

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

IN THE MATTER OF:)
)
ACE Insurance Company of the Midwest)
120 North Ninth Street)
Richmond, Indiana 47374)

**Examination of ACE Insurance Company of the
Midwest**

NOTICE OF ENTRY OF ORDER

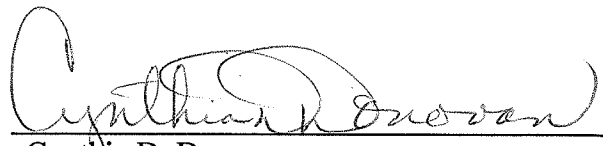
Enclosed is the Final Order entered by Stephen W. Robertson, Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of ACE Insurance Company of the Midwest, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as amended by the Final Order, 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 ACE Insurance Company of the Midwest 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.

4/28/2011

Date



Cynthia D. Donovan
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 7005 3110 0002 4443 8141

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

IN THE MATTER OF:)
)
ACE Insurance Company of the Midwest)
120 North Ninth Street)
Richmond, Indiana 47374)

**Examination of ACE Insurance Company of the
Midwest**

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the **ACE Insurance Company of the Midwest** (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 January 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 March 7, 2011 and was received by the Company on March 9, 2011.

On April 6, 2011, pursuant to Ind. Code § 27-1-3.1-10, the Company filed a response to the Verified Report of Examination. The Commissioner has fully considered the Company's response.

NOW THEREFORE, based on the Verified Report of Examination and the response filed by the Company, the Commissioner hereby FINDS as follows:

1. The suggested modifications to the Verified Report of Examination submitted by the Company are reasonable and shall be incorporated into the Verified Examination Report. A copy of the Verified Report of Examination, as amended, is attached hereto.

2. The Verified Report of Examination, as amended, is true and accurate report of the financial condition and affairs of the Company as of December 31, 2009.
3. The Examiners' recommendations are reasonable and necessary in order for the Company to comply with the insurance 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, as amended, 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, as amended. 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 28th day of April, 2011.


Stephen W. Robertson
Insurance Commissioner

STATE OF INDIANA

Department of Insurance

REPORT OF EXAMINATION

OF

ACE INSURANCE COMPANY OF THE MIDWEST

NAIC Co. CODE 26417

As of

December 31, 2009

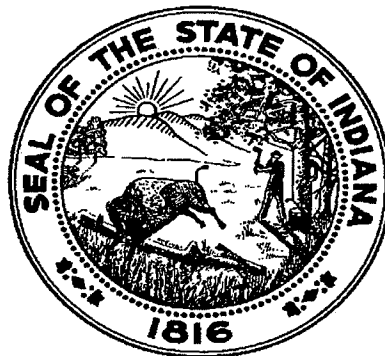


TABLE OF CONTENTS

| | |
|--|----|
| SALUTATION..... | 1 |
| SCOPE OF EXAMINATION | 2 |
| HISTORY..... | 3 |
| CAPITAL AND SURPLUS..... | 3 |
| TERRITORY AND PLAN OF OPERATION..... | 3 |
| GROWTH OF THE COMPANY..... | 3 |
| MANAGEMENT AND CONTROL..... | 4 |
| Directors | 4 |
| Officers..... | 6 |
| CONFLICT OF INTEREST..... | 6 |
| OATH OF OFFICE | 6 |
| CORPORATE RECORDS..... | 6 |
| Articles of Incorporation and Bylaws..... | 6 |
| Minutes..... | 6 |
| AFFILIATED COMPANIES..... | 7 |
| Organizational Structure..... | 7 |
| Affiliated Agreements: | 8 |
| FIDELITY BOND AND OTHER INSURANCE..... | 9 |
| STATUTORY AND SPECIAL DEPOSITS..... | 10 |
| REINSURANCE..... | 10 |
| RESERVES..... | 11 |
| ACCOUNTS AND RECORDS | 11 |
| FINANCIAL STATEMENTS..... | 12 |
| Assets | 12 |
| Liabilities, Surplus and Other Funds | 13 |
| Statement of Income..... | 14 |
| COMMENTS ON THE FINANCIAL STATEMENTS..... | 15 |
| SUBSEQUENT EVENTS..... | 15 |
| MANAGEMENT REPRESENTATION | 15 |
| AFFIDAVIT..... | 16 |



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

January 5, 2011

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

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

Dear Superintendent and Commissioner:

Pursuant to the authority vested in Appointment Number 3601, an examination has been made of the affairs and financial condition of:

**ACE Insurance Company of the Midwest
120 North 9th Street
Richmond, Indiana 47374**

hereinafter referred to as ("the Company"), an Indiana domiciled property and casualty insurance company. The examination was conducted at the Company's corporate offices in Philadelphia, Pennsylvania.

