

STATE OF INDIANA )  
 ) SS: BEFORE THE INDIANA  
COUNTY OF MARION ) COMMISSIONER OF INSURANCE

IN THE MATTER OF: )  
 )  
Hillstar Insurance Company )  
3700 Colonnade Parkway, Suite 600 )  
Birmingham, Alabama 35243-3216 )

Examination of **Hillstar Insurance Company**

**NOTICE OF ENTRY OF ORDER**

Enclosed is the Final Order entered by Stephen W. Robertson, Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of **Hillstar Insurance Company**, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as amended by the Final Order, has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of **Hillstar Insurance Company** shall file an affidavit with the Indiana Department of Insurance stating that he/she has received a copy of the Verified Report of Examination and the Final Order.

The Final Order is a final administrative decision that may be appealed pursuant to Ind. Code § 4-21.5-5.

April 17, 2013  
Date

Cynthia D. Donovan  
Cynthia D. Donovan  
Chief Financial Examiner

**CERTIFIED MAIL NUMBER: 9214 8901 0661 5400 0013 9003 31**

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3700 Colonnade Parkway, Suite 600 )  
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Examination of **Hillstar Insurance Company**

### FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the **Hillstar Insurance Company** (hereinafter "Company") for the time period January 1, 2007 through December 31, 2011.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on November 30, 2012.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on February 20, 2013 and was received by the Company on February 27, 2013.

On March 26, 2013, pursuant to Ind. Code § 27-1-3.1-10, the Company filed a response to the Verified Report of Examination. The Commissioner has fully considered the Company's response.

NOW THEREFORE, based on the Verified Report of Examination and the response filed by the Company, the Commissioner hereby FINDS as follows:

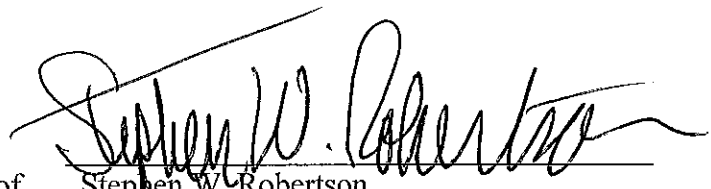
1. The suggested modifications to the Verified Report of Examination submitted by the Company are reasonable and shall be incorporated into the Verified Examination Report. A copy of the Verified Report of Examination, as amended, is attached hereto.

2. The Verified Report of Examination, as amended, is true and accurate report of the financial condition and affairs of the Company as of December 31, 2011.
3. The Examiners' recommendations are reasonable and necessary in order for the Company to comply with the insurance laws of the state of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, as amended, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.
2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination, as amended. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.
3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

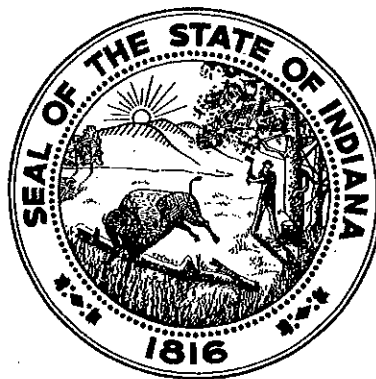
Signed and Sealed this 17<sup>th</sup> day of April, 2013.

  
Stephen W. Robertson  
Insurance Commissioner

**STATE OF INDIANA**  
**Department of Insurance**  
**REPORT OF EXAMINATION**  
**OF**  
**HILLSTAR INSURANCE COMPANY**  
NAIC Co. CODE 10068  
NAIC GROUP CODE 3495

As of

December 31, 2011



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# STATE OF INDIANA

MICHAEL R. PENCE, Governor

# IDOI

**INDIANA DEPARTMENT OF INSURANCE**  
311 W. WASHINGTON STREET, SUITE 300  
INDIANAPOLIS, INDIANA 46204-2787  
TELEPHONE: (317) 232-2385  
FAX: (317) 232-5251

November 30, 2012

Stephen W. Robertson, Commissioner

Honorable Stephen W. Robertson, Commissioner  
Indiana Department of Insurance  
311 West Washington Street, Suite 300  
Indianapolis, Indiana 46204-2787

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 3707, an examination has been made of the affairs and financial condition of:

**Hillstar Insurance Company**  
**3700 Colonnade Parkway, Suite 600**  
**Birmingham, Alabama 35243-3216**

hereinafter referred to as the "Company", or "Hillstar", an Indiana domestic, property and casualty insurance company. The examination was conducted at the Company's corporate offices in Birmingham, Alabama.

