

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

IN THE MATTER OF: )  
 )  
LM Property and Casualty Insurance Company )  
175 Berkley Street )  
Boston, Massachusetts 02116 )

**Examination of LM Property and Casualty 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 **LM Property and Casualty Insurance Company**, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on May 4, 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 **LM Property and Casualty 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  
Chief Financial Examiner

**CERTIFIED MAIL NUMBER: 7005 3110 0002 4443 8592**

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

IN THE MATTER OF: )  
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LM Property and Casualty Insurance Company )  
175 Berkley Street )  
Boston, Massachusetts 02116 )

**Examination of LM Property and Casualty Insurance  
Company**

### **FINDINGS AND FINAL ORDER**

The Indiana Department of Insurance conducted an examination into the affairs of the **LM Property and Casualty 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 4, 2011 and was received by the Company on May 9, 2011.

The Company did not file any objections.

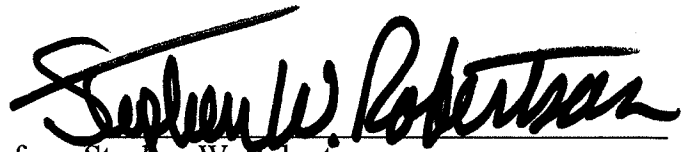
NOW THEREFORE, based on the Verified Report of Examination, I hereby make the following **FINDINGS**:

1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of the **LM Property and Casualty Insurance Company** as of December 31, 2009.
2. That the Examiner's Recommendations are reasonable and necessary in order for the **LM Property and Casualty 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 29<sup>th</sup> day of  
June, 2011.

  
Stephen W. Robertson  
Insurance Commissioner  
Indiana Department of Insurance

**STATE OF INDIANA**

**Department of Insurance**

**REPORT OF EXAMINATION**

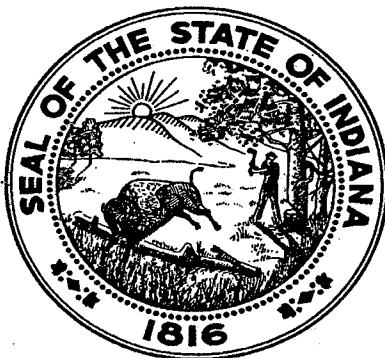
**OF**

**LM PROPERTY AND CASUALTY INSURANCE COMPANY**

**NAIC Co. CODE 32352**

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

April 5, 2011

Stephen W. Robertson, Commissioner

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 3633, an examination has been made of the affairs and financial condition of:

**LM Property and Casualty Insurance Company**  
**350 E. Ohio St., Suite 500**  
**Indianapolis, In 46204**

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.

ACCREDITED BY THE  
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES  
(317) 232-2413

COMPANY COMPLIANCE  
(317) 233-0697

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

EXAMINATIONS / FINANCIAL SERVICES  
(317) 232-2390

MEDICAL MALPRACTICE  
(317) 232-2402

SECURITIES / COMPANY RECORDS  
(317) 232-1991

## SCOPE OF EXAMINATION

The Company was last examined by representatives of Statutory Examinations Resources, Inc. as of the period ending December 31, 2005. The present coordinated risk-focused examination was conducted by Noble Consulting Services, Inc. and covered the period from January 1, 2006, 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

A predecessor to the Company was originally incorporated on March 9, 1972, under the laws of Illinois as Pruco General Insurance Company. That entity became licensed to commence business on March 31, 1972, and adopted the name of Prudential Property and Casualty Insurance Company (PruPac).

The entity that is now the Company was incorporated as Monmouth Property and Casualty Insurance Company (Monmouth) on January 2, 1975, under the laws of the state of New Jersey to act as a vehicle for the redomestication of the Company from Illinois to New Jersey. On December 31, 1975, the Company, as the surviving entity of a merger with Monmouth and PruPac, changed its name to Prudential Property and Casualty Insurance Company. Effective January 1, 1987, the Company re-domesticated from New Jersey to Indiana.

On November 1, 2003, the Company, along with two (2) other affiliates, Prudential Commercial

Insurance Company (PruCom) and Prudential General Insurance Company (PruGen), were acquired by LMG, the parent of Liberty Mutual Insurance Company (LMIC), from Prudential Financial, Inc. (Prudential). Also, on November 1, 2003, LMG in turn made a capital contribution of the Company, PruCom, and PruGen to LMIC. As a result of the acquisition, Liberty Mutual Holding Company Inc. (LMHC), a Massachusetts mutual holding company, became the new ultimate parent. LMHC was formed in 2001, as a part of the mutual holding company reorganization of LMIC. Effective November 1, 2003, the Company entered into a 100% Quota Share Reinsurance Agreement with LMIC. Effective April 13, 2004, the Company adopted its present name of LM Property and Casualty Insurance Company.

