

QUARTERLY STATEMENT

OF THE

HALLMARK NATIONAL INSURANCE COMPANY

(f/k/a STATE AUTO NATIONAL INSURANCE COMPANY)

of **COLUMBUS**

in the state of **OHIO**

TO THE

Insurance Department

OF THE

STATE OF

FOR THE QUARTER ENDED

June 30, 2011

PROPERTY AND CASUALTY

2011



19530201120100102

QUARTERLY STATEMENT

AS OF JUNE 30, 2011
OF THE CONDITION AND AFFAIRS OF THE

Hallmark National Insurance Company (f/k/a State Auto National Insurance Company)

NAIC Group Code	3478 (Current Period)	3478 (Prior Period)	NAIC Company Code	19530	Employer's ID Number	31-1334827
Organized under the Laws of	Ohio		State of Domicile or Port of Entry		Ohio	
Country of Domicile	United States of America					
Incorporated/Organized:	October 4, 1991			Commenced Business:		
Statutory Home Office:	41 South High Street Suite 1700 (Street and Number)			January 10, 1992 Columbus, OH 43215 (City or Town, State and Zip Code)		
Main Administrative Office:	777 Main Street Suite 1000 (Street and Number)			Fort Worth, TX 76102 (City or Town, State and Zip Code) 817-348-1600 (Area Code) (Telephone Number)		
Mail Address:	777 Main Street Suite 1000 (Street and Number or P.O. Box)			Fort Worth, TX 76102 (City or Town, State and Zip Code)		
Primary Location of Books and Records:	777 Main Street Suite 1000 (Street and Number)			Fort Worth, TX 76102 (City or Town, State and Zip Code) 817-348-1600 (Area Code) (Telephone Number)		
Internet Website Address:	www.hallmarkgrp.com					
Statutory Statement Contact:	Felicia M Smith (Name)			817-348-1887 (Area Code) (Telephone Number) 817-348-1820 (Extension) (Fax Number)		
	fsmith@hallmarkgrp.com (E-Mail Address)					

OFFICERS

	Name	Title
1.	Kevin Troy Kasitz #	President
2.	Cecil Randolph Wise	Secretary
3.	Jeffrey Ray Passmore	Chief Financial Officer & Treasurer

VICE-PRESIDENTS

Name Christopher James Kenney	Title Vice President	Name Mark Joseph Morrison	Title Executive Vice President

DIRECTORS OR TRUSTEES

State of Texas

County of Tarrant ss

The officers of this reporting entity being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

(Signature)
Kevin T. Kasitz
(Printed Name)
1.
President
(Title)

(Signature)
Jeffrey R. Passmore
(Printed Name)
2.
Chief Financial Officer & Treasurer
(Title)

Is this an original filing? Yes No
If no: 1. State the amendment number _____
2. Date filed _____
3. Number of pages attached _____

Subscribed and sworn to before me this
28th day of July _____, 2011

ASSETS

	Current Statement Date			4 December 31 Prior Year Net Admitted Assets
	1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	
1. Bonds	23,812,435		23,812,435	2,999,840
2. Stocks:				
2.1 Preferred stocks				
2.2 Common stocks				
3. Mortgage loans on real estate:				
3.1 First liens				
3.2 Other than first liens				
4. Real estate:				
4.1 Properties occupied by the company (less \$ 0 encumbrances)				
4.2 Properties held for the production of income (less \$ 0 encumbrances)				
4.3 Properties held for sale (less \$ 0 encumbrances)				
5. Cash (\$ 3,036,254), cash equivalents (\$ 899,968), and short-term investments (\$ 0)	3,936,222		3,936,222	7,403,677
6. Contract loans (including \$ 0 premium notes)				
7. Derivatives				
8. Other invested assets				
9. Receivables for securities				
10. Securities lending reinvested collateral assets				
11. Aggregate write-ins for invested assets				
12. Subtotals, cash and invested assets (Lines 1 to 11)	27,748,657		27,748,657	10,403,517
13. Title plants less \$ 0 charged off (for Title insurers only)	206,858		206,858	19,203
14. Investment income due and accrued				
15. Premiums and considerations:				
15.1 Uncollected premiums and agents' balances in the course of collection	329,811		329,811	(132)
15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$ 0 earned but unbilled premiums)	3,618,123		3,618,123	
15.3 Accrued retrospective premiums				
16. Reinsurance:				
16.1 Amounts recoverable from reinsurers	374,950		374,950	
16.2 Funds held by or deposited with reinsured companies				
16.3 Other amounts receivable under reinsurance contracts				
17. Amounts receivable relating to uninsured plans				
18.1 Current federal and foreign income tax recoverable and interest thereon				
18.2 Net deferred tax asset	1,159,871	487,482	672,389	480
19. Guaranty funds receivable or on deposit	4,692		4,692	4,692
20. Electronic data processing equipment and software				
21. Furniture and equipment, including health care delivery assets (\$ 0)				
22. Net adjustment in assets and liabilities due to foreign exchange rates				
23. Receivables from parent, subsidiaries and affiliates				
24. Health care (\$ 0) and other amounts receivable				
25. Aggregate write-ins for other than invested assets				
26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25)	33,442,962	487,482	32,955,480	10,427,760
27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts				
28. Total (Lines 26 and 27)	33,442,962	487,482	32,955,480	10,427,760

DETAILS OF WRITE-IN LINES				
1101.				
1102.				
1103.				
1198. Summary of remaining write-ins for Line 11 from overflow page				
1199. Totals (Lines 1101 through 1103 plus 1198) (Line 11 above)				
2501.				
2502.				
2503.				
2598. Summary of remaining write-ins for Line 25 from overflow page				
2599. Totals (Lines 2501 through 2503 plus 2598) (Line 25 above)				

NONE**NONE**

LIABILITIES, SURPLUS AND OTHER FUNDS

	1 Current Statement Date	2 December 31, Prior Year
1. Losses (current accident year \$ 3,461,500)	17,831,976	13,893,822
2. Reinsurance payable on paid losses and loss adjustment expenses	476	476
3. Loss adjustment expenses	4,102,131	3,178,439
4. Commissions payable, contingent commissions and other similar charges	107,880	
5. Other expenses (excluding taxes, licenses and fees)	33,000	
6. Taxes, licenses and fees (excluding federal and foreign income taxes)	174,215	408,832
7.1. Current federal and foreign income taxes (including \$ 0 on realized capital gains (losses))	272,559	
7.2. Net deferred tax liability		
8. Borrowed money \$ 0 and interest thereon \$ 0		
9. Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$ 6,590,665 and including warranty reserves of \$ 0)	7,092,787	
10. Advance premium		
11. Dividends declared and unpaid:		
11.1. Stockholders		
11.2. Policyholders		
12. Ceded reinsurance premiums payable (net of ceding commissions)	3,177,210	
13. Funds held by company under reinsurance treaties		
14. Amounts withheld or retained by company for account of others		
15. Remittances and items not allocated		
16. Provision for reinsurance		
17. Net adjustments in assets and liabilities due to foreign exchange rates		
18. Drafts outstanding		
19. Payable to parent, subsidiaries and affiliates	171,547	
20. Derivatives		
21. Payable for securities		
22. Payable for securities lending		
23. Liability for amounts held under uninsured plans		
24. Capital notes \$ 0 and interest thereon \$ 0		
25. Aggregate write-ins for liabilities	(8,725,377)	(17,053,809)
26. Total liabilities excluding protected cell liabilities (Lines 1 through 25)	24,238,404	427,760
27. Protected cell liabilities		
28. Total liabilities (Lines 26 and 27)	24,238,404	427,760
29. Aggregate write-ins for special surplus funds		
30. Common capital stock	2,400,000	2,400,000
31. Preferred capital stock		
32. Aggregate write-ins for other than special surplus funds		
33. Surplus notes		
34. Gross paid in and contributed surplus	7,600,000	7,600,000
35. Unassigned funds (surplus)	(1,282,924)	
36. Less treasury stock, at cost:		
36.1. 0 shares common (value included in Line 30 \$ 0)		
36.2. 0 shares preferred (value included in Line 31 \$ 0)		
37. Surplus as regards policyholders (Lines 29 to 35, less 36)	8,717,076	10,000,000
38. Totals (Page 2, Line 28, Col. 3)	32,955,480	10,427,760

DETAILS OF WRITE-IN LINES		
2501. Miscellaneous liabilities		18,452
2502. Retroactive reinsurance reserves	(8,725,377)	(17,072,261)
2503.		
2598. Summary of remaining write-ins for Line 25 from overflow page		
2599. Totals (Lines 2501 through 2503 plus 2598) (Line 25 above)	(8,725,377)	(17,053,809)
2901.		
2902.		
2903.		
2998. Summary of remaining write-ins for Line 29 from overflow page		
2999. Totals (Lines 2901 through 2903 plus 2998) (Line 29 above)		
3201.		
3202.		
3203.		
3298. Summary of remaining write-ins for Line 32 from overflow page		
3299. Totals (Lines 3201 through 3203 plus 3298) (Line 32 above)		

