

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

IN THE MATTER OF: )  
 )  
Lone Star National Insurance Company )  
1111 East 54<sup>th</sup> Street, Suite 129 )  
Indianapolis, IN 46220 )

Examination of: **Lone Star National 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 Lone Star National Insurance Company, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on April 13, 2017, 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 Lone Star National 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.

June 1, 2017  
Date

  
Roy Eft  
Chief Financial Examiner

**CERTIFIED MAIL NUMBER: 7016 2070 0001 1479 8636**

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Lone Star National Insurance Company )  
1111 East 54<sup>th</sup> Street, Suite 129 )  
Indianapolis, IN 46220 )

Examination of: **Lone Star National Insurance Company**

### **FINDINGS AND FINAL ORDER**

The Indiana Department of Insurance conducted an examination into the affairs of the Lone Star National Insurance Company (hereinafter “Company”) for the time period January 1, 2012 through December 31, 2015.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter “Commissioner”) by the Examiner on December 17, 2016.

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 April 13, 2017 and was received by the Company on April 20, 2017.

The Company did not file any objections.

NOW THEREFORE, based on the Verified Report of Examination, I hereby make the following **FINDINGS**:

1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of the Lone Star National Insurance Company as of December 31, 2015.
2. That the Examiner’s Recommendations are reasonable and necessary in order for the Lone Star National Insurance Company to comply with the 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, 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. 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 this 1 day of  
June, 2017.



Stephen W. Robertson  
Insurance Commissioner  
Indiana Department of Insurance

ABOUT AFFIRMATIONS

The following pages for affirmations need to be signed by each Board Member and returned to the Indiana Department of Insurance within thirty (30) days in accordance with I.C. §27-1-3.1-12(b).

If your affirmations list individuals that are no longer on your Board of Directors, you may simply retype the form on plain white paper with the correct names and a line to the right for signature. If the names are misspelled, you may do the same, simply re-type the corrected form with a line to the right for signature.

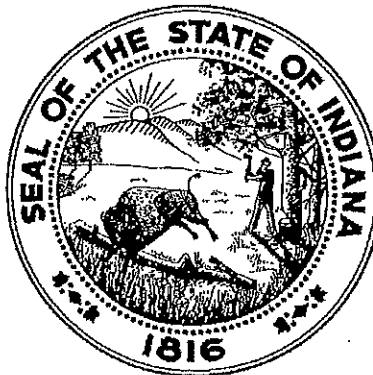
Should you have any questions or difficulties with these forms or you require additional time past the thirty (30) day requirement, please do not hesitate to contact this department at (317) 232-2390.

A large, stylized handwritten signature in black ink, appearing to read "Michael Whelan".A small, faint handwritten mark or signature in the lower right quadrant of the page.

**STATE OF INDIANA**  
**Department of Insurance**  
**REPORT OF EXAMINATION**  
**OF**  
**LONE STAR NATIONAL**  
**INSURANCE COMPANY**  
NAIC Co. CODE 11087  
NAIC GROUP CODE 0246

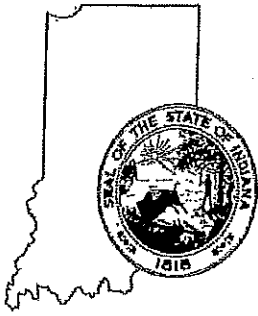
As of

December 31, 2015



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# STATE OF INDIANA

# IDOI

ERIC HOLCOMB, Governor

## 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

December 17, 2016

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 3887, an examination has been made of the affairs and financial condition of:

**Lone Star National Insurance Company**  
**1111 East 54<sup>th</sup> Street, Suite 129**  
**Indianapolis, Indiana 46220**

hereinafter referred to as the "Company", or "LSN", an Indiana domestic stock, property and casualty insurance company. The examination was conducted at the corporate offices of the Pennsylvania Lumbermens Mutual Insurance Company in Philadelphia, Pennsylvania.

The Report of Examination, reflecting the status of the Company as of December 31, 2015, 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  
1-800-622-4461

EXAMINATIONS/FINANCIAL SERVICES  
(317) 232-2390

MEDICAL MALPRACTICE  
(317) 232-2402

COMPANY RECORDS  
(317) 232-5692

STATE HEALTH INSURANCE PROGRAM  
1-800-332-4674

## SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI) as of the period ending December 31, 2011. The present risk-focused examination was conducted by Noble Consulting Services, Inc., and covered the period from January 1, 2012 through December 31, 2015, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The examination was conducted 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.

