

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

IN THE MATTER OF:)
)
Indiana Lumbermens Mutual Insurance Company)
2005 Market Street, Suite 1200)
Philadelphia, PA 19103)

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

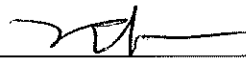
NOTICE OF ENTRY OF ORDER

Enclosed is the Final Order entered by Amy L. Beard, 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 May 31, 2022, 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 30, 2022
Date


Roy Eft
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 7019 0700 0000 3590 2607

STATE OF INDIANA)
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2005 Market Street, Suite 1200)
Philadelphia, PA 19103)

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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, 2016 through December 31, 2020.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter “Commissioner”) by the Examiner on May 18, 2022.

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 May 31, 2022 and was received by the Company on May 31, 2022.

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, 2020.
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 30 day of
June, 2022.



Amy L. Beard
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.

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, 2020

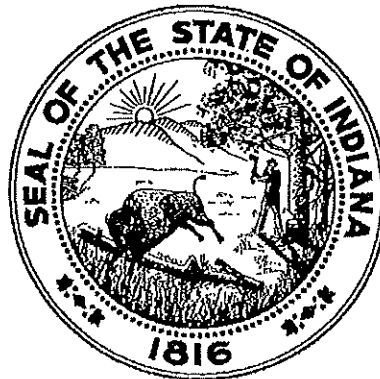


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STATE OF INDIANA

ERIC J. HOLCOMB, GOVERNOR

Indiana Department of Insurance

Amy L. Beard, Commissioner
311 W. Washington Street, Suite 103
Indianapolis, Indiana 46204-2787
Telephone: 317-232-2385
Fax: 317-232-5251
Website: in.gov/idoi

May 18, 2022

Honorable Amy L. Beard, 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 4076, an examination has been made of the affairs and financial condition of:

Indiana Lumbermens Mutual Insurance Company
2005 Market Street, Suite 1200
Philadelphia, Pennsylvania 19103

hereinafter referred to as the "Company", or "ILM", an Indiana domestic mutual, 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, 2020, is hereby respectfully submitted.

ACCREDITED BY THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

| | | | | | | |
|---------------------------------|------------------------------------|--|------------------------------------|-------------------------------------|---------------------------------|--|
| AGENCY SERVICES 317-232-2389 | COMPANY COMPLIANCE 317-232-3495 | CONSUMER SERVICES 317-232-2395/1-800-622-4461 | FINANCIAL SERVICES 317-232-2390 | MEDICAL MALPRACTICE 317-232-2402 | COMPANY RECORDS 317-232-5692 | STATE HEALTH INSURANCE PROGRAM 1-800-452-4800 |
|---------------------------------|------------------------------------|--|------------------------------------|-------------------------------------|---------------------------------|--|

SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI) and covered the period from January 1, 2012 through December 31, 2015. The present risk-focused examination was conducted by Noble Consulting Services, Inc., and covered the period from January 1, 2016 through December 31, 2020, 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, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

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

The PADOI staff, along with contracted actuaries, provided all actuarial services throughout the examination and conducted a review of each Company's actuarial-related risks as of December 31, 2020.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as mentioned in the Indiana Code (IC) 27-1-3.1-10 and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

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, 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.

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 \$2.3 million to each.

Effective November 1, 2013, the ILM Group companies (including LSN and NBM) entered into an Affiliation Agreement with PLM and began ceding business through an Intercompany Reinsurance Pooling Agreement with PLM.

Effective January 1, 2015, all ILM, LSN, and NBM new business began being written through PLM. During 2015, renewal policies were offered through PLM. During the exam period the underwriting results have been pooled and ceded to affiliated entities based upon the percentages listed in the Reinsurance Pooling Agreement.

On March 31, 2017, LSN was sold to Pan-American Life Insurance Group, Inc. On July 23, 2018, NBM was sold to Clear Blue Specialty Insurance Company. The Company was the sole shareholder of LSN and NBM prior to their sale. As of December 31, 2020, the Company's only subsidiary is Allied Building Material Agency, Inc. and these two (2) companies form the Indiana Lumbermens Mutual Insurance Group (ILM Group).

CAPITAL AND SURPLUS

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

ILM has a surplus note for \$7 million with InCaps Funding II, Ltd, which was issued in December 2003 and matures in January 2034. Payment of principal and interest may only be made with the prior approval of the INDOI. Interest paid in 2020 totaled \$390,048.

