Report of Examination of

Infinity Auto Insurance Company
Cincinnati, Ohio

As of December 31, 2011

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Columbus, Ohio
November 30, 2012

Honorable Mary Taylor
Lt. Governor/Director
State of Ohio
Department of Insurance
50 West Town Street
3rd Floor – Suite 300
Columbus, Ohio 43215

Dear Madam:

In accordance with Section 3901.07 of the Ohio Revised Code ("ORC"), the Ohio Department of Insurance ("Department") conducted an examination of

Infinity Auto Insurance Company

an Ohio domiciled, stock, property and casualty insurance company, hereinafter referred to as the "Company."

Scope of Examination

The Department last examined the Company as of December 31, 2006. The Department's current examination covers the period of January 1, 2007 to and including December 31, 2011.

Representatives of the Indiana Department of Insurance, as the coordinating state regulator of the insurance company affiliates of Infinity Property and Casualty Corporation, led the multi-state coordinated examination that included representatives from the states of Indiana, Ohio, and Texas. The examination was conducted in accordance with the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook ("Handbook"). The Handbook requires that the Department plan and perform the examination to evaluate the Company's financial condition and identify prospective risks including corporate governance, identify and assess inherent risks, and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and Annual Statement instructions when applicable to domestic state regulations.

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

For all years under examination, the Certified Public Accounting firm of Ernst & Young LLP provided an unqualified opinion on the Company's financial statements based on Statutory Accounting Principles. The audited financial reports were reviewed during the examination.

Management and Control

Board of Directors

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date:

Name	Principal Occupation
James R. Gober	Chairman of the Board, President, and Chief Executive Officer, Infinity Property and Casualty Corporation
Glen N. Godwin	Senior Vice President – Business Development, Infinity Insurance Companies
Scott C. Pitrone	Senior Vice President – Product Management, Infinity Insurance Companies
Roger H. Prestridge	Vice President and Controller, Infinity Insurance Companies
Samuel J. Simon	Executive Vice President, General Counsel, Assistant Secretary, and Director, Infinity Property and Casualty Corporation
Roger Smith	Executive Vice President, Chief Financial Officer, Treasurer, and Director, Infinity Property and Casualty Corporation
Shelia H. Williams	Vice President – Human Resources, Infinity Insurance Companies

Officers

As of the examination date, the following officers were serving in the designated position:

Name	Title
Glen N. Godwin	President and Chief Executive Officer
Mary L. Clark	Assistant Treasurer

Samuel J. Simon	Senior Vice President and Secretary
Roger H. Prestridge	Vice President and Treasurer
Roger Smith	Senior Vice President and Chief Financial Officer
James H. Romaker	Assistant Secretary
Troy P. Ballard	Assistant Treasurer
Shelia H. Williams	Vice President
Mitchell Silverman	Assistant Secretary
Vicki W. Daniell	Assistant Treasurer

Insurance Holding Company System

The Company is a member of a holding company system as defined under Section 3901.32 of the ORC. The Company is wholly owned by Infinity Insurance Company ("IIC"), an Indiana domiciled insurance company. IIC is wholly owned by Infinity Property and Casualty Corporation, an Ohio domiciled holding company that, through its subsidiaries, provides personal automobile insurance with a concentration on nonstandard auto insurance.

Territory and Plan of Operations

The Company is licensed to operate in the states of Alabama, Arizona, California, Colorado, Florida, Georgia, Illinois, Indiana, Louisiana, Michigan, Mississippi, Missouri, Nevada, New Mexico, New York, Ohio, Oregon, Pennsylvania, South Carolina, Tennessee, Texas, and Wisconsin. The Company is a part of the Infinity Insurance Group ("Group") which provides personal automobile insurance nationwide with a concentration in nonstandard private passenger auto insurance. The Group markets its insurance products using a network of approximately 12,900 independent agents and brokers. While the Group does offer commercial auto and classic collector coverage, these products represented only 6% and 1% of gross written premiums for 2011, respectively. The remaining 93% of gross writings represents the private passenger auto market. Overall, the Group estimates that 76% of their personal auto insurance is concentrated in nonstandard personal auto coverage.

Reinsurance

Intercompany Pooling Agreement

The Company is a member of the Group and participates in an inter-company reinsurance pool for which IIC acts as the lead pool reinsurer.

The pooling process is comprised of three steps. First, each company directly or indirectly cedes 100% of their direct and assumed business to IIC pursuant to the pooling agreement. In

2011 the Company ceded premiums totaling $309.3 million and case loss and expense reserves totaling $77.9 million to IIC in connection with pooling transactions.

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

Third, in its capacity as lead pool insurer, IIC then cedes (or retrocedes) back to each participating pool member a specified percentage of the combined "pool" in accordance with each member's applicable pooling percentage. At December 31, 2011 IIC retained 98.8% of the total pool and ceded 1/10th of 1% (one-tenth of one percent) to each of twelve remaining pool members as shown below. In 2011 IIC ceded premiums totaling $1.1 million to each remaining pool member and reported total reinsurance recoverables (consisting of paid, outstanding and IBNR loss and LAE reserves plus unearned premiums) of $1.0 million due from each remaining pool member identified below.

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

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

External Reinsurance Ceded

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

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

These treaties are placed on behalf of all members of the Group by IIC in their capacity as lead pool reinsurer. The cost of each treaty is deducted from the combined pooled premium and the residual ceded to each pool member in proportion to their designated pool share.

