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

IN THE MATTER OF:)
)
Indiana Insurance Company)
175 Berkley Street)
Boston, Massachusetts 02116)

Examination of **Indiana 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 Insurance Company**, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on May 2, 2011, 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 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.

6/29/2011
Date

Cynthia D. Donovan
Cynthia D. Donovan
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 7005 3110 0002 4443 8646

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

IN THE MATTER OF:	)
	)
Indiana Insurance Company 175 Berkley Street Boston, Massachusetts 02116	)))

Examination of **Indiana Insurance Company**

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the **Indiana Insurance Company** (hereinafter "Company") for the time period January 1, 2005 through December 31, 2009.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on April 4, 2011.

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 2, 2011 and was received by the Company on May 6, 2011.

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 Insurance Company** as of December 31, 2009.
2. That the Examiner's Recommendations are reasonable and necessary in order for the **Indiana 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 29th day of June, 2011.

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

STATE OF INDIANA

Department of Insurance

REPORT OF EXAMINATION

OF

INDIANA INSURANCE COMPANY

NAIC CO. CODE 22659

As of

December 31, 2009

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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

April 5, 2011

Honorable Joseph Torti, III
Chair, NAIC Financial Condition (E) Committee
Superintendent, State of Rhode Island
Department of Business Regulation
Division of Insurance
1511 Pontiac Avenue, Building 69-2
Cranston, Rhode Island 02920-4407

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

Honorable Mila Kofman, Superintendent
Department of Professional and Financial Regulation
Maine Bureau of Insurance
Secretary, Northeastern Zone
34 State House Station
Augusta, Maine 04333-0034

Honorable Monica J. Lindeen, Commissioner
Montana Office of the Commissioner of Securities and Insurance
Secretary, Western Zone
840 Helena Avenue
Helena, Montana 59601

Dear Superintendents and Commissioners:

Pursuant to the authority vested in Appointment Number 3626, an examination has been made of the affairs and financial condition of:

Indiana Insurance Company
350 East 96th Street
Indianapolis, IN 46240-3702

hereinafter referred to as the "Company," an Indiana domestic, stock, property and casualty insurance company. The examination was conducted at the corporate offices of Liberty Mutual Insurance Company, in Boston, Massachusetts.

The Report of Examination, reflecting the status of the Company as of December 31, 2009, is hereby respectfully submitted.

SCOPE OF EXAMINATION

The Company was last examined by representatives of RSM McGladrey, Inc. as of the period ending December 31, 2004. The present coordinated risk-focused examination was conducted by Noble Consulting Services, Inc. and covered the period from January 1, 2005, through December 31, 2009, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination. The coordinated risk-focused examination was conducted by the states of Illinois and Indiana, with Indiana serving as the lead state. Additionally, the Massachusetts Division of Insurance (MA DOI) conducted an examination of the Liberty Mutual Pool (LM Pool) of Liberty Mutual Group Inc. (LMG) as of December 31, 2009. Certain areas of the examination were coordinated with MA DOI. The coordinated risk-focused examinations will be reviewed by the states of New Hampshire, Oregon, Washington, and Wisconsin for intended reliance.

David M. Shepherd, FCAS, MAAA, of Merlinos and Associates, Inc. was appointed by the Indiana Department of Insurance (IN DOI) and conducted a review of the Company's statutory reserves as of December 31, 2009. There were no actuarial adjustments resulting from the review performed by Merlinos and Associates, Inc.

We conducted our coordinated risk-focused examination pursuant to and in accordance with the 2010 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. The working papers prepared by Ernst and Young, LLP, the Company's auditors, in their audit of the Company's accounts for the year ended December 31, 2009, were reviewed. A portion of the auditor's working papers have been incorporated into the working papers of the examiners and have been utilized for the purposes of this examination in accordance with the provisions contained in the Handbook.

