

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

IN THE MATTER OF:)
)
Indiana Lumbermens Mutual Insurance Company)
8888 Keystone Crossing, Suite 250)
Indianapolis, Indiana 46240)

Examination of **Indiana Lumbermens Mutual 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 **Indiana Lumbermens Mutual Insurance Company**, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on December 12, 2012, 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 **Indiana Lumbermens Mutual 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.

January 16th, 2013
Date


Cynthia D. Donovan
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 9214 8901 0661 5400 0008 8166 61

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

IN THE MATTER OF:)
)
Indiana Lumbers Mutual Insurance Company)
8888 Keystone Crossing, Suite 250)
Indianapolis, Indiana 46240)

Examination of **Indiana Lumbers Mutual Insurance Company**

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the **Indiana Lumbers Mutual Insurance Company** (hereinafter "Company") for the time period January 1, 2007 through December 31, 2011.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on October 31, 2012.

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 December 12, 2012 and was received by the Company on December 14, 2012.

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 **Indiana Lumbers Mutual Insurance Company** as of December 31, 2011.
2. That the Examiner's Recommendations are reasonable and necessary in order for the **Indiana Lumbers Mutual 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 16th day of January, 2013.



Stephen W. Robertson
Insurance Commissioner
Indiana Department of Insurance

STATE OF INDIANA
Department of Insurance
REPORT OF EXAMINATION
OF

INDIANA LUMBERMENS MUTUAL INSURANCE COMPANY

NAIC Co. CODE 14265
NAIC GROUP CODE 0246

As of

December 31, 2011

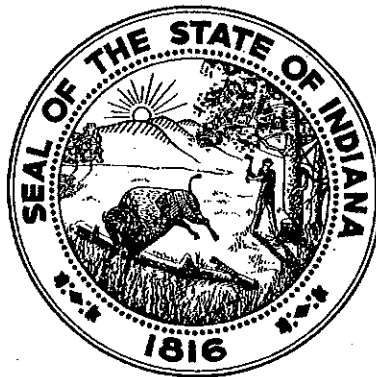


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STATE OF INDIANA

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

October 31, 2012

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

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 3713, an examination has been made of the affairs and financial condition of:

Indiana Lumbermens Mutual Insurance Company
8888 Keystone Crossing, Suite 250
Indianapolis, Indiana 46240

hereinafter referred to as the "Company," or "ILM," an Indiana domestic property and casualty insurance company. The examination was conducted at the offices of Noble Consulting Services, Inc. in Indianapolis, Indiana.

The Report of Examination, reflecting the status of the Company as of December 31, 2011, 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
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EXAMINATIONS / FINANCIAL SERVICES
(317) 232-2390

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SECURITIES / COMPANY RECORDS
(317) 232-1991

SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI) as of the period ending December 31, 2006. The present risk-focused examination was conducted by Noble Consulting Services, Inc. (Noble) and covered the period from January 1, 2007 through December 31, 2011.

David Shepherd, FCAS, MAAA, of Merlinos & Associates, Inc. was appointed by the INDOI and conducted a review of the Company's statutory reserves as of December 31, 2011. There were no actuarial adjustments resulting from the review performed by Merlinos & Associates, Inc.

Noble conducted the examination pursuant to and in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and Annual Statement instructions, when applicable to domestic state regulations.

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

HISTORY

ILM was incorporated under the laws of Indiana on April 1, 1897, and commenced business on April 1, 1897. The Company expanded its product offerings to several states and gradually offered new lines of insurance, including auto coverage, windstorm and tornado, multiple lines, workers' compensation, commercial and person umbrella liability, and surety, among others.

Over the years, ILM has focused on tailoring commercial coverages for manufacturers and retailers in the forest product and building material industries. The Company and its subsidiaries stopped writing workers' compensation in 2009. There are currently 115 workers' compensation claims, death benefits, survivor benefits, and lifetime medical outstanding.