The examination of the affiliated Pennsylvania domestic insurance company Pennsylvania Lumbermens Mutual Insurance Company (PLM) was called by the Pennsylvania Department of Insurance (PDOI) in accordance with the Handbook guidelines, through the NAIC's Financial Examination Electronic Tracking System. The PDOI served as the lead state on the examination, and the INDOI served as a participant.

The PDOI staff provided all actuarial services throughout the examination and conducted a review of the Company's actuarial related risks as of December 31, 2015.

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

## HISTORY

LSN was incorporated in the state of Illinois in March 2001. The Company was organized and funded by its parent, Indiana Lumbermens Mutual Insurance Company (ILM), a mutual property and casualty insurance company domiciled in the state of Indiana. On June 9, 2006, LSN transferred its state of domicile from Illinois to Indiana. LSN operates in conjunction with ILM, another wholly-owned insurer, National Building Material Assurance Company, and the Allied Building Material Agency to form the Indiana Lumbermens Mutual Insurance Group (ILM Group). ILM formed this subsidiary to enable the Group to expand its existing product offerings by allowing multi-tiered rating programs and expanding its geographical territory to transact business.

On November 1, 2013, the ILM Group entered into an affiliation arrangement with PLM.

## CAPITAL AND SURPLUS

The Company has 1,000,000 shares authorized, with 190,000 of these shares issued and outstanding. All shares are \$10 par value common shares. ILM contributed \$150,000 in paid-in capital and \$66,949 in paid-in surplus to LSN in 2015 in exchange for 15,000 additional shares of common stock. This contribution was made in accordance with Texas House Bill 1476, which increased the minimum capital and surplus requirements for property and casualty companies conducting business in the state of Texas. These contributions will continue annually for ten (10) years, four (4) years remain, ending December 31, 2019. ILM is the Company's sole shareholder. No dividends were paid to the shareholder during the examination period.



## TERRITORY AND PLAN OF OPERATION

As of December 31, 2015 the Company is licensed in six (6) states; Illinois, Indiana, Kansas, Nebraska, Tennessee, and Texas. LSN is primarily involved in the sale of various commercial lines of property and casualty insurance to the forest products and building material industries. It wrote commercial automobile liability in all years under examination. The Company wrote other liability and products liability beginning in 2011. LSN, along with the rest of the ILM Group, ceased writing workers' compensation insurance in 2009 and policies are in runoff. The Company cedes 99.5% of premium writings to PLM pursuant to the Intercompany Reinsurance Pooling Agreement that began November 1, 2013.

## 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>Premiums Earned</u>	<u>Net Income</u>
2015	\$ 6,228,951	\$ 2,136,991	\$ 4,091,960	\$ 796,396	\$ 10,104
2014	5,980,678	2,125,956	3,854,722	768,516	(133,358)
2013	5,599,612	1,789,614	3,809,998	141,241	(120,823)
2012	4,057,417	418,012	3,639,405	15,981	55,174

Admitted assets, liabilities, and premiums earned increased during 2013 due to participation in the Intercompany Reinsurance Pooling Agreement. The increase to premiums earned in 2014 and 2015 was attributable to a full year of participation in the Intercompany Reinsurance Pooling Agreement.

## MANAGEMENT AND CONTROL

### Directors

The Bylaws provide that the Board of Directors (Board) shall be composed of not less than five (5) nor more than nine (9). No person under 25 or over 72 years of age shall be nominated nor elected. At least one (1) of the directors must be a resident of the state of Indiana. The shareholders, at each annual meeting, elect the members of the Board.

The following is a listing of persons serving as directors at December 31, 2015, and their principal occupations as of that date:

<u>Name and Address</u>	<u>Principal Occupation</u>
John K. Smith Philadelphia, Pennsylvania	President and Chief Operating Officer Pennsylvania Lumbermens Mutual Insurance Company
Harold L. Jamison Philadelphia, Pennsylvania	Vice President, Secretary Pennsylvania Lumbermens Mutual Insurance Company
John W. Lee King of Prussia, Pennsylvania	Chairman of the Board Pennsylvania Lumbermens Mutual Insurance Company
John F. Marazzo Philadelphia, Pennsylvania	Vice President, Treasurer Pennsylvania Lumbermens Mutual Insurance Company

John F. Wolf  
Noblesville, Indiana

Retired  
Indiana Lumbermens Mutual Insurance Company

Officers

The Bylaws state that the officers of the Company shall consist of a President, a Chief Executive Officer, Vice President(s), a Secretary, a Treasurer and any such additional officers as may be authorized from time to time by the Board. All officers are appointed by resolution of the Board, and hold office until termination of employment or removal by resolution of the Board. Any two (2) or more offices can be held by the same person, except the duties of Chief Executive Officer and Secretary, or President and Secretary shall not be performed by the same person.