HISTORY

The Company was incorporated on February 13, 1851, as the Indiana Fire and Marine Insurance Company. The Company was renamed to the Indiana Insurance Company on March 5, 1875. In May 1985, the Company was sold to Peerless Holdings, Inc., and in December, it was transferred to ING US P&C Corporation (ING US P&C). In August 1998, ING US P&C was purchased by Guardian Royal Exchange Holdings, Inc. (GRE Holdings).

On May 10, 1999, Liberty Mutual Insurance Company (LMIC) purchased GRE Holdings from Guardian Royal Exchange plc. GRE Holdings was subsequently renamed to Liberty Insurance Holdings, Inc., and ING US P&C was renamed to LIH US P&C Corporation (LIH US P&C). In 2001, Liberty Mutual Holding Company Inc. (LMHC), a Massachusetts mutual holding company, was formed as a part of the mutual holding company reorganization of LMIC. As a result of the reorganization, LMHC became the new ultimate parent.

Effective January 1, 1996, the Company became a part of the Peerless Insurance Pool (Peerless Pool) and entered into the Amended and Restated Pooling Agreement (Pooling Agreement), with Peerless Insurance Company (PIC) as the lead company pool, effective January 1, 2007.

CAPITAL AND SURPLUS

As of December 31, 2009, the Company had 4,800,000 shares of common stock authorized with a stated par value of $1.25 per share, of which 3,200,000 shares were issued and outstanding and 4,500,000 shares of preferred stock authorized with a stated par value of $2 per share, of which 925,000 shares were issued and outstanding to LIH US P&C. The Company reported capital stock totaling $5,850,000 and gross paid-in and contributed surplus totaling $45,442,432 as of December 31, 2009.

As of December 31, 2009, the Company paid the following dividends to LIH US P&C during the examination period:

Year	Ordinary Dividends	Extraordinary Dividends
2009	$ 895,400	$ -
2008	$ 35,243,899	$ 20,000,000
2007	$ 1,108,651	$ -
2006	$ 35,245,405	$ 74,360,845
2005	$ 851,000	$ -

TERRITORY AND PLAN OF OPERATION

As of December 31, 2009, the Company was licensed to transact business in twelve (12) states. The Company is a part of the Agency Markets (AM) Strategic Business Unit (SBU) of LMG. AM operates through four (4) operating units. Regional companies write small to medium-sized commercial accounts through eight (8) regionally branded companies. Personal lines products are written through Safeco insurance. Summit writes workers' compensation business, primarily in the southeastern United States. Surety provides contract surety bonds for construction firms, manufacturers, and suppliers. In 2009, the Company's top three (3) lines of business by direct premiums include homeowners' multiple peril, private passenger automobile liability, and automobile physical damage.

AM continues to expand distribution across market segments while providing a full range of personal and commercial products and services to independent agents, brokers and the customers they serve. Its unique national-regional approach leverages the responsiveness of regional operation with the power of national resources.

GROWTH OF THE COMPANY

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

Year	Admitted Assets	Liabilities	Surplus and Other Funds	Premiums Earned	Net Income
2009	$ 1,260,247,251	$ 927,518,839	$ 332,728,412	$ 502,873,432	$ 38,464,716
2008	1,191,735,583	914,127,285	277,608,298	478,501,985	38,266,520
2007	1,103,547,812	801,502,050	302,045,761	441,064,371	35,467,749
2006	1,024,857,370	756,097,528	268,759,842	419,832,621	57,660,017
2005	959,695,375	607,241,327	352,454,048	353,429,871	25,866,469

Assets increased over the examination period due to an increase in invested assets. This increase reflects positive cash flow from operations and an increase in premiums earned and net income.

Liabilities increased from 2008 to 2009 primarily due to an increase in unearned premiums partially offset by a decrease in losses and loss adjustment expenses. The decrease is losses and loss adjustment expenses reflect positive developments in other liability – occurrence, private passenger auto liability, and commercial multiple peril. Liabilities increased from 2005 to 2008 as a result of increased losses and loss adjustment expenses. These increases were driven by new business and an increase in severity, primarily due to higher costs for bodily injury protection claims.