The Report of Examination, reflecting the status of the Company as of December 31, 2011, is hereby respectfully submitted.

ACCREDITED BY THE  
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES  
(317) 232-2413

COMPANY COMPLIANCE  
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CONSUMER SERVICES  
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SECURITIES / COMPANY RECORDS  
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## SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI) as of the period ending December 31, 2006. The present risk-focused examination was conducted by Noble Consulting Services, Inc. (Noble) and covered the period from January 1, 2007 through December 31, 2011.

David M. Shepherd, FCAS, MAAA, of Merlinos & Associates, Inc., has been appointed by the INDOI to conduct a review of Infinity Insurance Company (IIC) and its affiliated property and casualty insurance companies' (the Group) statutory reserves as of December 31, 2011. There were no actuarial adjustments from the review performed by Merlinos & Associates, Inc.

Noble conducted the examination pursuant to and 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 and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall Financial Statement presentation, management's compliance with Statutory Accounting Principles and Annual Statement instructions, when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

## HISTORY

In October 1992, the Company commenced operations as an Alabama domestic insurer known as Infinity Southern Insurance Corporation. On December 31, 1997, the Company was redomiciled from Alabama to Indiana and its name was changed to Infinity National Insurance Company. The Company was formerly owned by IIC. Effective December 31, 2002, American Financial Group, Inc. (AFG) contributed all of the issued and outstanding common stock of IIC to Infinity Property and Casualty Corporation (IPCC). IPCC was formed to own all of the personal lines agency business of AFG for the purpose of making it available in an initial public offering.

AFG sold 61% of IPCC in an initial public offering on February 19, 2003. Effective December 17, 2003, AFG sold its remaining shares of the issued and outstanding common stock of IPCC through a secondary public offering. As a result, AFG ceased to be the ultimate controlling entity and also ceased to be an affiliate of IPCC and its subsidiaries.

On June 1, 2007, IIC paid an extraordinary dividend in the form of all issued and outstanding shares of the Company to IPCC. Effective June 11, 2007, the Company changed its name to Hillstar Insurance Company.

## CAPITAL AND SURPLUS

The Articles of Incorporation, as amended, provide that the authorized capital of the Company shall consist of 25,000 shares of common stock with \$125 par value. As of December 31, 2011, IPCC owned all 19,000 issued and outstanding shares of the Company's common stock. The Company has no shares of preferred stock outstanding.

## DIVIDENDS TO STOCKHOLDERS

In accordance with Indiana Code (IC) 27-1-23-4(h), the payment of dividends to holding companies or affiliated insurers may not exceed the greater of 10% of the prior year's surplus or the gains from operations of such insurer of the prior year. The Company paid one (1) \$650,000 extraordinary dividend and a \$1,100,000 return of paid in surplus during the examination period with the prior approval of the INDOI. These amounts were paid in 2011. In accordance with IC 27-1-23-1.5, the Company notified INDOI of all declared dividends to the parent during the examination period.

## TERRITORY AND PLAN OF OPERATION

The Group provides automobile insurance nationwide with a concentration in non-standard private passenger auto insurance. The Group markets its insurance products using a network of approximately 12,900 independent agents and brokers. While the Group does offer commercial auto and classic collector coverage, these products represented only 6% and 1% of gross written premiums for 2011, respectively. The remaining 93% of gross writings represents private passenger auto insurance. Overall, the Group estimates that 76% of their auto insurance is concentrated in non-standard private passenger auto coverage.

The Group, through its various affiliated insurance companies, holds licenses in all fifty (50) states and the District of Columbia, but the Group is committed to growth in targeted urban areas identified within the Group's focus states. The Group has targeted urban areas in the following focus states: Arizona, California, Florida, Georgia, Illinois, Nevada, Pennsylvania, and Texas. In 2011, the Group's top five (5) states included California, Florida, Georgia, Pennsylvania, and Texas which accounted for approximately 90% of direct written premiums (DWP). California and Florida, alone, represented more than 71% of DWP.

The Company is licensed in the following nine (9) states: Alabama, Arizona, California, Connecticut, Florida, Georgia, Indiana, Pennsylvania, and South Carolina. In 2011, the Company only wrote business in California, where it wrote \$29,088,378 which accounted for nearly 3% of the Group's total DWP and approximately 5% of the Group's total DWP in California (the Group's largest state).

