

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

IN THE MATTER OF:)
)
Merastar Insurance Company)
334 North Senate Avenue)
Indianapolis, Indiana 46202)

Examination of Merastar 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 **Merastar 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 **Merastar 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.

February 25, 2011
Date

Cynthia D. Donovan
Cynthia D. Donovan
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 7005 3110 0002 4443 7786

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

IN THE MATTER OF:)
)
Merastar Insurance Company)
334 North Senate Avenue)
Indianapolis, Indiana 46202)

Examination of Merastar Insurance Company

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the **Merastar Insurance Company** (hereinafter "Company") for the time period January 1, 2005 through December 31, 2009.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on November 18, 2010.

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 January 26, 2011 and was received by the Company on January 31, 2011.

On February 8, 2011, 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, 2009.
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 25th day of February, 2011.


Stephen W. Robertson
Insurance Commissioner

STATE OF INDIANA
Department of Insurance
REPORT OF EXAMINATION
OF
MERASTAR INSURANCE COMPANY
NAIC COMPANY CODE 31968

As of
December 31, 2009

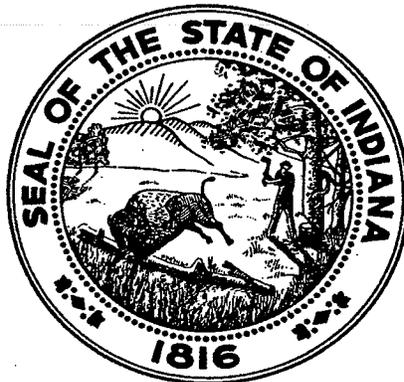


TABLE OF CONTENTS

SALUTATION.....	1
SCOPE OF EXAMINATION	2
HISTORY.....	2
CAPITAL AND SURPLUS.....	3
Common Stock.....	3
Dividends.....	3
TERRITORY AND PLAN OF OPERATION.....	3
GROWTH OF THE COMPANY.....	3
MANAGEMENT AND CONTROL.....	4
Directors.....	4
Officers.....	5
Corporate Governance.....	5
CONFLICT OF INTEREST.....	5
OATH OF OFFICE.....	5
CORPORATE RECORDS.....	6
AFFILIATED COMPANIES.....	6
Organizational Structure.....	6
ORGANIZATIONAL CHART.....	7
INTERCOMPANY AGREEMENTS.....	9
FIDELITY BOND AND OTHER INSURANCE.....	10
STATUTORY AND SPECIAL DEPOSITS.....	10
REINSURANCE.....	10
Assumed Reinsurance.....	10
Ceded Reinsurance.....	10
RESERVES.....	10
ACCOUNTS AND RECORDS.....	11
FINANCIAL STATEMENTS.....	12
Assets.....	12
Liabilities, Surplus and Other Funds.....	13
Statement of Income.....	14
Capital and Surplus Account.....	15
COMMENTS ON THE FINANCIAL STATEMENTS.....	16
OTHER SIGNIFICANT FINDINGS.....	16
SUBSEQUENT EVENTS.....	16
MANAGEMENT REPRESENTATION.....	16
AFFIDAVIT.....	17



STATE OF INDIANA

MITCHELL E. DANIELS, JR., Governor

IDOI

INDIANA DEPARTMENT OF INSURANCE

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

Stephen W. Robertson, Commissioner

November 19, 2010

Honorable Alfred W. Gross, Chairman
Financial Condition (E) Committee, NAIC
Virginia Bureau of Insurance
State Corporation Commission
PO Box 1157
Richmond, Virginia 23219

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

Dear Commissioners,

Pursuant to the authority vested in Appointment Number 3618, an examination has been made of the affairs and financial condition of:

**Merastar Insurance Company
The Emelie Building
334 N. Senate Ave.
Indianapolis, IN 46202**

hereinafter referred to as the "Company", an Indiana domestic, stock, property and casualty insurance company. The examination was conducted at the offices of the Company in Jacksonville, Florida, and Chattanooga, Tennessee.

The Report of Examination, reflecting the status of the Company as of December 31, 2009, is hereby respectfully submitted.