Surplus and other funds increased from 2008 to 2009 primarily due to a positive net income, an increase in unrealized gains, and an increase in unassigned funds. Surplus and other funds decreased from 2007 to 2008 and from 2005 to 2006 primarily due to the Company paying dividends to LIH US P&C out of unassigned funds (surplus). Surplus and other funds increased from 2006 to 2007 primarily due to an increase in unassigned funds (surplus).

Premiums earned increased over the examination period primarily due to an increase in net written premiums. This increase can be attributable to the addition of business to the Peerless Pool during the examination period.

Net income increased from 2007 to 2009 and from 2005 to 2006 primarily due to an increase in net investment income. This increase is due to a larger invested assets base driven by positive cash flow from operations. Net income decreased from 2006 to 2007 primarily due to a decrease in net investment income. This decrease reflects lower yields on the bond portfolio resulting from increased investments in tax-exempt securities.

MANAGEMENT AND CONTROL

Directors

The Bylaws provide that the business affairs of the Corporation are to be managed by a Board of Directors consisting of no less than five (5) and no more than thirteen (13) members. The shareholders, at each annual meeting, elect the members of the Board of Directors. The following is a listing of persons serving as directors and their principal occupations as of December 31, 2009:

Name and Address	Principal Occupation
John Derek Doyle Boston, Massachusetts	Vice President and Comptroller Liberty Mutual Group
Gary Richard Gregg Boston, Massachusetts	President, LM Agency Markets Liberty Mutual Group
Michael Joseph Fallon Boston, Massachusetts	Chief Financial Officer, LM Agency Markets Liberty Mutual Group
Kevin John Kirschner Indianapolis, Indiana	Marketing Director, Safeco MidWest Region Liberty Mutual Group
Joseph Anthony Gilles Boston, Massachusetts	Manager of Strategy and Operations, LM Agency Markets Liberty Mutual Group
Christopher Charles Mansfield Boston, Massachusetts	Senior Vice President and General Counsel Liberty Mutual Group
Scott Rhodes Goodby Boston, Massachusetts	President, Regional Companies Commercial Lines Group Liberty Mutual Group

Officers

The Bylaws state the officers of the Corporation shall consist of a President, a Secretary, and a Treasurer. Each of these officers is elected by a majority of the Board and shall hold office one (1) year, or until such time as they might be removed. The President or the Chairman may appoint the number of Vice Presidents, Assistant Secretaries, Assistant Treasurers, or any such officer as the President or Chairman may determine is required in the best interest of the Company. Any two (2) or more offices may be held by the same person. The following is a listing of key officers and their respective titles as of December 31, 2009:

Name	Office
Gary Richard Gregg	President and Chief Executive Officer
Dexter Robert Legg	Secretary
Michael Joesph Fallon	Chief Financial Officer and Treasurer
Anthony Alexander Fontanes	Chief Investment Officer and Executive Vice President
Joseph Anthony Gilles	Executive Vice President
Scott Rhodes Goodby	Chief Operating Officer and Executive Vice President

CONFLICT OF INTEREST

Officers and directors are required to review and sign Conflict of Interest statements annually. It was determined that officers and directors listed in the management and control section of this Report of Examination have reviewed and signed their statements as of year-end 2009.

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 corporation and will not knowingly violate any of the laws applicable to such corporation. Each director signed an Oath of Office statement in 2009.

CORPORATE RECORDS

Articles of Incorporation and Bylaws

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

Minutes

The Board of Directors, Audit Committee, Compensation Committee, Investment Committee, and the Board of Directors of LMHC meeting minutes were reviewed for the period under examination through the fieldwork date and 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 corporation and at such time within that period as the Bylaws may provide. It was noted that the annual meetings were not held in accordance with the Company's Bylaws or IC 27-1-7-7(b).