NONE

STATEMENT OF INCOME

	1 Current Year To Date	2 Prior Year To Date	3 Prior Year Ended December 31
UNDERWRITING INCOME			
1. Premiums earned:			
1.1 Direct (written \$ 10,654,398)	13,711,033	18,374,927	35,495,546
1.2 Assumed (written \$ 14,885,837)	7,793,050	(4)	(4)
1.3 Ceded (written \$ 10,654,398)	13,711,033	18,374,923	35,495,542
1.4 Net (written \$ 14,885,837)	7,793,050		
DEDUCTIONS:			
2. Losses incurred (current accident year \$ 5,372,147):			
2.1 Direct	7,991,578	9,502,470	20,083,814
2.2 Assumed	6,012,141	(50)	34
2.3 Ceded	7,991,578	9,502,420	20,083,848
2.4 Net	6,012,141		
3. Loss adjustment expenses incurred	1,032,210		
4. Other underwriting expenses incurred	2,718,183	(2,753,748)	(2,619,748)
5. Aggregate write-ins for underwriting deductions			
6. Total underwriting deductions (Lines 2 through 5)	9,762,534	(2,753,748)	(2,619,748)
7. Net income of protected cells			
8. Net underwriting gain (loss) (Line 1 minus Line 6 + Line 7)	(1,969,484)	2,753,748	2,619,748
INVESTMENT INCOME			
9. Net investment income earned	200,976	1,015,327	1,383,418
10. Net realized capital gains (losses) less capital gains tax of \$ 0	5,000	2,895,885	3,307,523
11. Net investment gain (loss) (Lines 9 + 10)	205,976	3,911,212	4,690,941
OTHER INCOME			
12. Net gain or (loss) from agents' or premium balances charged off (amount recovered \$ 8,719 amount charged off \$ 0)	(8,719)	1	
13. Finance and service charges not included in premiums	89,953		
14. Aggregate write-ins for miscellaneous income			
15. Total other income (Lines 12 through 14)	81,234	1	
16. Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Lines 8 + 11 + 15)	(1,682,274)	6,664,961	7,310,689
17. Dividends to policyholders			
18. Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Line 16 minus Line 17)	(1,682,274)	6,664,961	7,310,689
19. Federal and foreign income taxes incurred	272,559	62,145	157,290
20. Net income (Line 18 minus Line 19) (to Line 22)	(1,954,833)	6,602,816	7,153,399
CAPITAL AND SURPLUS ACCOUNT			
21. Surplus as regards policyholders, December 31 prior year	10,000,000	61,792,157	61,792,157
22. Net income (from Line 20)	(1,954,833)	6,602,816	7,153,399
23. Net transfers (to) from Protected Cell accounts			
24. Change in net unrealized capital gains or (losses) less capital gains tax of \$ 0		(673,331)	(681,840)
25. Change in net unrealized foreign exchange capital gain (loss)			
26. Change in net deferred income tax	912,570	(2,521,263)	(2,338,575)
27. Change in nonadmitted assets	(240,661)	616,259	434,795
28. Change in provision for reinsurance			
29. Change in surplus notes			
30. Surplus (contributed to) withdrawn from protected cells			
31. Cumulative effect of changes in accounting principles			
32. Capital changes:			
32.1 Paid in			
32.2 Transferred from surplus (Stock Dividend)			
32.3 Transferred to surplus			
33. Surplus adjustments:			
33.1 Paid in		(23,207,843)	(35,000,000)
33.2 Transferred to capital (Stock Dividend)			
33.3 Transferred from capital			
34. Net remittances from or (to) Home Office			
35. Dividends to stockholders		(16,792,157)	(21,359,936)
36. Change in treasury stock			
37. Aggregate write-ins for gains and losses in surplus			
38. Change in surplus as regards policyholders (Lines 22 through 37)	(1,282,924)	(35,975,519)	(51,792,157)
39. Surplus as regards policyholders, as of statement date (Lines 21 plus 38)	8,717,076	25,816,638	10,000,000

DETAILS OF WRITE-IN LINES			
0501.			
0502.			
0503.			
0598. Summary of remaining write-ins for Line 05 from overflow page	NONE		
0599. Totals (Lines 0501 through 0503 plus 0598) (Line 05 above)			
1401.			
1402.			
1403.			
1498. Summary of remaining write-ins for Line 14 from overflow page	NONE		
1499. Totals (Lines 1401 through 1403 plus 1498) (Line 14 above)			
3701.			
3702.			
3703.			
3798. Summary of remaining write-ins for Line 37 from overflow page	NONE		
3799. Totals (Lines 3701 through 3703 plus 3798) (Line 37 above)			

CASH FLOW

	1 Current Year To Date	2 Prior Year To Date	3 Prior Year Ended December 31
Cash from Operations			
1. Premiums collected net of reinsurance	19,266,203	7,417,443	(1,021,159)
2. Net investment income	53,699	1,689,578	2,316,311
3. Miscellaneous income	81,234	1	
4. Total (Lines 1 to 3)	19,401,136	9,107,022	1,295,152
5. Benefit and loss related payments	1,525,246	22,440,128	19,699,793
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts			
7. Commissions, expenses paid and aggregate write-ins for deductions	3,844,130	1,424,837	(1,403,992)
8. Dividends paid to policyholders			
9. Federal and foreign income taxes paid (recovered) net of \$ tax on capital gains (losses)	(356,116)	(151,000)	435,422
10. Total (Lines 5 through 9)	5,013,260	23,713,965	18,731,223
11. Net cash from operations (Line 4 minus Line 10)	14,387,876	(14,606,943)	(17,436,071)
Cash from Investments			
12. Proceeds from investments sold, matured or repaid:			
12.1 Bonds	845,000	49,516,099	72,684,734
12.2 Stocks		6,987,920	6,987,920
12.3 Mortgage loans			
12.4 Real estate			
12.5 Other invested assets			
12.6 Net gains (or losses) on cash, cash equivalents and short-term investments			
12.7 Miscellaneous proceeds			
12.8 Total investment proceeds (Lines 12.1 to 12.7)	845,000	56,504,019	79,672,654
13. Cost of investments acquired (long-term only):			
13.1 Bonds	21,687,972	507,507	2,637,227
13.2 Stocks			
13.3 Mortgage loans			
13.4 Real estate			
13.5 Other invested assets			
13.6 Miscellaneous applications			
13.7 Total investments acquired (Lines 13.1 to 13.6)	21,687,972	507,507	2,637,227
14. Net increase (or decrease) in contract loans and premium notes			
15. Net cash from investments (Line 12.8 minus Line 13.7 and Line 14)	(20,842,972)	55,996,512	77,035,427
Cash from Financing and Miscellaneous Sources			
16. Cash provided (applied):			
16.1 Surplus notes, capital notes			
16.2 Capital and paid in surplus, less treasury stock		(23,207,843)	(35,000,000)
16.3 Borrowed funds			
16.4 Net deposits on deposit-type contracts and other insurance liabilities			
16.5 Dividends to stockholders		16,792,157	21,359,936
16.6 Other cash provided (applied)	2,987,641	(2,663,099)	222,730
17. Net cash from financing and miscellaneous sources (Line 16.1 through Line 16.4 minus Line 16.5 plus Line 16.6)	2,987,641	(42,663,099)	(56,137,206)
RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS			
18. Net change in cash, cash equivalents and short-term investments (Line 11, plus Lines 15 and 17)	(3,467,455)	(1,273,530)	3,462,150
19. Cash, cash equivalents and short-term investments:			
19.1 Beginning of year	7,403,677	3,941,527	3,941,527
19.2 End of period (Line 18 plus Line 19.1)	3,936,222	2,667,997	7,403,677

Note: Supplemental disclosures of cash flow information for non-cash transactions:

20.0001			
20.0002			
20.0003			

NOTES TO FINANCIAL STATEMENTS

1. Significant Accounting Policies

A. Accounting Practices

In 1998, the National Association of Insurance Commissions (NAIC) adopted the Codification of Statutory Accounting Principles (the Codification) guidance, which replaced the prior Accounting and Practice Procedures manuals as the NAIC's primary guidance on statutory accounting. The Codification provides guidance where statutory accounting has been silent and changes current statutory accounting in some areas, (e.g. deferred income taxes are recorded). Effective January 1, 2001, the Ohio Department of Insurance (the OHDOI) adopted the NAIC Accounting Practices and Procedures Manual (the Manual). The Manual, previously known as Codification contains Statements of Statutory Accounting Principles (SSAP). The accompanying financial statements have been prepared in conformity with the Manual and accounting practices prescribed or permitted by the OHDOI.

B. Use of Estimates

No changes.

C. Accounting policies

No changes.

2. Accounting Changes and Correction of Errors

Not applicable.

3. Business Combinations and Goodwill

Not applicable.