ACCREDITED BY THE
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES
(317) 232-2413

COMPANY COMPLIANCE
(317) 233-0697

CONSUMER SERVICES
(317) 232-2395
In-State 1-800-622-4461

EXAMINATIONS / FINANCIAL SERVICES
(317) 232-2390

MEDICAL MALPRACTICE
(317) 232-2402

SECURITIES / COMPANY RECORDS
(317) 232-1991

SCOPE OF EXAMINATION

The Company was last examined by representatives of the Tennessee Department of Commerce and Insurance as of December 31, 2004. The present risk-focused examination covered the period from January 1, 2005, through December 31, 2009, and was conducted by Huff, Thomas & Company (HuffThomas), representing the Indiana Department of Insurance (IDOI), and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

This was a coordinated risk-focused examination in which the State of Illinois was designated as the lead state. Examiners from the states of California, Illinois, Indiana and Wisconsin participated in the examination which included the following affiliated companies:

- Alpha Property and Casualty Insurance Company (WI)
- Financial Indemnity Company (CA)
- Kemper Independence Insurance Company (IL)
- Response Indemnity Company of California (CA)
- Response Insurance Company (IL)
- Response Worldwide Direct Auto Insurance Company (IL)
- Response Worldwide Insurance Company (IL)
- Unitrin Direct Insurance Company (IL)
- Unitrin Direct Property & Casualty Company (IL)
- Unitrin Safeguard Insurance Company (WI)
- Valley Insurance Company (CA)
- Warner Insurance Company (IL)

In conducting the risk-focused examination, the IDOI, by its representatives, relied upon the independent audit reports and opinions contained therein rendered by Deloitte & Touche, LLP, for each year of the examination period. Such reports were prepared on a statutory basis and reconciled to the financial statements contained in the respective Annual Statements.

Robert Gardner, FCAS, MAAA, of INS Consultants, Inc., a consulting actuary, conducted a review of the Company's loss reserves and loss adjustment expense reserves as of December 31, 2009.

The risk-focused examination was conducted in accordance with procedures and guidelines prescribed by the National Association of Insurance Commissioners (NAIC) for the purpose of determining the Company's financial condition. Examination procedures included the verification and evaluation of assets, determination of liabilities and review of income and disbursement items, minutes, corporate documents, policy and claim files, and other records to the extent deemed necessary.

HISTORY

The Company was formed under Tennessee law on August 14, 1974, and commenced business on November 1, 1974, as Provident General Insurance Company, a capital stock company. The current name was adopted on August 9, 1990.

On November 3, 2003, a stock purchase agreement was executed in which Prudential Financial, Inc., agreed to sell its interest in Merastar Corporation, then the Company's parent, to Haverford Industries, Ltd. The transaction was approved by the Tennessee Department of Commerce and Insurance and it became effective March 1, 2004. Following the acquisition, Merastar Industries, Ltd., merged with and into Merastar Corporation with Merastar Industries, Ltd., being the surviving corporation. As a result, Merastar Insurance Company became a direct wholly owned subsidiary of Merastar Industries, Ltd.

Effective June 21, 2006, the Company redomesticated to the State of Indiana from Tennessee. Effective June 29, 2007, Trinity Universal Insurance Company (Trinity) completed acquisition of the Company and its parent. Trinity is a wholly owned subsidiary of Unitrin, Inc., the ultimate parent. Unitrin, Inc. is organized into five (5) business segments of which three (3) are for Property and Casualty Insurance. The Company is organizationally located within the "Unitrin Direct" business segment.

CAPITAL AND SURPLUS

Common Stock

As of December 31, 2009, the Company had 30,000 authorized shares of common stock, all of which were issued and outstanding. The Company's common stock has a par value of \$100 per share.

Dividends

In 2007 the Company declared and paid an extraordinary distribution of \$15,000,000 to its immediate parent, Merastar Industries, Ltd., which in turn distributed the funds to Trinity.

TERRITORY AND PLAN OF OPERATION

The Company is licensed or accredited in all states except Massachusetts and Hawaii. In 2009 the Company wrote business in all of those locations except Alaska. The Company does not conduct business internationally. Assumed reinsurance was negligible during the examination period, and it is described briefly in the Reinsurance section of this report.

The Company's sales are through employer sponsored voluntary benefit accounts. The Company utilizes its own sales and service staff as well as independent brokers. The marketing agents/brokers affairs and commissions payments activities are centered in Chattanooga, Tennessee, which is considered the operational site.

