

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

IN THE MATTER OF:)
)
Statesman Insurance Company)
275 Phillips Boulevard)
Trenton, New Jersey 08618)

Examination of **Statesman 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 **Statesman Insurance Company**, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on April 12, 2011, 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 **Statesman 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.

6/9/2011

Date



Cynthia D. Donovan
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 7005 3110 0002 4443 8509

STATE OF INDIANA) BEFORE THE INDIANA
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275 Phillips Boulevard)
Trenton, New Jersey 08618)

Examination of **Statesman Insurance Company**

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the **Statesman 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 March 23, 2011.

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 12, 2011 and was received by the Company on April 18, 2011.

The Company did not file any objections.

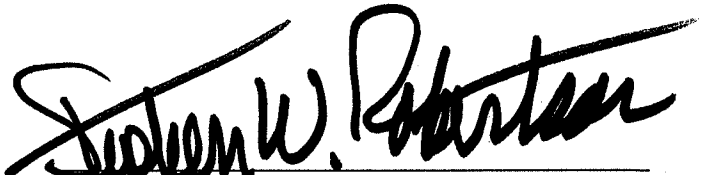
NOW THEREFORE, based on the Verified Report of Examination, I hereby make the following **FINDINGS**:

1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of the **Statesman Insurance Company** as of December 31, 2009.
2. That the Examiner's Recommendations are reasonable and necessary in order for the **Statesman 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 and Sealed this 9th day of
June, 2011.


Stephen W. Robertson
Insurance Commissioner
Indiana Department of Insurance

STATE OF INDIANA

Department of Insurance

REPORT OF EXAMINATION

OF

STATESMAN INSURANCE COMPANY

NAIC COMPANY CODE 25208

As of

December 31, 2009

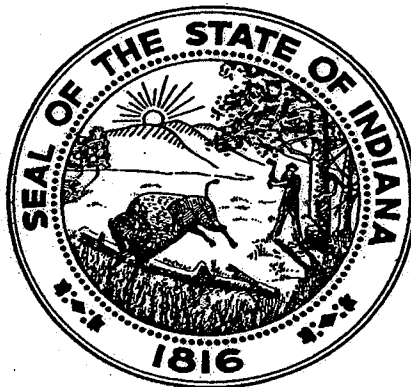


TABLE OF CONTENTS

SALUTATION.....	1
SCOPE OF EXAMINATION	2
HISTORY.....	2
CAPITAL AND SURPLUS	3
TERRITORY AND PLAN OF OPERATION	3
GROWTH OF THE COMPANY	3
MANAGEMENT AND CONTROL.....	4
Shareholders	4
Directors	4
Officers	4
CONFLICT OF INTEREST.....	5
OATH OF OFFICE	5
CORPORATE RECORDS.....	5
Articles of Incorporation and Bylaws.....	5
Minutes.....	5
AFFILIATED COMPANIES	5
Organizational Structure.....	5
Affiliated Agreements	5
Organizational Chart	6
FIDELITY BOND AND OTHER INSURANCE	6
STATUTORY AND SPECIAL DEPOSITS	7
REINSURANCE	7
RESERVES	7
ACCOUNTS AND RECORDS	8
FINANCIAL STATEMENTS.....	9
Balance Sheet	9
Income Statement.....	10
Capital and Surplus Account.....	11
COMMENTS ON THE FINANCIAL STATEMENTS.....	12
OTHER SIGNIFICANT FINDINGS	12
SUBSEQUENT EVENTS.....	12
MANAGEMENT REPRESENTATION	12
AFFIDAVIT	13



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

March 24, 2011

Honorable Joseph Torti, III, Chairman
Financial Condition (E) Committee, NAIC
Deputy Director and Superintendent of Insurance
Department of Business Regulation
Division of Insurance
1511 Pontiac Avenue
Cranston, Rhode Island 02920

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

Dear Superintendent and Commissioner:

Pursuant to the authority vested in Appointment Number 3639, an examination has been made of the affairs and financial condition of:

**Statesman Insurance Company
275 Phillips Boulevard
Trenton, New Jersey 08618**

hereinafter referred to as the Company, an Indiana domiciled, stock, property and casualty insurance company. The examination was conducted at the corporate offices of the Company in Trenton, New Jersey.