4. Discontinued Operations

Not applicable.

5. Investments

Not applicable.

6. Joint Venture, Partnerships, and Limited Liability Companies

Not applicable.

7. Investment Income

No Changes.

8. Derivative Instruments

Not applicable.

9. Income Taxes

The Company files a consolidated Federal income tax return with HFS (EIN 87-0447375) and its affiliates with the exception of Hallmark County Mutual Insurance Company. Pursuant to a written tax sharing agreement, the Company's provision for income taxes, if any, equals or approximates tax expense or benefit computed on a separate return basis.

The Company has not elected to admit additional DTA's pursuant to SSAP 10R, paragraph e. The current period election does not differ from the prior reporting period.

- A. The net deferred tax asset/(liability) at June 30, 2011 and the change from the prior year are comprised of the following components:

NOTES TO FINANCIAL STATEMENTS

	6/30/2011			12/31/2010			Change
	Ordinary	Capital	Total	Ordinary	Capital	Total	
(1) Total gross deferred tax assets	1,159,871	-	1,159,871	247,502	-	247,502	912,369
Adjusted gross deferred tax assets	1,159,871	-	1,159,871	247,502	-	247,502	912,369
(2) Total gross deferred tax liabilities	-	-	-	-	(201)	(201)	201
(3) Net deferred tax assets/(liabilities)	1,159,871	-	1,159,872	247,502	(201)	247,301	912,571
(4) Total Deferred tax assets nonadmitted	(487,482)	-	(487,482)	(247,022)	201	(246,821)	(240,661)
(5) Net admitted deferred tax assets/ (liabilities)	<u>672,389</u>	-	<u>672,389</u>	<u>480</u>	-	<u>480</u>	<u>671,909</u>

(6) The Company has not elected to admit deferred tax assets pursuant to SSAP10R.

(7) The amount of adjusted gross deferred tax assets under each component of SSAP 10R:

	6/30/11			12/31/10			Change
	Ordinary	Capital	Total	Ordinary	Capital	Total	
Admitted under paragraph 10.a.	672,389	-	672,389	480	-	480	671,909
Paragraph 10.b., lesser of:	-	-	-	-	-	-	-
Admitted under paragraph 10.b.i	-	-	-	-	-	-	-
Admitted under paragraph 10.b.ii	893,397	-	893,397	-	-	-	893,397
Admitted under paragraph 10.b. (lesser of b.i. or b.ii)	-	-	-	-	-	-	-
Admitted under paragraph 10.c.	-	-	-	-	-	-	-
Total admitted from the application of paragraph 10.a.-10.c.	672,389	-	672,389	480	-	480	671,909
Admitted under paragraph 10.e.i.	-	-	-	-	-	-	-
Paragraph 10.e.ii., lesser of:	-	-	-	-	-	-	-
Admitted under paragraph 10.e.ii.a	-	-	-	-	-	-	-
Admitted under paragraph 10.e.ii.b	446,699	-	446,699	-	-	-	446,699
Admitted under paragraph 10.e.ii. (lesser of e.ii.a or e.ii.b)	-	-	-	-	-	-	-
Admitted under paragraph 10.e.iii.	-	-	-	-	-	-	-
Total admitted from the application of paragraph 10.e.	-	-	-	-	-	-	-
Total admitted adjusted gross deferred tax assets	<u>672,389</u>	-	<u>672,389</u>	<u>480</u>	-	<u>480</u>	<u>671,909</u>

(8) The change in deferred income taxes reported in surplus before consideration of nonadmitted assets is comprised of the following components:

	6/30/11	12/31/10	Change
Net adjusted deferred tax asset (liabilities)	1,159,871	247,301	912,570
Tax-effect of unrealized gains and losses	-	-	-
Net tax effect without unrealized gains and losses	<u>1,159,871</u>	<u>247,301</u>	<u>912,570</u>
Change in deferred income taxes			<u>(912,570)</u>

NOTES TO FINANCIAL STATEMENTS

Unrecognized deferred tax liabilities: None

Current income taxes incurred consist of the following major components:

	6/30/11	12/31/10
Current year tax expense (benefit)	272,559	157,290
Investment tax credits	-	-
Benefits of operating loss carry forwards	-	-
Prior year adjustments	-	-
Current income taxes incurred	272,559	157,290

Deferred income tax assets and liabilities consist of the following major components:

Deferred tax assets:	6/30/11			12/31/10			Change
	Ordinary	Capital	Total	Ordinary	Capital	Total	
Unearned Premium Reserve	496,495	-	496,495	-	-	-	496,495
Capital loss carryforward	-	-	-	-	-	-	-
Loss Reserve Discounting	416,075	-	416,075	-	-	-	416,075
NOL carryforward	-	-	-	-	-	-	-
Impairments	-	-	-	-	-	-	-
Goodwill	-	-	-	-	-	-	-
Nonadmitted asset	-	-	-	-	-	-	-
Other	247,301	-	247,301	247,502	-	247,502	(201)
Total gross deferred tax assets	1,159,871	-	1,159,871	247,502	-	247,502	912,369
Valuation Allowance Adjustment	-	-	-	-	-	-	-
Total adjusted gross deferred tax assets	1,159,871	-	1,159,871	247,502	-	247,502	912,369
Nonadmitted deferred tax assets	(487,482)	-	(487,482)	(246,821)	-	(246,821)	(240,661)
Admitted deferred tax assets	672,389	-	672,389	681	-	681	671,708
 Deferred tax Liabilities:							
Deferred market discount	-	-	-	-	-	-	-
Unrealized <i><Gains></i> Losses	-	-	-	-	-	-	-
Other	-	-	-	-	(201)	(201)	201
Total deferred tax liabilities	-	-	-	-	(201)	(201)	201
Net admitted deferred tax asset (liabilities)	672,389	-	672,389	681	(201)	480	671,909

NOTES TO FINANCIAL STATEMENTS

D. The Company's income tax incurred and change in deferred income tax differs from the amount obtained by applying the federal statutory rate of 35% to income before income taxes as follows:

	6/30/11	12/31/10
Current income taxes incurred	272,559	157,290
Changes in deferred income tax (without tax on unrealized gains and losses)	(912,570)	2,391,232
Total income tax reported	<u>(640,011)</u>	<u>2,548,522</u>
Income before taxes	(1,682,274)	7,310,689
Expected Income tax expense (benefit) at 35% statutory rate	35%	35%
	(588,796)	2,558,741
Increase (decrease) in actual tax reported resulting from:		
a. State taxes	-	-
b. Tax-exempt income	(51,215)	(271,595)
c. Change in deferred taxes on nonadmitted assets	-	-
d. DRD	-	(10,628)
e. Other	-	194,289
f. Prior year true-up	-	77,715
Total income tax reported	<u>(640,011)</u>	<u>2,548,522</u>

E. Operating loss carryforward

- (1) As of June 30, 2011, there is no operating loss and no tax credit carryforwards for tax purposes.
- (2) The amount of Federal income taxes incurred that are available for recoupment in the event of future net losses are:

	Ordinary	Capital	Total
2011	272,559	0	272,559
2010	-	0	-
2009	-	0	-

- (3) The aggregate amount of deposits admitted under Section 6603 of the Internal Revenue Code are \$ 0.

F. Consolidated federal income tax return

- (1) The Company's federal income tax return is consolidated with all the companies shown in Schedule Y with the exception of Hallmark County Mutual Insurance Company.

10. Information Concerning Parent, Subsidiaries and Affiliates

A. Nature of Relationships:

Effective March 8, 2011 the name of the Company changed to Hallmark National Insurance Company from State Auto National Insurance Company.

- B. No changes.
- C. No changes.
- D. No changes.
- E. No changes.

11. Debt

Not applicable.

12. Retirement Plans, Deferred Compensation, Post Employment Benefits and Compensated Absences and Other Post Retirement Benefit Plans

Not applicable.

13. Capital Surplus, Dividend Restrictions and Quasi Reorganizations

NOTES TO FINANCIAL STATEMENTS

- A. No changes.
- B. Dividend Rate of Preferred Stock: Not applicable.
- C. Dividend Restrictions:
 - No changes.
- D. Dates and Amounts of Dividends Paid:
 - No changes.
- E. Portion of the Company's Profits that may be paid as Ordinary Dividends to Stockholders:
 - No changes.
- F. Restrictions Placed on the Unassigned Funds, Including for Whom the Surplus is Being Held:
 - Not applicable.
- G. Mutual Surplus Advances: Not applicable.
- H. Company Stock Held for Special Purposes: Not applicable.
- I. Changes in Special Surplus Funds: Not applicable.
- J. Changes in Unassigned Funds:
 - No changes.
- K. Surplus Notes: Not applicable.
- L. Impact of Restatement Due to Quasi Reorganizations: Not applicable.
- M. Effective Date of Quasi Reorganizations: Not applicable.