The Company reported gross direct written premiums of \$41,031,365 for 2009, consisting primarily of Private Passenger Auto Liability (43.64% Other and 4.70% No Fault Personal Injury Protection), Private Passenger Auto Physical Damage (34.01%) and Homeowners Multiple Peril (16.87%).

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 as regards policyholders</u>	<u>Premiums Earned</u>	<u>Net Income (Loss)</u>
2009	\$ 44,100,943	\$ 29,900,217	\$ 14,200,726	\$ -	\$ 512,601
2008	28,442,714	14,157,188	14,285,526	-	597,595
2007	24,840,658	11,479,278	13,361,380	25,537,461	7,871,970
2006	83,733,234	59,513,062	24,220,172	20,794,431	(517,432)
2005	91,389,110	69,282,022	22,107,088	21,924,822	1,967,760

The increase in admitted assets and in liabilities in 2009 is the result of the transfer of employees from affiliated insurers to the Company effective January 1, 2009. Assets were transferred to cover the corresponding increase in accrued employer liabilities. The drop in admitted assets and in liabilities in 2007 from 2006 reflects the change in reinsurance ceding described below. The Company has not carried liabilities for losses and loss adjustment expenses on its financial statements since 2006 due to the 100% quota share reinsurance agreement with Trinity.

Premiums earned in 2005 and 2006 were derived from premiums written net of 60% ceding under a reinsurance quota share agreement with a non-affiliate. The agreement was commuted, effective January 1, 2007, and the Company retained full risk of loss until June 29, 2007, when it began ceding 100% to Trinity. The increase in premiums earned in 2007 reflects an average of approximately 50% ceding over the course of the year (0% until approximate mid-year and 100% thereafter). Because of the 100% ceding in 2008 and 2009, statements of income for those years do not show any premiums earned.

The increased income in 2007 shows favorable underwriting results in the first half of 2007 when the company retained all risk of loss. In 2008 and 2009, net income resulted only from investments. The decrease in capital and surplus in 2007 is due to the \$15,000,000 dividend. The decrease was offset in part by the strong net income but furthered by negative adjustments for unrealized capital losses and net deferred income tax.

MANAGEMENT AND CONTROL

Directors

The Company's Bylaws state that the Board of Directors shall consist of no fewer than seven (7) or more than fifteen (15) members and that the exact number of Directors shall be determined from time to time by the Board of Directors. The sole shareholder elects the Board of Directors at the annual meeting. The following is a listing of persons serving as Directors at December 31, 2009:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
John M. Boschelli Geneva, IL	Vice President, Unitrin Services Company
Timothy D. Bruns Chattanooga, TN	President and CEO, Merastar Insurance Company
Christopher L. Moses Chicago, IL	Vice President and Treasurer, Unitrin Services Company
Richard Roeske Naperville, IL 60565	Vice President and Chief Accounting Officer, Unitrin, Inc.
Dennis J. Sandelski Valparaiso, IN	Tax Director, Unitrin Services Company
James A. Schulte Jacksonville, FL	Chairman of the Board of Directors, Merastar Insurance Company
Francis J. Sodaro, Park Ridge, IL	Vice President, Planning & Analysis, Unitrin Services Company

Officers

The Company's Bylaws state that the principal officers shall be appointed annually by the Board of Directors at its annual meeting or by a committee of the Board. Per the Bylaws, the principal officers shall be a Chairman of the Board, a President, and one or more Vice Presidents as the Board shall determine from time to time, a Secretary, and a Treasurer. The following is a list of principal officers and their positions as of December 31, 2009.

<u>Name</u>	<u>Title</u>
Timothy D. Bruns	President and Chief Executive Officer
David M. Elkins	Senior Vice President - Product Management, Chief Actuary
Scott D. Harris	Vice President Corporate Claims
Margaret L. O'Hara	Vice President - Corporate Counsel, Secretary
Clark H. Roberts	Vice President - Treasurer
James A. Schulte	Chairman of the Board of Directors

Corporate Governance

The Board of Directors appointed an Audit Committee of the Company, said committee being the Audit Committee of Unitrin, Inc. The Board of Directors appointed as independent auditor a firm recommended by the Audit Committee of the Company.

Based on a review of biographical information and through management interviews it was determined the Company's principal officers are adequately qualified and have the experience necessary to administer the operations and affairs of the Company. The Company's principal officers have provided a stable and conservative management approach in conducting the Company's operations.