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

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SECURITIES / COMPANY RECORDS
(317) 232-1991

SCOPE OF EXAMINATION

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

This 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.

The Company was granted an exemption by the IDOI from filing audited financial statements under Indiana Code (IC) IC 27-1-3.5-5.

The comments and recommendations from the previous IDOI examination were reviewed. It was noted the Company has not taken corrective action with respect to all prior recommendations. Please refer to the Other Significant Findings section of this report for further commentary.

HISTORY

The Company was incorporated on April 3, 1956, and commenced business on November 16, 1956, under the laws of the State of Indiana. As of December 31, 1987, the Company was a wholly owned subsidiary of SICO, Inc. (SICO), a holding company controlled by Statesman Insurance Company Stock Ownership Plan. On October 25, 1990, SICO merged with SI Acquisition Company, Inc. (SIAC), an Indiana corporation. SIAC was a subsidiary of Northwestern National Holding Company, Inc. (NNHC), a Delaware corporation. On April 7, 1995, Vik Brothers Insurance, Inc., an Indiana corporation, obtained indirect control of the Company by purchasing 100% of the outstanding shares of NNHC. In 1997, Highlands Insurance Group, Inc. (HIGI) acquired the Company as part of the acquisition of Vik Insurance Group, Inc., the Company's former ultimate controlling parent. On December 7, 2001, the Company ceased writing new and renewal business and began a run-off of its existing business.

On February 25, 2002, the Texas Department of Insurance placed the five (5) Texas domestic companies within HIGI, including Highlands Insurance Company (HIC), under supervision. On October 31, 2002, the HIGI and five (5) of its non-insurance company subsidiaries commenced Chapter 11 bankruptcy proceedings in the US Bankruptcy Court of the District of Delaware. Effective September 30, 2002, four (4) of the HIC subsidiaries domiciled in Texas were merged with and into HIC. On November 6, 2003, the District Court of Travis County, Texas, issued an Agreed Permanent Injunction and Order Appointing Receiver appointing the Texas Commissioner of Insurance as Receiver of HIC. On January 30, 2004, Prime Tempus, Inc. was appointed as Special Deputy Receiver for HIC. HIC is currently in run-off.

CAPITAL AND SURPLUS

As of December 31, 2009, the Company had 1,600 authorized shares of common stock of which 712 shares were issued and outstanding. The Company's common stock has a par value of \$3,250 per share. The Company also had 200,000 authorized shares of preferred stock of which 15,465 shares were issued and outstanding. The Company's preferred stock has a par value of \$50 per share. All issued and outstanding shares were owned by SICO. SICO is a direct subsidiary of HIC which is in Receivership.

TERRITORY AND PLAN OF OPERATION

Prior to going into run-off in 2001, the Company wrote non-standard auto, commercial multiple peril, homeowners multiple peril and workers compensation insurance. The Company marketed its products through independent agents. As of the prior examination, the Company was licensed in twelve (12) states, however; as of the date of this report, the Company holds active licenses in Indiana, Pennsylvania and Wisconsin. The Company also holds active licenses in Kansas, New Mexico and North Dakota that are suspended or restricted. All other Certificates of Authority have been withdrawn or revoked.