14. Contingencies

- A. Contingent Commitments:
 - No changes.
- B. Guaranty Fund and Other Assessments:
 - No changes.
- C. Gain Contingencies: Not applicable.
- D. Claims Related Extra Contractual Obligation and Bad Faith Losses Stemming from Lawsuits: Not applicable.
- E. All Other Contingencies:
 - No changes.

15. Leases

- Not applicable.

16. Information about Financial Instruments with Off-Balance Sheet Risk and Financial Instruments with Concentration of Credit Risk

- Not applicable.

17. Sales, Transfer and Servicing of Financial Assets and Extinguishment of Liabilities

- Not applicable.

18. Gain or Loss to the Reporting Entity from Uninsured A&H Plans and the Underinsured Portion of Partially Insured Plan

- Not applicable.

NOTES TO FINANCIAL STATEMENTS

19. Direct Premium Written/Produced by Managing General Agents/Third Party Administrators

Name and Address of Managing General Agent or Third Party Administrator	FEIN Number	Exclusive Contract	Types of Business Written	Type of Authority Granted	Direct Premiums Written/ Produced by
American Hallmark G.A., Inc. 6500 Pinecrest, Suite 100 Plano, TX 75024	75-2341879	No	Personal and Commercial property/casualty	C,CA,B,P,U	\$ 6,177,700

20. Fair Value Measurement

Not applicable.

21. Other Items

Not applicable.

22. Events Subsequent

Effective August 3, 2011 Hallmark Insurance Company received approval from the Arizona DOI to make an \$11M capital contribution to the Company consisting of cash and securities.

23. Reinsurance

- A. No changes.
- B. No changes.
- C. No changes.
- D. No changes.
- E. No changes.
- F. No changes.
- G. No changes.

24. Retrospective Rated Contracts and Contracts Subject to Redetermination

No changes.

25. Changes in Incurred Loss and Adjustment Expenses

Reserves as of December 31, 2010 were \$17.1 million. As of June 30, 2011, (\$0.1) million has been incurred for claims and claim adjustment expenses attributable to insured events of prior years. Reserves remaining for prior years are now \$17.9 million as a result of re-estimation of unpaid claims and claim adjustment expenses principally on commercial auto liability and general liability lines of insurance. Therefore, there has been a \$0.7 million unfavorable prior-year development since December 31, 2010 to June 30, 2011. The increase is generally the result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased, as additional information becomes known regarding individual claims.

NOTES TO FINANCIAL STATEMENTS

26. Intercompany Pooling Arrangements

Effective January 1, 2011, HNIC was added to the Hallmark intercompany pool. The lead company of the pool is American Hallmark Insurance Company of Texas (AHIC). Under the terms of the arrangement, the underwriting risk for all lines of business of the intercompany pool participants are reinsured with AHIC. The pool or net underwriting risk remaining after reinsurance is transacted with third parties by AHIC is then retro ceded to the pool participants based on pool participation percentages. The provision for reinsurance and the write-off of uncollectible reinsurance are reported in the statutory financial statements of AHIC and are not allocated to the other pool participants.

The names, NAIC company codes and intercompany pooling percentages are as follows:

<u>Pool Participant</u>	<u>NAIC Company Code</u>	<u>Pool Participation%</u>
American Hallmark Insurance Company of Texas	43494	32.5
Hallmark Insurance Company	34037	34.4
Hallmark Specialty Insurance Company	26808	27.6
Hallmark National Insurance Company	19530	5.5

All of the above pool companies are party to reinsurance agreements with non-affiliated reinsurers covering business subject to the pooling agreement and have contractual rights of direct recovery from the non-affiliated reinsurers under the terms of such reinsurance agreements.

27. Structured Settlements

Not applicable.

28. Health Care Receivables

Not applicable.

29. Participating Policies

Not applicable.

30. Premium Deficiency Reserves

Not applicable.

31. High Deductibles

Not applicable.

32. Discounting of Liabilities for Unpaid Losses or Unpaid Loss Adjustment Expenses

Not applicable.

33. Asbestos/Environmental Reserves

Not applicable.

34. Subscriber Savings Accounts

Not applicable.

35. Multiple Peril Crop Insurance

Not applicable.

36. Financial Guaranty Insurance

Not applicable.

GENERAL INTERROGATORIES

PART 1 – COMMON INTERROGATORIES

GENERAL

1.1 Did the reporting entity experience any material transactions requiring the filing of Disclosure of Material Transactions with the State of Domicile, as required by the Model Act? Yes [] No [X]

1.2 If yes, has the report been filed with the domiciliary state? Yes [] No []

2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? Yes [] No [X]

2.2 If yes, date of change: _____

3. Have there been any substantial changes in the organizational chart since the prior quarter end? Yes [] No [X]
If yes, complete the Schedule Y – Part 1 – organizational chart.

4.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? Yes [] No [X]

4.2 If yes, provide the name of entity, NAIC Company Code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

1 Name of Entity	2 NAIC Company Code	3 State of Domicile
.....

5. If the reporting entity is subject to a management agreement, including third-party administrator(s), managing general agent(s), attorney-in-fact, or similar agreement, have there been any significant changes regarding the terms of the agreement or principals involved? Yes [] No [X] N/A []
If yes, attach an explanation.

6.1 State as of what date the latest financial examination of the reporting entity was made or is being made. 12/31/2008

6.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released. 12/31/2008

6.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date). 03/01/2010

6.4 By what department or departments?
Ohio Department of Insurance
.....

6.5 Have all financial statement adjustments within the latest financial examination report been accounted for in a subsequent financial statement filed with Departments? Yes [X] No [] N/A []

6.6 Have all of the recommendations within the latest financial examination report been complied with? Yes [X] No [] N/A []

7.1 Has this reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? Yes [] No [X]

7.2 If yes, give full information
.....

8.1 Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board? Yes [] No [X]

GENERAL INTERROGATORIES

8.2 If response to 8.1 is yes, please identify the name of the bank holding company.

.....

8.3 Is the company affiliated with one or more banks, thrifts or securities firms?

Yes [] No [X]

8.4 If response to 8.3 is yes, please provide below the names and location (city and state of the main office) of any affiliates regulated by a federal regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC)] and identify the affiliate's primary federal regulator.

1 Affiliate Name	2 Location (City, State)	3 FRB	4 OCC	5 OTS	6 FDIC	7 SEC
.....
.....

9.1 Are the senior officers (principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) of the reporting entity subject to a code of ethics, which includes the following standards?

- (a) Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- (b) Full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the reporting entity;
- (c) Compliance with applicable governmental laws, rules, and regulations;
- (d) The prompt internal reporting of violations to an appropriate person or persons identified in the code; and
- (e) Accountability for adherence to the code.

Yes [X] No []

9.11 If the response to 9.1 is No, please explain:

.....

.....

.....

9.2 Has the code of ethics for senior managers been amended?

Yes [] No [X]

9.21 If the response to 9.2 is Yes, provide information related to amendment(s).

.....

.....

.....

9.3 Have any provisions of the code of ethics been waived for any of the specified officers?

Yes [] No [X]

9.31 If the response to 9.3 is Yes, provide the nature of any waiver(s).

.....

.....

.....

FINANCIAL

10.1 Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement?

Yes [] No [X]

10.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount:

\$ _____

INVESTMENT

11.1 Were any of the stocks, bonds, or other assets of the reporting entity loaned, placed under option agreement, or otherwise made available for use by another person? (Exclude securities under securities lending agreements.)

Yes [] No [X]

11.2 If yes, give full and complete information relating thereto:

.....

.....

.....

12. Amount of real estate and mortgages held in other invested assets in Schedule BA:

\$ _____

GENERAL INTERROGATORIES

13. Amount of real estate and mortgages held in short-term investments: \$ _____

14.1 Does the reporting entity have any investments in parent, subsidiaries and affiliates? Yes [] No [X]

14.2 If yes, please complete the following: 1 2

	Prior Year-End	Current Quarter
	Book/Adjusted	Book/Adjusted
	Carrying Value	Carrying Value
14.21 Bonds	\$ _____	\$ _____
14.22 Preferred Stock	\$ _____	\$ _____
14.23 Common Stock	\$ _____	\$ _____
14.24 Short-Term Investments	\$ _____	\$ _____
14.25 Mortgage Loans on Real Estate	\$ _____	\$ _____
14.26 All Other	\$ _____	\$ _____
14.27 Total Investment in Parent, Subsidiaries and Affiliates (Subtotal Lines 14.21 to 14.26)	\$ _____	\$ _____
14.28 Total Investment in Parent included in Lines 14.21 to 14.26 above	\$ _____	\$ _____

15.1 Has the reporting entity entered into any hedging transactions reported on Schedule DB? Yes [] No [X]

15.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? Yes [] No []

If no, attach a description with this statement.

16. Excluding items in Schedule E - Part 3 - Special Deposits, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Section 3, III Conducting Examinations, F – Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook?