## GROWTH OF THE COMPANY

The following exhibit summarizes the financial results of the Company during the examination period:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus and Other Funds</u>	<u>Earned Premiums</u>	<u>Net Income</u>
2011	\$ 5,540,933	\$ 1,078,557	\$ 4,462,376	\$ 1,019,060	\$ 79,683
2010	7,061,305	952,320	6,108,985	905,919	156,588
2009	6,880,488	930,030	5,950,458	848,391	183,371
2008	6,727,462	982,880	5,744,582	922,451	237,359
2007	6,616,737	1,099,457	5,517,280	1,031,564	243,171

Assets and surplus grew steadily throughout the exam period with the exception of 2011. The decrease in 2011 was primarily due to the payment of a \$650,000 extraordinary dividend to IPCC and a \$1.1 million return of paid in surplus to IPCC. Net income decreased steadily throughout the exam period, primarily due to decreases in net investment income earned.



## MANAGEMENT AND CONTROL

### Directors

The Articles of Incorporation provide that the Board of Directors shall be composed of not less than seven (7) nor more than twenty-one (21) members. The directors shall hold office from annual meeting to annual meeting. The following is a listing of persons serving as directors at December 31, 2011, and their principal occupations as of that date:

<u>Name and Address</u>	<u>Principal Occupation</u>
James Gober Birmingham, Alabama	Chairman of the Board, President, and Chief Executive Officer Infinity Property and Casualty Corporation
Mark Gozdecki Indianapolis, Indiana	Regional Vice President, Business Development Infinity Insurance Company
Gregory Fasking Mountain Brook, Alabama	Associate Vice President, Marketing Infinity Insurance Company
Glen Godwin Birmingham, Alabama	Senior Vice President, Business Development Infinity Insurance Company
Roger Prestridge * Alabaster, Alabama	Vice President and Controller Infinity Insurance Company
Samuel Simon Birmingham, Alabama	EVP, General Counsel, Assistant Secretary, and Director Infinity Property and Casualty Corporation
Roger Smith Columbiana, Alabama	EVP, Chief Financial Officer, Treasurer, and Director Infinity Property and Casualty Corporation

\* Deceased in 2012

### Officers

The Bylaws state that the officers of the Company shall consist of a President (who shall be a director), one (1) or more Vice Presidents, a Treasurer, one (1) or more Secretaries, and such other Assistant Vice Presidents, Assistant Treasurers, or other officers, as from time to time, may appear to the Board of Directors necessary or desirable for the conduct of the affairs of the Company. Any two (2) offices may be held by the same person except that any person holding the office of Secretary shall not also hold the office of Chairman of the Board or President.

The following is a list of key officers and their respective titles as of December 31, 2011:

<u>Name</u>	<u>Office</u>
Gregory Fasking	President and Chief Executive Officer
Samuel Simon	Secretary
Roger Prestridge *	Vice President and Treasurer
Mary Linn Clark	Assistant Treasurer
Troy Ballard	Assistant Treasurer

\* Deceased in 2012

### CONFLICT OF INTEREST

Officers and directors are required to review and sign Conflict of Interest statements annually. It was determined that officers and directors listed in the management and control section of this Report of Examination have reviewed and signed their statements as of year-end 2011.

### OATH OF OFFICE

IC 27-1-7-10(i) stipulates that every director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly, and diligently administer the affairs of the Company and will not knowingly violate any of the laws applicable to such Company. Each director subscribed to an Oath of Office statement in 2011.

### CORPORATE RECORDS

#### Articles of Incorporation

The Articles of Incorporation were amended and approved in June, 2007, to change the name of the Company to Hillstar Insurance Company. The Company submitted the amended Articles of Incorporation to INDOI for approval.

#### Bylaws

There were no amendments made to the Bylaws during the examination period.

#### Minutes

The Company's Board of Directors and Finance Committee meeting minutes were reviewed for the period under examination through the fieldwork date. Significant actions taken during each meeting were noted. IPCC's Board of Directors, Audit Committee, and Investment Committee meeting minutes were also reviewed.