DIVIDENDS TO POLICYHOLDERS

The Company paid the following policyholder dividends, (in 000s), during the examination period:

| <u>Year</u> | <u>Total</u> |
|-------------|-------------------|
| 2020 | \$ 35,000 |
| 2019 | 51,899 |
| 2018 | 31,010 |
| 2017 | 181,736 |
| 2016 | 158,321 |
| Total | <u>\$ 457,966</u> |

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

| | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> |
|--|-------------------|-------------------|-------------|-------------|-------------|
| Lone Star National Insurance Company | \$ 216,949 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| National Building Material Assurance Co. | <u>228,635</u> | <u>228,635</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total | <u>\$ 445,584</u> | <u>\$ 228,635</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> |

TERRITORY AND PLAN OF OPERATION

As of December 31, 2020, the Company was licensed to transact business in forty-nine (49) states and the District of Columbia but is not writing any premiums on a direct basis. All insurance policies written by members of the affiliated group are written by PLM. The Company participates in a pooling arrangement with PLM with a 10% participation percentage and PLM has a ninety 90% participation percentage in the pool.

Premiums written involve the sale of various commercial lines of insurance to the forest products and building materials industry. Lines of business written include allied lines, assumed property, auto physical damage, boiler and machinery, burglary and theft, commercial auto liability, earthquake, fidelity, fire, inland marine, homeowners multiple peril, occurrence, other liability, products liability – occurrence, reinsurance – nonproportional and surety. ILM ceased writing workers’ compensation insurance policies in 2009, and this line of business is in runoff.

GROWTH OF THE COMPANY

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

| Year | Admitted Assets | Liabilities | Surplus and Other Funds | Premiums Earned | Net Income |
|------|--------------------|---------------|----------------------------|--------------------|--------------|
| 2020 | \$ 57,342,796 | \$ 39,125,497 | \$ 18,217,298 | \$ 18,228,454 | \$ 1,369,081 |
| 2019 | 54,355,480 | 37,495,136 | 16,860,344 | 17,127,031 | 1,124,706 |
| 2018 | 58,902,244 | 42,928,815 | 15,973,429 | 17,151,910 | (734,153) |
| 2017 | 56,963,536 | 40,384,655 | 16,578,881 | 15,161,669 | 893,506 |
| 2016 | 54,550,453 | 38,910,297 | 15,640,156 | 13,874,484 | 319,548 |

* The balances include immaterial balancing differences.

The decrease in 2019 admitted assets compared to prior years was primarily the result of a significant decrease in premiums receivable. During 2019, PLM and ILM modified their approach in regard to extended term policies and “unwound” many of these policies during 2019, which were available to renew in 2020.

Increases in liabilities from 2016 to 2017 were partially the result of lump sum distributions of defined benefit pension plan obligations due to the termination and payment of benefits to vested employees. The increase in liabilities between 2017 and 2018 was due to an increase in unearned premiums as a result of an increase in net premium written in 2018 compared to 2017. Liabilities decreased in 2019 from 2018 primarily as a result of unpaid losses and loss adjustment expenses due to lessened loss activity, improved underwriting results, and concerted efforts to close claims more efficiently.

Net income decreased in 2018 from 2017 as a result of increased property losses due to higher fire and weather-related claims, especially from hurricanes. Increases in net income in 2019 and 2020 from 2018 reflect enhanced underwriting initiatives and claims settlement efficiencies, resulting in positive underwriting results.

MANAGEMENT AND CONTROL

Directors

The Bylaws provide that the Board of Directors (Board) shall be composed of no more than fifteen (15) directors. No person under twenty-five (25) years of age shall be nominated or elected as a director. At least one (1) of the directors must be a resident of Indiana. Directors shall be elected by a majority of the members at the annual meeting of members.

The following is a listing of persons serving as directors as of December 31, 2020, and their principal occupations as of that date:

