attorney
John E. McClain, Jr.	Retired Business Owner
Mark H. Shaw	President AAA Ohio
Brian W. Thomas	President AAA Akron

Officers

As of the examination date, the following executive and senior officers were serving in the designated position:

Name	Title
David M. McMullen	President
Thomas W. Keyes	Secretary and Treasurer

Insurance Holding Company System

The Company is a member of an insurance holding company system as defined in ORC Section 3901.32. The Company's direct parent, Club Holding Corporation ("CHC"), is owned by Ohio Automobile Club, the ultimate controlling person in the holding company system.

Territory and Plan of Operations

The Company is licensed to transact business in the State of Ohio. It sold personal accident insurance along with endorsements and travel accident insurance to members of the Ohio Automobile Club. Sales of its personal accident insurance and endorsements were discontinued after August 31, 2014, while sales of its travel accident insurance were discontinued after December 31, 2014.

The Company reported the following underwriting percentages during the examination period:

	2014	2013	2012	2011	2010
Loss and LAE Ratio	15.9	19.8	26.4	18.0	18.1
Expense Ratio	<u>67.4</u>	<u>48.8</u>	<u>49.6</u>	<u>55.4</u>	<u>51.1</u>
Combined Ratio	<u>83.3</u>	<u>68.6</u>	<u>76.0</u>	<u>73.4</u>	<u>69.2</u>

Reinsurance

The Company does not engage in any reinsurance activity.

Financial Statements

The financial condition and the results of its operations for the 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 Income

Statement of Changes in the Capital and Surplus Account

**Statement of Assets, Liabilities, Surplus and Other Funds
December 31, 2014**

Assets

Bonds	\$ 7,638,345
Common stocks	1,134,134
Cash, cash equivalents and short-term investments	<u>1,481,320</u>
Subtotal, cash and invested assets	10,253,799
Investment income due and accrued	83,162
Uncollected premiums and agents' balances	<u>85,836</u>
Total admitted assets	<u><u>\$ 10,422,797</u></u>

Liabilities

Losses	\$ 79,075
Other expenses	19,704
Net deferred tax liability	40,713
Unearned premiums	312,556
Dividends declared and unpaid – Stockholders	1,429,601
Payable to parent, subsidiaries and affiliates	<u>266,270</u>
Total liabilities	<u><u>2,147,919</u></u>

Capital and Surplus

Common capital stock	1,000,000
Gross paid in and contributed surplus	2,039,943
Unassigned funds	<u>5,234,935</u>
Total capital and surplus	<u>8,274,878</u>
Total liabilities, capital and surplus	<u><u>\$ 10,422,797</u></u>

Statement of Income
For the Year Ended December 31, 2014

Premiums earned	\$ <u>1,205,737</u>
Losses incurred	74,715
Loss adjustment expenses incurred	117,287
Other underwriting expenses incurred	<u>575,389</u>
Total underwriting deductions	<u>767,391</u>
Net underwriting gain	<u>438,346</u>
Net investment income earned	217,242
Net realized capital gains	<u>355,966</u>
Net investment gain	<u>573,208</u>
Net income before federal income taxes	1,011,554
Federal income taxes incurred	<u>318,000</u>
Net income	<u>\$ <u>693,554</u></u>

Statement of Changes in the Capital and Surplus Account

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Capital and surplus, prior year end	<u>\$12,478,757</u>	<u>\$12,595,511</u>	<u>\$12,543,400</u>	<u>\$12,727,348</u>	<u>\$12,469,040</u>
Net income	693,554	617,546	567,682	678,468	842,218
Change in net unrealized capital gains (losses)	(565,809)	335,571	282,468	(240,024)	194,076
Change in net deferred income tax	168,376	(118,094)	(98,039)	77,608	(77,986)
Surplus adjustments: Paid in	-	(1)	-	-	-
Net remittances from Home Office	-	981	-	-	-
Dividends to stockholders	<u>(4,500,000)</u>	<u>(952,757)</u>	<u>(700,000)</u>	<u>(700,000)</u>	<u>(700,000)</u>
Net change in capital and surplus	<u>(4,203,879)</u>	<u>(116,754)</u>	<u>52,111</u>	<u>(183,948)</u>	<u>258,308</u>
Capital and surplus, current year end	<u>\$ <u>8,274,878</u></u>	<u>\$12,478,757</u>	<u>\$12,595,511</u>	<u>\$12,543,400</u>	<u>\$12,727,348</u>

Notes to Financial Statements

Investments

The Company's investments were in compliance with ORC Section 3925.08 and valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

Loss and Loss Adjustment Expense Reserves

The Company's Board of Directors appointed Jeffery W. Scholl, FCAS, MAAA of Oliver Wyman Actuarial Consulting, Inc. to render the Company's Statement of Actuarial Opinion ("Opinion"). Mr. Scholl prepared an Actuarial Report supporting the Opinion in connection with the preparation of the Company's 2014 Annual Statement.

Subsequent Events

Pursuant to a stock purchase agreement dated January 14, 2016, by and among CHC and IBOD Company, Inc. ("IBOD"), IBOD agreed to acquire all of the voting shares of the Company. The corresponding Form A statement regarding the acquisition of control of a domestic insurer was filed with the Department on January 29, 2016. The Form A is currently under review by the Department's analyst.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2014, and is summarized as follows:

Total Admitted Assets	<u>\$ 10,422,797</u>
Liabilities	2,147,919
Capital and Surplus	<u>8,274,878</u>
Total Liabilities, Capital and Surplus	<u>\$ 10,422,797</u>

Acknowledgement

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

Respectfully,

A handwritten signature in black ink, appearing to read "Kevin J. Rupp", written over a horizontal line.

Kevin J. Rupp, CFE
Examiner-In-Charge
Ohio Department of Insurance

A handwritten signature in black ink, appearing to read "Rick A. Rhoades", written over a horizontal line.

Rick A. Rhoades, CPA
Assistant Chief Analyst/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, 2014.

Kevin J. Rupp 2/25/16
Examiner-In-Charge Date

Rick A. Rhoades 2/26/16
Assistant Chief Examiner Date

State of Ohio
County of Franklin

Personally appeared before me the above named, Kevin J. Rupp, 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 knowledge and belief.

Subscribed and sworn to before me this 25 day of February, 2016.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2017
My Commission Expires

State of Ohio
County of Franklin

Personally appeared before me the above named, Rick A. Rhoades, 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 knowledge and belief.

Subscribed and sworn to before me this 26 day of February, 2016.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2017
My Commission Expires