**CAPITAL AND SURPLUS**

As of December 31, 2009, the Company had 800 shares of common stock authorized with a stated par value of \$5,500 per share, of which all shares were issued and outstanding to LMIC. The Company reported capital stock totaling \$4,400,000 and gross paid-in and contributed surplus totaling \$33,539,064. The Company had no preferred stock outstanding.

As of December 31, 2009, the Company paid the following dividends to LMIC during the examination period:

<u>Year</u>	<u>Ordinary Dividends</u>	<u>Extraordinary Dividends</u>
2009	\$ -	\$ -
2008	\$ -	\$ -
2007	\$ -	\$ -
2006	\$ 70,136,946	\$ 58,154,266

**TERRITORY AND PLAN OF OPERATION**

As of December 31, 2009, the Company was licensed to transact business in the District of Columbia and all states except New Jersey. The Company cedes all business to LMIC, the lead company of the LM Pool, which operates in both the Commercial Markets (CM) and Personal Markets (PM) Strategic Business Units (SBUs) of LMG. The CM SBU operates through six (6) operating units including National Markets, Middle Markets, LM Property, Specialty Lines, Group Benefits, and LM Reinsurance. The PM SBU provides full lines of coverage for private passenger automobile, homeowners, valuable possessions, and personal liability. The Company provides private passenger automobile liability policies, but is currently writing only renewal business. The Company is in run off, and direct writings are minimal.

CM uses a network of independent insurance agents and brokers to distribute their product offerings. PM distributes its products through its sales force located in more than 350 offices across the United States, two (2) direct response centers, appointed third party providers, and the internet.



## GROWTH OF THE COMPANY

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

<u>Year</u>	<u>Admitted</u> <u>Assets</u>	<u>Liabilities</u>	<u>Surplus and</u> <u>Other Funds</u>	<u>Premiums</u> <u>Earned</u>	<u>Net Income</u>
2009	\$ 93,944,741	\$ 60,464,202	\$ 33,480,539	\$ (43,765)	\$ 4,480,087
2008	128,825,751	62,391,603	66,434,148	43,028	4,651,249
2007	242,741,756	74,778,910	167,962,846	(2,923)	9,563,272
2006	355,438,618	197,963,976	157,474,642	13,399	28,393,057

Assets decreased over the examination period primarily due to significant decreases in invested assets. The decrease from 2008 to 2009 was due to a return of capital contribution consisting of cash, securities, and accrued interest. The decrease from 2007 to 2008 was primarily driven by the sale of fixed maturities to finance the Safeco Corporation acquisition, coupled with a return of capital contribution, consisting of cash. The decrease from 2006 to 2007 was primarily due to a release of collateral being held for loaned securities in the Securities Lending Program.

Liabilities decreased from 2007 to 2008 primarily due to a decrease in amounts due to affiliates. Liabilities decreased from 2006 to 2007 due to a significant decrease in losses and a decrease in collateral held for securities loaned in the Securities Lending Program.

Surplus and other funds decreased from 2008 to 2009 and 2007 to 2008 primarily due to return of capital contributions. Surplus and other funds increased from 2006 to 2007 due to an increase in unassigned funds.

The changes in premiums earned over the examination directly reflect changes in reinsurance non-proportional assumed liability. Net income decreased over the examination period primarily due to decreases in investment income.

## 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 eighteen (18) members. At least one (1) of the directors must be a resident of Indiana. 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:

<u>Name and Address</u>	<u>Principal Occupation</u>
Melanie Marie Foley Boston, Massachusetts	Executive Vice President, Personal Markets- General Manager Distribution Liberty Mutual Group
Timothy Michael Sweeney Boston, Massachusetts	Executive Vice President, President-Personal Markets Liberty Mutual Group
Margaret Dillon Boston, Massachusetts	Senior Vice President, Chief Financial Officer- Personal Markets Liberty Mutual Group
Edward Joseph Gramer, III Boston, Massachusetts	Executive Vice President, Personal Markets - General Manager- Claims Liberty Mutual Group
Stephen Joseph McAnena Boston, Massachusetts	Executive Vice President, Personal Markets - Chief Product Officer Liberty Mutual Group
Elizabeth Julia Morahan Boston, Massachusetts	Vice President and Assistant General Counsel Liberty Mutual Group
Kevin John Kirschner Indianapolis, Indiana	Marketing Director for Safeco MidWest Region Liberty Mutual Group