| <u>Name and Address</u> | <u>Principal Occupation</u> |
|---|---|
| Charles Richard Peterson, Chairman Bryn Mawr, Pennsylvania | Chairman Pennsylvania Lumbermens Mutual Insurance |
| William Arthur Bissette Fayetteville, North Carolina | Chairman (Retired) Highland Lumber Company, Inc. |
| Stephen Fayen Boyd Morristown, New Jersey | President and Chief Executive Officer Manufacturer Reserve Supply, Inc. |
| Timothy Warren Callahan West Chester, Pennsylvania | Partner Saul Ewing, LLP |
| Anthony Joseph DeCarlo Berwyn, Pennsylvania | Retired President and Chief Executive Officer Lumbermens Merchandising Corporation |
| Clara Coleman Fromme Victoria, Texas | Vice President of Business Development Kodiak Building Partners |
| George Hirschhorn Melrose Park, Pennsylvania | Founder Hirschhorn, Fry & Associates |
| Harvey Eaton Kroiz Bryn Mawr, Pennsylvania | President First Capital Reality, Inc. |
| William Craig Myers Basking Ridge, New Jersey | Vice President -- Integration / Marketing (Retired) Pennsylvania Lumbermens Mutual Insurance Company |
| John Kevin Smith West Trenton, Pennsylvania | President and Chief Executive Officer Pennsylvania Lumbermens Mutual Insurance Company |
| John Francis Wolf Noblesville, Indiana | President and Chief Executive Officer (Retired) Indiana Lumbermens Mutual Insurance Company |
| Jack Yates III Mohrsville, Pennsylvania | President and Chief Operating Officer Carlino Capital Management Corporation |

Officers

The Bylaws state that the elected officers of the Company shall consist of a Chairman of the Board, a Chief Executive Officer, a President, one (1) or more Vice Presidents, a Secretary, a Treasurer, and such other officers as the Board deems necessary. Any two (2) offices may be held by the same person, except that the duties of the President and Secretary shall not be performed by the same person. The Board, by resolution, may create and define the duties of other officers in the Company, and may elect or appoint persons to fill such additional positions. All officers shall serve perpetually until resignation, retirement or death unless sooner removed at the pleasure of the Board, or until their successors are duly elected and qualified.

The following is a listing of key officers and their respective titles as of December 31, 2020:

| <u>Name</u> | <u>Office</u> |
|----------------------|---------------------------------------|
| John Kevin Smith | President and Chief Executive Officer |
| Harold Leon Jamison | Vice President and Secretary |
| John Francis Marazzo | Chief Financial Officer and Treasurer |
| Richard Allen Hall | Senior Vice President-Underwriting |

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, 2020.

OATH OF OFFICE

IC 27-1-7-10(i) stipulates that every director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly, and diligently administer the affairs of the 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, 2020.

CORPORATE RECORDS

Articles of Incorporation

There were no amendments made to the Articles of Incorporation during the examination period.

Bylaws

There were no amendments made to the Bylaws during the examination period.

Minutes

The Board and policyholders meeting minutes were reviewed for the period under examination through the fieldwork date. 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 policyholders is to be held. For each year under review, the annual meeting of policyholders was held within five (5) months following the close of each fiscal year.

The PLM and ILM 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 organizational chart shows the Company, its subsidiary, and affiliate as of December 31, 2020:

| | NAIC Co. Code | Domiciliary State/Country |
|--|------------------|------------------------------|
| Indiana Lumbermens Mutual Insurance Company | 14265 | IN |
| Allied Building Material Agency, Inc. | | IN |
| Pennsylvania Lumbermens Mutual Insurance Company | 14974 | 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.

Services Agreement

As of November 1, 2013, PLM and ILM Group entered into a Services 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. In consideration of PLM's provision of services listed in the Service Agreement, ILM has agreed to a reconstitution of its Board. Specifically, upon the closing date of the affiliation, board member designees of PLM will hold all but one (1) of the seats on the ILM Board. The Services Agreement was amended on March 31, 2017, and again on April 30, 2018, to reflect the current organization structure. There were no fees paid pursuant to the Services Agreement during the period of examination.

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 subsidiary to pay federal and state income taxes as a consolidated group. Allocation of tax liabilities is made on a separate return basis and the subsidiary will reimburse ILM for taxes paid on its behalf. Amendments have made in November of 2016 to remove LSN and in April of 2018 to remove NBM from the agreement.

FIDELITY BOND AND OTHER INSURANCE

The Company protects itself against loss from any fraudulent or dishonest acts by any employees through fidelity coverage issued by Travelers Casualty and Surety Company of America. The bond has a single loss coverage limit of \$1 million, 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 as of December 31, 2020, including but not limited to commercial property, cyber liability, employment practices, ERISA liability, management indemnity/directors and officers liability, professional indemnity liability, umbrella, 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 pension plan of PLM. Pursuant to the Intercompany Reinsurance Pooling Agreement, the Company currently reports 10% of the plan assets and liabilities as well as any associated expense incurred due to the administration of the plan.