AFFILIATED COMPANIES

Organizational Structure

The following organizational chart, effective as of December 31, 2009, shows the upstream affiliates from the Company to the ultimate controlling entity:

	NAIC Co. Code	Domiciliary State
Liberty Mutual Holding Company Inc.		MA
LMHC Massachusetts Holdings Inc.		MA
Liberty Mutual Group Inc.		MA
Liberty Mutual Insurance Company *	23043	MA
Liberty Mutual Fire Insurance Company * (LMFIC)	23035	WI
Employers Insurance Company of Wausau * (EICW)	21458	WI
Liberty Insurance Holdings, Inc. **		DE
LIH US P&C Corporation		DE
Indiana Insurance Company *	**22659**	**IN**

*denotes an insurer

**denotes Company is owned by LMIC (93.06%), LMFIC (2.89%), and EICW (4.05%)

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 IN DOI as required, in accordance with IC 27-1-23-4.

Investment Management Agreement-LMIC

Effective January 1, 2007, and amended as of December 31, 2007, the Company entered into an Investment Management Agreement with LMIC. Under this agreement, LMIC was appointed as the Company's investment advisor and shall manage the Company's portfolio pursuant to the terms of the agreement. Compensation amounts owing between the parties shall be settled on a quarterly basis and payments of amounts owing shall be made within forty-five (45) days after the end of the calendar quarter. During 2009, the Company paid $310,217 for services provided under this agreement. This agreement was terminated January 1, 2010, by notice dated December 28, 2009. Effective January 1, 2010, the Company entered into an Investment Management Agreement with LMG to reflect the investment department personnel change from LMIC to LMG. The terms of the Investment Management Agreement with LMG reflect similar terms as the previous Investment Management Agreement with LMIC.

Investment Management Agreement-LMIA

Effective May 1, 2000, the Company entered into an Investment Management Agreement with Liberty Mutual Investment Advisors LLC (LMIA). Under this agreement, LMIA was appointed as investment manager to manage and invest certain assets of the Company pursuant to the terms of the agreement. During 2009, the Company paid $370 for services provided under this agreement. Effective January 1, 2010, the Company entered into an Amended and Restated Investment Management Agreement with

LMIA, which supersedes the Investment Management Agreement entered into with LMIA effective May 1, 2000. Under this agreement, LMIA was appointed as investment advisor and shall manage certain assets of the Company's portfolio pursuant to the terms of the agreement. This agreement includes only those affiliates that have made private equity investments. Compensation amounts owing between the parties shall be settled on a quarterly basis and payments of amounts owing shall be made within forty-five (45) days after the end of the calendar quarter.

Cash Management Agreement

Effective January 28, 2000, the Company entered into a Cash Management Agreement with LMIA. Under this agreement, LMIA will make, hold, and administer certain short-term investments maturing in 365 days or less of purchase. Compensation amounts owing between the parties shall be settled on a quarterly basis and payments of amounts owing shall be made within forty-five (45) days after the end of the calendar quarter. Effective January 1, 2010, the Cash Management Agreement was amended and restated to include a specific fee rate. During 2009, the Company paid $4,001 for services provided under this agreement.

Services Agreement

Effective January 1, 1999, and amended on August 24, 2007, January 1, 2008, and January 1, 2009, the Company entered into a Services Agreement with PIC. Under this agreement, PIC provides services related to common management functions, including but not limited to, coordinating marketing and advertising, information system support, payroll services, human resources support and personnel, accounting and other financial services, coordinating the development of corporate plans for the Company, and providing consulting and other services as the Company may request. Expenses are allocated based in accordance with the pooling percentage under the Pooling Agreement with PIC. Amounts owing between the parties shall be settled on a monthly basis, unless otherwise agreed to between such parties, provided, however, that the parties shall settle all amounts owing on at least a calendar quarterly basis. During 2009, the Company paid $62,556,804 for services provided under this agreement.