### Officers

The Bylaws state the officers of the Corporation shall consist of a President, one (1) or more Vice Presidents, a Secretary, a Treasurer, and a Comptroller. The following is a listing of key officers and their respective titles as of December 31, 2009:

<u>Name</u>	<u>Office</u>
Timothy Michael Sweeney	Chairman of the Board, President, and Chief Executive Officer
Dexter Robert Legg	Vice President and Secretary
Laurance Henry Soyer Yahia	Vice President and Treasurer
Margaret Dillon	Vice President and Chief Financial Officer
Anthony Alexander Fontanes	Vice President and Assistant Treasurer
Stephen Joseph McAnena	Vice President
Edward Joseph Gramer, III	Vice President
John Derek Doyle	Vice President and Comptroller
Gary Jay Ostrow	Vice President
Melanie Marie Foley	Vice President
Elizabeth Julia Morahan	Vice President and General Counsel

#### **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. It was noted that not all of the directors as of December 31, 2009, had signed Oaths of Offices in accordance with IC 27-1-7-10(i).

#### **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:

	<u>NAIC</u> <u>Co. Code</u>	<u>Domiciliary</u> <u>State</u>
Liberty Mutual Holding Company Inc.		MA
LMHC Massachusetts Holding Inc.		MA
Liberty Mutual Group Inc.		MA
Liberty Mutual Insurance Company *	23043	MA
LM Property and Casualty Insurance Company *	32352	IN

\*denotes an insurer

### 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 September 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 \$20,262 for services under this agreement. This agreement was terminated on December 28, 2009, and amended and restated, effective January 1, 2010, to reflect the investment department personnel change from LMIC to LMG. The terms of the Amended and Restated Investment Management Agreement with LMG reflect similar terms as the previous Investment Management Agreement with LMIC.

### Investment Management Agreement-LMIA

Effective October 31, 2003, 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 \$0 for services under this agreement. The agreement was terminated on December 28, 2009.

### Cash Management Agreement

Effective October 31, 2003, 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 \$2,203 for services provided under this agreement.

### Agent-Company Agreement

Effective October 31, 2003, and amended as of October 31, 2003, the Company (formerly known as PruPac) entered into an Agent-Company Agreement with Helmsman Insurance Agency, Inc. (HIA). Under this agreement, HIA was appointed on behalf of the Company in most business functions pursuant to the terms of the agreement. All fees between the Agent and the Company must be assessed by the 15<sup>th</sup> day of each month and payments owing shall be made within forty-five (45) days after the end of the calendar quarter. The Company must hold the Agent harmless against all liabilities. During 2009, the Company paid \$0 for services provided under this agreement.

### Management Services Agreement

Effective May 22, 2003, and amended on December 31, 2007, the Company (formerly known as PruPac) 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 \$0 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. The 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 \$923,699 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:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
For all Policyholders:		
Florida	\$ 157,279	\$ 158,523
Indiana	3,014,362	3,032,820
North Carolina	352,025	359,794
All Other Special Deposits:		
Arizona	142,058	143,182
California	117,588	126,023
Georgia	411,557	441,081
Massachusetts	103,693	106,477
New Mexico	377,410	378,311
Tennessee	129,346	138,625
Total Deposits	<u>\$ 4,805,318</u>	<u>\$ 4,884,836</u>

## REINSURANCE

### Pooling Agreement

The LM Pool consists of a group of affiliated member companies of LMG's PM and CM SBUs. These companies produce business in all fifty (50) states and operate pursuant to the terms of an inter-company pooling agreement.