In March 2001, the Company formed Lone Star National Insurance Company (LSN) and National Building Material Assurance Company (NBM) to conduct business as property and casualty insurance carriers. ILM received 100,000 shares of common stock (\$10 par value) from each subsidiary in exchange for capital contributions of \$2,250,000 to each. The subsidiaries were formed to enable the Company to enhance its existing product offerings by allowing multi-tiered rating programs and expanding its geographical territory to transact business.

CAPITAL AND SURPLUS

ILM is a mutual insurance company that is owned by its policyholders. Therefore, the Company has no capital stock issued, authorized, or outstanding.

DIVIDENDS TO POLICYHOLDERS

The Company paid the following ordinary dividends to its policyholders during the examination period.

<u>Year</u>	<u>Dividends</u>
2011	\$ 335,893
2010	46,167
2009	152,073
2008	307,419
2007	412,463
Total	<u>\$ 1,254,015</u>

TERRITORY AND PLAN OF OPERATION

As of December 31, 2011, the Company was licensed to transact business in all states except Rhode Island. ILM is primarily involved in the sale of various commercial lines of insurance to the forest products and building materials industry. The Company provides auto coverage for commercial multiple peril, inland marine, other liability, products liability, other commercial auto liability, commercial automobile physical damage, surety, and commercial automobile no fault. ILM stopped writing workers' compensation in 2009.

GROWTH OF THE COMPANY

The following exhibit summarizes the financial results of the Company during the examination period:

<u>Year</u>	<u>Admitted</u>		<u>Surplus and</u>		<u>Net Income</u>
	<u>Assets</u>	<u>Liabilities</u>	<u>Other Funds</u>	<u>Premiums</u>	
2011	\$ 93,793,337	\$ 68,282,592	\$ 25,510,746	\$ 29,943,855	\$ 1,062,336
2010	98,183,293	65,680,317	32,502,976	32,185,068	(7,655,663)
2009	107,416,597	67,741,614	39,674,983	38,051,695	11,930,948
2008	113,178,874	80,145,219	33,033,655	43,199,885	(11,667,781)
2007	129,487,372	80,931,594	48,555,778	46,576,564	2,463,305

Written premiums decreased each year of the examination period. The primary factor in this downward trend was the voluntary lost premium from exiting the workers' compensation line of business in 2008. ILM has voluntarily lost additional premium in order to avoid writing unprotected risks. In 2009, the Company began to change its underwriting policies and adjust rates in order to write business with acceptable loss ratios. The 2008 housing market crash, which had a significant effect on wood-working and lumber-related entities, also contributed to decreased premium volume at ILM.

ILM has had varying net income during the examination period. Poor underwriting results and decreases within fixed-income investments have contributed to these losses. Throughout the examination period the Company has been able to offset losses somewhat with investment gains.

MANAGEMENT AND CONTROL

Directors

The Bylaws provide that the Board of Directors shall be composed of not less than five (5) or more than nine (9) directors. No person under 25 or over 75 years of age shall be nominated or elected as a director. At least one (1) of the directors must be a resident of Indiana. The policyholders, at each annual meeting, elect the members of the Board of Directors. The following is a listing of persons serving as directors at December 31, 2011, and their principal occupations as of that date:

<u>Name and Address</u>	<u>Principal Occupation</u>
John F. Wolf Noblesville, IN	President and Chief Executive Officer Indiana Lumbermens Mutual Insurance Company
Don W. Blackwell Fishers, IN	Secretary, Treasurer, and Chief Financial Officer Indiana Lumbermens Mutual Insurance Company
Howard L. Shearon Indianapolis, IN	Retired Ernst and Young, LLP
Craig D. Doyle Indianapolis, IN	Partner Doyle and Friedmeyer, P.C.
Daniel E. Welty Amboy, IL	Owner Jones-Berry Lumber Company
Douglas G. Prince Carmel, IN	Practice Manager Stifel Nicolaus and Company
Chris L. Walker San Diego, CA	President Arrowhead Insurance Agency