Management Services Agreement

Effective December 15, 2001, and amended on December 31, 2007, the Company entered into a Management Services Agreement with LMIC. Under this agreement, LMIC may provide services related to common management functions, including but not limited to, accounting, financial, tax and auditing, purchasing, payroll and employee benefits, information technology and support, policy administration and production, real estate management, legal, general administration, reinsurance, and other services as the Company may request. Amounts owing between the parties shall be settled between the parties on a quarterly basis and payments owing shall be made within forty-five (45) days after the end of the calendar quarter. During 2009, the Company paid $45,980,639 for services provided under this agreement.

Federal Tax Sharing Agreement

Effective January 1, 2002, amended retroactively as of January 1, 2002, amended as of August 24, 2007, amended retroactively as of January 1, 2006, and amended as of September 22, 2008, the Company entered into a Federal Tax Sharing Agreement with LMHC and affiliates. Under this agreement, the method of allocation is based upon separate return allocation with credit applied for losses as appropriate. The Company has the enforceable right to recoup prior year payments in the event of future losses. This agreement may be terminated for any party when that entity no longer is a member of the consolidated group for tax filing purposes. During 2009, the Company paid $8,286,565 under this agreement.

Revolving Loan Agreement

Effective May 22, 2006, the Company entered into a Revolving Loan Agreement with LMIC. Under this agreement, the Company may request a loan or extension of credit up to $50,000,000 from LMIC. The purpose of the extension of credit is for operating liquidity to accommodate fluctuations in daily cash flow and to promote efficient management of investments. During 2009, the Company borrowed $0 under this agreement.

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 Westchester Fire Insurance Company. The bond has blanket coverage of $15,000,000 with a $25,000,000 deductible. In addition, the Company has the $25,000,000 deductible reinsured through St. James Insurance Company. The fidelity bond is adequate to meet the prescribed minimum coverage specified by NAIC.

The Company had additional types of coverage in-force at December 31, 2009, including, but not limited to, auto, property, directors and officers liability, professional liability, aircraft, umbrella excess liability, general liability, and workers' compensation.

STATUTORY AND SPECIAL DEPOSITS

The Company reported the following statutory deposits at December 31, 2009:

State	Book Value	Fair Value
For all Policyholders:		
Indiana	$ 1,607,106	$ 1,721,376
All Other Special Deposits:		
Tennessee	106,419	110,041
Total Deposits	$ 1,713,525	$ 1,831,417

REINSURANCE

Peerless Insurance Pool

The Peerless Pool consists of a group of affiliated member companies of the LMG. The Peerless Pool is comprised of approximately forty (40) companies which comprise the LMG AM SBU. These companies produce business in all fifty (50) states and operate pursuant to the terms of the Pooling Agreement.

Per the terms of the Pooling Agreement, each affiliated member company cedes 100% of their net underwriting activity to PIC, which combines this business with their own direct and externally assumed reinsurance business. PIC then deducts reinsurance ceded to external parties and then retro-cedes a designated share of these remaining pooled accounts back to each of thirteen (13) other pool members based on each company's pre-determined share of the pool as defined in the Pooling Agreement. All other member companies cede 100% of their net underwriting activity into the Pool but receive a zero (0) share of the net pooled business and accordingly reported zero (0) net premium and/or losses in 2009.