Per the terms of the pooling agreement, except for WBIC, WGIC, and WUIC, each affiliated pool company cedes its net underwriting activity to LMIC. WBIC, WGIC, and WUIC cede their underwriting activity to EICOW. Each quota share affiliated company cedes its underwriting activity to LMIC, except LGIC and LPIC, which cede their underwriting activity to LMPAC. After recording the assumed affiliated transactions above, LMIC records its own external assumed and ceded reinsurance activity. LMIC then retro-cedes a designated share of these remaining pooled accounts back to each of the seven (7) other pool members based on each company's pre-determined share of the pool as defined in the pooling agreement. The write-off of uncollectible reinsurance is pooled and the provision for reinsurance is recognized by the entity placing the outbound external reinsurance. The following are the member companies of the LM Pool and their respective pro-rata pooling percentages as of December 31, 2009:

<u>Company Name</u>	<u>Domiciliary State</u>	<u>NAIC Co. Code</u>	<u>Share of Pool</u>
Liberty Mutual Insurance Company	MA	23043	75.00%
Employers Insurance Company of Wausau (EICOW)	WI	21458	8.00%
Liberty Mutual Fire Insurance Company (LMFIC)	WI	23035	12.90%
Liberty Insurance Corporation (LIC)	IL	42404	3.00%
Wausau Business Insurance Company (WBIC)	WI	26069	0.40%
Wausau Underwriters Insurance Company (WUIC)	WI	26042	0.40%
LM Insurance Corporation (LMC)	IL	33600	0.20%
The First Liberty Insurance Corporation (FST)	IL	33588	0.10%
Liberty Personal Insurance Company (LPIC)	NH	11746	0.00%
Liberty Surplus Insurance Corporation (LSI)	NH	10725	0.00%
Wausau General Insurance Company (WGIC)	WI	26425	0.00%
Total Pool Percentage			100.00%
Liberty Country Mutual Insurance Company * (LCMIC)	TX	19544	0%
Liberty Insurance Underwriters Inc. * (LIU)	NY	19917	0%
Liberty Lloyd's of Texas Insurance Company * (LLOT)	TX	11041	0%
Liberty Mutual Mid-Atlantic Insurance Company * (LMMAIC)	MA	14486	0%
Liberty Mutual Personal Insurance Company * (LMPICO)	MA	12484	0%
LM General Insurance Company * (LGIC)	IL	36447	0%
LM Personal Insurance Company * (LPIC)	IL	36439	0%
LM Property and Casualty Insurance Company *	IN	32352	0%

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

### RESERVES

Roy K. Morell, FCAS, MAAA, Vice President and Chief Actuary for the Company, was appointed by the Board of Directors on October 31, 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 reserves, 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 contracts 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, 2006, through 2009, were reconciled to each year's independent audit report with no exceptions noted.

**LM PROPERTY AND CASUALTY INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

Assets

	As of December 31, 2009			
	<u>Per Annual Statement</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
<b>Assets:</b>				
Bonds	\$ 39,870,365	\$ -	\$ 39,870,365	\$ 54,147,367
Stocks:				
Common stocks	-	-	-	3
Cash, cash equivalents, and short-term investments	2,134,307	-	2,134,307	5,965,412
Receivables for securities	20	-	20	165
Subtotals, cash and invested assets	\$ 42,004,692	\$ -	\$ 42,004,692	\$ 60,112,947
Investment income due and accrued	272,960	-	272,960	658,662
Premiums and considerations:				
Uncollected premiums and agents' balances in the course of collection	1,260	-	1,260	105,840
Deferred premiums, agents' balances and installments booked but deferred and not yet due	-	-	-	3,926
Reinsurance:				
Amounts recoverable from reinsurers	49,955,649	-	49,955,649	65,992,027
Funds held by or deposited with reinsured companies	547,650	-	547,650	533,378
Net deferred tax asset	713,350	-	713,350	1,414,739
Receivables from parent, subsidiaries and affiliates	449,180	-	449,180	350
Aggregate write-ins for other than invested assets	-	-	-	3,882
<b>Total assets</b>	<b>\$ 93,944,741</b>	<b>\$ -</b>	<b>\$ 93,944,741</b>	<b>\$ 128,825,751</b>

**LM PROPERTY AND CASUALTY INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**Liabilities, Surplus and Other Funds**