Significant Operating Results

The Company reported the following net underwriting results during the examination period, reported in thousands.

	2011	2010	2009	2008	2007
Premiums earned	$ 1,019	$ 906	$ 848	$ 922	$ 1,032
Losses incurred	628	501	466	555	588
Loss adjustment expenses incurred	140	106	98	93	140
Underwriting expenses incurred	303	273	236	250	281
Net underwriting gain (loss)	$ (52)	$ 26	$ 48	$ 24	$ 23

Financial Statements

The financial condition and the results of its operations for the period under examination as reported and filed by the Company with the Department and audited by the Company's external auditors, are reflected in the following:

Statement of Assets, Liabilities, Surplus and Other Funds

Statement of Income

Statement of Changes in the Capital and Surplus Account

Statement of Assets, Liabilities, Surplus and Other Funds
December 31, 2011

Bonds	$ 10,538,676
Cash, cash equivalents and short-term investments	108,279
Subtotal, cash and invested assets	10,646,955
Investment income due and accrued	74,009
Uncollected premiums and agents' balances in course of collection	94,525
Total admitted assets	$ 10,815,489
Losses	$ 345,208
Reinsurance payable on paid losses and loss adjustment expenses	67,517
Loss adjustment expenses	135,375
Commissions payable, contingent commissions and other charges	3,051
Other expenses	22,114
Taxes, licenses and fees	4,298
Current federal income taxes	3,456
Net deferred tax liability	59,056
Unearned premiums	472,397
Payable to parent, subsidiaries and affiliates	485,840
Accounts payable and other liabilities	87,355
Total liabilities	1,685,667
Common capital stock	3,000,000
Gross paid in and contributed surplus	4,500,000
Unassigned funds (surplus)	1,629,822
Total surplus and other funds	9,129,822
Total liabilities, surplus and other funds	$ 10,815,489

Statement of Income
As of December 31, 2011

Premiums earned	$ 1,019,060
Losses incurred	628,584
Loss adjustment expenses incurred	139,878
Other underwriting expenses incurred	302,651
Total underwriting deductions	1,071,113
Net underwriting loss	(52,053)
Net investment income earned	236,837
Net realized capital gains	18,935
Net investment gain	255,772
Net loss from agents' or premium balances charged off	(19,974)
Finance and service charges not included in premiums	61,993
Other fee income	20,691
Miscellaneous expense	(630)
Total other income	62,080
Net income before federal income taxes	265,799
Federal income taxes incurred	61,002
Net income	$ 204,797

Statement of Changes in the Capital and Surplus Account
(in thousands)

	2011	2010	2009	2008	2007
Capital and surplus, December 31 prior year	$ 9,898	$ 10,330	$ 10,535	$ 10,047	$ 9,744
Net income	205	613	361	490	305
Change in net deferred income tax	(1)	(15)	(548)	(74)	(82)
Change in non-admitted assets	3	0	472	72	80
Dividends to stockholders	(975)	(1,030)	(490)	0	0
Change in surplus during the year	(768)	(432)	(205)	488	303
Capital and surplus, December 31 current year	$ 9,130	$ 9,898	$ 10,330	$ 10,535	$ 10,047

Notes to Financial Statements

Investments

The Company's investments were in compliance with ORC Section 3925.08 and valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

Loss and Loss Adjustment Expense Reserves

The Company's Board of Directors appointed Martha A. Winslow, FCAS, MAAA, of Towers Watson, to render the Company's Statement of Actuarial Opinion ("Opinion"). Ms. Winslow prepared an Actuarial Report supporting the Opinion in connection with the preparation of the Company's December 31, 2011 Annual Statement.

David M. Shepherd, FCAS, MAAA, of Merlinos & Associates, Inc., was contracted by the Indiana Department of Insurance to review the reserves for the Group as of December 31, 2011. There were no actuarial adjustments from the review performed by Merlinos & Associates, Inc.

Thomas S. Botsko, ACAS, MAAA, Chief Property & Casualty Actuary of the Department, reviewed the work performed by Mr. Shepherd. Based on his review, Mr. Botsko determined that the loss and loss adjustment expense reserves presented in the Company's 2011 Annual Statement are reasonably stated.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2011, and is summarized as follows:

Total Assets	$ 10,815,489
Liabilities	1,685,667
Capital and Surplus	9,129,822
Total Liabilities, Capital and Surplus	$ 10,815,489

Subsequent Events

There have been no events subsequent to the examination date which would have a material effect on the financial condition of the Company.

Acknowledgement

In addition to the undersigned, David T. Finkler, CPA, CFE; Thomas S. Botsko, ACAS, MAAA; and Bradley J. Schroer, of the Department, participated in this examination.

Respectfully,

Nicholas J. Kostoff, CPA, CFE
Examiner-In-Charge
Office of Risk Assessment
Ohio Department of Insurance

David A. Cook, CFE
Assistant Chief Examiner
Office of Risk Assessment
Ohio Department of Insurance

Verification

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2011.

Nicholas J. Kostoff 4/8/13 David A. Cook 4/8/13

Examiner-In-Charge Date Assistant Chief Examiner Date

State of Ohio

County of Franklin

Personally appeared before me the above named Nicholas J. Kostoff personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 8 day of April, 2013.

Elizabeth Chase

(Notary Public)

ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2017

My Commission Expires

State of Ohio

County of Franklin

Personally appeared before me the above named David A. Cook personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 8 day of April, 2013.

Elizabeth Chase

(Notary Public)

ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2017

My Commission Expires