GROWTH OF THE COMPANY

Comparative financial data, as reported in the Company's filed financial statements for the period under examination, was as follows:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital & Surplus</u>	<u>Premium Income</u>	<u>Net Income</u>
2009	\$ 7,175,319	\$ 5,759,647	\$ 1,415,672	\$0	\$ 40,235
2008	7,135,083	5,755,647	1,379,436	0	149,599
2007	6,985,695	5,778,857	1,206,838	0	144,301
2006	6,734,693	6,663,156	71,537	0	141,685
2005	6,566,846	6,643,995	(77,149)	0	133,227

The Company did not report any premium income during the period covered by this examination. As noted in the History section, the Company ceased writing business in 2001 and is in a state of run-off. The increase in the Company's admitted assets from 2005, to 2009, resulted from its net income in each of those years. The Company's net income was entirely comprised of income from investments for all years during the examination period. The Company's negative capital and surplus at the end of 2005, was attributable to its provision for reinsurance liability. The provision for reinsurance liability pertains to ceded reinsurance balances due from its parent which is in receivership. The Company's capital and surplus has improved over the examination period as claims have been settled and the corresponding provision for reinsurance has decreased.

MANAGEMENT AND CONTROL

Shareholders

The Bylaws of the Company require that shareholder meetings be held annually. It was noted the Company's sole shareholder, SICO, did not hold shareholder meetings in accordance with the Company's Bylaws during any of the years covered by this examination. Pursuant to IC 27-1-7-7(b), insurers are required to hold an annual meeting of its shareholders within five months after the close of each fiscal year of the corporation and at such time within that period as the Bylaws may provide. As a result the Company has not complied with the provisions of IC 27-1-7-7(b) or its Bylaws.

Directors

The Company's Bylaws specify the number of Directors of the Company shall be five (5). The Company only had one Director at December 31, 2009, as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Albert J. Marino Princeton, New Jersey	Independent Contractor for Highlands

The Company's number of Directors does not comply with the provisions of IC 27-1-7-10(a), which requires that the business of every corporation shall be managed by a Board of Directors, composed of not less than five (5). In addition, the Company did not have at least one (1) Director that resides in Indiana as required by IC 27-1-7-11.

Officers

The Company's Bylaws state the officers of the Company shall consist of a Chairman of the Board of Directors, a President, one or more Vice Presidents, a Secretary, a Treasurer and other such officers as chosen by the Board of Directors. The following officers were serving as of December 31, 2009:

<u>Name</u>	<u>Office</u>
Craig A. Koenig	President and Chief Executive Officer
Albert J. Marino	Treasurer and Chief Financial Officer

Craig A. Koenig is also the President of Prime Tempus, Inc., the Special Deputy Receiver of HIC.

During the period covered by this examination the Company has not elected the required officers as prescribed by its Bylaws.

CONFLICT OF INTEREST

During the period covered by this examination the Company's Director, Officers and other key employees were not required to complete a questionnaire or other form of declaration which discloses the occurrence of a conflict of interest transaction. Therefore, the Examiners were not able to make a determination as to whether any transactions occurred whereby a Director, Officer or other key employee of the Company had a direct or indirect interest in such transaction.

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 Company did not require Directors to subscribe to an Oath of Office as required by IC 27-1-7-10(i).

CORPORATE RECORDS

Articles of Incorporation and Bylaws

No amendments were made to the Company's Articles of Incorporation or Bylaws during the period covered by this examination.

Minutes

The Bylaws of the Company require that the Board of Directors hold an annual meeting for the purpose of organizing, election of officers, and for any other business that may be properly brought before the meeting. It was noted the Board did not hold annual meetings in accordance with the Company's Bylaws during any of the years covered by this examination.

AFFILIATED COMPANIES

Organizational Structure

The Company is a member of an insurance holding company system in which HIGI is the ultimate controlling entity. The organization chart section shows the Company's relationship to other entities within HIGI. The IDOI granted the Company an exemption from filing an annual Holding Company Registration statement as required by IC 27-1-23-3 for all years covered by this examination.

