

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

IN THE MATTER OF: )  
 )  
Indiana Lumbermens Mutual Insurance Company )  
1111 East 54<sup>th</sup> Street, Suite 129 )  
Indianapolis, IN 46220-3581 )

Examination of: **Indiana Lumbermens Mutual Insurance Company**

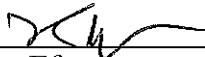
**NOTICE OF ENTRY OF ORDER**

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 April 13, 2017, has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of 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.

June 1, 2017  
Date

  
Roy Eft  
Chief Financial Examiner

**CERTIFIED MAIL NUMBER: 7016 2070 0001 1479 8629**

STATE OF INDIANA ) BEFORE THE INDIANA  
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Indianapolis, IN 46220-3581 )

Examination of: **Indiana Lumbermens Mutual Insurance Company**

### FINDINGS AND FINAL ORDER

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

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

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on April 13, 2017 and was received by the Company on May 24, 2017.

The Company did not file any objections.


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

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

  
\_\_\_\_\_  
Stephen W. Robertson  
Insurance Commissioner  
Indiana Department of Insurance

## ABOUT AFFIRMATIONS

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

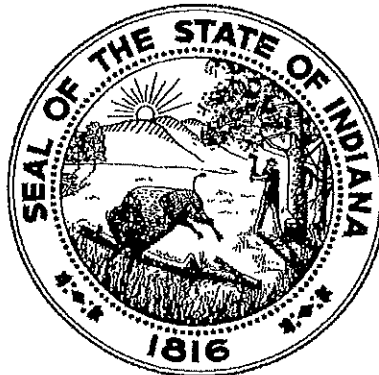
If your affirmations list individuals that are no longer on your Board of Directors, you may simply retype the form on plain white paper with the correct names and a line to the right for signature. If the names are misspelled, you may do the same, simply re-type the corrected form with a line to the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

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

A large, stylized handwritten signature in black ink, appearing to be a cursive name.A small, faint handwritten mark or signature in the lower right corner of the page.

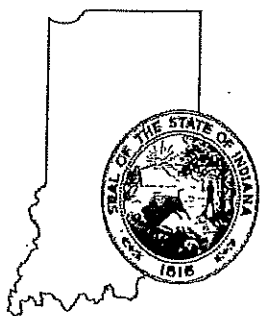
**STATE OF INDIANA**  
**Department of Insurance**  
**REPORT OF EXAMINATION**  
**OF**  
**INDIANA LUMBERMENS MUTUAL**  
**INSURANCE COMPANY**  
NAIC Co. CODE 14265  
NAIC GROUP CODE 0246

As of  
December 31, 2015



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# STATE OF INDIANA

# IDOI

ERIC HOLCOMB, Governor

## Indiana Department of Insurance

311 W. Washington Street, Suite 300

Indianapolis, Indiana 46204-2787

Telephone: (317) 232-2385

Fax: (317) 232-5251

Stephen W. Robertson, Commissioner

December 17, 2016

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

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 3889, an examination has been made of the affairs and financial condition of:

**Indiana Lumbermens Mutual Insurance Company**  
**1111 East 54<sup>th</sup> Street, Suite 129**  
**Indianapolis, Indiana 46220**

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

The Report of Examination, reflecting the status of the Company as of December 31, 2015, is hereby respectfully submitted.

ACCREDITED BY THE  
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES  
(317) 232-2413

COMPANY COMPLIANCE  
(317) 233-0697

CONSUMER SERVICES  
(317) 232-2395  
1-800-622-4461

EXAMINATIONS/FINANCIAL SERVICES  
(317) 232-2390

MEDICAL MALPRACTICE  
(317) 232-2402

COMPANY RECORDS  
(317) 232-5692

STATE HEALTH INSURANCE PROGRAM  
1-800-332-4674

## SCOPE OF EXAMINATION

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

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

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

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

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

## HISTORY

ILM was incorporated under the laws of Indiana on April 1, 1897, and commenced business on March 19, 1897. The Company expanded its product offerings to several states and gradually offered new lines of insurance, including auto coverage, commercial and personal umbrella liability, multi-peril, surety, windstorm and tornado, and workers' compensation, 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.

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 Company has annually acquired an additional 15,000 shares in each subsidiary since 2010. The most recent additional capital contributions were \$228,635 to NBM and \$216,949 to LSN for years 2010 through 2015. 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. The Company is the sole shareholder of each subsidiary and along with Allied Building Material Agency, Inc. forms the Indiana Lumbermens Mutual Insurance Group (ILM Group).