Yes [] No [X]

16.1 For all agreements that comply with the requirements of the NAIC Financial Condition Examiners Handbook, complete the following:

1 Name of Custodian(s)	2 Custodian Address
JP Morgan	1111 Polaris Pkwy, Suite 3J, OH1-0634, Columbus, Ohio 43240

16.2 For all agreements that do not comply with the requirements of the NAIC Financial Condition Examiners Handbook, provide the name, location and a complete explanation:

1 Name(s)	2 Location(s)	3 Complete Explanation(s)
.....

16.3 Have there been any changes, including name changes, in the custodian(s) identified in 16.1 during the current quarter? Yes [] No [X]

16.4 If yes, give full and complete information relating thereto:

1 Old Custodian	2 New Custodian	3 Date of Change	4 Reason
.....

GENERAL INTERROGATORIES

16.5 Identify all investment advisors, broker/dealers or individuals acting on behalf of broker/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

1 Central Registration Depository	2 Name(s)	3 Address
.....
.....

17.1 Have all the filing requirements of the Purposes and Procedures Manual of the NAIC Securities Valuation Office been followed?

Yes No

17.2 If no, list exceptions:

.....
.....

GENERAL INTERROGATORIES

PART 2 - PROPERTY & CASUALTY INTERROGATORIES

1. If the reporting entity is a member of a pooling arrangement, did the agreement or the reporting entity's participation change? Yes No N/A

If yes, attach an explanation.

2. Has the reporting entity reinsured any risk with any other reporting entity and agreed to release such entity from liability, in whole or in part, from any loss that may occur on the risk, or portion thereof, reinsured? Yes No X

If yes, attach an explanation.

3.1 Have any of the reporting entity's primary reinsurance contracts been canceled? Yes No X

3.2 If yes, give full and complete information thereto:

.....
.....
.....
.....

4.1 Are any of the liabilities for unpaid losses and loss adjustment expenses other than certain workers' compensation tabular reserves (see Annual Statement Instructions pertaining to disclosure of discounting for definition of "tabular reserves") discounted at a rate of interest greater than zero? Yes No X

4.2 If yes, complete the following schedule:

1 Line of Business	2 Maximum Interest	3 Discount Rate	TOTAL DISCOUNT				DISCOUNT TAKEN DURING PERIOD			
			4 Unpaid Losses	5 Unpaid LAE	6 IBNR	7 TOTAL	8 Unpaid Losses	9 Unpaid LAE	10 IBNR	11 TOTAL
.....
.....
.....
TOTAL										

5. Operating Percentages:

5.1. A&H loss percent %

5.2. A&H cost containment percent %

5.3. A&H expense percent excluding cost containment expenses %

6.1 Do you act as a custodian for health savings accounts? Yes No X

6.2 If yes, please provide the amount of custodial funds held as of the reporting date. \$ _____

6.3 Do you act as an administrator for health savings accounts? Yes No X

6.4 If yes, please provide the balance of the funds administered as of the reporting date. \$ _____

NONE Schedule F

SCHEDULE T - EXHIBIT OF PREMIUMS WRITTEN

Current Year To Date - Allocated by States and Territories

States, Etc.	1 Active Status	Direct Premiums Written		Direct Losses Paid (Deducting Salvage)		Direct Losses Unpaid	
		2 Current Year to Date	3 Prior Year to Date	4 Current Year to Date	5 Prior Year to Date	6 Current Year to Date	7 Prior Year to Date
1. Alabama	AL L	214,874	464,716	177,298	302,739	321,992	349,398
2. Alaska	AK N						
3. Arizona	AZ L	211,030	331,778	304,046	277,684	182,392	235,097
4. Arkansas	AR L	312,134	653,780	234,771	569,648	345,296	427,996
5. California	CA N						
6. Colorado	CO L	341,959	745,807	229,137	314,445	359,750	161,996
7. Connecticut	CT N						
8. Delaware	DE N						
9. District of Columbia	DC N						
10. Florida	FL L			23,415	5,222	16,336	70,444
11. Georgia	GA L	168,800	279,716	120,192	104,032	131,741	164,979
12. Hawaii	HI N						
13. Idaho	ID N						
14. Illinois	IL L	186,919	340,043	93,898	199,789	280,930	341,965
15. Indiana	IN L	267,013	579,136	249,305	319,952	289,447	332,141
16. Iowa	IA L	112,708	181,012	65,998	79,093	64,883	111,417
17. Kansas	KS L	298,395	623,344	150,218	511,714	252,185	380,884
18. Kentucky	KY L	2,175,947	2,797,560	1,710,306	1,950,320	2,129,427	2,494,075
19. Louisiana	LA N						
20. Maine	ME N						
21. Maryland	MD L	1,727,256	1,406,507	1,134,641	1,097,463	1,454,937	1,365,948
22. Massachusetts	MA N						
23. Michigan	MI N						
24. Minnesota	MN L	179,169	322,252	225,851	394,332	180,614	460,090
25. Mississippi	MS L	408,028	1,007,495	456,875	434,006	407,264	535,001
26. Missouri	MO L	213,096	397,036	241,731	221,463	224,732	260,842
27. Montana	MT N						
28. Nebraska	NE N						
29. Nevada	NV N						
30. New Hampshire	NH N						
31. New Jersey	NJ N						
32. New Mexico	NM N						
33. New York	NY N						
34. North Carolina	NC L						
35. North Dakota	ND L						
36. Ohio	OH L	599,538	1,416,247	761,187	1,125,571	1,053,870	1,414,174
37. Oklahoma	OK L						
38. Oregon	OR N						
39. Pennsylvania	PA L	226,458	589,711	299,169	323,826	365,677	487,458
40. Rhode Island	RI N						
41. South Carolina	SC L	211,499	513,654	296,109	413,209	213,125	590,114
42. South Dakota	SD L						
43. Tennessee	TN L	1,297,485	3,072,996	1,367,822	1,593,173	1,655,432	1,546,179
44. Texas	TX N						
45. Utah	UT L	455,350	976,750	567,595	518,488	436,831	497,504
46. Vermont	VT N						
47. Virginia	VA N						
48. Washington	WA N						
49. West Virginia	WV L	917,204	2,109,163	923,718	942,384	1,260,274	1,267,320
50. Wisconsin	WI L	129,536	403,129	377,102	297,694	248,638	709,584
51. Wyoming	WY N						
52. American Samoa	AS N						
53. Guam	GU N						
54. Puerto Rico	PR N						
55. U.S. Virgin Islands	VI N						
56. Northern Mariana Islands	MP N						
57. Canada	CN N						
58. Aggregate Other Alien	OT XXX						
59. Totals	(a) 26	10,654,398	19,211,832	10,010,384	11,996,247	11,875,773	14,204,606

DETAILS OF WRITE-INS							
5801.	XXX						
5802.	XXX						
5803.	XXX						
5898. Summary of remaining write-ins for Line 58 from overflow page	XXX						
5899. Totals (Lines 5801 through 5803 plus 5898) (Line 58 above)	XXX						

NONE

(L) Licensed or Chartered - Licensed Insurance Carrier or Domiciled RRG: (R) Registered - Non-domiciled RRGs: (Q) Qualified - Qualified or Accredited Reinsurer:

(E) Eligible - Reporting Entities eligible or approved to write Surplus Lines in the state: (N) None of the above - Not allowed to write business in the state.

(a) Insert the number of L responses except for Canada and Other Alien.

SCHEDULE Y - INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP

PART 1 - ORGANIZATIONAL CHART

Newcastle Partners, L.P., Mark E. Schwarz, General Partner 40.4%	Texas	
... Hallmark Financial Services, Inc.	Nevada	87-0447375
.... ACO Holdings, Inc. (Inactive Co)	Texas	45-8544756
.... American Hallmark G.A., Inc.	Texas	75-2341879
.... Hallmark Claim Services, Inc.	Texas	75-1693596
.... Hallmark Finance Corporation	Texas	75-2339280
.... Aerospace Holdings, LLC	Texas	20-0785668
.... Aerospace Claims Management Group	Texas	75-2853986
.... Aerospace Flight (Inactive Co)	Texas	75-2925120
.... Aerospace Insurance Managers, Inc.	Texas	52-2099239
.... Aerospace Special Risk, Inc.	Texas	20-0786154
.... Mannequin PCC Ltd. Cell A-22*	Guernsey	N/A
.... Heath XS, LLC 80%	New Jersey	02-0557327
.... Hardscrabble Data Solutions, LLC 80%	New Jersey	01-0756829
.... CITON Agency, Inc. 49%	Florida	26-2010050
.... American Hallmark Ins. Co. of TX. (43494)*	Texas	75-1817901
.... Hallmark Specialty Ins. Co. (26808)*	Oklahoma	74-2378996
.... CYR Insurance Management Company	Texas	75-1661749
.... Hallmark County Mutual Insurance Company (29408)*	Texas	74-0814987
.... Effective Claims Management, Inc.	Texas	75-2825542
.... American Hallmark Insurance Services, Inc	Texas	75-2652618
.... TGA Insurance Managers Inc.	Texas	74-2228153
.... TGA Special Risk	Texas	74-2774138
.... Pan American Acceptance Corporation	Texas	74-1683629
.... Hallmark Insurance Company	Arizona	47-0718164
.... Hallmark National Insurance Company (f/k/a State Auto National Insurance Company) (19530)*	Ohio	31-1334827