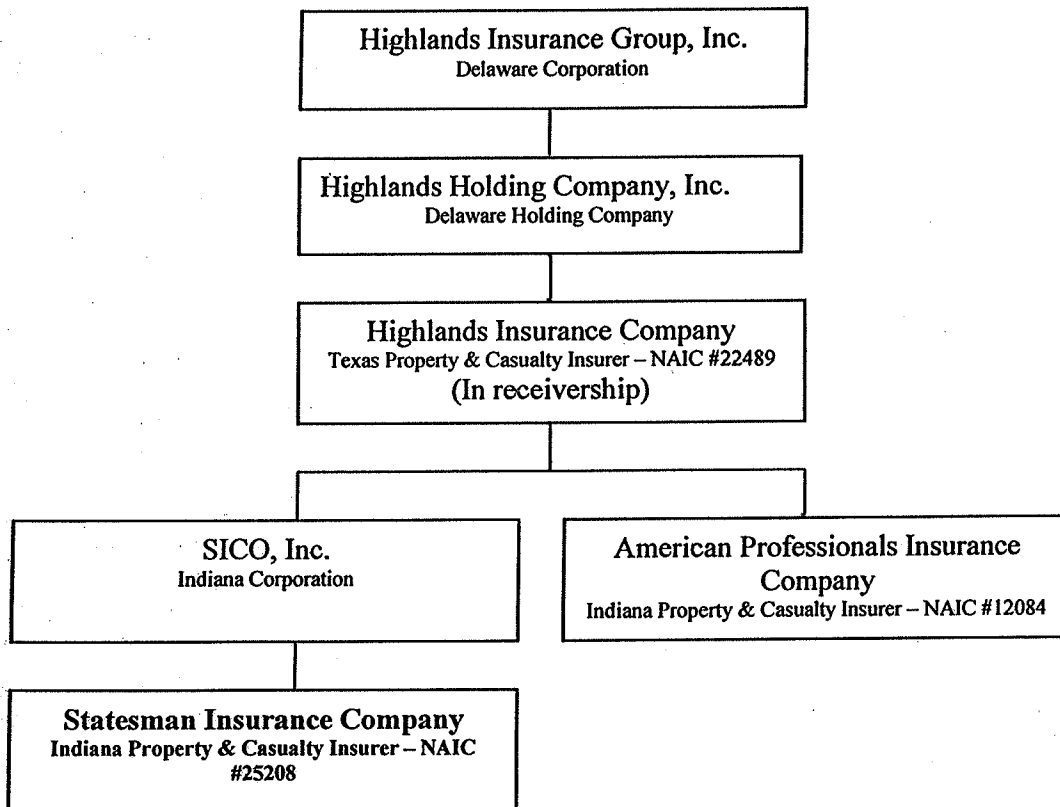
Affiliated Agreements

As of December 31, 2009, the Company operated under a Group Services Agreement which was entered

into with HIC and its affiliates effective January 1, 1996. This agreement was approved by the IDOI on December 22, 1995. Under the terms of this agreement any affiliate may provide services to another affiliate. The expenses incurred under the terms of the agreement are allocated to the other affiliates based on the estimated costs of services performed.

Please refer to the Reinsurance section for information related to intercompany reinsurance agreements.

Organizational Chart



FIDELITY BOND AND OTHER INSURANCE

The Company protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond. The Company is insured for losses up to \$2,000,000 with a \$150,000 deductible. The fidelity bond coverage limit was adequate to meet the prescribed minimum coverage specified by the NAIC.

Other significant insurance coverages in force at December 31, 2009, included General Liability, Umbrella Liability, and Property insurance. All other coverages were determined to be adequate as of

December 31, 2009.

STATUTORY AND SPECIAL DEPOSITS

The Company reported the following special deposit with the State of Indiana for the benefit of all policyholders as of December 31, 2009:

	<u>Par Value</u>	<u>Fair Value</u>
U.S. Treasury Note	\$1,500,000	\$1,517,813
Total Deposits	<u>\$1,500,000</u>	<u>\$1,517,813</u>

REINSURANCE

Effective January 1, 1994, the Company entered into a Reinsurance Agreement with Northwestern National Casualty Company (NNCC). Under the terms of the Reinsurance Agreement the Company cedes all liabilities incurred under, or in connection with, all contracts and policies issued after July 1, 1985, that were outstanding and in force as of January 1, 1994, and policies issued after December 31, 1993. As a result of the merger of NNCC with and into HIC that became effective May 1, 2003, HIC replaced NNCC as the reinsurer under the Reinsurance Agreement.

