

EXAMINATION REPORT

OF

STATE FARM FLORIDA INSURANCE COMPANY

WINTER HAVEN, FLORIDA

AS OF

DECEMBER 31, 2014

BY THE

FLORIDA OFFICE OF INSURANCE REGULATION

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January 4, 2016

Kevin M. McCarty
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, Rule 69O-138.005, Florida Administrative Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2014, of the financial condition and corporate affairs of

State Farm Florida Insurance Company
7401 Cypress Gardens Blvd.
Winter Haven, Florida 33888

hereinafter referred to as the "Company." Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2010 through December 31, 2014. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2009. This examination commenced with planning at the Office on March 23, 2015 to March 27, 2015. The fieldwork commenced on April 27, 2015 and concluded as of January 4, 2016.

The examination was a single state examination conducted in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that the examination is planned and performed 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.

This examination report includes significant findings of fact, as mentioned in Section 624.319, Florida Statutes, 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.

SUMMARY OF SIGNIFICANT FINDINGS

Current Examination Findings

There were no material findings or exceptions noted during the examination as of December 31, 2014.

Prior Examination Findings

There were no material findings or exceptions noted during the examination as of December 31, 2009.

COMPANY HISTORY

General

The Company was incorporated in Florida on December 7, 1998, and commenced business on December 30, 1998.

The Company was authorized to transact insurance coverage in Florida for the following lines of business as of December 31, 2014.

Homeowners Multiple-Peril	Earthquake
Commercial Multiple-Peril	Other Liability
Inland Marine	Medical Malpractice

Dividends

The Company did not declare or pay any dividends during the period of this examination.

Capital Stock and Capital Contributions

As of December 31, 2014, the Company's capitalization was as follows:

Number of authorized common capital shares	8,000,000
Number of shares issued and outstanding	6,075,000
Total common capital stock	\$516,375,000
Par value per share	\$85.00

Control of the Company was maintained by State Farm Mutual Automobile Insurance Company, who owned 100 percent of the stock issued by the Company.

Surplus Notes

The Company issued two surplus debentures to State Farm Mutual Automobile Insurance Company, in 2004. One surplus note was issued for \$250 million on September 30, 2004, with an interest rate of 7% and the second surplus note was issued for \$500 million on November 8, 2004, with an interest rate of 7%.

Acquisitions, Mergers, Disposals, Dissolutions and Purchase or Sales through Reinsurance

The Company had no acquisitions, mergers, disposals, dissolutions and purchase or sales through reinsurance during the period of this examination.

CORPORATE RECORDS

The recorded minutes of the Shareholder(s), Board of Directors (Board) and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, in compliance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code, including the authorization of investments as required by Section 625.304, Florida Statutes.

Conflict of Interest

The Company adopted a policy statement requiring periodic disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

MANAGEMENT AND CONTROL

Management

The annual shareholder meeting for the election of directors was held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2014 are shown below.

Directors

Name and Location

Principal Occupation

Julie Ann Bolton
Dallas, Texas

Operations Vice President, Underwriting

Kevin Harper McKay Bloomington, Illinois	Senior Vice President
Christie Ann Moberly Bloomington, Illinois	Senior Vice President, Agency and Marketing
James Murray Thompson (a) Tampa, Florida	President and CEO
Robert Hun Sang Yi Bloomington, Illinois	Senior Vice President

(a) Effective December 21, 2015, James M. Thompson resigned as Director and Tim McFadden was elected as Director to replace James M. Thompson.

In accordance with the Company's bylaws, the Board appointed the following senior officers:

Senior Officers

Name	Title
James M. Thompson (b)	President and CEO
Paul J. Smith	Vice President & Treasurer
Lynn Madden Yowell	Vice President, Associate General Counsel and Secretary

(b) James M. Thompson resigned as President and CEO effective January 6, 2016. On January 7, 2016, Tim McFadden was elected as the new President and CEO.

The Company's Board appointed several internal committees. Following were the principal internal board committees and their members as of December 31, 2014:

Executive Committee	Audit Committee	Investment Committee
James Thompson ¹	Gerald M. Czarnecki ¹	James Thompson ¹
Kevin McKay	W. Steven Jones	Julie Bolton
Robert Yi	Allan R. Landon	Robert Yi
	Gary L. Perlin	
	Susan M. Phillips	
	John D. Zeglis	

¹ Chairman

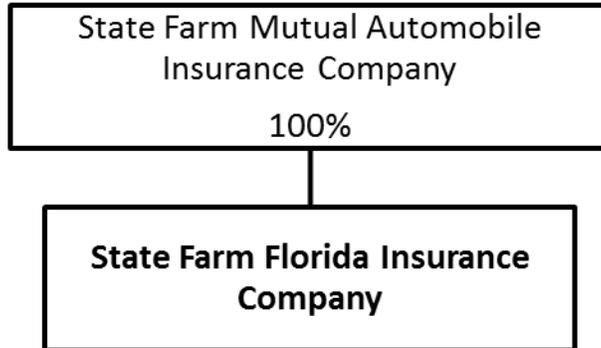
The Company maintained an audit committee, as required by Section 624.424(8) (c), Florida Statutes.