## AFFILIATED COMPANIES

### Organizational Structure

The following organizational chart, effective as of December 31, 2011, shows the upstream affiliates and insurance company subsidiaries of IIC:

	<u>NAIC Co.</u> <u>Code</u>	<u>Domiciliary</u> <u>State</u>
Infinity Property and Casualty Corporation		
<b>Hillstar Insurance Company</b>	<b>10068</b>	<b>IN</b>
Infinity Insurance Company	22268	IN
Infinity Assurance Insurance Company	39497	OH
Infinity Auto Insurance Company	11738	OH
Infinity Casualty Insurance Company	21792	OH
Infinity County Mutual Insurance Company*	13820	TX
Infinity Indemnity Insurance Company	10061	IN
Infinity Preferred Insurance Company	10195	OH
Infinity Premier Insurance Company	37001	IN
Infinity Reserve Insurance Company	10968	OH
Infinity Safeguard Insurance Company	16802	OH
Infinity Security Insurance Company	38873	IN
Infinity Select Insurance Company	20260	IN
Infinity Standard Insurance Company	12599	IN

\* *Infinity County Mutual Insurance Company is affiliated but not owned by Infinity Insurance Company. As a mutual insurance company, Infinity County Mutual Insurance Company is owned by its policyholders.*

### Affiliated Agreements:

The following affiliated agreements and transactions were disclosed as part of the Form B – Holding Company Registration Statement and were filed with the INDOI, as required, in accordance with IC 27-1-23-4.

#### Consolidated Tax Allocation Agreement

IPCC and certain of its subsidiaries are parties to a Consolidated Tax Allocation Agreement whereby federal income taxes resulting from the filing of a consolidated federal tax return are allocated among parties to the federal consolidated tax group. The agreement was entered into on December 31, 2003, and was effective February 13, 2003. A complete list of companies who are participants to this agreement is contained in Note 9(f) of each company's Annual Statement.

#### Inter-Company Pooling Agreement

As more fully discussed in the Reinsurance section of this Report of Examination, all affiliate insurers except Infinity County Mutual Insurance Company are members of an Inter-Company Pooling Agreement. Transactions are covered in accordance with an Inter-Company Pooling Agreement initially dated January 1, 1992, which covers substantially all business.

## FIDELITY BOND AND OTHER INSURANCE

The Company protects itself against loss from any fraudulent or dishonest acts by its employees through a financial institution bond issued by St. Paul Fire and Marine Insurance Company. The bond has blanket coverage of \$5,000,000 with a deductible of \$250,000. The bond is adequate to meet the prescribed minimum coverage specified by the NAIC.

The Company had additional types of coverage in-force at December 31, 2011, including, but not limited to umbrella liability, fiduciary liability, and directors and officers liability.

## PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

Since all employees providing services to the Group's insurance operations are employed by IIC, Hillstar does not have a defined benefit, defined contribution, or multiemployer plan.

IPCC has a 401(k) Retirement Plan (the Plan) for the benefit of employees of IPCC and its participating subsidiaries. The Plan is a defined contribution plan in which participating employees are entitled to share in contributions made by Hillstar on their behalf. The Plan has two (2) types of contributions, including 401(k) contributions made by participating employees and contributions made by Hillstar. Participating employees are permitted to make 401(k) contributions to the Plan. Matching contributions may be made by Hillstar based on the amount of 401(k) contributions made by the participating employees. IPCC also has a Supplemental Executive Retirement Plan (SERP) for a select group of management or highly compensated employees. The SERP enables eligible employees to receive additional retirement contributions from Hillstar that are precluded by law due to limitations of a qualified retirement plan. SERP costs are funded as they accrue and vested benefits are fully funded. Matching contributions to the SERP are subject to the discretion of IPCC, and Hillstar has no liability for future contributions to the SERP. Hillstar's share of the expense for the Plan and the SERP during 2011 was \$3,991.

Hillstar also provides postretirement benefits to employees based on date of retirement, age, and service requirements through a plan sponsored by IPCC. The retiree medical care plan is a contributory plan. Some employees pay the full cost of retiree medical coverage as outlined by the Plan. Hillstar paid the full cost of life insurance coverage in 2011 for retirees eligible for this coverage. IPCC has the right to modify or terminate either of these plans in the future. Hillstar has the right to terminate its participation at any time in the future.

Hillstar accrues its portion of postretirement benefits over the period the employees qualify for such benefits. At December 31, 2011, Hillstar's accumulated postretirement benefit obligation (APBO) was \$4,045 using a discount rate of 4%, of which \$4,045 was accrued. Net postretirement benefits costs for the year ended December 31, 2011, were \$140 which includes administrative cost, service cost, and interest cost.