The Company is liable for insurance ceded to HIC in the event HIC is unable to meet its obligations as specified in the Reinsurance Agreement. Under its Receivership Plan, HIC is not currently paying assumed liabilities, and is not permitted to pay assumed liabilities without the approval of the Texas Insurance Commissioner and/or the Court. As a result, the Company has recorded a Provision for Reinsurance liability to offset the amount of reinsurance ceded to HIC under the Reinsurance Agreement. As of December 31, 2009, the Provision for Reinsurance was \$5,331,000 which was comprised of 100% of the liabilities ceded to HIC under the Reinsurance Agreement including incurred losses, loss adjustment expenses (LAE), incurred but not reported losses and LAE, and underwriting expenses. The change between the years for the Provision for Reinsurance is recorded as a gain or loss to the Company's Unassigned Funds (Surplus).

RESERVES

The Company did not report a reserve for losses and LAE as a result of the Reinsurance Agreement, whereby 100% of these liabilities are ceded to HIC. The Company was granted an exemption by the IDOI from including an actuarial opinion as part of the financial statements as generally required under the provisions of IC 27-1-20-21.3.

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 balance prepared from the Company's general ledger for the year ended December 31, 2009, was agreed to the 2009 Financial Statements without exception. In general, the Examiners determined the Company's accounting procedures, practices, and account records were satisfactory.

STATESMAN INSURANCE COMPANY

FINANCIAL STATEMENTS

Balance Sheet

As of December 31, 2009

	Per Company Financial Statement	Examination Adjustments	Per Examination	December 31, Prior Year
Assets:				
Bonds	\$ 1,628,301	\$ -	\$ 1,628,301	\$ 144,706
Short-term investments	3,418,095	-	3,418,095	5,089,960
Premiums receivable	148,978	-	148,978	143,611
Reinsurance loss receivables	1,977,802	-	1,977,802	1,753,743
Accrued Interest	8,243	-	8,243	745
Net deferred tax asset	(5,241)	-	(5,241)	(5,241)
Receivables from parent; subsidiaries and affiliates	(859)	-	(859)	7,559
Total Assets	\$ 7,175,319	\$ -	\$ 7,175,319	\$ 7,135,083
Liabilities				
Taxes	\$ (900)	\$ -	\$ (900)	\$ (900)
Federal income tax	429,547	-	429,547	429,547
Provision for reinsurance	5,331,000	-	5,331,000	5,327,000
Total Liabilities	\$ 5,759,647	\$ -	\$ 5,759,647	\$ 5,755,647
Common capital stock	\$ 2,314,000	\$ -	\$ 2,314,000	\$ 2,314,000
Preferred capital stock	773,250	-	773,250	773,250
Additional paid in capital	5,274,236	-	5,274,236	5,274,236
Surplus	(6,986,049)	-	(6,986,049)	(7,131,648)
Net income	40,235	-	40,235	149,599
Capital and surplus, December 31, current year	\$ 1,415,672	\$ -	\$ 1,415,672	\$ 1,379,436
Total liabilities, capital and surplus	\$ 7,175,319	\$ -	\$ 7,175,319	\$ 7,135,083