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



## 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 STOCKHOLDERS

The Company paid the following policyholder dividends, during the examination period:

<u>Year</u>	<u>Dividends</u>
2015	\$ 83,341
2014	74,080
2013	141,521
2012	421,531
Total	<u>\$ 720,473</u>

In addition, the Company made capital contributions, to the following affiliates:

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Lone Star National Insurance Company	\$ 216,949	\$ 216,949	\$ 216,949	\$ 216,949
National Building Material Assurance Company	228,635	228,635	228,635	228,635
Total	<u>\$ 445,584</u>	<u>\$ 445,584</u>	<u>\$ 445,584</u>	<u>\$ 445,584</u>

## TERRITORY AND PLAN OF OPERATION

As of December 31, 2015, the Company was licensed to transact business in forty-nine (49) states. 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, commercial automobile no fault, commercial automobile physical damage, commercial multiple peril, inland marine, other commercial auto liability, other liability, products liability, and surety. ILM ceased writing workers' compensation policies in 2009, and this line of business is in runoff. Effective November 1, 2013, the Company entered into an Affiliation Agreement with PLM and began transacting business through an Intercompany Reinsurance Pooling Agreement with premiums written through PLM.

## GROWTH OF THE COMPANY

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

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus and Other Funds</u>	<u>Premiums Earned</u>	<u>Net Income</u>
2015	\$ 52,156,958	\$ 37,035,297	\$ 15,121,661	\$ 14,335,119	\$ (573,249)
2014	57,058,706	41,646,768	15,411,938	13,833,292	(1,561,885)
2013	57,516,985	38,423,222	19,093,763	29,779,734	1,529,555
2012	87,988,984	71,026,980	16,962,004	32,094,768	(8,341,049)

The admitted assets decline from 2012 to 2013 was due to the transfer of \$29 million in assets from ILM to PLM

to settle re-apportionment of the Company's balances to reflect the new affiliation. Liabilities decreased by \$33 million due to the affiliation and the Intercompany Reinsurance Pooling Agreement. Premiums earned during 2013 decreased due to the affiliation with PLM and then the balance was stable for 2014 and 2015.

**MANAGEMENT AND CONTROL**

Directors

The Bylaws provide that the Board of Directors (Board) shall be composed of not less than five (5) or more than fifteen (15) directors. No person under 25 or over 72 years of age shall be nominated or elected as a director. At least one (1) of the directors must be a resident of the state of Indiana. The policyholders, at each annual meeting, elect the members of the Board. The following is a listing of persons serving as directors at December 31, 2015, and their principal occupations as of that date:

<u>Name and Address</u>	<u>Principal Occupation</u>
Thomas E. Beach Radnor, Pennsylvania	Managing Director Beach Investment Counsel, Inc.
William A. Bissette Fayetteville, North Carolina	Chairman Highland Lumber Company, Inc.
Stephen F. Boyd Irvington, New Jersey	President & CEO Manufacturer Reserve Supply, Inc.
Timothy W. Callahan II Philadelphia, Pennsylvania	Partner Saul Ewing, LLP
Anthony J. DeCarlo Berwyn, Pennsylvania	Retired President & Chief Executive Officer Lumbermens Merchandising Corporation
George Hirschhorn Philadelphia, Pennsylvania	Founder Hirschhorn, Fry & Associates
Harvey E. Kroiz Plymouth Meeting, Pennsylvania	President First Capital Reality, Inc.
John W. Lee King of Prussia, Pennsylvania	Chairman of the Board Pennsylvania Lumbermens Mutual Insurance Company
Charles R. Peterson Radnor, Pennsylvania	President and Chief Executive Officer Reflective Learning
John K. Smith Philadelphia, Pennsylvania	President and Chief Executive Officer Pennsylvania Lumbermens Mutual Insurance Company
John F. Wolf Noblesville, Indiana	Retired President and Chief Executive Officer Indiana Lumbermens Mutual Insurance Company

## Officers

The Bylaws state that the elected officers of the Company shall consist of a Chief Executive 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. All officers are appointed by resolution of the Board, and hold office until termination of employment or removal by resolution of the Board. Any two (2) or more offices may be held by the same person, except the duties of Chief Executive Officer and Secretary, or President and Secretary, shall not be performed by the same person.

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

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

## CONFLICT OF INTEREST

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

## OATH OF OFFICE

Indiana Code (IC) 27-1-7-10(i) stipulates that every director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly, and diligently administer the affairs of the Company and will not knowingly violate any of the laws applicable to such Company. It was determined that all directors listed in the Management and Control section of this Report of Examination have subscribed to an oath as of December 31, 2015.

## CORPORATE RECORDS

### Articles of Incorporation

The Articles of Incorporation were amended during the examination period. The effect of the amendments were to raise the maximum number of directors from nine (9) to fifteen (15) and to change the location of the annual policyholder meeting from the city of Indianapolis to anywhere within or without the state of Indiana. In addition, the amendments increased the number of Director Classes from three (3) to four (4) and increased the term of directors from three (3) years to four (4) years. The amendments were appropriately approved by the Board.