Officers

The Bylaws state that the officers of the Company shall consist of a chairman of the board, a chief executive officer, a chief financial officer, a president, one (1) or more vice presidents, a secretary, a treasurer, and any such additional officers as may be authorized from time to time by the Board of Directors. All officers are appointed by resolution of the Board of Directors, and hold office until termination of employment or removal by resolution of the Board of Directors. Any two (2) or more offices can be held by the same person, except the duties of chief executive officer and secretary, or president and secretary, shall not be performed by the same person.

The following is a list of key officers and their respective titles as of December 31, 2011:

<u>Name</u>	<u>Office</u>
Howard L. Shearon	Chairman of the Board
John F. Wolf	President and Chief Executive Officer
Don W. Blackwell	Secretary, Treasurer, and Chief Financial Officer
Susan K. Knotts	Vice President of Human Resources and Operations
Raymond R. Campisi	Vice President of Claims
Gregory Pianko	Vice President of Technical Services

CONFLICT OF INTEREST

Officers and directors are required to review and sign Conflict of Interest statements annually. It was determined that the officers and directors listed in the Management and Control section of this Report of Examination have reviewed and signed Conflict of Interest statements as of year-end 2011.

OATH OF OFFICE

Indiana Code (IC) 27-1-7-10(i) stipulates that every director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly, and diligently administer the affairs of the Company and will not knowingly violate any of the laws applicable to such Company. Each director subscribed to an Oath of Office statement in 2011.

CORPORATE RECORDS

Articles of Incorporation

The only amendment to the Articles of Incorporation during the examination period reflected a change of address of the Company headquarters in October, 2011. The amendment was appropriately approved by the Board of Directors.

Bylaws

The only amendment to the Bylaws during the examination period reflected the change of address of the Company headquarters in October, 2011. The amendment was properly approved by the Board of Directors.

Minutes

The Board of Directors and policyholder meeting minutes were reviewed for the period under examination through the fieldwork date. Significant actions taken during each meeting were noted. The board meetings as well as the policyholder meetings were held in accordance with the Company's bylaws.

AFFILIATED COMPANIES

Organizational Structure

The following organizational chart shows the affiliated insurance companies and the Company's subsidiaries as of December 31, 2011. All subsidiaries are 100% owned by ILM:

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

Affiliated Agreements

The following affiliated agreements and transactions were disclosed as part of the Form B – Holding Company Registration Statement and were filed with the INDOI, as required, in accordance with IC 27-1-23-4.

Administrative Services Agreement

As of January 1, 2001, ILM agrees to provide all personnel, automated systems, and work processes required by the subsidiaries, LSN and NBM. The services to be provided by ILM include marketing, sales, agency administration, underwriting, policy administration, claims adjudication and payment, information technology, investment management, accounting, tax, regulatory reporting and compliance, loss control assessment and executive and strategic management, and other services that may be requested by the subsidiaries. Each subsidiary shall pay ILM \$1,310 on a quarterly basis, in arrears, in exchange for these services.

Reinsurance Treaty Agreement

Effective January 1, 2001, both subsidiaries began ceding 95% of direct written premiums to ILM in exchange for ceding 95% of direct incurred loss, defense and cost containment expenses, with a maximum loss exposure per occurrence of \$20,000. ILM will reinsure the risks, liabilities, and underwriting expenses subject to the terms and conditions contained in the Reinsurance Treaty. These payments will be made quarterly, by the fifteenth day following quarter end.

Tax Allocation Agreement

Effective January 1, 2001, ILM is authorized by its subsidiaries to pay federal and state income taxes as a consolidated group. The ILM accounting department will then allocate taxes paid to the appropriate subsidiary and the subsidiary will reimburse ILM for taxes paid on its behalf.