The weighted average annual assumed rate of increase in the health care cost trend rate is 9% for 2012 and is assumed to decrease gradually to 5% by 2031 and to remain at that level thereafter. The effect of a 1% increase in the assumed health care cost trend rate for each year would increase the APBO at December 31, 2011, by \$311.

## STATUTORY DEPOSITS

The Company reported the following statutory deposits at December 31, 2011:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
For all Policyholders:		
Florida	\$ 159,927	\$ 161,200
Indiana	1,203,455	1,231,740
All Other Special Deposits:		
Georgia	39,982	40,300
South Carolina	<u>135,309</u>	<u>138,571</u>
Total Deposits	<u>\$ 1,538,673</u>	<u>\$ 1,571,811</u>

## REINSURANCE

### Inter-Company Pooling

As a member of the Group, the Company participates in the Inter-Company Pool for which IIC acts as the lead pool reinsurer.

The pooling process is comprised of three (3) steps. First, each company directly or indirectly cedes 100% of their direct and assumed business to IIC pursuant to the pooling agreement. In 2011, the Company ceded premiums totaling \$29.1 million and case loss and expense reserves totaling \$6.1 million to IIC in connection with pooling transactions.

Second, IIC then cedes excess of loss and catastrophe reinsurance to a group of unrelated open market reinsurers (external reinsurance) and various state-operated residual market reinsurance facilities. Any uncollected external reinsurance balances are ultimately shared among all pool members in proportion to each member's designated pooling percentage.

Third, in its capacity as lead pool insurer, IIC then cedes (or retrocedes) a specified percentage of the combined pool back to each participating pool member in accordance with that member's pooling percentage. At December 31, 2011, IIC retained 98.8% of the total pool and ceded 1/10<sup>th</sup> of 1% (one-tenth of one percent) to each of twelve (12) pool members as shown below.

In 2011, IIC ceded premiums totaling \$1.1 million to each participating pool member and reported total reinsurance recoverables (consisting of paid, outstanding, incurred but not reported and loss adjustment expense reserves plus unearned premiums) of \$1.0 million due from each remaining pool member identified below.

<u>Company Name</u>	<u>Percentage</u>	
	<u>2011</u>	<u>2010</u>
Infinity Insurance Company (IN)	98.8%	98.6%
Infinity Assurance Insurance Company (OH)	0.1%	0.1%
Infinity Auto Insurance Company (OH)	0.1%	0.1%
Infinity Casualty Insurance Company (OH)	0.1%	0.1%
Infinity General Insurance Company (OH) **	0.0%	0.1%
Infinity Indemnity Insurance Company (IN)	0.1%	0.1%
<b>Hillstar Insurance Company (IN)</b>	<b>0.1%</b>	<b>0.1%</b>
Infinity Preferred Insurance Company (OH)	0.1%	0.1%
Infinity Premier Insurance Company (IN)	0.1%	0.1%
Infinity Reserve Insurance Company (OH)	0.1%	0.1%
Infinity Safeguard Insurance Company (OH)	0.1%	0.1%
Infinity Security Insurance Company (IN)	0.1%	0.1%
Infinity Select Insurance Company (IN)	0.1%	0.1%
Infinity Specialty Insurance Company (OH) **	0.0%	0.1%
Infinity Standard Insurance Company (IN)	<u>0.1%</u>	<u>0.1%</u>
 Combined Group Totals	 <u>100.0%</u>	 <u>100.0%</u>

\*\* *Infinity General Insurance Company and Infinity Specialty Insurance Company were sold on December 31, 2011.*

In addition to the above listed companies, one (1) other affiliate, Infinity County Mutual Insurance Company, cedes 100% of its business to IIC but does not re-assume any share of the combined pool results. IIC in turn cedes all but a minor portion of its direct and assumed business to other pool companies where it is combined with other business in the pool.