Notes:

* Denotes affiliated insurer. Unless otherwise stated, subsidiaries listed above are 100% owned by respective parent

PART 1 – LOSS EXPERIENCE

Lines of Business	Current Year to Date			4 Prior Year to Date Direct Loss Percentage
	1 Direct Premiums Earned	2 Direct Losses Incurred	3 Direct Loss Percentage	
1. Fire				
2. Allied lines				
3. Farmowners multiple peril				
4. Homeowners multiple peril				
5. Commercial multiple peril				
6. Mortgage guaranty				
8. Ocean marine				
9. Inland marine				
10. Financial guaranty				
11.1 Medical professional liability-occurrence				
11.2 Medical professional liability-claims made				
12. Earthquake				
13. Group accident and health				
14. Credit accident and health				
15. Other accident and health				
16. Workers' compensation				
17.1 Other liability-occurrence				
17.2 Other liability-claims made				
17.3 Excess Workers' Compensation				
18.1 Products liability-occurrence				
18.2 Products liability-claims made				
19.1. 19.2 Private passenger auto liability	10,725,361	6,308,306	58.8	51.4
19.3. 19.4 Commercial auto liability	2,985,672	1,683,272	56.4	52.9
21. Auto physical damage				
22. Aircraft (all perils)				
23. Fidelity				
24. Surety				
26. Burglary and theft				
27. Boiler and machinery				
28. Credit				
29. International				
30. Warranty				
31. Reinsurance-Nonproportional Assumed Property	XXX	XXX	XXX	XXX
32. Reinsurance-Nonproportional Assumed Liability	XXX	XXX	XXX	XXX
33. Reinsurance-Nonproportional Assumed Financial Lines	XXX	XXX	XXX	XXX
34. Aggregate write-ins for other lines of business				
35. TOTALS	13,711,033	7,991,578	58.3	51.7

DETAILS OF WRITE-INS			
3401.			
3402.			
3403.			
3498. Summary of remaining write-ins for Line 34 from overflow page			
3499. Totals (Lines 3401 through 3403 plus 3498) (Line 34)			

PART 2 – DIRECT PREMIUMS WRITTEN

	1 Current Quarter	2 Current Year to Date	3 Prior Year Year to Date
1. Fire			
2. Allied lines			
3. Farmowners multiple peril			
4. Homeowners multiple peril			
5. Commercial multiple peril			
6. Mortgage guaranty			
8. Ocean marine			
9. Inland marine			
10. Financial guaranty			
11.1 Medical professional liability-occurrence			
11.2 Medical professional liability-claims made			
12. Earthquake			
13. Group accident and health			
14. Credit accident and health			
15. Other accident and health			
16. Workers' compensation			
17.1 Other liability-occurrence			
17.2 Other liability-claims made			
17.3 Excess Workers' Compensation			
18.1 Products liability-occurrence			
18.2 Products liability-claims made			
19.1. 19.2 Private passenger auto liability	3,461,660	8,394,389	14,856,017
19.3. 19.4 Commercial auto liability	914,979	2,260,009	4,355,816
21. Auto physical damage			
22. Aircraft (all perils)			
23. Fidelity			
24. Surety			
26. Burglary and theft			
27. Boiler and machinery			
28. Credit			
29. International			
30. Warranty			
31. Reinsurance-Nonproportional Assumed Property	XXX	XXX	XXX
32. Reinsurance-Nonproportional Assumed Liability	XXX	XXX	XXX
33. Reinsurance-Nonproportional Assumed Financial Lines	XXX	XXX	XXX
34. Aggregate write-ins for other lines of business			
35. TOTALS	4,376,639	10,654,398	19,211,833

DETAILS OF WRITE-INS			
3401.			
3402.			
3403.			
3498. Summary of remaining write-ins for Line 34 from overflow page			
3499. Totals (Lines 3401 through 3403 plus 3498) (Line 34)			

NONE

PART 3 (000 omitted)**LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES SCHEDULE**

Years in Which Losses Occurred	1 Prior Year-End Known Case Loss and LAE Reserves	2 Prior Year-End IBNR Loss and LAE Reserves	3 Total Prior Year-End Loss and LAE Reserves (Cols. 1 + 2)	4 2011 Loss and LAE Payments on Claims Reported as of Prior Year-End	5 2011 Loss and LAE Payments on Unreported Claims as of Prior Year-End (Cols. 4 + 5)	6 Total 2011 Loss and LAE Payments (Cols 4 + 5)	7 Q.S. Date Known Case Loss and LAE Reserves on Claims Reported and Open as of Prior Year-End	8 Q.S. Date Known Case Loss and LAE Reserves on Claims Reported or Reopened Subsequent to Prior Year-End	9 Q.S. Date IBNR Loss & LAE Reserves	10 Total Q.S. Loss and LAE Reserves (Cols 7 + 8 + 9)	11 Prior Year-End Known Case Loss and LAE Reserves Developed (Savings)/Deficiency (Cols. 4 + 7 - 1)	12 Prior Year-End IBNR Loss and LAE Reserves Developed (Savings)/Deficiency (Cols. 5 + 8 + 9 - 2)	13 Prior Year-End Total Loss and LAE Reserve Developed (Savings)/Deficiency (Cols. 11 + 12)
1. 2008 + prior	3,151	216	3,367	(2,687)	1,515	(1,172)	1,113	174	3,182	4,469	(4,725)	4,655	(70)
2. 2009	3,171	378	3,549	(2,258)	1,409	(849)	1,168	159	3,062	4,389	(4,261)	4,252	(9)
3. Subtotals 2009 + prior	6,322	594	6,916	(4,945)	2,924	(2,021)	2,281	333	6,244	8,858	(8,986)	8,907	(79)
4. 2010	8,247	1,909	10,156	(3,967)	5,914	1,947	2,207	234	6,613	9,054	(10,007)	10,852	845
5. Subtotals 2010 + prior	14,569	2,503	17,072	(8,912)	8,838	(74)	4,488	567	12,857	17,912	(18,993)	19,759	766
6. 2011	XXX	XXX	XXX	XXX	2,256	2,256	XXX	2,142	1,881	4,023	XXX	XXX	XXX
7. Totals	14,569	2,503	17,072	(8,912)	11,094	2,182	4,488	2,709	14,738	21,935	(18,993)	19,759	766

8. Prior Year-End Surplus As

13 Regards Policyholders	10,000	Col. 11, Line 7	Col. 12, Line 7	Col. 13, Line 7
		As % of Col. 1, Line 7	As % of Col. 2, Line 7	As % of Col. 3, Line 7

1. -130.366 2. 789.413 3. 4.487

Col. 13, Line 7

Line 8

4. 7.660

SUPPLEMENTAL EXHIBITS AND SCHEDULES INTERROGATORIES

The following supplemental reports are required to be filed as part of your statement filing. However, in the event that your company does not transact the type of business for which the special report must be filed, your response of NO to the specific interrogatory will be accepted in lieu of filing a "NONE" report and a bar code will be printed below. If the supplement is required of your company but is not being filed for whatever reason enter SEE EXPLANATION and provide an explanation following the interrogatory questions.

	<u>Response</u>
1. Will the Trusted Surplus Statement be filed with the state of domicile and the NAIC with this statement?	NO
2. Will Supplement A to Schedule T (Medical Professional Liability Supplement) be filed with this statement?	NO
3. Will the Medicare Part D Coverage Supplement be filed with the state of domicile and the NAIC with this statement?	NO
4. Will the Director and Officer Supplement be filed with the state of domicile and the NAIC with this statement?	NO

Explanation:

Not applicable.

Not applicable.

Not applicable.