Pursuant to the terms of the Pooling Agreement, 100% of the net reported premiums and losses of each member company is generated from their share of the business they re-assume through their participation in the Peerless Pool. Following is the list of those member companies receiving a share of the Peerless Pool as of December 31, 2009, and their respective shares of the pool as of that date:

Company Name	Domicilary State	NAIC Co. Code	Share of Pool
Peerless Insurance Company	NH	24198	25.20%
The Ohio Casualty Insurance Company	OH	24074	20.40%
Safeco Insurance Company of America	WA	24740	15.20%
General Insurance Company of America	WA	24732	9.20%
American States Insurance Company	IN	19704	7.60%
American Economy Insurance Company	IN	19690	5.60%
Indiana Insurance Company	IN	22659	4.80%
Golden Eagle Insurance Corporation	NH	10836	3.00%
Peerless Indemnity Insurance Company	IL	18333	3.00%
Safeco Insurance Company of Illinois	IL	39012	2.00%
The Netherlands Insurance Company	NH	24171	1.80%
American States Preferred Insurance Company	IN	37214	0.80%
First National Insurance Company of America	WA	24724	0.80%
American Fire and Casualty Insurance Company	OH	24066	0.60%
Total Pool Percentage			100.00%
Avomark Insurance Company *	IN	10792	0%
Consolidated Insurance Company *	IN	22640	0%
National Insurance Association *	IN	27944	0%
Safeco Insurance Company of Indiana *	IN	11215	0%
West American Insurance Company *	IN	44393	0%

*denotes other companies subject to examination not receiving a share of the net pool results

RESERVES

William M. Finn, FCAS, MAAA, Vice President and Chief Actuary for the Company, was appointed by the Board of Directors on May 15, 2003, to render an opinion on the statutory-basis for the year ended December 31, 2009.

The scope of the opinion was to examine the actuarial assumptions and methods used in determining loss reserves and related items, as shown in the Annual Statement of the Company as prepared for filing with state regulatory officials as of December 31, 2009. In forming the opinion, information prepared by the Company was relied upon. This information was evaluated for reasonableness and consistency. In other respects, the examination included such review of the actuarial assumptions and methods used and such tests of the calculations as considered necessary.

The 2009 opinion stated that the balances of reserves and related actuarial values concerning the Annual Statement items: 1) meet the requirements of the insurance laws of Indiana; 2) are computed in accordance with accepted loss reserving standards and principles; and 3) make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

During the examination, it was determined that the material actuarial items in the Annual Statement of the

Company are materially correct and fairly stated in accordance with statutory accounting practices prescribed or permitted by the Commissioner of Insurance of the State of Indiana.

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, 2008, and 2009, were agreed to the respective Annual Statements. The Annual Statements for the years ended December 31, 2005, through 2009, were reconciled to each year's independent audit report with no exceptions noted.

INDIANA INSURANCE COMPANY

FINANCIAL STATEMENTS

Assets

	Per Annual Statement	As of December 31, 2009 Examination Adjustments	Per Examination	December 31, Prior Year
Assets:				
Bonds	$ 865,835,594	$ -	$ 865,835,594	$ 826,518,719
Stocks:				
Preferred stocks	50,160	-	50,160	23,100
Common stocks	23,260,595	-	23,260,595	51,922,896
Cash, cash equivalents, and short-term investments	123,496,895	-	123,496,895	70,269,052
Other invested assets	43,099,846	-	43,099,846	41,049,230
Subtotals, cash and invested assets	$ 1,055,743,090	$ -	$ 1,055,743,090	$ 989,782,997
Investment income due and accrued	8,989,527	-	8,989,527	9,149,366
Premiums and considerations:				
Uncollected premiums and agents' balances in the course of collection	19,017,271	-	19,017,271	16,507,812
Deferred premiums, agents' balances and installments booked but deferred and not yet due	135,031,937	-	135,031,937	127,415,297
Accrued retrospective premiums	783,825	-	783,825	2,452,198
Net deferred tax asset	33,134,600	-	33,134,600	26,286,880
Guaranty funds receivable or on deposit	888,659	-	888,659	633,366
Receivables from parent, subsidiaries and affiliates	2,619,030	-	2,619,030	11,674,811
Aggregate write-ins for other than invested assets	4,039,312	-	4,039,312	7,832,856
Total assets	**$ 1,260,247,251**	**$ -**	**$ 1,260,247,251**	**$ 1,191,735,583**