## Bylaws

Filings to amend the Bylaws were made during the examination period. The effects of the amendments were as follows:

1. The number of classes of directors was increased from three (3) to four (4).
2. The length of a Directors' term was increased from three (3) years to four (4) years.
3. The requirement that the Company maintain the position of chief financial officer was removed.
4. The duties of the Nomination Committee were added to the Audit Committee and the name of the Audit Committee was changed to the Audit Nominating Committee.
5. The required location for the Annual Policyholders Meeting was changed from the city of Indianapolis to any place within or without the state of Indiana
6. The number of directors was increased from a maximum of nine (9) to a maximum of fifteen (15).

## Minutes

The Board and shareholders meeting minutes were reviewed for the period under examination through the fieldwork date. The Board meetings began to be held in conjunction with PLM in July 2014. Significant actions taken during each meeting were noted.

IC 27-1-7-7(b) states an annual meeting of shareholders, members, or policyholders shall be held within five (5) months after the close of each fiscal year of the Company and at such time within that period as the Bylaws may provide. The Company's Bylaws do not specify the date or time the annual meeting of shareholders is to be held. For each year under review, the annual meeting of shareholders was held within five (5) months following the close of each fiscal year.

The Company committee meeting minutes for the examination period, and through the fieldwork date, were reviewed for the following committees: Audit Committee, Compensation Committee Executive Committee, and Investment Committee.

## AFFILIATED COMPANIES

### Organizational Structure

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

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

### Affiliated Agreements

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

#### *Affiliation Agreement*

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

#### *Reinsurance Pool*

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

#### *Tax Allocation Agreement*

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

### **FIDELITY BOND AND OTHER INSURANCE**

The Company protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond issued by Travelers Casualty & Surety Company of America. The bond has a single loss coverage limit of \$1,000,000, with a \$10,000 deductible. The fidelity bond is adequate to meet the prescribed minimum coverage specified by the NAIC.

The Company had additional types of coverage in-force at December 31, 2015, including but not limited to commercial property, employment practices, ERISA liability, management indemnity/directors and officers liability, professional indemnity liability, and workers' compensation.

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

Effective April 30, 2015, the Company's defined benefit pension plan was merged with the defined benefit pension plan of its affiliate, PLM. Pursuant to the Intercompany Reinsurance Pooling Agreement, the Company currently reports 9% of the plan assets and liabilities as well as any associated expenses incurred due to the administration of the plan.

## SPECIAL AND STATUTORY DEPOSITS

The Company reported the following special and statutory deposits at December 31, 2015:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
For All Policyholders:		
Indiana	\$2,524,839	\$2,522,054
All Other Special Deposits:		
Arizona	109,992	109,996
Delaware	125,008	124,859
Idaho	280,000	280,000
Maine	321,308	320,637
Massachusetts	100,000	100,000
Missouri	610,838	611,726
New Hampshire	549,995	549,869
New Mexico	310,000	310,000
North Carolina	1,035,003	1,035,003
Oklahoma	2,351,504	2,346,518
Oregon	428,494	427,508
Tennessee	99,882	99,882
Virginia	40,000	40,000
Total Deposits *	<u>\$ 8,886,861</u>	<u>\$ 8,878,050</u>

\* The balance includes immaterial rounding differences.

## REINSURANCE

### Reinsurance Pool

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

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

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

### External Reinsurance

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

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

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

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

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

#### Assumed Reinsurance

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

### ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balances prepared from the Company's general ledger for the years ended December 31, 2011 and December 31, 2015, were agreed to the respective Annual Statements. The Annual Statements for the years ended December 31, 2011 through December 31, 2015, were agreed to each year's independent audit report without material exception. The Company's accounting procedures, practices, and account records were deemed satisfactory.

INDIANA LUMBERMENS MUTUAL INSURANCE COMPANY  
Assets  
As of December 31, 2015

	Per Examination*
Bonds	\$ 16,768,146
Stocks	
Common Stocks	10,134,750
Mortgage loans on real estate:	
First liens	
Cash, cash equivalents and short-term investments	2,933,099
Other invested assets	1,019,313
Receivables for securities	950,000
Subtotals, cash and invested assets	31,805,308
Investment income due and accrued	75,824
Premiums and considerations:	
Uncollected premiums and agents' balances in course of collection	4,051,542
Deferred premiums, agents' balances and installments booked but deferred and not yet due	10,829,615
Accrued retrospective premiums	
Reinsurance:	
Amounts recoverable from reinsurers	2,018,622
Other amounts receivable under reinsurance contracts	
Current federal and foreign income tax recoverable and interest thereon	234,528
Net deferred tax asset	1,398,821
Guaranty funds receivable or on deposit	
Electronic data processing equipment and software	216
Receivables from parent, subsidiaries and affiliates	802,046
Aggregate write-ins for other than invested assets	940,436
TOTALS**	\$ 52,156,958

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

\*\* The balance includes immaterial rounding differences.