#### External reinsurance ceded

As noted above, IIC, as lead pool reinsurer, maintains a comprehensive corporate reinsurance program designed to limit both per-risk and catastrophe exposures to acceptable limits. The primary contracts and limits placed in this regard are as follows:

- Private passenger auto excess of loss - \$900k x/s \$100k  
(Note: This contract was terminated in 2008 and is currently in runoff servicing losses only.)
- Commercial auto excess of loss - \$700k x/s \$300k
- Property (auto comprehensive) catastrophe excess of loss - \$15 million x/s \$5 million
- Contingency clash and excess of loss - \$10 million x/s \$5 million

As of December 31, 2011, these treaties are placed with reinsurers that have an AM Best financial strength rating of A- or better. They are placed on behalf of all members of the Group by IIC through national reinsurance brokers AON Benfield and Guy Carpenter & Company, LLC. The cost of each treaty is deducted from the combined pooled premium and the residual ceded to each pool member in proportion to their designated pool share.

### ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balances prepared from the Company's general ledger for the years ended December 31, 2010 and 2011, were agreed to the respective Annual Statements. The Annual Statements for the years ended December 31, 2010 and 2011, were agreed to each year's independent audit report without material exception. The Company's accounting procedures, practices, and account records were deemed satisfactory.

**HILLSTAR INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

Assets

	As of December 31, 2011			
	<u>Per Annual Statement</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
<b>Assets:</b>				
Bonds	\$ 5,327,792	\$ -	\$ 5,327,792	\$ 6,878,969
Cash, cash equivalents, and short-term investments	(1,488,030)	-	(1,488,030)	(815,588)
<b>Subtotals, cash and invested assets</b>	<b>3,839,762</b>	<b>-</b>	<b>3,839,762</b>	<b>6,063,381</b>
Investment income due and accrued	47,317	-	47,317	66,364
<b>Premiums and considerations:</b>				
Uncollected premiums and agents' balances in course of collection	94,526	-	94,526	63,706
Current federal and foreign income tax recoverable and interest thereon	-	-	-	930
Net deferred tax asset	42,525	-	42,525	18,817
Receivables from parent, subsidiaries and affiliates	1,516,803	-	1,516,803	848,107
<b>Total Assets</b>	<b>\$ 5,540,933</b>	<b>\$ -</b>	<b>\$ 5,540,933</b>	<b>\$ 7,061,305</b>



# HILLSTAR INSURANCE COMPANY

## FINANCIAL STATEMENTS

### Liabilities, Surplus and Other Funds

	As of December 31, 2011			
	<u>Per Annual Statement</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
<b>Liabilities:</b>				
Losses	\$ 345,208	\$ -	\$ 345,208	\$ 328,201
Reinsurance payable on paid losses and loss adjustment expenses	67,517	-	67,517	50,732
Loss adjustment expenses	135,375	-	135,375	132,880
Commissions payable, contingent commissions and other similar charges	3,051	-	3,051	1,356
Other expenses	21,356	-	21,356	18,836
Taxes, licenses and fees	4,299	-	4,299	4,588
Current federal and foreign income taxes	29,204	-	29,204	-
Unearned premiums	472,397	-	472,397	415,481
Aggregate write-ins for liabilities	150	-	150	246
<b>Total liabilities</b>	<u>1,078,557</u>	<u>-</u>	<u>1,078,557</u>	<u>952,320</u>
Aggregate write-ins for special surplus funds	1,729	-	1,729	-
Common capital stock	2,375,000	-	2,375,000	2,375,000
Gross paid in and contributed surplus	1,525,000	-	1,525,000	2,625,000
Unassigned funds (surplus)	560,647	-	560,647	1,108,985
<b>Surplus as regards policyholders</b>	<u>4,462,376</u>	<u>-</u>	<u>4,462,376</u>	<u>6,108,985</u>
<b>Totals</b>	<u>\$ 5,540,933</u>	<u>\$ -</u>	<u>\$ 5,540,933</u>	<u>\$ 7,061,305</u>