It was determined, overall, the Company maintains an effective corporate governance structure. The Board and principal officers set an appropriate "tone at the top" with a clear commitment to promote integrity and ethical behavior throughout the Company.

CONFLICT OF INTEREST

Directors, officers and certain employees are required to annually complete a questionnaire which discloses conflicts of interest. It was determined that all officers and Directors serving during the examination period completed the required conflict of interest questionnaire. No exceptions were noted.

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 corporation and will not knowingly violate any of the laws applicable to such corporation. It was noted during the examination the board members did subscribe to an Oath of Office.

CORPORATE RECORDS

The Shareholder, Board of Directors and Audit Committee meeting minutes were reviewed for the period under examination and through the fieldwork date. Significant actions taken during each meeting were noted. It was determined that the annual meetings and other regular Board and committee meetings were held in accordance with the Company's Bylaws.

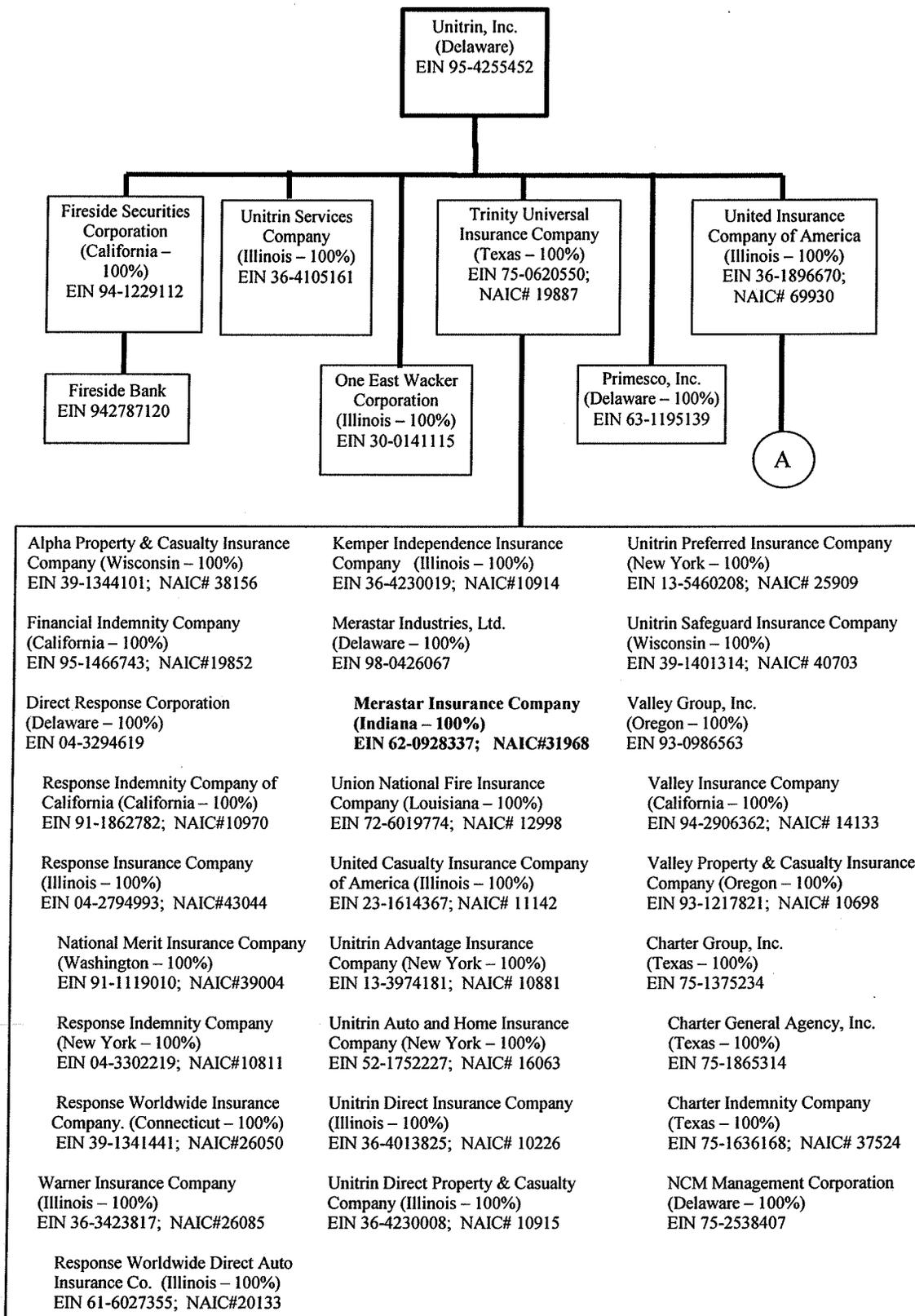
AFFILIATED COMPANIES

Organizational Structure

The Ultimate Controlling Person is Unitrin, Inc., a Delaware corporation which principally operates as a holding company. Shares of Unitrin, Inc., stock are publicly traded. Unitrin Inc. is the 100% owner of Trinity Universal Insurance Company (Trinity), which wholly owns directly or through their immediate parents a group of insurance subsidiaries. Trinity reinsures the insurance subsidiaries under 100% quota share agreements.

The Company's immediate parent is Merastar Industries, Inc., which is wholly owned by Trinity. The following organizational chart depicts composition of the group of companies:

ORGANIZATIONAL CHART



ORGANIZATIONAL CHART (continued)

A

Mutual Savings Life Insurance Company
(Alabama – 100%)
EIN 63-0148960; NAIC# 66397

Mutual Savings Fire Insurance Company
(Alabama – 100%)
EIN 63-0599704; NAIC# 31178

Reserve National Insurance Company
(Oklahoma – 100%)
EIN 73-0661453; NAIC# 68462

The Reliable Life Insurance Company
(Missouri – 100%)
EIN 43-0476110; NAIC# 68357

Family Security Funerals Company
(Texas – 100%)
EIN 43-1511864

Union National Life Insurance Company
(Louisiana – 100%)
EIN 72-0340280; NAIC# 69779

INTERCOMPANY AGREEMENTS

The following affiliated agreements and transactions were disclosed as a part of the Form B Holding Company Registration Statement and were filed and not disapproved with IDOI in accordance with IC 27-1-23-4:

General Services Agreement