Affiliated Companies

The most recent holding company registration statement was filed with the Office on April 27, 2015, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

Organizational Chart

December 31, 2014



The following agreements were in effect between the Company and its affiliates:

Short-term Investment Pooling Agreement

The parent, along with some of its affiliates and the Company, created a limited liability company effective March 15, 2001, under the name State Farm Liquidity Pool, LLC, so that each affiliated company may participate as a member in a short-term investment pool. The pool reduced the need for transactions between affiliates and reduced transaction costs.

Operating Agreement – Liquidity Pool

The Company and other affiliated members of the State Farm Liquidity Pool, LLC, entered into an agreement effective March 15, 2001. This agreement allows for the transaction of all business related to participation in permitted investments as specified in the pooling agreement. In accordance with applicable laws, providing all necessary and appropriate financial and administrative services and support for such activities and other powers as necessary.

Trainee Agent Cost Allocation Agreement

The Company and its parent had an agreement effective January 1, 1999, which itemized the cost and value of services rendered by the parent to the Company for the compensation of trainee agents. The parent provided for the developmental financing costs and compensation of the trainee agents selling and servicing State Farm products under the provision of the applicable trainee agents agreement between the parent and the trainee agents. The Company agreed to pay the parent an amount equal to all compensation of trainee agents with respect to the Company's business that would have been paid to these agents as if they were non-trainee agents.

Services and Facilities Agreement

The Company and its parent had an agreement effective January 1, 2007, updated January 1, 2013, where the parent provides services and facilities to the Company. Under the agreement, the parent renders certain services, such as underwriting advice and services, policy issuing and billing services, internal auditing and records retention services, and provides certain facilities for the Company to the extent not already provided by itself or by another servicing company. The Company agrees to reimburse all reasonable expenses incurred and allocated by the Parent for the performance and provision of the services and facilities on an equitable and reasonable basis in conformity with customary insurance accounting principles consistently applied, within 60 days of the end of the calendar month in which such expenses were incurred.

Common Clearing Account Agreement

The Company and its affiliates entered into an agreement effective July 20, 2008 that implemented a comprehensive cash balance system, whereby premium payments and other cash receipts were deposited into one or more deposit clearing accounts pending transmittal by

electronic funds transfer to the operating bank account of the company to whom the funds belong. The Company and its affiliates also implemented a comprehensive cash disbursement system whereby disbursements were processed through one or more common disbursement clearing accounts. The operating bank account of the company on whose behalf the disbursement was made was adjusted accordingly.

Demand Line of Credit Agreement

The Company's parent established a revocable line of credit agreement on July 21, 2006 for the use of the Company. Pursuant to the agreement, the Company may borrow up to the aggregate principal amount (\$500 million) at any one time. As of December 31, 2014, the Company had not drawn upon this line of credit.

Federal Income Tax Allocation Agreement

The Company and its affiliates entered an agreement effective November 1, 2014 to file a consolidated federal income tax return and allocate the total consolidated federal income tax liability in accordance with Section 1552(a) (2) of the Internal Revenue Code. The consolidated federal income tax liability was apportioned to each company in accordance with an agreement authorized by each company's Board of Directors. As of December 31, 2014, the method of allocation was based upon separate return calculations for regular and alternative minimum tax with current credits for net losses and tax credits used by the consolidated group.

Florida Corporate Income Tax Allocation Agreement

The Company and its affiliates entered into an agreement effective October 1, 2007, to file a consolidated Florida corporation income tax return. The total Florida income tax was allocated

as follows: the estimated annual individual company income tax was divided by the sum of the estimated annual combined company income taxes.

Subsequent Event: Effective January 1, 2015, the agreement was terminated and replaced with a new agreement, whereby the Company is a party to a consolidated Florida corporate income tax return, and the consolidated Florida corporation income tax liability would be allocated to each corporation pro rata based upon what each separate corporation's Florida corporation income tax liability would have been if no consolidated Florida corporate income tax return were filed.

Illinois Insurance Corporation Income Tax Allocation Agreement

The Company and its affiliates entered into an agreement effective October 1, 2007, to file a combined Illinois corporation income tax return as part of an Illinois unitary business group that apportioned Illinois based income according to insurance premiums. The total tax was allocated as follows: the estimated annual individual company income tax was divided by the sum of all the estimated annual combined company income taxes. The Company was party to the agreement for the purposes of the tax computation.