STATESMAN INSURANCE COMPANY

FINANCIAL STATEMENTS

Income Statement

As of December 31, 2009

	Per Company	Examination Adjustments	Per Examination	December 31, Prior Year
Premiums earned	\$ -	\$ -	\$ -	\$ -
Direct paid loss	\$ 217,155	\$ -	\$ 217,155	\$ 264,642
Direct change in case loss	(224,176)	-	(224,176)	(294,902)
Direct incurred loss	\$ (7,021)	\$ -	\$ (7,021)	\$ (30,259)
Ceded paid loss	\$ (217,155)	\$ -	\$ (217,155)	\$ (264,642)
Ceded change in case loss	224,176	-	224,176	294,902
Ceded incurred loss	\$ 7,021	\$ -	\$ 7,021	\$ 30,259
Net incurred loss	\$ -	\$ -	\$ -	\$ -
Direct paid LAE	\$ 4,967	\$ -	\$ 4,967	\$ 2,438
Direct change in case LAE	(1,411)	-	(1,411)	(813)
Direct incurred LAE	\$ 3,556	\$ -	\$ 3,556	\$ 1,625
Ceded paid LAE	\$ (4,967)	\$ -	\$ (4,967)	\$ (2,438)
Ceded change in case LAE	1,411	-	1,411	813
Ceded incurred LAE	\$ (3,556)	\$ -	\$ (3,556)	\$ (1,625)
Net incurred LAE	\$ -	\$ -	\$ -	\$ -
Underwriting expenses	\$ 4,754	\$ -	\$ 4,754	\$ 2,843
Ceded commissions	(4,754)	-	(4,754)	(2,843)
Net underwriting expenses	\$ -	\$ -	\$ -	\$ -
Net underwriting gain/(loss)	\$ -	\$ -	\$ -	\$ -
Net investment income	\$ 40,235	\$ -	\$ 40,235	\$ 149,599
Net gain from operations before dividends and federal income taxes	\$ 40,235	\$ -	\$ 40,235	\$ 149,599
Dividends to policyholders	-	-	-	-
Net gain from operations after dividends and before federal and foreign income taxes incurred	\$ 40,235	\$ -	\$ 40,235	\$ 149,599
Federal and foreign income taxes incurred	-	-	-	-
Net gain from operations after dividends and federal income taxes and before realized gains or (losses)	\$ 40,235	\$ -	\$ 40,235	\$ 149,599
Net realized capital gains (losses) less capital gains tax	-	-	-	-
Net income	\$ 40,235	\$ -	\$ 40,235	\$ 149,599

STATESMAN INSURANCE COMPANY

FINANCIAL STATEMENTS

Capital and Surplus Account

As of December 31, 2009

	Per Company	Examination Adjustments	Per Examination	December 31, Prior Year
Capital and Surplus Account:				
Capital and surplus, December 31, prior year	\$ 1,379,436	\$ -	\$ 1,379,436	\$ 1,206,838
Net income	\$ 40,235	\$ -	\$ 40,235	\$ 149,599
Change in provision for reinsurance	(4,000)	-	(4,000)	23,000
Net change in capital and surplus for the year	\$ 36,235	\$ -	\$ 36,235	\$ 172,599
Capital and surplus, December 31, current year	\$ 1,415,672	\$ -	\$ 1,415,672	\$ 1,379,436

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 other significant findings made as a result of this examination. However, the Company has not complied with the following comments made in the prior report of examination:

1. During the review of the Shareholder meeting minutes, it was noted that the annual meeting of the Shareholders was not being held at the proper time in accordance with its Code of By-laws, and, IC 27-1-7-7(b), which states an annual meeting of the shareholders will be held within five (5) months after the close of each fiscal year.
2. As of December 31, 2004, only one (1) person was serving as Director. It was also noted the Company had less than five (5) Directors during other years under the period of examination. Consequently, the Company was not in compliance with IC 27-1-7-10(a), which states every corporation shall be managed by a Board of Directors, composed of not less than five (5).
3. The Company does not require Directors to sign an oath of office upon election. It was noted the Company was not in compliance with IC 27-1-7-10(i), which 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.

Most of the comments that were made in the prior Report of Examination have again been made in this Report of 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.

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.

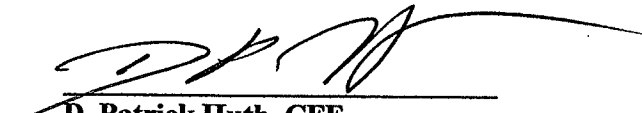
AFFIDAVIT

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 Statesman 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 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 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 Statesman Insurance Company, as of December 31, 2009, as determined by the undersigned.



D. Patrick Huth, CFE
Huff, Thomas & Company

State of: _____
County of: _____

On this 31st day of March, 2011, before me personally appeared, D. Patrick Huth, 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