The Company has a General Services agreement with Unitrin Services Company (USC), a direct subsidiary of Unitrin, Inc., pursuant to which USC provides various services to the Company. Expenses associated with such services are prorated to the Company according to its percentage of the basis of allocation of all affiliates receiving services from USC. The agreement specifies bases of allocation according to type of service.

Information Technology (IT) Services Agreement

Unitrin Direct Property & Casualty Company (UDPC) provides to the Company software and consulting services specific to property and casualty business functions such as claims processing, policy administration, and billing. Merastar is one of various affiliates under individual agreements with UDPC. The agreement provides for UDPC to bill for direct and appropriately allocated shared costs.

Computer Services Agreement

Unitrin Services Company (USC) provides to the Company computer data processing and related services at its data centers or at USC's discretion at the Company's facilities. It also provides consulting services and assistance such as for acquisition, installation, and maintenance of hardware and generic-type software, systems security, and disaster recovery capabilities. Merastar is one of various affiliates under individual agreements with USC. There is provision for settlement of direct and appropriately allocated shared costs.

General Services Agreements

The Company has individual General Services Agreements with various insurer affiliates whereby it administers their new and renewal property and casualty lines insurance business. Under the agreements, the Company has the authority for actions that involve 1) marketing, 2) underwriting, 3) claims processing including defense and loss control actions and reinsurance recovery, 4) providing facilities, supplies, and staffing with respect to policies, 5) payment and allocation of expenses, and 6) accounting and reporting.

Tax Allocation Agreement

The Company is party to a tax allocation agreement between the ultimate parent, Unitrin, Inc., and its affiliates under which the parent shall file a consolidated federal income tax return on behalf of itself and affiliates. The agreement provides, in part, for affiliates to pay to/or receive from the parent the amount of regular income tax they would pay to/or be refunded by the IRS as if they were filing separate FIT returns and were not part of the consolidated group.

FIDELITY BOND AND OTHER INSURANCE

The Company protects itself against loss from any fraudulent or dishonest acts by employees through a fidelity bond that insures against losses up to \$25,000,000 with a \$750,000 deductible. The bond meets the suggested minimum coverage prescribed by the NAIC. Amounts take into consideration that most of the affiliated insurers do not have employees of their own and are instead serviced by the Company's employees.

