

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

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

Examination of West American Insurance Company

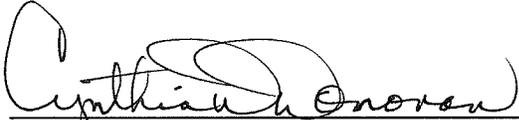
NOTICE OF ENTRY OF ORDER

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 **West American 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 **West American 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 8653

STATE OF INDIANA)
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COUNTY OF MARION) COMMISSIONER OF INSURANCE

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

Examination of West American Insurance Company

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the **West American 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 **West American Insurance Company** as of December 31, 2009.
2. That the Examiner's Recommendations are reasonable and necessary in order for the **West American 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
Insurance Commissioner
Indiana Department of Insurance

STATE OF INDIANA

Department of Insurance

REPORT OF EXAMINATION

OF

WEST AMERICAN INSURANCE COMPANY

NAIC Co. CODE 44393

As of

December 31, 2009

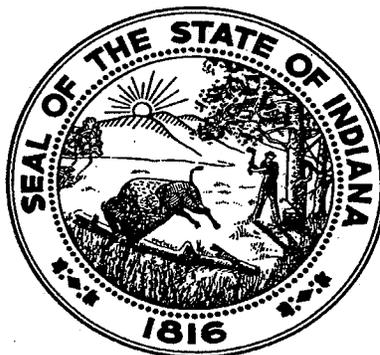


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STATE OF INDIANA

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 3629, an examination has been made of the affairs and financial condition of:

West American 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.

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 Huff Thomas 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 Merlino 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 Merlino 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 organized on September 6, 1991, as the Butler Insurance Company (BIC) and commenced business on May 31, 1995. The Company was formed to facilitate the redomestication of West American Insurance Company (WAIC) from California to Indiana. Effective May 31, 1995, WAIC was merged into BIC, with BIC being the surviving company. The name of the Company was then changed to its current name. The Company is wholly owned by The Ohio Casualty Insurance Company (OCIC), which is wholly owned by Ohio Casualty Corporation (OCC), an Ohio insurance holding company.

On August 24, 2007, the OCC and its subsidiaries were acquired by Liberty Mutual Insurance Company (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 January 1, 2008, 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 pool company.

CAPITAL AND SURPLUS

As of December 31, 2009, the Company had 700,000 shares of common stock authorized with a stated par value of \$10 per share, of which 310,000 shares were issued and outstanding to OCIC. The Company reported capital stock totaling \$3,100,000 and gross paid-in and contributed surplus totaling \$3,951,307 as of December 31, 2009. The Company had no preferred stock outstanding.

As of December 31, 2009, the Company paid the following ordinary dividends to OCIC during the examination period. No extraordinary dividends were paid during the examination period:

<u>Year</u>	<u>Dividends Paid</u>
2009	\$ -
2008	\$ 21,387,643
2007	\$ 13,000,000
2006	\$ -

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 California, Hawaii, Maine, and Vermont. 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' multi-peril, commercial multi-peril, and private passenger automobile liability policies.

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:

<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	\$ 308,800,999	\$ 95,427,586	\$ 213,373,413	\$ -	\$ 8,998,864
2008	298,663,914	91,638,206	207,025,708	-	10,151,960
2007	271,633,241	57,756,818	213,876,422	-	10,613,315
2006	264,562,056	48,539,983	216,022,073	-	1,432,016

Assets increased from 2008 to 2009 due to an increase in invested assets from the continued investment of cash flow from operations, partially offset by reduced market valuations and lower investment yields. Assets and liabilities increased from 2007 to 2008 primarily due to the Company entering into a new pooling agreement with PIC, effective January 1, 2008.

Surplus and other funds increased slightly from 2008 to 2009 due to no dividend payments during 2009 which is partially offset by a negative change in net deferred income tax. Surplus and other funds decreased from 2006 to 2008 due to increased dividend payments to OCIC.

Net income decreased from 2008 to 2009 due to a decrease in net investment income earned as a result of a reduction in market valuations and lower investment yields. Net income increased from 2006 to 2007 due to a net realized capital gain reported in 2007 versus a net realized capital loss reported in 2006.

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 twenty-one (21) 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:

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 Vice Presidents, and other such officers and assistant officers 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

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

Bylaws

The Bylaws were amended effective January 1, 2008, to align with the Bylaws of the Company's AM affiliates.

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 Co.</u>	<u>Domiciliary</u>
	<u>Code</u>	<u>State</u>
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
Peerless Insurance Company *	24198	NH
Ohio Casualty Corporation **		OH
The Ohio Casualty Insurance Company *	24074	OH
West American Insurance Company *	44393	IN

*denotes an insurer

**denotes Company is owned by LMIC (78%), LMFIC (6%), EICW (8%), and PIC (8%)

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 Indiana Code 27-1-23-4.

Investment Management Agreement-LMIC

Effective August 24, 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 \$86,971 for services provided under this agreement. This agreement was terminated effective 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 August 24, 2007, 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 \$55 for services provided under this agreement. The

agreement was terminated on December 28, 2009.

Cash Management Agreement

Effective August 24, 2007, 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 rate. During 2009, the Company paid \$1,453 for services provided under this agreement.

Services Agreement

Effective January 1, 2008, the Company entered into a Services Agreement, as amended, 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 \$0 for services provided under this agreement.