Bar Code:



19530201149000020



19530201145500020



19530201136500020



19530201150500020

OVERFLOW PAGE FOR WRITE-INS

SCHEDULE A - VERIFICATION

Real Estate

	1 Year To Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year		
2. Cost of acquired:		
2.1 Actual cost at time of acquisition		
2.2 Additional investment made after acquisition		
3. Current year change in encumbrances		
4. Total gain (loss) on disposals		
5. Deduct amounts received on disposals		
6. Total foreign exchange change in book/adjusted carrying value		
7. Deduct current year's other than temporary impairment recognized		
8. Deduct current year's depreciation		
9. Book/adjusted carrying value at the end of current period (Lines 1 + 2 + 3 + 4 - 5 + 6 - 7 - 8)		
10. Deduct total nonadmitted amounts		
11. Statement value at end of current period (Line 9 minus Line 10)		

NONE**SCHEDULE B - VERIFICATION**

Mortgage Loans

	1 Year To Date	2 Prior Year Ended December 31
1. Book value/recorded investment excluding accrued interest, December 31 of prior year		
2. Cost of acquired:		
2.1 Actual cost at time of acquisition		
2.2 Additional investment made after acquisition		
3. Capitalized deferred interest and other		
4. Accrual of discount		
5. Unrealized valuation increase (decrease)		
6. Total gain (loss) on disposals		
7. Deduct amounts received on disposals		
8. Deduct amortization of premium and mortgage interest points and commitment fees		
9. Total foreign exchange change in book value/recorded investment excluding accrued interest		
10. Deduct current year's other than temporary impairment recognized		
11. Book value/recorded investment excluding accrued interest at end of current period (Lines 1 + 2 + 3 + 4 + 5 + 6 - 7 - 8 + 9 - 10)		
12. Total valuation allowance		
13. Subtotal (Line 11 plus Line 12)		
14. Deduct total nonadmitted amounts		
15. Statement value at end of current period (Line 13 minus Line 14)		

NONE**SCHEDULE BA - VERIFICATION**

Other Long-Term Invested Assets

	1 Year To Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year		
2. Cost of acquired:		
2.1 Actual cost at time of acquisition		
2.2 Additional investment made after acquisition		
3. Capitalized deferred interest and other		
4. Accrual of discount		
5. Unrealized valuation increase (decrease)		
6. Total gain (loss) on disposals		
7. Deduct amounts received on disposals		
8. Deduct amortization of premium and depreciation		
9. Total foreign exchange change in book/adjusted carrying value		
10. Deduct current year's other than temporary impairment recognized		
11. Book/adjusted carrying value at end of current period (Lines 1 + 2 + 3 + 4 + 5 + 6 - 7 - 8 + 9 - 10)		
12. Deduct total nonadmitted amounts		
13. Statement value at end of current period (Line 11 minus Line 12)		

NONE**SCHEDULE D - VERIFICATION**

Bonds and Stocks

	1 Year To Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value of bonds and stocks, December 31 of prior year	2,999,840	77,502,361
2. Cost of bonds and stocks acquired	21,687,972	2,637,227
3. Accrual of discount	862	92,407
4. Unrealized valuation increase (decrease)		(1,048,986)
5. Total gain (loss) on disposals	5,000	3,727,325
6. Deduct consideration for bonds and stocks disposed of	845,000	79,672,651
7. Deduct amortization of premium	36,239	237,843
8. Total foreign exchange change in book/adjusted carrying value		
9. Deduct current year's other than temporary impairment recognized		
10. Book/adjusted carrying value at end of current period (Lines 1 + 2 + 3 + 4 + 5 - 6 - 7 + 8 - 9)	23,812,435	2,999,840
11. Deduct total nonadmitted amounts		
12. Statement value at end of current period (Line 10 minus Line 11)	23,812,435	2,999,840

SCHEDULE D - PART 1B

Showing the Acquisitions, Dispositions and Non-Trading Activity

During the Current Quarter for all Bonds and Preferred Stock by Rating Class

	1 Book/Adjusted Carrying Value Beginning of Current Quarter	2 Acquisitions During Current Quarter	3 Dispositions During Current Quarter	4 Non-Trading Activity During Current Quarter	5 Book/Adjusted Carrying Value End of First Quarter	6 Book/Adjusted Carrying Value End of Second Quarter	7 Book/Adjusted Carrying Value End of Third Quarter	8 Book/Adjusted Carrying Value December 31 Prior Year
BONDS								
1. Class 1 (a)	8,646,191	12,750,955	840,000	(25,351)	8,646,191	20,531,795		10,403,517
2. Class 2 (a)		3,281,872		(1,232)		3,280,640		
3. Class 3 (a)								
4. Class 4 (a)								
5. Class 5 (a)								
6. Class 6 (a)								
7. Total Bonds	8,646,191	16,032,827	840,000	(26,583)	8,646,191	23,812,435		10,403,517
PREFERRED STOCK								
8. Class 1								
9. Class 2								
10. Class 3								
11. Class 4								
12. Class 5								
13. Class 6								
14. Total Preferred Stock								
15. Total Bonds & Preferred Stock	8,646,191	16,032,827	840,000	(26,583)	8,646,191	23,812,435		10,403,517

(a) Book/Adjusted Carrying Value column for the end of the current reporting period includes the following amount of non-rated, short-term and cash-equivalent bonds by NAIC designation:

NAIC 1 \$ 0; NAIC 2 \$ 0; NAIC 3 \$ 0; NAIC 4 \$ 0; NAIC 5 \$ 0; NAIC 6 \$ 0

SCHEDULE DA - PART 1

Short-Term Investments

	1 Book/Adjusted Carrying Value	2 Par Value	3 Actual Cost	4 Interest Collected Year To Date	5 Paid for Accrued Interest Year To Date
9199999		X	NONE		

SCHEDULE DA - VERIFICATION

Short-Term Investments

	1 Year To Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year	7,403,677	3,905,357
2. Cost of short-term investments acquired		61,189,879
3. Accrual of discount		
4. Unrealized valuation increase (decrease)		
5. Total gain (loss) on disposals		
6. Deduct consideration received on disposals	7,403,677	57,691,559
7. Deduct amortization of premium		
8. Total foreign exchange change in book/adjusted carrying value		
9. Deduct current year's other than temporary impairment recognized		
10. Book/adjusted carrying value at end of current period (Lines 1 + 2 + 3 + 4 + 5 - 6 - 7 + 8 - 9)		7,403,677
11. Deduct total nonadmitted amounts		
12. Statement value at end of current period (Line 10 minus Line 11)		7,403,677

NONE Schedule DB - Part A and B Verification

NONE Schedule DB - Part C - Section 1

NONE Schedule DB - Part C - Section 2

NONE Schedule DB - Verification

SCHEDULE E - VERIFICATION

(Cash Equivalents)

	1 Year To Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year		
2. Cost of cash equivalents acquired	899,968	
3. Accrual of discount		
4. Unrealized valuation increase (decrease)		
5. Total gain (loss) on disposals		
6. Deduct consideration received on disposals		
7. Deduct amortization of premium		
8. Total foreign exchange change in book/adjusted carrying value		
9. Deduct current year's other than temporary impairment recognized		
10. Book/adjusted carrying value at end of current period (Lines 1 + 2 + 3 + 4 + 5 - 6 - 7 + 8 - 9)	899,968	
11. Deduct total nonadmitted amounts		
12. Statement value at end of current period (Line 10 minus Line 11)	899,968	