SPECIAL AND STATUTORY DEPOSITS

The Company reported the following deposits, as of December 31, 2020:

| <u>State</u> | <u>Book Value</u> | <u>Fair Value</u> |
|--|--------------------|--------------------|
| Deposits For the Benefit of All Policyholders: | | |
| Indiana | \$2,534,396 | \$2,565,901 |
| Georgia | 99,738 | 103,582 |
| All Other Special Deposits: | | |
| Indiana | 79,268 | 79,268 |
| Maine | 296,705 | 308,287 |
| Massachusetts | 99,737 | 103,676 |
| Missouri | 624,423 | 628,319 |
| New Hampshire | 509,933 | 513,038 |
| New Mexico | 310,666 | 333,003 |
| North Carolina | 1,034,341 | 1,062,415 |
| Oklahoma | 596,084 | 661,492 |
| Oregon | 270,026 | 270,871 |
| Tennessee | 100,108 | 100,398 |
| Virginia | <u>230,674</u> | <u>236,353</u> |
| Total Deposits* | <u>\$6,786,099</u> | <u>\$6,966,603</u> |

REINSURANCE

Reinsurance Pool

PLM and ILM 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 agreement. The entities participating in the Intercompany Reinsurance Pooling Agreement and their respective pooling percentages (effective May 1, 2018) are as follows:

| Name of Pool Members | Percentage of Pool | Domiciliary State |
|--|-----------------------|----------------------|
| Pennsylvania Lumbermens Mutual Insurance Company | 90.0% | PA |
| Indiana Lumbermens Mutual Insurance Company | <u>10.0%</u> | IN |
| Total | <u>100.0%</u> | |

External Reinsurance

PLM obtains reinsurance both through direct writers and its intermediary, Guy Carpenter (GC). The reinsurance program, effective January 1, 2020 through December 31, 2020, is summarized below, unless otherwise noted.

Property per risk excess of loss coverage was obtained from various reinsurers through GC that existed in five (5) treaty layers totaling coverage up to \$40 million, with a \$1 million net retention, with Automatic Facultative coverage as needed.

Through its Property Catastrophe Agreement obtained through GC and placed with various reinsurers, PLM retains the first \$2.5 million of losses and then is protected by an additional \$47.5 million through four (4) layers of excess of loss coverage.

During the examination period, products liability exposure, both bodily injury and property damage, is reinsured through an excess of loss cover with various reinsurers, placed through GC, up to a limit of \$21 million with a \$1 million net retention per each occurrence.

Assumed Reinsurance

ILM is not a professional reinsurer. In addition to assumed business under the Intercompany Reinsurance Pooling Agreement noted above, the only other assumed business that was reported for the year ended December 31, 2020, consisted of \$0 of written premiums and case loss reserves of \$2,022,000. Other assumed business was generated 100% from participation in mandatory pools required by the various states in which the company is 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 balance prepared from the Company's general ledger for the year ended December 31, 2020 was agreed to the Annual Statement. The Annual Statement for the year ended December 31, 2020, was agreed to the December 31, 2020 independent audit report without material exception. The Company's accounting procedures, practices, and account records were deemed satisfactory.

FINANCIAL STATEMENTS

INDIANA LUMBERMENS MUTUAL INSURANCE COMPANY

Assets

As of December 31, 2020

| | <u>Per Examination*</u> |
|---|-------------------------|
| Bonds | \$ 36,263,926 |
| Stocks: | |
| Common stocks | 141,389 |
| Cash, cash equivalents and short-term investments | 2,853,323 |
| Other invested assets | 1,275,471 |
| Subtotals, cash and invested assets | <u>40,534,110</u> |
| Investment income due and accrued | 257,641 |
| Premiums and considerations: | |
| Uncollected premiums and agents' balances in course of collection | 3,747,510 |
| Deferred premiums, agents' balances and installments booked but deferred and not yet due | 10,556,378 |
| Reinsurance: | |
| Amounts recoverable from reinsurers | 451,735 |
| Current federal and foreign income tax recoverable and interest thereon | 204,533 |
| Net deferred tax asset | 692,907 |
| Guaranty funds receivable or on deposit | |
| Aggregate write-ins for other than invested assets | <u>897,981</u> |
| Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts | <u>57,342,796</u> |
| Totals ** | <u>\$ 57,342,796</u> |