The following is a list of key officers and their respective titles as of December 31, 2015:

<u>Name</u>	<u>Office</u>
John K. Smith	President and Chief Executive Officer
John F. Marazzo	Vice President and Treasurer
Harold L. Jamison	Vice President and Secretary

**CONFLICT OF INTEREST**

Directors and officers are required to review and sign Conflict of Interest statements annually. It was determined that all directors and officers listed in the Management and Control section of this Report of Examination have reviewed and signed their statements as of December 31, 2015.

**OATH OF OFFICE**

Indiana Code (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. It was determined that all directors listed in the Management and Control section of this Report of Examination have subscribed to an oath as of December 31, 2015.

**CORPORATE RECORDS**

Articles of Incorporation

There were no amendments to the Articles of Incorporation during the examination period.

Bylaws

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

## Minutes

The Board and shareholders meeting minutes were reviewed for the period under examination through the fieldwork date. Significant actions taken during each meeting were noted.

## **AFFILIATED COMPANIES**

### Organizational Structure

The following abbreviated organizational chart shows the Company's parent, subsidiaries and affiliates as of December 31, 2015:

	<u>NAIC Co. Code</u>	<u>Domiciliary State/Country</u>
<b>Indiana Lumbermens Mutual Insurance Company</b>	<b>14265</b>	<b>IN</b>
Allied Building Material Agency, Inc.		IN
<b>National Building Material Assurance Company</b>	<b>11089</b>	<b>IN</b>
<b>Lone Star National Insurance Company</b>	<b>11087</b>	<b>IN</b>
Pennsylvania Lumbermens Mutual Insurance Company	14974	PA
Mutual Insurance Bureau		PA
PLM Agency, Inc.		PA

### 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.

#### *Affiliation Agreement*

As of November 1, 2013, PLM and ILM Group entered into an Affiliation Agreement whereby PLM provides all services as are necessary for the continuing insurance operations of the companies, including without limitation, accounting, management, statistical, and other administrative services, including actuarial and personnel services, auditing, data processing, litigation, and underwriting.

#### *Reinsurance Pool*

For details of the Intercompany Reinsurance Pooling Agreement please see the Reinsurance section of this Report of Examination.

#### *Tax Allocation Agreement*

Effective January 1, 2001, ILM is authorized by its subsidiaries to pay federal and state income taxes as a consolidated group. Allocation of tax liabilities is made on a separate return basis and the subsidiaries will reimburse ILM for taxes paid on their behalf.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond issued by Travelers Casualty & Surety Company of America. The bond has a single loss coverage limit of \$1,000,000, with a \$10,000 deductible. The fidelity 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, 2015, including but not limited to commercial property, employment practices, ERISA liability, management indemnity/directors and officers liability, professional indemnity liability, and workers' compensation.

**PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS**

The Company had no employees during the examination period and subsequently there were no employee pension or insurance plans. All employees necessary to conduct the business operations of the Company are provided by PLM pursuant to the aforementioned Affiliation Agreement.

**STATUTORY DEPOSITS**

The Company reported one (1) statutory deposit at December 31, 2015. This statutory deposit is held by the state of Indiana for the benefit of all policyholders and has a book value of \$1,661,875 and a fair value of \$1,661,565.

**REINSURANCE**

Reinsurance Pool

PLM and the ILM Group participate in an Intercompany Reinsurance Pooling Agreement which became effective upon their affiliation, November 1, 2013. The Intercompany Reinsurance Pooling Agreement covers all lines of business written by the participating entities and there are no premiums or liabilities excluded from the Intercompany Reinsurance Pooling Agreement after the effective date.

The entities participating in the Intercompany Reinsurance Pooling Agreement and their respective pooling percentages are as follows:

Name of Pool Members	Percentage of Pool	Domiciliary State
Pennsylvania Lumbermens Mutual Ins. Co.	90.0%	PA
<b>Indiana Lumbermens Mutual Ins. Co.</b>	<b>9.0%</b>	<b>IN</b>
<b>Lone Star National Insurance Co.</b>	<b>0.5%</b>	<b>IN</b>
<b>National Building Mutual Assurance Co.</b>	<b>0.5%</b>	<b>IN</b>
Total	<u>100.0%</u>	

External Reinsurance

PLM obtains reinsurance both through direct writers and two (2) intermediaries; Jardine Lloyd Thompson Group (JLT Re) and Zurich American Insurance Company (Zurich). The PLM and ILM Group's reinsurance program, effective January 1, 2015 through December 31, 2015, is summarized below, unless otherwise noted.