**HILLSTAR INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**Statement of Income**

	As of December 31, 2011			December 31, Prior Year
	Per Annual Statement	Examination Adjustments	Per Examination	
Premiums earned	\$ 1,019,060	\$ -	\$ 1,019,060	\$ 905,919
DEDUCTIONS:				
Losses incurred	628,584	-	628,584	500,995
Loss adjustment expenses incurred	139,877	-	139,877	105,621
Other underwriting expenses incurred	302,651	-	302,651	273,024
Total underwriting deductions	<u>1,071,112</u>	<u>-</u>	<u>1,071,112</u>	<u>879,640</u>
Net underwriting gain (loss)	<u>(52,052)</u>	<u>-</u>	<u>(52,052)</u>	<u>26,279</u>
Net investment income earned	133,858	-	133,858	157,556
Net realized capital gains (losses) less capital gains tax	(9,659)	-	(9,659)	226
Net investment gain (loss)	<u>124,199</u>	<u>-</u>	<u>124,199</u>	<u>157,782</u>
Net gain (loss) from agents' or premium balances charged off	(19,974)	-	(19,974)	(10,415)
Finance and service charges not included in premiums	61,993	-	61,993	53,587
Aggregate write-ins for miscellaneous income	20,061	-	20,061	16,631
Total other income	<u>62,080</u>	<u>-</u>	<u>62,080</u>	<u>59,803</u>
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	134,227	-	134,227	243,864
Federal and foreign income taxes incurred	54,544	-	54,544	87,276
Net income	<u>\$ 79,683</u>	<u>\$ -</u>	<u>\$ 79,683</u>	<u>\$ 156,588</u>

**HILLSTAR INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**Capital and Surplus Reconciliation**

	<u>12/31/2011</u>	<u>12/31/2010</u>	<u>12/31/2009</u>	<u>12/31/2008</u>	<u>12/31/2007</u>
Capital and surplus, Dec 31, prior year	\$ 6,108,985	\$ 5,950,458	\$ 5,744,582	\$ 5,517,280	\$ 5,291,269
Net income	79,683	156,588	183,371	237,359	243,171
Change in net deferred income tax	24,242	1,939	22,505	(10,057)	(17,960)
Change in nonadmitted assets	(534)	-	-	-	800
Surplus adjustments:					
Paid in	(1,100,000)	-	-	-	-
Dividends to stockholders	(650,000)	-	-	-	-
Change in surplus as regards policyholders for the year	<u>(1,646,609)</u>	<u>158,527</u>	<u>205,876</u>	<u>227,302</u>	<u>226,011</u>
Capital and surplus, Dec 31, current year	<u>\$ 4,462,376</u>	<u>\$ 6,108,985</u>	<u>\$ 5,950,458</u>	<u>\$ 5,744,582</u>	<u>\$ 5,517,280</u>

### **COMMENTS ON THE FINANCIAL STATEMENTS**

There were no recommended adjustments to the Financial Statements as of December 31, 2011, based on the results of this examination.

### **SUBSEQUENT EVENTS**

There were no events subsequent to the examination date and prior to the completion of fieldwork that were considered material events requiring disclosure in this Report of Examination.

**AFFIDAVIT**

This is to certify that the undersigned is a duly qualified Examiner-in-Charge appointed by the Indiana Department of Insurance and that he, in coordination with staff assistance from Noble Consulting Services, Inc. and actuarial assistance from Merlino & Associates, Inc., hereinafter collectively referred to as the "Examiners", performed an examination of Hillstar Insurance Company, as of December 31, 2011.

The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

This examination was performed in accordance with those procedures required by the NAIC Financial Condition Examiners Handbook and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standards and no audit opinion is expressed on the financial statements contained in this report.

The attached report of examination is a true and complete report of condition of Hillstar Insurance Company as of December 31, 2011, as determined by the undersigned.

\_\_\_\_\_  
Jerry Ehlers, CFE  
Noble Consulting Services, Inc.

State of: Indiana  
County of: Marion

On this \_\_\_\_\_ day of \_\_\_\_\_, 2013, before me personally appeared, Jerry Ehlers, to sign this document.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal in said County and State, the day and year last above written.

My commission expires: \_\_\_\_\_  
Notary Public

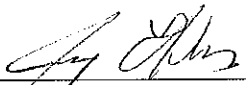
**AFFIDAVIT**

This is to certify that the undersigned is a duly qualified Examiner-in-Charge appointed by the Indiana Department of Insurance and that he, in coordination with staff assistance from Noble Consulting Services, Inc. and actuarial assistance from Merlinos & Associates, Inc., hereinafter collectively referred to as the "Examiners", performed an examination of Hillstar Insurance Company, as of December 31, 2011.

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\_\_\_\_\_  
Jerry Ehlers, CFE  
Noble Consulting Services, Inc.

State of: Indiana  
County of: Marion

On this 30 day of November, 2012, before me personally appeared, Jerry Ehlers, to sign this document.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notorial seal in said County and State, the day and year last above written.

My commission expires:  \_\_\_\_\_  
Notary Public