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

** The balances include immaterial balancing differences.

INDIANA LUMBERMENS MUTUAL INSURANCE COMPANY
Liabilities, Surplus and Other Funds
As of December 31, 2020

| | <u>Per Examination*</u> |
|---|-------------------------|
| Losses | \$ 14,201,922 |
| Reinsurance payable on paid losses and loss adjustment expenses | 1,217,003 |
| Loss adjustment expenses | 4,045,592 |
| Commissions payable, contingent commissions and other similar charges | 1,906,416 |
| Other expenses | 379,840 |
| Taxes, licenses and fees | 451,118 |
| Borrowed money and interest thereon | 77,454 |
| Unearned premiums | 15,189,255 |
| Dividends declared and unpaid: | - |
| Policyholders | 39,545 |
| Ceded reinsurance premiums payable | 614,685 |
| Funds held by company under reinsurance treaties | 128,614 |
| Amounts withheld or retained by company for account of others | - |
| Provision for reinsurance | 26,900 |
| Payable to parent, subsidiaries and affiliates | 452,166 |
| Aggregate write-ins for liabilities | 394,987 |
| Total liabilities excluding protected cell liabilities | 39,125,497 |
| Total liabilities | 39,125,497 |
| Surplus notes | 7,000,000 |
| Unassigned funds (surplus) | 11,217,298 |
| Surplus as regards policyholders | 18,217,298 |
| Totals ** | \$ 57,342,796 |

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

** The balances include immaterial balancing differences.

INDIANA LUMBERMENS MUTUAL INSURANCE COMPANY
Statement of Income
For the Year Ended December 31, 2020

| | <u>Per Examination*</u> |
|--|-------------------------|
| UNDERWRITING INCOME | |
| Premiums earned | \$18,228,454 |
| DEDUCTIONS | |
| Losses incurred | 9,989,757 |
| Loss adjustment expenses incurred | 2,182,348 |
| Other underwriting expenses incurred | 5,767,910 |
| Total underwriting deductions | <u>17,940,015</u> |
| Net underwriting gain (loss) | 288,439 |
| INVESTMENT INCOME | |
| Net investment income earned | 572,800 |
| Net realized capital gains (losses) less capital gains tax | 299,183 |
| Net investment gain (loss) | <u>871,982</u> |
| OTHER INCOME | |
| Net gain (loss) from agents' or premium balances charged off | |
| Finance and service charges not included in premiums | |
| Aggregate write-ins for miscellaneous income | 141,393 |
| Total other income | <u>141,393</u> |
| Net income, before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes | 1,301,814 |
| Dividends to policyholders | <u>35,000</u> |
| Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes | 1,266,814 |
| Federal and foreign income taxes incurred | <u>(102,267)</u> |
| Net income | <u>\$ 1,369,081</u> |

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

INDIANA LUMBERMANS MUTUAL INSURANCE COMPANY
Capital and Surplus Account Reconciliation

| | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| Surplus as regards policyholders, December 31 prior year | \$ 16,860,344 | \$ 15,973,429 | \$ 16,578,881 | \$ 15,640,156 | \$ 15,121,662 |
| Net income | 1,369,081 | 1,124,706 | (734,153) | 893,506 | 319,548 |
| Change in net unrealized capital gains or (losses) less capital gains tax | 116,986 | 70,394 | (54,069) | 185,438 | 88,063 |
| Change in net deferred income tax | (97,956) | (307,754) | (377,585) | (666,902) | (7,444,093) |
| Change in nonadmitted assets | (97,876) | (8,931) | 468,338 | 271,969 | 6,967,269 |
| Change in provision for reinsurance | (5,400) | 8,500 | 3,250 | (9,025) | 44,980 |
| Aggregate write-ins for gains and losses in surplus | 72,119 | - | 88,767 | 263,739 | 542,726 |
| Change in surplus as regards policyholders for the year | <u>1,356,954</u> | <u>886,915</u> | <u>(605,452)</u> | <u>938,726</u> | <u>518,493</u> |
| Surplus as regards policyholders, December 31 current year ** | <u>\$ 18,217,298</u> | <u>\$ 16,860,344</u> | <u>\$ 15,973,429</u> | <u>\$ 16,578,881</u> | <u>\$ 15,640,156</u> |

* The balances include immaterial balancing differences.

COMMENTS ON THE FINANCIAL STATEMENTS

LOSSES AND LOSS ADJUSTMENT EXPENSES RESERVES

The Company reported net reserves in the amount of \$14,201,922 for losses and \$4,045,592 for loss adjustment expenses (LAE) on the December 31, 2020 Annual Statement. These amounts represent the Company's 10% share of the reinsurance pooling agreement.