FIDELITY BOND AND OTHER INSURANCE

The Company protects itself against loss from any fraudulent or dishonest acts by its employees through a financial institution bond issued by St. Paul Fire and Marine Insurance Company. The bond includes blanket coverage of \$2,500,000 with a deductible of \$25,000. The fidelity bond is adequate to meet the prescribed minimum coverage specified by the NAIC.

The Company had additional types of coverage in-force at December 31, 2011, including, but not limited to umbrella liability, fiduciary liability, directors' and officers' liability, errors and omissions liability, and workers' compensation.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company has a defined benefit pension plan covering substantially all of its employees. The benefits are based upon years of service and the employee's highest consecutive five year period annual compensation. The Company's funding policy is to contribute annually at least the minimum required contribution, but no more than the maximum amount that can be deducted for federal income tax purposes.

The Company also has a 401(k) defined contribution plan in which substantially all employees and officers are eligible to participate. Management has suspended direct contribution to the plan since 2009.

STATUTORY DEPOSITS

The Company reported the following statutory deposits at December 31, 2011:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
For the Benefit of all Policyholders:		
Indiana	\$ 2,524,611	\$ 2,566,547
All Other Special Deposits:		
Arizona	\$ 110,108	\$ 110,800
Delaware	125,161	126,119
Georgia	100,167	100,895
Idaho	281,037	282,330
Indiana	77,497	77,497
Maine	320,343	332,426
Massachusetts	99,375	105,055
Missouri	603,119	644,838
New Hampshire	545,000	545,000
New Mexico	310,271	314,271
North Carolina	1,024,720	1,026,032
Oklahoma	493,489	527,735
Oregon	431,197	433,067
Tennessee	100,760	104,868
Virginia	232,367	236,687
Other: NCCI	1,041,582	1,048,479
Total Deposits	<u>\$ 8,420,804</u>	<u>\$ 8,582,646</u>

REINSURANCE

Reinsurance Assumed

The Company's assumed reinsurance program consists primarily of intercompany agreements with subsidiaries. ILM assumes 95% of written premium on a quota share basis from both LSN and NBM. These agreements accounted for approximately \$929,000 of assumed premium and represents substantially all of the Company's assumed premium. The agreement with LSN accounted for \$668,000 of case loss and loss expense reserves, which represents 14% of the total assumed for 2011. The agreement with NBM accounted for \$321,000 of loss reserves, which represents 7% of total reserves for 2011.

In addition, the Company continues its participation (i.e. run-off) in the National Workers' Compensation Reinsurance Pool, which is attributable to previously written workers' compensation business. Note, the Company has since discontinued writings of this line of business across all entities within the group as of 2009. This contract accounted for \$3.8 million or 79% of the 2006 assumed case loss and loss expense reserves.

Reinsurance Ceded

The Company purchases a combination of per-risk excess of loss, catastrophe excess of loss, and aggregate stop-loss reinsurance to protect itself. Primary business segments and their respective net retentions and reinsurance limits are discussed below.

Multiple Line Excess of Loss

The Company maintains a multiple line excess of loss contract which provides per loss protection of \$5 million excess of \$1 million for property risks and \$5 million excess of \$1 million for casualty risks. In addition to the \$1 million per risk underlying limit, this contract also contains an annual aggregate deductible of \$2.5 million comprised of losses, which would otherwise be ceded to the reinsurers. Once the annual aggregate of \$2.5 million is met, the Company recovers on a per loss basis subject to maximum recoveries of \$20 million. The Company then maintains other excess of loss reinsurance protecting each strategic business area as further described below. The potential retention of \$3.5 million per risk on this policy is in violation of IC 27-1-13-6(a). See the Other Significant Issues section of this Report of Examination for further information.

Property Business

The Company places three (3) additional layers of property per risk excess of loss reinsurance above the \$5 million (excess of \$1 million retention) per loss threshold covered by its multi-line treaty. The first layer provides an additional \$4 million excess of \$6 million, the second layer provides an additional \$15 million excess of \$10 million, and the third layer provides an additional \$15 million excess of \$25 million for risks protected by sprinkler systems, including auto physical damage comprehensive coverage.