The PLM and ILM Group obtained property per risk excess of loss coverage from various reinsurers, through intermediary JLT Re that existed in five (5) treaty layers totaling coverage of up to \$40,000,000, with a \$1,000,000 net retention, with Automatic Facultative and Catastrophic coverage.

Through its Property Catastrophe Agreement obtained through JLT Re and placed with various reinsurers, PLM retains the first \$2,500,000 of losses and then is protected by an additional \$47,500,000 through four (4) layers of excess of loss coverage.

Effective, April 1, 2004, 100% of equipment breakdown risks (boiler and machinery) are ceded to Zurich for up to \$40,000,000 in limits of liability under a Quota Share Agreement.

During 2015, products liability exposure, both bodily injury and property damage, is reinsured through an excess of loss cover with various reinsurers, placed through intermediary JLT Re, up to a limit of \$21,000,000 with a \$1,000,000 net retention per each occurrence.

#### Assumed Reinsurance

The companies within the group are not professional reinsurers. On a group basis the assumed business that was reported for the year ending December 31, 2015, consisted of \$670,535 of written premiums and case loss reserves of \$5,509,499. Assumed premium was generated 100% from participation in mandatory pools required by the various states in which the companies are licensed to do business.

### 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, 2011 and December 31, 2015, were agreed to the respective Annual Statements. The Annual Statements for the years ended December 31, 2012 through December 31, 2015, were agreed to each year's independent audit report without material exception. The Company's accounting procedures, practices, and account records were deemed satisfactory.

LONE STAR NATIONAL INSURANCE COMPANY

Assets

As of December 31, 2015

	<u>Per Examination*</u>
Bonds	\$ 4,112,062
Stocks	
Common Stocks	912,000
Cash, cash equivalents and short-term investments	236,679
Other invested assets	-
Receivables for securities	-
Subtotals, cash and invested assets	<u>5,260,742</u>
Investment income due and accrued	13,057
Premiums and considerations:	
Uncollected premiums and agents' balances in course of collection	225,086
Deferred premiums, agents' balances and installments booked but deferred and not yet due	601,645
Reinsurance:	
Amounts recoverable from reinsurers	26,607
Current federal and foreign income tax recoverable and interest thereon	
Net deferred tax asset	76,035
Receivables from parent, subsidiaries and affiliates	<u>25,779</u>
TOTALS**	<u><u>\$ 6,228,951</u></u>

\* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts.

\*\* The balance includes immaterial rounding differences.

LONE STAR NATIONAL INSURANCE COMPANY  
Liabilities, Surplus and Other Funds  
As of December 31, 2015

	Per Examination*
Losses	\$ 681,847
Reinsurance payable on paid losses and loss adjustment expenses	54,081
Loss adjustment expenses	193,605
Commissions payable, contingent commissions and other similar charges	185,356
Other expenses	18,843
Taxes, licenses and fees	8,276
Current federal and foreign income taxes on realized capital gains (losses)	152,976
Unearned premiums	767,661
Dividends declared and unpaid:	
Policyholders	4,185
Ceded reinsurance premiums payable	857
Amounts withheld or retained by company for account of others	52
Provision for reinsurance	3,845
Aggregate write-ins for liabilities	65,409
TOTAL liabilities	2,136,991
Common capital stock	1,900,000
Gross paid in and contributed surplus	1,651,737
Unassigned funds (surplus)	540,223
Surplus as regards policyholders	4,091,960
TOTALS**	\$ 6,228,951

\* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts.

\*\* The balance includes immaterial rounding differences.

LONE STAR NATIONAL INSURANCE COMPANY  
Statement of Income  
For the Year Ended December 31, 2015

	<u>Per Examination*</u>
UNDERWRITING INCOME	
Premiums earned	\$ 796,396
DEDUCTIONS	
Losses incurred	452,394
Loss adjustment expenses incurred	91,284
Other underwriting expenses incurred	282,885
TOTAL Underwriting Deductions	826,563
Net underwriting gain or (loss)	(30,167)
INVESTMENT INCOME	
Net investment income earned	31,739
Net realized capital gains (losses) less capital gains tax	1,662
Net investment gain or (loss)	33,401
OTHER INCOME	
Aggregate write-ins for miscellaneous income	11,500
TOTAL Other Income	11,500
Net income, before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	14,734
Dividends to policyholders	4,630
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	10,104
Federal and foreign income taxes incurred	-
Net income**	\$ 10,104

\* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts.