INDIANA INSURANCE COMPANY

FINANCIAL STATEMENTS

Liabilities, Surplus and Other Funds

	As of December 31, 2009 Per Annual Statement	Examination Adjustments	Per Examination	December 31, Prior Year
Liabilities:				
Losses	$ 451,214,312	$ -	$ 451,214,312	$ 472,816,954
Reinsurance payable on paid losses and loss adjustment expenses	29,089,478	-	29,089,478	24,725,919
Loss adjustment expenses	107,426,187	-	107,426,187	108,270,182
Commissions payable, contingent commissions and other similar charges	12,786,023	-	12,786,023	12,868,554
Other expenses	15,178,800	-	15,178,800	15,789,486
Taxes, licenses and fees	4,601,304	-	4,601,304	9,780,197
Current federal and foreign income taxes	8,001,112	-	8,001,112	1,046,227
Unearned premiums	220,854,438	-	220,854,438	202,357,845
Advance premium	1,572,059	-	1,572,059	1,320,573
Dividends declared and unpaid: Policyholders	407,519	-	407,519	287,236
Amount withheld or retained by company for account of others	(145,552)	-	(145,552)	892,013
Drafts outstanding	15,772,446	-	15,772,446	2,901,264
Payable to parent, subsidiaries and affiliates	2,306,461	-	2,306,461	18,521,949
Payable for securities	6,175,313	-	6,175,313	-
Aggregate write-ins for liabilities	52,278,939	-	52,278,939	42,548,886
Total liabilities	**$ 927,518,839**	**$ -**	**$ 927,518,839**	**$ 914,127,285**
Aggregate write-ins for special surplus funds	4,949,866	-	4,949,866	-
Common capital stock	4,000,000	-	4,000,000	4,000,000
Preferred capital stock	1,850,000	-	1,850,000	1,850,000
Gross paid in and contributed surplus	45,442,432	-	45,442,432	45,442,432
Unassigned funds (surplus)	276,486,114	-	276,486,114	226,315,866
Surplus as regards policyholders	**332,728,412**	**-**	**332,728,412**	**277,608,298**
Total liabilities, surplus and other funds	**$ 1,260,247,251**	**$ -**	**$ 1,260,247,251**	**$ 1,191,735,583**

INDIANA INSURANCE COMPANY

FINANCIAL STATEMENTS

Statement of Income

	As of December 31, 2009			
	Per Annual Statement	Examination Adjustments	Per Examination	December 31, Prior Year
UNDERWRITING INCOME				
Premiums earned	$ 502,873,432	$ -	$ 502,873,432	$ 478,501,985
DEDUCTIONS:				
Losses incurred	255,032,950	-	255,032,950	250,584,342
Loss adjustment expenses incurred	59,706,184	-	59,706,184	51,866,665
Other underwriting expenses incurred	166,935,851	-	166,935,851	161,763,994
Aggregate write-ins for underwriting deductions	78,453	-	78,453	-
Total underwriting deductions	$ 481,753,438	$ -	$ 481,753,438	$ 464,215,001
Net underwriting gain (loss)	21,119,994	-	21,119,994	14,286,984
INVESTMENT INCOME				
Net investment income earned	44,235,954	-	44,235,954	49,472,900
Net realized capital gains (losses) less capital gains tax	(5,790,467)	-	(5,790,467)	(2,004,476)
Net investment gain (loss)	$ 38,445,487	$ -	$ 38,445,487	$ 47,468,424
OTHER INCOME				
Net gain or (loss) from agents' or premium balances charged off	(2,225,953)	-	(2,225,953)	(1,885,237)
Finance and service charges not included in premiums	4,287,364	-	4,287,364	394,538
Aggregate write-ins for miscellaneous income	(2,651,183)	-	(2,651,183)	(4,911,263)
Total other income	$ (589,772)	$ -	$ (589,772)	$ (6,401,962)
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	58,975,709	-	58,975,709	55,353,446
Dividends to policyholders	2,151,599	-	2,151,599	3,123,793
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	56,824,110	-	56,824,110	52,229,653
Federal and foreign income taxes incurred	18,359,394	-	18,359,394	13,963,133
Net income	**$ 38,464,716**	$ -	**$ 38,464,716**	**$ 38,266,520**
CAPITAL AND SURPLUS ACCOUNT			-	
Surplus as regards policyholders, December 31 prior year	$ 277,608,298	$ -	$ 277,608,298	$ 302,045,761
Net income	38,464,716	-	38,464,716	38,266,520
Change in net unrealized capital gains or (losses) less capital gains tax	7,339,899	-	7,339,899	(8,338,224)
Change in net deferred income tax	(11,026,895)	-	(11,026,895)	14,826,302
Change in nonadmitted assets	15,929,580	-	15,929,580	(15,651,746)
Dividends to stockholders	(895,400)	-	(895,400)	(55,243,899)
Aggregate write-ins for gains and losses in surplus	5,308,214	-	5,308,214	1,703,584
Change in surplus as regards policyholders for the year	**55,120,114**	-	**55,120,114**	**(24,437,463)**
Surplus as regards policyholders, as of December 31 current year	**$ 332,728,412**	$ -	**$ 332,728,412**	**$ 277,608,298**