For each year in the examination period, the appointed actuary, G. Christopher Nyce, FCAS, MAAA, of KPMG LLP, provided a Statement of Actuarial Opinion stating that the loss and LAE reserve amounts, in the aggregate, made a reasonable provision on the adequacy of its loss and LAE reserves as provided in the NAIC Annual Statement Instructions – Property/Casualty.

In order for the examination team to gain an adequate comfort level with the Company's carried December 31, 2020 loss and LAE reserve amounts, the PADOI utilized the actuarial services of Merlino & Associates, A Davies Company (Merlino), to assist the examination team in performing a risk-focused review of the Company's reserving and pricing practices. Merlino's credentialed actuaries performed their review along with assistance from the PADOI's internal property and casualty actuarial staff.

Merlino reviewed the Company's reserves, in the aggregate, and in conjunction with the PADOI, determined it would be appropriate to conduct an independent actuarial analysis of the Company's Commercial Auto Liability, and Other Liability and Products Liability segments. These two (2) segments represented approximately 70% of total carried net reserves as of December 31, 2020. The Merlino independent review, based on December 31, 2020 data, indicated a potential reserve deficiency to the Company's carried reserves on both net and gross of reinsurance basis. Due to examination timing, Merlino also considered the financial results as reported on the Company's 2021 quarterly statement filings.

Subsequent to December 31, 2020, the Company recorded reserve strengthening on the September 30, 2021 quarterly statements for coverage years 2020 and prior in the amount of \$1.8 million, which represents 10% of December 31, 2020 policyholder surplus.

The Department recognizes the company's efforts to strengthen loss and LAE reserves and therefore has no recommendations for further adjustments to the Financial Statements. The Department will continue to monitor loss trends and recorded loss and LAE reserves for the Company.

There were no recommended adjustments to the financial statements as of December 31, 2020, based on the results of this examination.

OTHER SIGNIFICANT ISSUES

There were no other significant issues noted as of December 31, 2020, based on the results of this examination.

SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) pandemic. The extent of the impact of COVID-19 on ILM's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, regulatory decisions, and the impact on the financial markets, all of which are uncertain and cannot be predicted.

As noted above, subsequent to December 31, 2020, the Company recorded reserve strengthening on the September 30, 2021 quarterly statements for coverage years 2020 and prior in the amount of \$1.8 million, which represents 10% of December 31, 2020 policyholder surplus.

There were no other events subsequent to the examination date and prior to the completion of field work which were considered material events requiring disclosure in this Report of Examination.

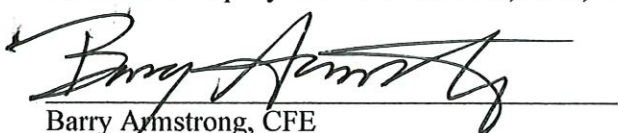
AFFIDAVIT

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 & Associates, Inc., performed an examination of Indiana Lumbermens Mutual Insurance Company, as of December 31, 2020.

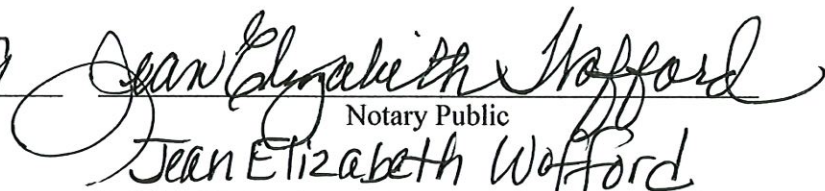
The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

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, 2020, as determined by the undersigned.


Barry Armstrong, CFE
Noble Consulting Services, Inc.

On this 9th day of June, 2022, before me personally appeared, Barry Armstrong, to sign this document. IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal the day and year last above written.

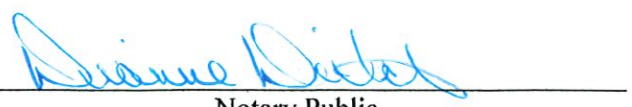
My commission expires: 11-7-2029

Notary Public
Jean Elizabeth Wofford
Notary Public

Under the Supervision of:


Jerry Ehlers, CFE, AES
Examinations Manager
Indiana Department of Insurance

State of: Indiana
County of: Marion

On this 16th day of June, 2022, before me personally appeared, Jerry Ehlers, 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: 2/16/2028

Notary Public
Dianne Deitch
Notary Public