Management Services Agreement

Effective August 24, 2007, 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 \$0 for services provided under this agreement.

Federal Tax Sharing Agreement

Effective December 31, 2007, the Company entered into a Federal Tax Sharing Agreement, as amended, 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 \$4,178,580 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:		
Arkansas	\$ 202,127	\$ 204,828
Indiana	2,203,985	2,373,673
New Hampshire	498,639	537,030
North Carolina	325,449	353,413
South Carolina	243,410	258,245
All Other Special Deposits:		
Arizona	551,803	613,421
Delaware	106,117	107,535
Georgia	91,393	99,921
Idaho	50,164	55,766
Massachusetts	702,393	711,777
Montana	24,533	24,830
New Mexico	349,930	382,687
Oregon	440,836	481,971
South Carolina	5,017	5,576
Total Deposits	<u>\$ 5,795,796</u>	<u>\$ 6,210,673</u>

REINSURANCE

Peerless Insurance Pool

The Peerless Pool consists of a group of affiliated member companies of 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:

<u>Company Name</u>	<u>Domiciliary</u>	<u>NAIC Co.</u>	<u>Share of</u>
	<u>State</u>	<u>Code</u>	<u>Pool</u>
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	<u>0.60%</u>
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 October 15, 2008, 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, 2006, through 2009, were reconciled to each year's independent audit report with no exceptions noted.

WEST AMERICAN 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>
Assets:				
Bonds	\$ 255,729,598	\$ -	\$ 255,729,598	\$ 234,529,091
Cash, cash equivalents, and short-term investments	21,886,091	-	21,886,091	21,651,210
Other invested assets	161,115	-	161,115	161,116
Subtotals, cash and invested assets	<u>\$ 277,776,804</u>	<u>\$ -</u>	<u>\$ 277,776,804</u>	<u>\$ 256,341,417</u>
Investment income due and accrued	3,512,230	-	3,512,230	3,661,481
Reinsurance:				
Amounts recoverable from reinsurers	27,010,453	-	27,010,453	32,301,937
Receivables from parent, subsidiaries and affiliates	501,512	-	501,512	6,359,079
Total assets	<u><u>\$ 308,800,999</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 308,800,999</u></u>	<u><u>\$ 298,663,914</u></u>

WEST AMERICAN 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>
Liabilities:				
Current federal and foreign income taxes	\$ 22,588,871	\$ -	\$ 22,588,871	\$ 23,057,801
Net deferred tax liability	34,799,340	-	34,799,340	31,878,000
Ceded reinsurance premiums payable	25,414,885	-	25,414,885	31,110,793
Amounts withheld or retained by company for account of others	4,690	-	4,690	15,513
Payable to parent, subsidiaries and affiliates	2,110,646	-	2,110,646	1,874,489
Aggregate write-ins for liabilities	10,509,154	-	10,509,154	3,701,610
Total liabilities	\$ 95,427,586	\$ -	\$ 95,427,586	\$ 91,638,206
Common capital stock	3,100,000	-	3,100,000	3,100,000
Gross paid in and contributed surplus	3,951,307	-	3,951,307	3,951,307
Unassigned funds (surplus)	206,322,106	-	206,322,106	199,974,401
Surplus as regards policyholders	213,373,413	-	213,373,413	207,025,708
Total liabilities, surplus and other funds	\$ 308,800,999	\$ -	\$ 308,800,999	\$ 298,663,914

WEST AMERICAN 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>
INVESTMENT INCOME				
Net investment income earned	\$ 12,931,484	\$ -	\$ 12,931,484	\$ 14,933,681
Net realized capital gains (losses) less capital gains tax	(144,546)	-	(144,546)	(74,938)
Net investment gain (loss)	\$ 12,786,938	\$ -	\$ 12,786,938	\$ 14,858,743
OTHER INCOME				
Aggregate write-ins for miscellaneous income	(592)	-	(592)	(3,632)
Total other income	\$ (592)	\$ -	\$ (592)	\$ (3,632)
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	12,786,346	-	12,786,346	14,855,111
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	12,786,346	-	12,786,346	14,855,111
Federal and foreign income taxes incurred	3,787,482	-	3,787,482	4,703,151
Net income	<u>\$ 8,998,864</u>	<u>\$ -</u>	<u>\$ 8,998,864</u>	<u>\$ 10,151,960</u>
CAPTIAL AND SURPLUS ACCOUNT				
Surplus as regards policyholders, December 31 prior year	\$ 207,025,708	\$ -	\$ 207,025,708	\$ 213,876,420
Net income	8,998,864	-	8,998,864	10,151,960
Change in net unrealized capital gains or (losses) less capital gains tax	175,618	-	175,618	(175,618)
Change in net deferred income tax	(2,826,777)	-	(2,826,777)	3,078,437
Change in provision for reinsurance	-	-	-	1,086,271
Dividends to stockholders	-	-	-	(21,387,643)
Aggregate write-ins for gains and losses in surplus	-	-	-	395,881
Change in surplus as regards policyholders for the year	6,347,705	-	6,347,705	(6,850,712)
Surplus as regards policyholders, as of December 31 current year	<u>\$ 213,373,413</u>	<u>\$ -</u>	<u>\$ 213,373,413</u>	<u>\$ 207,025,708</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, 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 the Company, with the 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 Merlino & Associates, Inc., hereinafter collectively referred to as the "Examiners", performed an examination of West American 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 West American 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