Subsequent Event: Effective January 1, 2015, the agreement was terminated and replaced with a new agreement, whereby the Company is a party to a consolidated Illinois corporate income tax return, and the consolidated Illinois corporation income tax liability would be allocated to each corporation pro rata based upon what each separate corporation's Illinois corporation income tax liability would have been if no consolidated Illinois corporate income tax return were filed.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance in the states of Florida and Illinois. The Company had only written premiums in the state of Florida.

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1) (j), Florida Statutes.

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1) (i) 3a, Florida Statutes.

REINSURANCE

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, intermediary clause, transfer of risk, reporting and settlement information deadlines.

Assumed

The Company did not assume any reinsurance during the period of this examination.

Ceded

As of December 31, 2014, the Company's ceded reinsurance program consisted of numerous excess of loss, quota share and catastrophe reinsurance provided by agreements with various commercial reinsurers and the Company's parent State Farm Mutual Automobile Insurance Company. Some treaties were placed through reinsurance intermediary, AON Benfield. The Company also participated in the Florida Hurricane Catastrophe Fund (FHCF).

The Company, along with other affiliates, participated in a property per risk excess of loss treaty with State Farm Mutual Automobile Insurance Company, which provides coverage for losses in excess of \$1,500,000 per risk. Limit of liability is 90% of \$30,000,000 per any one risk, with total combined liability of up to \$45,000,000 for all companies reinsured.

The Company had an umbrella coverage with its parent for personal and commercial liability umbrella policies with retention of \$5 million and reinsurance coverage of \$20 million per occurrence per policy.

The Company had the following catastrophe excess of loss coverage through commercial reinsurers, State Farm Mutual Insurance Company and the FHCF as of December 31, 2014, resulting in coverage of ultimate net losses of approximately \$2,300,000,000 for the first two events:

- \$59,000,000 in reinsurance coverage with a retention limit of \$215,000,000
- \$1,497,000,000 in reinsurance coverage with an estimated attachment point of \$803,000,000
- Florida Catastrophe Hurricane Fund (FCHF) – 90% of losses up to \$584,000,000 limit with an attachment point of \$244,000,000

Additionally, the Company has an aggregate catastrophe excess of loss treaty with its parent to provide up to \$500,000,000 in excess of \$300,000,000.

The Company ceded a total of \$142,604,633 in premiums during the year ended December 31, 2014.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Winter Haven, Florida.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company had an amended and restated custody agreement with Mellon Private Trust Company, N.A., executed on March 15, 2001. The agreement was in compliance with Rule 69O-143.042(2), Florida Administrative Code.

Reinsurance Intermediary-Broker Agreement

The Company entered into a Reinsurance Intermediary-Broker agreement with AON Benfield, Inc. effective July 1, 2011. AON Benfield, Inc. was engaged to negotiate and obtain reinsurance on behalf of the Company.

Independent Auditor Agreement

An independent CPA audited the Company's statutory basis financial statements annually for the years 2010, 2011, 2012, 2013, and 2014 in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

INFORMATION TECHNOLOGY REPORT

Lindsey Pittman, IT Specialist, performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes.

State	Description	Par Value	Market Value
FL	USTNTS, 4.625% 11/15/16	<u>\$ 2,742,547</u>	<u>\$ 2,954,875</u>
TOTAL FLORIDA DEPOSITS		\$ 2,742,547	\$ 2,954,875
TOTAL SPECIAL DEPOSITS		<u><u>\$2,742,547</u></u>	<u><u>\$2,954,875</u></u>

FINANCIAL STATEMENTS

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.

Financial statements, as reported and filed by the Company with the Florida Office of Insurance Regulation, are reflected in the following:

STATE FARM FLORIDA INSURANCE COMPANY

Assets

December 31, 2014

	Per Company Examination	Per Examination
	Adjustments	
Bonds	\$1,588,687,180	\$1,588,687,180
Cash and Short-term Investments	112,997,186	112,997,186
Invest Income Due/Accrued	15,289,625	15,289,625
Agents' Balances:		
Uncollected premium	6,310,282	6,310,282
Deferred premium	91,845,402	91,845,402
Reinsurance recoverable	234,001	234,001
Net DTA	90,547,813	90,547,813
Receivable from parents, subsidiaries and affiliates	81	81
Aggregate write-in for other than invested assets	9,705,774	9,705,774
Totals	<u>\$1,915,617,344</u>	<u>\$0</u> <u>\$1,915,617,344</u>