INDIANA LUMBERMENS MUTUAL INSURANCE COMPANY  
 Liabilities, Surplus and Other Funds  
 As of December 31, 2015

	Per Examination*
Losses	\$ 12,273,274
Reinsurance payable on paid losses and loss adjustment expenses	973,454
Loss adjustment expenses	3,484,893
Commissions payable, contingent commissions and other similar charges	3,177,637
Other expenses	399,378
Taxes, licenses and fees	705,175
Borrowed money and interest thereon	83,320
Unearned premiums	13,817,892
Dividends declared and unpaid:	
Policyholders	75,325
Ceded reinsurance premiums payable	280,814
Funds held by company under reinsurance treaties	422,136
Amounts withheld or retained by company for account of others	95,883
Provision for reinsurance	69,205
Payable to parent, subsidiaries and affiliates	944
Aggregate write-ins for liabilities	1,175,966
TOTAL liabilities	37,035,297
Surplus notes	7,000,000
Unassigned funds (surplus)	8,121,661
Surplus as regards policyholders	15,121,661
TOTALS**	\$ 52,156,958

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

\*\* The balance includes immaterial rounding differences.

INDIANA LUMBERMENS MUTUAL INSURANCE COMPANY  
Statement of Income  
For the Year Ended December 31, 2015

	<u>Per Examination*</u>
UNDERWRITING INCOME	
Premiums earned	\$ 14,335,119
DEDUCTIONS	
Losses incurred	8,143,140
Loss adjustment expenses incurred	1,643,104
Other underwriting expenses incurred	5,104,990
Aggregate write-ins for underwriting deductions	
TOTAL underwriting deductions	14,891,234
Net underwriting gain or (loss)	(556,115)
INVESTMENT INCOME	
Net investment income earned	42,825
Net realized capital gains (losses) less capital gains tax	11,326
Net investment gain or (loss)	54,151
OTHER INCOME	
Net gain (loss) from agents' or premium balances charged off	13,105
Finance and service charges not included in premiums	8,568
Aggregate write-ins for miscellaneous income	(9,647)
TOTAL other income	12,025
Net income, before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(489,938)
Dividends to policyholders	83,341
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(573,279)
Federal and foreign income taxes incurred	(30)
Net income**	\$ (573,249)

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

\*\* The balance includes immaterial rounding differences.

INDIANA LUMBERMENS MUTUAL INSURANCE COMPANY  
Capital and Surplus Account Reconciliation

	2015	2014	2013	2012
Surplus as regards policyholders, December 31 prior year	\$15,411,944	\$ 19,093,763	\$ 16,962,003	\$ 25,510,754
Net income	(573,249)	(1,561,885)	1,529,555	(8,341,050)
Change in net unrealized capital gains or (losses) less capital gains tax	(1,424)	(111,788)	(756,392)	1,402,331
Change in net deferred income tax	51,388	(65,639)	(2,201,965)	3,020,509
Change in nonadmitted assets	(41,264)	(1,347,236)	3,020,178	(3,274,853)
Change in provision for reinsurance	(45,000)	-	(4,905)	(16,619)
Aggregate write-ins for gains and losses in surplus	319,266	(595,273)	545,289	(1,339,069)
Change in surplus as regards policyholders for the year	(290,283)	(3,681,820)	2,131,760	(8,548,751)
Surplus as regards policyholders, December 31 current year*	<u>\$15,121,661</u>	<u>\$ 15,411,944</u>	<u>\$ 19,093,763</u>	<u>\$ 16,962,003</u>

\* The balance includes immaterial rounding differences.

## COMMENTS ON THE FINANCIAL STATEMENTS

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

## OTHER SIGNIFICANT ISSUES

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

## SUBSEQUENT EVENTS

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

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

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

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

**AFFIDAVIT**

This is to certify that the undersigned is a duly qualified Examiner-in-Charge appointed by the Indiana Department of Insurance and that he, in coordination with staff assistance from Noble Consulting Services, Inc., performed an examination of Indiana Lumbermens Mutual Insurance Company as of December 31, 2015.

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

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

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

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

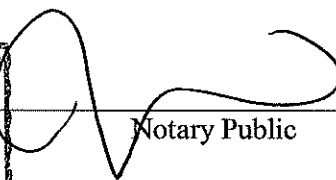
State of: Indiana  
County of: Marion

On this 14 day of February 2017, before me personally appeared, Jim Kattman, to sign this document.

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

My commission expires



  
\_\_\_\_\_  
Notary Public