All other major insurance coverages were determined to be adequate as of December 31, 2009.

STATUTORY AND SPECIAL DEPOSITS

The Company reported the following statutory and special deposits primarily comprised of U.S. Treasury Notes as of December 31, 2009:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
Georgia	\$ 248,594	\$ 268,984
Indiana	2,416,629	2,401,173
Louisiana	100,264	103,336
New Mexico	379,944	372,436
North Carolina	420,434	444,203
South Carolina	183,844	180,211
Virginia	251,254	246,288
Total Deposits	<u>\$ 4,000,963</u>	<u>\$ 4,016,631</u>

REINSURANCE

Assumed Reinsurance

The Company does not participate in pools or associations of reinsurers. During the examination period the only premiums for assumed reinsurance totaled \$99,485 received under a 100% quota share agreement for policies written by the reinsured through a specified general agent.

Ceded Reinsurance

The Company's gross written premiums of \$41,031,365 in 2009 were 100% ceded. Other than certain state pools involving, approximately 1% of written premiums, gross written premium was ceded under a 100% quota share agreement with Trinity. Trinity in turn ceded reinsurance under an excess of loss agreement with a group of reinsurers represented by an intermediary.

RESERVES

David M. Elkins, FCAS, MAAA, has served as the Company's Reserving Actuary during the last three years of the examination period. Per a resolution of the Board of Directors on September 12, 2007, Mr. Elkins would serve as the Company's Chief Actuary until further action by the Board, and in that capacity

would perform such duties associated with the office including preparation of the Statement of Actuarial Opinion relating to loss and loss adjustment expense and related actuarial items. The actuarial opinion for the year ended December 31, 2006, was prepared by Kelley S. McKeethan, FCAS, MAAA, and for the year ended December 31, 2005, it was prepared by W. Paul Roland, FCAS, MAAA. Like Mr. Elkins, they were Company Officers and each was appointed by the Board of Directors to render the opinion.

During the examination, it was determined by the consulting actuary, Robert Gardner, FCAS, MAAA, that the material actuarial items in the Annual Statement of the Company are materially correct and fairly stated in accordance with statutory accounting practices prescribed or permitted by the Commissioner of Insurance of the State of Indiana.

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 year ended December 31, 2009, were agreed to the Annual Statement without exception. The Annual Statement for the years ended December 31, 2006, and 2005 were agreed, with no exceptions noted, to those years' independent audit reports. For the years ended December 31, 2007, through 2009, the Company was included in a combined independent audit report of Trinity and certain subsidiaries and affiliates. The Annual Statements for those years were agreed, with no exceptions noted, to Company specific information in supplemental schedules to the combined reports.

MERASTAR INSURANCE COMPANY

FINANCIAL STATEMENTS

Assets

As of December 31, 2009

	<u>Per Annual Statement</u>	<u>Exam Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
Assets:				
Bonds (Schedule D)	\$ 15,807,193	\$ -	\$ 15,807,193	\$ 12,003,856
Cash, cash equivalents and short term investments	19,977,360	-	19,977,360	7,154,104
Investment income due and accrued	222,871	-	222,871	194,371
Uncollected premiums and agents balances in the course of collection	3,535,668	-	3,535,668	3,683,634
Deferred premiums, agents balances and installments booked but deferred	4,497,534	-	4,497,534	5,019,644
Amounts recoverable from reinsurers	17,381	-	17,381	86,146
Other amounts receivable under reinsurance contracts	9,996	-	9,996	-
Current federal and foreign income tax recoverable	28,659	-	28,659	28,659
Net deferred tax asset	-	-	-	128,616
Guarantee funds receivable or on deposit	3,000	-	3,000	6,410
EDP equipment and software		-		14,265
Aggregate write-ins for other than invested assets	1,280	-	1,280	123,008
Total Assets	\$ 44,100,943	\$ -	\$ 44,100,943	\$ 28,442,714