	As of December 31, 2009			
	<u>Per Annual Statement</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
<b>Liabilities:</b>				
Losses	\$ 42,773,161	\$ -	\$ 42,773,161	\$ 41,916,828
Reinsurance payable on paid losses and loss adjustment expenses	2,841,385	-	2,841,385	5,639,118
Loss adjustment expenses	-	-	-	2,133,515
Current federal and foreign income taxes	3,889,932	-	3,889,932	3,338,931
Ceded reinsurance premiums payable	-	-	-	(50,226)
Funds held by company under reinsurance treaties	832,893	-	832,893	1,132,948
Provision for reinsurance	2,116,727	-	2,116,727	3,129,526
Payable to parent, subsidiaries and affiliates	318,858	-	318,858	1,865,012
Aggregate write-ins for liabilities	7,691,246	-	7,691,246	3,285,951
<b>Total liabilities</b>	<b>\$ 60,464,202</b>	<b>\$ -</b>	<b>\$ 60,464,202</b>	<b>\$ 62,391,603</b>
Aggregate write-ins for special surplus funds	169,280	-	169,280	-
Common capital stock	4,400,000	-	4,400,000	4,400,000
Gross paid in and contributed surplus	33,539,064	-	33,539,064	71,539,064
Unassigned funds (surplus)	(4,627,805)	-	(4,627,805)	(9,504,916)
<b>Surplus as regards policyholders</b>	<b>33,480,539</b>	<b>-</b>	<b>33,480,539</b>	<b>66,434,148</b>
<b>Total liabilities, surplus and other funds</b>	<b>\$ 93,944,741</b>	<b>\$ -</b>	<b>\$ 93,944,741</b>	<b>\$ 128,825,751</b>

**LM PROPERTY AND CASUALTY INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**Statement of Income**

	As of December 31, 2009			
	<u>Per Annual Statement</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
<b>UNDERWRITING INCOME</b>				
Premiums earned	\$ (43,765)	\$ -	\$ (43,765)	\$ 43,028
<b>DEDUCTIONS:</b>				
Losses incurred	1,153,800	-	1,153,800	(1,593,145)
Loss adjustment expenses incurred	(3,453,848)	-	(3,453,848)	809,936
Other underwriting expenses incurred	(191,797)	-	(191,797)	733,397
Total underwriting deductions	<u>(2,491,845)</u>	<u>-</u>	<u>(2,491,845)</u>	<u>(49,812)</u>
Net underwriting gain (loss)	\$ 2,448,080	\$ -	\$ 2,448,080	\$ 92,840
<b>INVESTMENT INCOME</b>				
Net investment income earned	2,853,601	-	2,853,601	5,990,258
Net realized capital gains (losses) less capital gains tax	424,836	-	424,836	(783,250)
Net investment gain (loss)	\$ 3,278,437	\$ -	\$ 3,278,437	\$ 5,207,008
<b>OTHER INCOME</b>				
Aggregate write-ins for miscellaneous income	(488)	-	(488)	(49)
Total other income	\$ (488)	\$ -	\$ (488)	\$ (49)
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	<u>5,726,029</u>	<u>-</u>	<u>5,726,029</u>	<u>5,299,799</u>
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	5,726,029	-	5,726,029	5,299,799
Federal and foreign income taxes incurred	1,245,942	-	1,245,942	648,550
Net income	<u>\$ 4,480,087</u>	<u>\$ -</u>	<u>\$ 4,480,087</u>	<u>\$ 4,651,249</u>
<b>CAPITAL AND SURPLUS ACCOUNT</b>				
Surplus as regards policyholders, December 31 prior year	\$ 66,434,148	\$ -	\$ 66,434,148	\$ 167,962,846
Net income	4,480,087	-	4,480,087	4,651,249
Change in net unrealized capital gains or (losses) less capital gains tax	165,682	-	165,682	(60,294)
Change in net deferred income tax	(1,446,107)	-	(1,446,107)	(265,466)
Change in nonadmitted assets	664,650	-	664,650	(128,498)
Change in provision for reinsurance	1,012,799	-	1,012,799	(1,244,167)
<b>Surplus adjustments:</b>				
Paid in	(38,000,000)	-	(38,000,000)	(80,011,891)
Aggregate write-ins for gains and losses in surplus	169,280	-	169,280	(24,469,631)
Change in surplus as regards policyholders for the year	<u>(32,953,609)</u>	<u>-</u>	<u>(32,953,609)</u>	<u>(101,528,698)</u>
Surplus as regards policyholders, as of December 31 current year	<u>\$ 33,480,539</u>	<u>\$ -</u>	<u>\$ 33,480,539</u>	<u>\$ 66,434,148</u>

### **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, LGIC and LPIC terminated their 100% Quota Share Agreements with the Company. As a result, LGIC and LPIC will no longer cede business to the Company, but cede directly to LMIC.

**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 **LM Property and Casualty 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 **LM Property and Casualty 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 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:

3/1/18

Wendi R. Mulkey  
Notary Public