\*\* The balance includes immaterial rounding differences.



LONE STAR NATIONAL INSURANCE COMPANY  
Capital and Surplus Account Reconciliation

	2015	2014	2013	2012
Surplus as regards policyholders, December 31 prior year	\$ 3,854,722	\$ 3,809,998	\$ 3,639,403	\$ 3,368,649
Net income	10,104	(133,358)	(120,823)	55,174
Change in net deferred income tax	(11,784)	(27,274)	136,752	(1,418)
Change in nonadmitted assets	6,727	21,478	(92,304)	51
Change in provision for reinsurance	(2,500)	-	(273)	-
Capital changes:				
Paid in	150,000	150,000	150,000	150,000
Surplus adjustments:				
Paid in	66,949	66,949	66,949	66,949
Aggregate write-ins for gains and losses in surplus	17,742	(33,071)	30,294	-
Change in surplus as regards policyholders for the year	<u>237,238</u>	<u>44,724</u>	<u>170,595</u>	<u>270,756</u>
Surplus as regards policyholders, December 31 current year**	<u>\$ 4,091,960</u>	<u>\$ 3,854,722</u>	<u>\$ 3,809,998</u>	<u>\$ 3,639,403</u>

\*\*The balance includes immaterial rounding differences.

## COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to the financial statements as of December 31, 2015, based on the results of this examination.

## OTHER SIGNIFICANT ISSUES

There were no other significant issues as of December 31, 2015, based on the results of this examination.

## SUBSEQUENT EVENTS

On September 3, 2016, Mr. J. William Lee, Chairman of the Board, passed away. Mr. Lee served as chairperson for the Company since the affiliation between Indiana Lumbermens Mutual Insurance Company (ILM) and Pennsylvania Lumbermens Mutual Insurance Company in November 2013. Mr. Lee's term would have ended in 2020. On October 25, 2016, C. Richard Peterson was named Chairman of the Board for the Company and will serve in this capacity through the upcoming annual organizational meeting in April 2017, at which time he will be up for re-election.

The Company's parent, Indiana Lumbermens Mutual Insurance Company (ILM) executed a Stock Purchase Agreement with a third party on October 14, 2016. Under the agreement, ILM will sell its common shares comprising its 100% ownership interest in the Company to the third party. The Stock Purchase Agreement contemplates closing the transaction on or after January 1, 2017, subject to ILM and the third party obtaining the required regulatory approvals.

The Company will be sold as a "shell" entity, meaning all assets and liabilities existing as of the transaction closing date pertaining to the property and casualty operations of the Company will be transferred to ILM and other members of the affiliated reinsurance pool. This will be effected by amending the various affiliation agreements to which the Company is a party in order for the other affiliates in the reinsurance pool to assume the Company's net obligation to the pool at that date and to remove the Company from further participation in the pool operations and affiliated management services agreements. The Company's net obligation will be settled on a fair value basis.

It is anticipated that the Company's financial position upon transaction closing will consist of cash and investment assets, minor accrued investment interest receivable, accrued expense liability, and shareholders' equity. The third party will pay to ILM a purchase price equal to the shareholder's equity of the Company as of the closing date plus additional consideration.

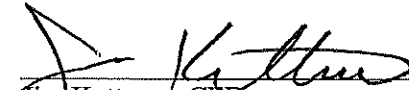
**AFFIDAVIT**

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., performed an examination of Lone Star National Insurance Company, as of December 31, 2015.

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.

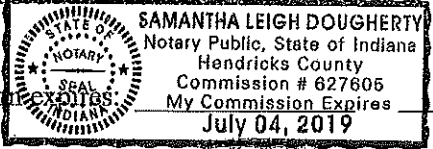
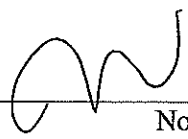
The attached Report of Examination is a true and complete report of condition of Lone Star National Insurance Company as of December 31, 2015, as determined by the undersigned.

  
\_\_\_\_\_  
Jim Kattman, CPE  
Noble Consulting Services, Inc.

State of: Indiana  
County of: Marion

On this 14 day of February 2017, before me personally appeared, Jim Kattman, 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