Casualty Business

The Company also places one (1) additional layer of casualty excess of loss reinsurance above the \$6 million per loss threshold covered by its multi-line treaty. This additional layer provides an additional \$4 million of coverage excess of \$6 million per loss.

Property-Catastrophe Reinsurance

Property risks are also protected by three (3) layers of catastrophe excess of loss reinsurance. Collectively, these layers provide a total of \$15 million excess of a catastrophe loss of \$1 million or more.

Property Aggregate Loss Ratio Reinsurance

In addition to the reinsurance protection described above, the Company also limits its aggregate property net loss and loss expense ratio incurred in any given year through a loss ratio stop-loss reinsurance contract. This agreement provides for up to \$8 million in additional protection covering loss and loss expenses in excess of an 80% loss and loss expense ratio.

The Company has maintained similar stop-loss reinsurance for each year of the examination. Based on the Company's net loss and loss expense ratios, the Company ceded losses to the aggregate property treaty in 2008 and in 2009.

Umbrella Liability Quota Share Reinsurance

The Company maintains an umbrella reinsurance treaty that attaches to umbrella policies written with limits of \$6 million through \$10 million. This policy is in addition to the umbrella coverage contained within the Multi-line treaty referenced above which contains reinsurance for umbrella policies with limits up to and including \$5 million. Reinsurance for umbrella policies with limits between \$6 million and \$10 million is shared equally between the Multi-line and Umbrella Quota Share treaties.

ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balances prepared from the Company's general ledger for the years ended December 31, 2010 and December 31, 2011, were agreed to the respective Annual Statements. The Annual Statement for the years ended December 31, 2007 through December 31, 2011, were agreed to each year's independent audit report without material exception. The Company's accounting procedures, practices, and account records were deemed satisfactory.

INDIANA LUMBERMENS MUTUAL INSURANCE COMPANY

FINANCIAL STATEMENTS

Assets

As of December 31, 2011

	<u>Per Annual Statement</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
Assets:				
Bonds	\$ 60,139,313	\$ -	\$ 60,139,313	\$ 67,632,155
Stocks:				
Preferred stocks	990,779	-	990,779	1,593,512
Common stocks	7,340,223	-	7,340,223	11,892,874
Real estate				
Properties occupied by the company	-	-	-	355,304
Properties held for the production of income	355,304	-	355,304	-
Cash, cash equivalents, and short-term investments	8,204,665	-	8,204,665	474,064
Other invested assets	1,912,371	-	1,912,371	600,000
Receivables for securities	112,846	-	112,846	-
Subtotals, cash and invested assets	79,055,501	-	79,055,501	82,547,908
Investment income due and accrued	488,835	-	488,835	394,760
Premiums and considerations:				
Uncollected premiums and agents' balances in the course of collection	371,186	-	371,186	389,381
Deferred premiums, agents' balances and installments booked but deferred and not yet due	10,510,297	-	10,510,297	10,535,701
Accrued retrospective premiums	-	-	-	-
Reinsurance:				
Amounts recoverable from reinsurers	285,730	-	285,730	42,590
Funds held by or deposited with reinsured companies	605,278	-	605,278	778,254
Current federal and foreign income tax recoverable and interest thereon	79,821	-	79,821	44,292
Net deferred tax asset	1,682,678	-	1,682,678	1,643,222
Electronic data processing equipment and software	15,797	-	15,797	39,484
Receivables from parent, subsidiaries and affiliates	135,801	-	135,801	1,053,314
Aggregate write-ins for other than invested assets	562,413	-	562,413	714,389
Total	\$ 93,793,337	\$ -	\$ 93,793,337	\$ 98,183,293