STATE FARM FLORIDA INSURANCE COMPANY

Liabilities, Surplus and Other Funds

December 31, 2014

	Per Company	Examination Adjustments	Per Examination
Losses	\$184,294,388		\$184,294,388
Loss adjustment expenses	134,477,239		134,477,239
Other expenses	207,658,164		207,658,164
Taxes, licenses and fees	4,196,078		4,196,078
Current federal and foreign income taxes	5,792,318		5,792,318
Borrowed money	26,250,000		26,250,000
Unearned premiums	306,525,984		306,525,984
Advanced premium	10,259,994		10,259,994
Ceded reinsurance premiums payable	46,009,058		46,009,058
Amounts withheld or retained			
by company for account of others	7,772,722		7,772,722
Remittances and items not allocated	981,689		981,689
Drafts outstanding	29,733,448		29,733,448
Payable to parent, subsidiaries and affiliates	15,926,080		15,926,080
Payable for securities	2,065,972		2,065,972
Aggregate write-ins for liabilities	39,144,243		39,144,243
Total Liabilities	\$1,021,087,377	\$0	\$1,021,087,377
Aggregate write-ins for			
special surplus funds	\$341,250,000		\$341,250,000
Common capital stock	516,375,000		516,375,000
Surplus notes	750,000,000		750,000,000
Gross paid-in and contributed surplus	91,125,000		91,125,000
Unassigned funds (surplus)	(804,220,034)		(804,220,034)
Surplus as regards policyholders	\$894,529,966	\$0	\$894,529,966
Totals	\$1,915,617,343	\$0	\$1,915,617,343

STATE FARM FLORIDA INSURANCE COMPANY
Statement of Income and Capital and Surplus Account
December 31, 2014

	Underwriting Income	
Premiums earned		\$570,847,782
	Deductions:	
Losses incurred		\$143,823,513
Loss adjustment expenses incurred		62,642,469
Other underwriting expenses incurred		155,114,624
Total underwriting deductions		<u>\$361,580,606</u>
Net underwriting gain or (loss)		\$209,267,176
	Investment Income	
Net investment income earned		\$2,521,968
Net realized capital gains		198,483
Net investment gain (loss)		<u>\$2,720,451</u>
	Other Income	
Net gain (loss) from agents' or premium balances charged off		(\$15,154)
Finance and service charges not included in premiums		1,871,684
Aggregate write-ins for miscellaneous income		(74,128)
Total other income		<u>\$1,782,402</u>
Net income before dividends to policyholders and before federal & foreign income taxes		\$213,770,029
Federal and foreign income taxes incurred		<u>58,711,403</u>
Net income		<u>\$155,058,626</u>
	Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year		\$734,564,784
Net income		\$155,058,626
Change in net deferred income tax		4,828,882
Change in nonadmitted assets		19,629,024
Aggregate write-ins for gains and losses in surplus		(19,551,349)
Change in surplus as regards policyholders for the year		<u>\$159,965,183</u>
Surplus as regards policyholders, December 31 current year		<u>\$894,529,967</u>

STATE FARM FLORIDA INSURANCE COMPANY

Comparative Analysis of Changes in Surplus

December 31, 2014

The following is a reconciliation of surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders December 31, 2014, per Annual Statement	\$894,529,967
ASSETS: No Adjustment	
LIABILITIES: No Adjustment	
Net Change in Surplus	<u>0</u>
Surplus as Regards Policyholders December 31, 2014, Per Examination	<u>\$894,529,967</u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses

An actuarial firm appointed by the Board, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2014, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office consulting actuary, Gregory S. Wilson, FCAS, MAAA of Lewis & Ellis, Inc. reviewed the loss and loss adjustment expense work papers provided by the Company and he was in concurrence with this opinion.

Capital and Surplus

The amount of capital and surplus reported by the Company of \$894,529,966, exceeded the minimum of \$67,470,185 required by Section 624.408, Florida Statutes.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **STATE FARM FLORIDA INSURANCE COMPANY** as of December 31, 2014, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$894,529,966, which exceeded the minimum of \$67,470,185 required by Section 624.408, Florida Statutes.

In addition to the undersigned, John Romano, CPA, CFE, Examination Manager, of Baker Tilly Virchow Krause, LLP; Katerina Bolbas, CFE, Examiner-in-Charge; Sarah Lucibello, CFE and Ryne Davison, CFE, Analyst, Participating Examiners, of Lewis & Ellis, Inc. participated in the examination. Members of the Office who participated in the examination included Connie Hare, and Kyra Brown, Participating Examiners. Additionally, Gregory S. Wilson, FCAS, MAAA of Lewis & Ellis, Inc. and Lindsey Pittman, CPA, CFE, IT Specialist of Lewis & Ellis, Inc. are recognized for participation in the examination.

Respectfully submitted,

Lamar Downs, CPA
Deputy Chief Examiner
Florida Office of Insurance Regulation