NONE Schedule A - Part 2 and 3

NONE Schedule B - Part 2 and 3

NONE Schedule BA - Part 2 and 3

SCHEDULE D - PART 3

Show All Long-Term Bonds and Stock Acquired During the Current Quarter

1 CUSIP Ident- ification	2 Description	3 Foreign	4 Date Acquired	5 Name of Vendor	6 Number of Shares of Stock	7 Actual Cost	8 Par Value	9 Paid for Accrued Interest and Dividends	10 NAIC Designation or Market Indicator (a)
912828-MM-9	US Treasury Bond MM9		06/23/2011	No Broker used		17,994	18,000.00		1
912828-MU-1	US Treasury Bond MU1		06/23/2011	No Broker used		1,506,890	1,500,000.00		1
912828-LT-5	US Treasury Note LT5		06/23/2011	No Broker used		400,320	400,000.00		1
0599999	Total Bonds U. S. Government				XXX	1,925,204	1,918,000.00		XXX
702538-EJ-4	Pasco Cnty FL Waste Rcvry REV		05/26/2011	MERRILL LYNCH		101,954	100,000.00		1FE
849520-FN-0	Spring Creek TX Util GO		06/28/2011	Maplewood Investment Advi		173,720	170,000.00	2,259	2FE
939758-BC-1	Washington St Econ Dev REV Ttbl		06/15/2011	Crews & Associates		101,258	100,000.00	878	2FE
1799999	U.S. Total Bonds States, Territories and Possessions				XXX	376,932	370,000.00	3,137	XXX
130534-B3-3	California Polution Ctl Rev		06/23/2011	No Broker used		820,989	900,000.00		2FE
230300-AW-5	Culver City CA CTF5 Ser A		06/07/2011	Maplewood Investment Advi		256,593	250,000.00	6,349	1FE
241624-AK-1	De Soto Parish La Environmntl Rev A		06/23/2011	No Broker used		89,388	100,000.00		2FE
251237-WY-5	Detroit MI Swr DispRev Ser D2		06/23/2011	No Broker used		751,520	750,000.00		1FE
442348-W3-8	Houston TX Arpt Rev Ser D2		06/23/2011	No Broker used		950,000	950,000.00		1FE
490296-FN-5	Kent County MI Arpt Rev		06/23/2011	No Broker used		100,000	100,000.00		1FE
491026-SQ-4	Kenton Cnty KY Arpt Rev Ser B		06/23/2011	No Broker used		509,663	500,000.00		1FE
575854-8G-2	Massachusetts St Hsg Fin Agy		06/23/2011	No Broker used		50,000	50,000.00		1FE
57586P-EX-0	Massachusetts St Hsg Ser 124		06/23/2011	No Broker used		199,680	200,000.00		1FE
649845-FV-1	New York St Energy Niagara Rev		06/23/2011	No Broker used		1,000,000	1,000,000.00		1FE
677555-VQ-4	Ohio St Economic Dev Rev		06/23/2011	No Broker used		275,000	275,000.00		1FE
685424-AP-8	Orangeburg Cty SC REV Cap Proj		06/23/2011	No Broker used		568,252	545,000.00		1FE
69753L-AC-1	Palomar Pomerado HlthCt Rev 2006B		06/23/2011	No Broker used		975,000	975,000.00		1FE
702538-EK-1	Pasco Cnty FL Waste Rec REV		06/23/2011	No Broker used		268,774	250,000.00		1FE
71883M-EC-4	Phoenix AZ Sr Lein Arpt Rev 2008B		06/23/2011	No Broker used		504,210	500,000.00		1FE
734260-ZV-7	Port Houston Auth TX Ser B		06/23/2011	No Broker used		426,368	425,000.00		1FE
735000-ND-9	Port Oakland CA Rev Ser L		06/23/2011	No Broker used		212,683	210,000.00		1FE
735000-MW-8	Port Oakland CA Unrefndd Rev Ser K		06/23/2011	No Broker used		375,000	375,000.00		1FE
743810-JA-2	Providence RI REV Ser A		06/27/2011	Maplewood Investment Advi		101,881	100,000.00	214	2FE
762212-3A-4	Rhode Island Hsg&Mtg 2006 52B		06/23/2011	No Broker used		877,556	1,000,000.00		1FE
797652-F6-6	San Francisco CA Airport Revenue		06/23/2011	No Broker used		572,472	570,000.00		2FE
80218M-CP-4	Santa Fe Springs CA Redev Ser A		04/12/2011	Maplewood Investment Advi		204,998	200,000.00		1,222 1FE
810472-EX-4	Scottsdale AZ Hosp Ref 2006F		06/23/2011	No Broker used		1,000,000	1,000,000.00		1FE
84049B-FN-7	South Tahoe CA JR Pwrs REV		06/07/2011	Crews & Associates		211,554	200,000.00		1,917 2FE
791638-NB-1	St Louis MO Arpt REV Lambert		05/25/2011	JP Morgan Chase		107,270	100,000.00		2,500 2FE
791638-NA-3	St Louis MO Int'l Arpt Rev Ser 97B		06/23/2011	No Broker used		419,484	415,000.00		1FE
940854-AC-6	Washoe Cnty NV Pollutn Ctl-SierraC		06/23/2011	No Broker used		1,000,000	1,000,000.00		2FE
944314-KV-4	Wayne Charter Cty MI Arpt REV		05/25/2011	Crews & Associates		103,342	100,000.00		2,750 2FE
95308R-AF-6	West Harris Cnty Regl Auth Wtr Sys		06/23/2011	No Broker used		799,017	795,000.00		1FE

(a) For all common stock bearing the NAIC market indicator 'U' provide: the number of such issues 0.

SCHEDULE D - PART 3

Show All Long-Term Bonds and Stock Acquired During the Current Quarter

1 CUSIP Ident- ification	2 Description	3 Foreign	4 Date Acquired	5 Name of Vendor	6 Number of Shares of Stock	7 Actual Cost	8 Par Value	9 Paid for Accrued Interest and Dividends	10 NAIC Designation or Market Indicator (a)
3199999	U.S. Total Bonds Special Revenue and Special Assessment and all Non-Guaranteed Obligations				XXX	13,730,694	13,835,000.00	14,952	XXX
8399997	Total Bonds Part 3				XXX	16,032,830	16,123,000.00	18,089	XXX
8399998	Summary Item from Part 5 for Bonds				XXX	XXX	XXX	XXX	XXX
8399999	Total Bonds				XXX	16,032,830	16,123,000.00	18,089	XXX
9999999	Totals				XXX	16,032,830	XXX	18,089	XXX

(a) For all common stock bearing the NAIC market indicator 'U' provide: the number of such issues 0.

E04.1

SCHEDULE D - PART 4

Show All Long-Term Bonds and Stock Sold, Redeemed or Otherwise Disposed of
During the Current Quarter

1 CUSIP Ident- ification	2 Description	3 F o r e i g n	4 Disposal Date	5 Name of Purchaser	6 Number of Shares of Stock	7 Consid- eration	8 Par Value	9 Actual Cost	10 Prior Year Book/ Adjusted Carrying Value	Change in Book/Adjusted Carrying Value					16 Book/ Adjusted Carrying Value at Disposal Date	17 Foreign Exchange Gain (Loss) on Disposal	18 Realized Gain (Loss) on Disposal	19 Total Gain (Loss) on Disposal	20 Bond Interest/ Stock Dividends Received During Year	21 Maturity Date	22 NAIC Desig- nation or Market Indicator (a)		
										11 Unrealized Valuation Increase/ (Decrease)	12 Current Year's Other Than Temporary Impairment Recognized	13 Current Year's (Amort- ization)/ Accretion	14 Total Change in B./A.C.V. (11+12-13)	15 Total Foreign Exchange Change in B./A.C.V.									
167592-VL-5 442348-W3-8 973891-FG-4	Chicago IL Ohare Apt Houston TX Apt Rev Ser D2 Winfield IL Alt Rev Source		06/09/2011 06/27/2011 04/30/2011	CALLED @ 101.000000 CALLED @ 100.000000 CALLED @ 100.000000			505,000 50,000 290,000	500,000.00 50,000.00 290,000.00	507,045 50,000 292,561			(7,045) (2,561)		(7,045) (2,561)		500,000 50,000 290,000		5,000 5,000 3,451	12,069 4 3,451	01/01/2013 07/01/2032 01/01/2013	1FE 1FE 1FE		
3199999	U.S. Total - Bonds - Special Revenue and Special Assessment Non-Guaranteed Obl				XXX	845,000	840,000.00	849,606			(9,606)		(9,606)		(9,606)		840,000		5,000	5,000	15,524	XXX	XXX
8399997	Total - Bonds - Part 4				XXX	845,000	840,000.00	849,606			(9,606)		(9,606)		(9,606)		840,000		5,000	5,000	15,524	XXX	XXX
8399998	Summary Item from Part 5 for Bonds				XXX	XXX	XXX	XXX	XXX	XXX							XXX	XXX	XXX	XXX	XXX	XXX	XXX
8399999	Total Bonds				XXX	845,000	840,000.00	849,606			(9,606)		(9,606)		(9,606)		840,000		5,000	5,000	15,524	XXX	XXX
9999999	Totals					845,000	XXX	849,606			(9,606)		(9,606)		(9,606)		840,000		5,000	5,000	15,524	XXX	XXX

(a) For all common stock bearing the NAIC market indicator 'U' provide: the number of such issues 0.

NONE Schedule DB - Part A - Section 1

NONE Schedule DB - Part B - Section 1

NONE Schedule DB - Part D

NONE Schedule DL - Part 1

NONE Schedule DL - Part 2

SCHEDULE E - PART 1 - CASH

Month End Depository Balances

1 Depository	2 Code	3 Rate of Interest	4 Amount of Interest Received During Current Quarter	5 Amount of Interest Accrued at Current Statement Date	Book Balance at End of Each Month During Current Quarter			9 *
					6 First Month	7 Second Month	8 Third Month	
Open Depositories								
Frost Bank Operating Acct 2778	Dallas, Tx				1,107,057	453,555	1,794,045	
Frost Bank Premium Trust Acct 2670	Dallas, Tx				575,850	1,261,529	1,370,595	
Frost Bank Return Premium Acct 2859	Dallas, Tx				(7,348)	(8,742)	(10,101)	
Frost Bank Claims Acct 2840	Dallas, Tx				(11,540)	(35,150)	(118,285)	
0199998 Deposits in (0) depositories that do not exceed the allowable limit in any one depository (see Instructions) - Open Depositories	XXX	XXX						XXX
0199999 Total - Open Depositories	XXX	XXX			1,664,019	1,671,192	3,036,254	XXX
Suspended Depositories								
0299998 Deposits in (0) depositories that do not exceed the allowable limit in any one depository (see Instructions) - Suspended Depositories	XXX	XXX						XXX
0299999 Total Suspended Depositories	XXX	XXX						XXX
0399999 Total Cash on Deposit	XXX	XXX			1,664,019	1,671,192	3,036,254	XXX
0499999 Cash in Company's Office	XXX	XXX	XXX	XXX				XXX
0599999 Total	XXX	XXX			1,664,019	1,671,192	3,036,254	XXX

SCHEDULE E - PART 2 - CASH EQUIVALENTS

Show Investments Owned End of Current Quarter

E12