INDIANA LUMBERMENS MUTUAL INSURANCE COMPANY

FINANCIAL STATEMENTS

Liabilities, Surplus and Other Funds

	As of December 31, 2011			
	Per Annual Statement	Examination Adjus tments	Per Examination	December 31, Prior Year
Liabilities:				
Losses	\$ 31,000,744	\$ -	\$ 31,000,744	\$ 32,255,396
Reinsurance payable on paid losses and loss adjustment expenses	101,505	-	101,505	949,301
Loss adjustment expenses	10,513,551	-	10,513,551	10,503,394
Commissions payable, contingent commissions and other similar charges	1,981,173	-	1,981,173	623,213
Other expenses	774,508	-	774,508	1,056,455
Taxes, licenses and fees	87,295	-	87,295	-
Borrowed money and interest thereon	75,056	-	75,056	73,748
Unearned premiums	16,853,068	-	16,853,068	16,811,516
Dividend declared and unpaid:				
Stockholders				
Policyholders	351,775	-	351,775	195,476
Ceded reinsurance premiums payable	(2,047,714)	-	(2,047,714)	(3,854,983)
Funds held by company under reinsurance treaties	482,486	-	482,486	565,523
Amounts withheld or retained by company for accounts of others	543,675	-	543,675	591,636
Remittances and items not allocated	1,854	-	1,854	40,670
Provision for reinsurance	97,820	-	97,820	50,812
Payable to parent, subsidiary and affiliates	183,006	-	183,006	255,227
Aggregate write-ins for liabilities	7,282,789	-	7,282,789	5,562,930
Total liabilities	68,282,592	-	68,282,592	65,680,317
Surplus notes	7,000,000	-	7,000,000	7,000,000
Unassigned funds (surplus)	18,510,746	-	18,510,746	25,502,976
Surplus as regards policyholders	25,510,746	-	25,510,746	32,502,976
Totals	\$ 93,793,337	\$ -	\$ 93,793,337	\$ 98,183,293

INDIANA LUMBERMENS MUTUAL INSURANCE COMPANY

FINANCIAL STATEMENTS

Statement of Income

As of December 31, 2011

	<u>Per Annual Statement</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
Premiums earned	\$ 29,943,855	\$ -	\$ 29,943,855	\$ 32,185,068
DEDUCTIONS:				
Losses incurred	15,687,764	-	15,687,764	19,071,945
Loss adjustment expenses incurred	5,201,877	-	5,201,877	6,506,487
Other Underwriting expenses incurred	15,667,572	-	15,667,572	16,159,527
Aggregate write-ins for underwriting deductions				
Total underwriting deductions	<u>36,557,214</u>	<u>-</u>	<u>36,557,214</u>	<u>41,737,959</u>
Net income of protected cells				
Net underwriting gain (loss)	(6,613,359)	-	(6,613,359)	(9,552,892)
Net investment income earned	851,500	-	851,500	1,334,774
Net realized capital gains (losses) less capital gains tax	<u>7,137,367</u>	<u>-</u>	<u>7,137,367</u>	<u>538,566</u>
Net investment gain (loss)	7,988,867	-	7,988,867	1,873,340
Net gain (loss) from agents' or premium balances charged off	(60,563)	-	(60,563)	(48,558)
Finance and service charges not included in premiums	24,345	-	24,345	22,995
Aggregate write-ins for miscellaneous income	23,411	-	23,411	76,033
Total other income	<u>(12,807)</u>	<u>-</u>	<u>(12,807)</u>	<u>50,469</u>
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	1,362,700	-	1,362,700	(7,629,083)
Dividends to policyholders	<u>335,893</u>	<u>-</u>	<u>335,893</u>	<u>46,167</u>
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	1,026,807	-	1,026,807	(7,675,250)
Federal and foreign income taxes incurred	<u>(35,529)</u>	<u>-</u>	<u>(35,529)</u>	<u>(19,587)</u>
Net income	<u>\$ 1,062,336</u>	<u>\$ -</u>	<u>\$ 1,062,336</u>	<u>\$ (7,655,663)</u>