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to surplus as of December 31, 2009, based on the results of this examination.

OTHER SIGNIFICANT FINDINGS

It is recommended, for all future periods, that the Company hold an annual meeting of shareholders, members, or policyholders within five (5) months after the close of each fiscal year of the corporation and at such time within that period as the Bylaws may provide, in compliance with IC 27-1-7-7(b).

SUBSEQUENT EVENTS

Effective January 1, 2010, Bridgefield Casualty Insurance Company and Bridgefield Employers Insurance Company canceled their 100% Quota Share Reinsurance Agreements with PIC and entered into 100% Reinsurance Agreements with LMIC.

Effective February 23, 2010, Avomark Insurance Company was merged into West American Insurance Company, with West American Insurance Company as the surviving entity.

On April 14, 2010, LIH US P&C was renamed Liberty Mutual Agency Corporation (LMAC).

On May 10, 2010, LMG announced that its subsidiary, LMAC filed a registration statement with the U.S. Securities and Exchange Commission (SEC) for an initial public offering (IPO) of shares of its common stock. On September 29, 2010, LMG announced that it was postponing the IPO of stock in LMAC due to the stalled economic recovery, volatile stock markets, and undervalued property and casualty insurance stock prices create an unfavorable environment for receiving appropriate value for the business. On January 11, 2011, LMG announced there are no immediate plans to IPO a portion of its U.S. business.

On February 1, 2011, the Board voted to accept Gary R. Gregg's resignation as the Chairman of the Board, a director, the President, and the CEO. J. Paul Condrin, III, was elected to take the place of Gary R. Gregg until the next annual meeting or until his successor is elected and qualified.

AFFIDAVIT

This is to certify that the undersigned is a duly qualified Examiner-in-Charge appointed by the Indiana Department of Insurance and that she, in coordination with staff assistance from Noble Consulting Services, Inc. and actuarial assistance from Merlinos & Associates, Inc., hereinafter collectively referred to as the "Examiners", performed an examination of **Indiana Insurance Company**, as of **December 31, 2009.**

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 2010 NAIC Financial Condition Examiner's 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 Insurance Company**, as of **December 31, 2009**, as determined by the undersigned.

Nadine Treon

Nadine Treon, CFE
Noble Consulting Services, Inc.

State of:
County of:

On this 12 day of April, 2011, before me personally appeared, Nadine Treon, to sign this document.

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

My commission expires: 3/1/18 Wendi R. Mulkey
Notary Public

SEAL
WENDI R. MULKEY
NOTARY PUBLIC, STATE OF INDIANA
MY COMMISSION EXPIRES 03-01-18