MERASTAR INSURANCE COMPANY

FINANCIAL STATEMENTS

Liabilities, Surplus and Other Funds

	As of December 31, 2009			December 31, Prior Year
	Per Annual Statement	Exam Adjustments	Per Examination	
Liabilities:				
Reinsurance payable on paid losses and loss adjustment expenses	\$ 1,780	\$ -	\$ 1,780	\$ -
Commissions payable	2,734	-	2,734	1,266
Other expenses	16,566,479	-	16,566,479	357,670
Taxes, licenses and fees	477,354	-	477,354	350,955
Ceded reinsurance premiums payable	8,061,798	-	8,061,798	8,666,758
Amounts withheld or retained by company	671,206	-	671,206	46,647
Payable to parent, subsidiaries, and affiliates	3,755,615	-	3,755,615	4,496,849
Aggregate write-ins for liabilities	363,250	-	363,250	237,043
Total Liabilities	\$ 29,900,217	\$ -	\$ 29,900,217	\$ 14,157,188
Common capital stock	\$ 3,000,000	\$ -	\$ 3,000,000	\$ 3,000,000
Gross paid in and contributed surplus	48,295,592	-	48,295,592	48,295,592
Unassigned funds (surplus)	(37,094,867)	-	(37,094,867)	(37,010,067)
Surplus as regards policyholders	\$ 14,200,726	\$ -	\$ 14,200,726	\$ 14,285,526
Total liabilities, capital and surplus	\$ 44,100,943	\$ -	\$ 44,100,943	\$ 28,442,714

MERASTAR INSURANCE COMPANY

FINANCIAL STATEMENTS

Statement of Income

As of December 31, 2009

	Per Annual Statement	Exam Adjustments	Per Examination	December 31, Prior Year
Net investment income	\$ 513,060	\$ -	\$ 513,060	\$ 547,871
Net realized capital gains or (losses)	(459)	-	(459)	(1,695)
Net investment gain	\$ 512,601	\$ -	\$ 512,601	\$ 546,176
Other income (loss)	\$ -	\$ -	\$ -	\$ (1,643)
Total other income	\$ -	\$ -	\$ -	\$ (1,643)
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	\$ 512,601	\$ -	\$ 512,601	\$ 544,532
Dividends to policyholders	-	-	-	-
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	\$ 512,601	\$ -	\$ 512,601	\$ 544,532
Federal and foreign income taxes incurred	-	-	-	(53,063)
Net Income	\$ 512,601	\$ -	\$ 512,601	\$ 597,595

MERASTAR INSURANCE COMPANY

FINANCIAL STATEMENTS

Capital and Surplus Account

	As of December 31, 2009			
	Per Annual Statement	Exam Adjustments	Per Examination	December 31, Prior Year
Capital and Surplus Account:				
Surplus as regards policyholders, December 31 prior year	\$ 14,285,526	\$ -	\$ 14,285,526	\$ 13,361,380
Net income	\$ 512,601	\$ -	\$ 512,601	\$ 597,595
Change in net deferred income tax	790,949	-	790,949	183,183
Change in nonadmitted assets	528,575	-	528,575	143,368
Cumulative effect of changes in accounting principles	(1,916,925)	-	(1,916,925)	-
Change in surplus as regards policyholders for the year	\$ (84,800)	\$ -	\$ (84,800)	\$ 924,146
Surplus as regards policyholders, December 31 current year	\$ 14,200,726	\$ -	\$ 14,200,726	\$ 14,285,526

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to surplus as of December 31, 2009, based on the results of this examination.

OTHER SIGNIFICANT FINDINGS

There were no significant findings made as a result of this examination. In addition, the Company has substantially complied with the comments made in the prior report of examination.

SUBSEQUENT EVENTS

The Company redomesticated to Illinois, effective September 30, 2010. Other than the aforementioned change, there were not any events or transactions occurring after the balance sheet date that have an important bearing on status of the Company as described in this report.

MANAGEMENT REPRESENTATION

In support of contingencies and accuracy of information provided during the course of the examination, the Examiners obtained a management representation letter in the standard NAIC format. This letter was executed by key financial personnel of the Company and provided to the IDOI.

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 Huff, Thomas & Company, hereinafter collectively referred to as the "Examiners" performed an examination of the **Merastar Insurance Company** as of **December 31, 2009**.

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

The examination was performed in accordance with those procedures required by the 2010 NAIC Financial Condition Examiner's 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 standard 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 the **Merastar Insurance Company** as of **December 31, 2009** as determined by the undersigned.

Neeraj Gupta
Neeraj Gupta, CFE
Huff, Thomas & Company

State of: California
County of: Orange

On this 14th day of December 2010, before me personally appeared, Neeraj Gupta, 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 Dec. 4, 2012

N. Towner

Notary Public