INDIANA LUMBERMENS MUTUAL INSURANCE COMPANY

FINANCIAL STATEMENTS

Capital and Surplus Reconciliation

	<u>12/31/2011</u>	<u>12/31/2010</u>	<u>12/31/2009</u>	<u>12/31/2008</u>	<u>12/31/2007</u>
Capital and surplus, Dec 31, prior year	\$ 32,502,976	\$ 39,674,983	\$ 33,033,655	\$ 48,555,778	\$ 42,224,108
Net income (loss)	1,062,336	(7,655,663)	11,930,948	(11,667,780)	2,463,305
Change in net unrealized capital gains (losses)	(6,259,889)	1,265,197	(1,605,939)	(3,211,218)	2,131,358
Change in net unrealized foreign exchange capital gain (loss)	-	-	-	-	-
Change in net deferred income tax	2,384,215	1,519,890	(1,073,540)	4,263,373	(2,049,720)
Change in nonadmitted assets	(2,476,663)	(1,519,439)	781,560	(3,918,396)	2,284,256
Change in provision for reinsurance	(47,008)	(15,292)	26,586	(53,240)	159,002
Surplus adjustment:					
Paid in	-	-	-	-	-
Dividends to stockholders	-	-	-	-	-
Aggregate write-ins for gains and losses in surplus	<u>(1,655,214)</u>	<u>(766,699)</u>	<u>(3,418,286)</u>	<u>(934,861)</u>	<u>1,343,469</u>
Net change in capital and surplus for the year	<u>(6,992,222)</u>	<u>(7,172,007)</u>	<u>6,641,329</u>	<u>(15,522,122)</u>	<u>6,331,670</u>
Capital and surplus, Dec 31, current year	<u>\$ 25,510,754</u>	<u>\$ 32,502,976</u>	<u>\$ 39,674,983</u>	<u>\$ 33,033,655</u>	<u>\$ 48,555,778</u>

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to the Financial Statements as of December 31, 2011, based on the results of this examination.

OTHER SIGNIFICANT ISSUES

Indiana Code 27-1-13-6(a) states that no company may take, on any one (1) risk, a sum exceeding one-tenth (1/10) part of its surplus. The Multiple Line Excess of Loss reinsurance contract in place during the examination period provides for a base retention of \$1 million and further retention through the Annual Aggregate Deductible feature of \$2.5 million. Therefore, the total potential retention on any one risk is \$3.5 million. Given that surplus as of December 31, 2011, was \$25,510,746 the Company was found to be in violation of the above-referenced statute. It is recommended that the Company comply with IC 27-1-13-6(a), which requires an insurer to limit its exposure to any one risk to 10% of capital and surplus.

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 of Examination.

AFFIDAVIT

This is to certify that the undersigned is a duly qualified Examiner-in-Charge appointed by the Indiana Department of Insurance and that he, in coordination with staff assistance from Noble Consulting Services, Inc. and actuarial assistance from Merlinos and Associates, Inc., hereinafter collectively referred to as the "Examiners", performed an examination of **Indiana Lumbermens Mutual Insurance Company**, as of **December 31, 2011**.

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

This examination was performed in accordance with those procedures required by the NAIC Financial Condition Examiners Handbook and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standards and no audit opinion is expressed on the financial statements contained in this report.

The attached report of examination is a true and complete report of condition of **Indiana Lumbermens Mutual Insurance Company** as of **December 31, 2011**, as determined by the undersigned.

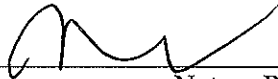


James Kattman, CFE
Noble Consulting Services, Inc.

State of:
County of:

On this 31 day of October, 2012, before me personally appeared, James Kattman, to sign this document.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal in said County and State, the day and year last above written.

My commission expires: July 4, 2019 

Notary Public