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 Noble Consulting Services, Inc. (Noble) as of the period ending December 31, 2004. The present coordinated risk-focused examination was conducted by Noble 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 Georgia, Illinois, Indiana, New Jersey, New York, and Pennsylvania with Pennsylvania serving as the lead state. The coordinated risk-focused examination was conducted in conjunction with the examinations of the following affiliates:

| <u>Company</u> | <u>NAIC Code</u> | <u>State of Domicile</u> |
|--|------------------|--------------------------|
| ACE American Insurance Company | 22667 | Pennsylvania |
| ACE Fire underwriters Insurance Company | 20702 | Pennsylvania |
| ACE Indemnity insurance Company | 10030 | Pennsylvania |
| ACE Property and Casualty Insurance Company | 20699 | Pennsylvania |
| Atlantic Employers Insurance Company | 38938 | New Jersey |
| Bankers Standard Fire and Marine Company | 20591 | Pennsylvania |
| Bankers Standard Insurance Company | 18279 | Pennsylvania |
| Century Indemnity Company | 20710 | Pennsylvania |
| Illinois Union Insurance Company | 27960 | Illinois |
| Indemnity Insurance Company of North America | 43575 | Pennsylvania |
| Insurance Company of North America | 22173 | Pennsylvania |
| Pacific Employers Insurance Company | 22748 | Pennsylvania |
| Westchester Fire Insurance Company | 21121 | New York |
| Westchester Surplus Lines Insurance Company | 10172 | Georgia |

John Purple, F.C.A.S., M.A.A.A. of RSM McGladrey Inc. (RSM) was appointed by the Indiana Department of Insurance (IDOI) and conducted a review of the Company's statutory reserves as of December 31, 2009. There were no actuarial adjustments or recommendations resulting from the review performed by RSM.

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 PricewaterhouseCoopers (PWC), the Company's auditors, in their audit of the Company's accounts for the year ended December 31, 2008, 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 as Aetna Insurance Company of the Midwest on June 2, 1972, under the laws of the State of Indiana and commenced business on July 17, 1972. The Company's name was changed to Cigna Insurance Company of the Midwest on December 31, 1987. The Company's present name was adopted on November 1, 1999. The Company is a member of ACE USA's Domestic Property and Casualty Group. Beginning in 1999, the Company participates in an agreement with an affiliated company, ACE American Insurance Company (ACE American), whereby the Company cedes 90% of its underwriting activity, excluding unallocated loss adjustment and other underwriting expenses. The Company is a wholly-owned subsidiary of ACE Property and Casualty Insurance Company, which is a wholly-owned subsidiary of INA Holdings Corporation, with its' ultimate parent being ACE Limited (Switzerland).

CAPITAL AND SURPLUS

As of December 31, 2009, the Company had 500,000 shares of common stock authorized with a par value of \$10 per share, of which 200,000 shares were issued and outstanding. The Company has no preferred stock. No dividends were declared nor were any capital contributions received during the years under examination.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact insurance business in the States of Florida, Indiana, and Louisiana. The Company is a member of the ACE USA Group and writes inland marine, earthquake, other liability, homeowners, and private passenger auto lines to individuals through approximately 767 agencies and independent broker-dealers. In 2009, the Company wrote direct premiums totaling \$1,313,357, of which, more than 97% was written in the State of Florida.

GROWTH OF THE COMPANY

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

| <u>Year</u> | <u>Admitted Assets</u> | <u>Liabilities</u> | <u>Policyholder Surplus</u> | <u>Premium Earned</u> | <u>Net Income</u> |
|-------------|------------------------|--------------------|-----------------------------|-----------------------|-------------------|
| 2009 | \$ 54,515,319 | \$ 1,475,193 | \$ 53,040,126 | \$ 28,017 | \$ 2,509,783 |
| 2008 | 51,111,378 | 488,979 | 50,622,399 | 9,662 | 795,486 |
| 2007 | 50,579,364 | 804,890 | 49,774,474 | 44,258 | 1,752,797 |
| 2006 | 48,979,545 | 908,148 | 48,071,397 | 43,779 | 1,277,842 |
| 2005 | 47,662,348 | 864,204 | 46,798,144 | 35,628 | 1,282,688 |

For the examination period, admitted assets and policyholder surplus each grew by more than 13% primarily as a result of on-going investment income. In 2009, the Company began writing homeowners and auto coverages in Florida and Louisiana. This increased production resulted in higher liabilities, primarily as a result of unearned premium reserves and ceded reinsurance premium payable.

MANAGEMENT AND CONTROL

Directors

The Company's Articles of Incorporation provide that the Board of Directors shall be composed of not less than five (5) nor more than twenty-one (21) members, at least one of which must be a resident of the State of Indiana. The shareholder, at its annual meeting, elects the members of the Board of Directors. The following is a listing of persons serving as directors at December 31, 2009:

| <u>Name & Address</u> | <u>Principal Occupation</u> |
|--|---|
| Robert Howard Courtemanche New Vernon, New Jersey | Chief Executive Officer ACE Private Risk Services |
| Joseph Francis Fisher Glen Mills, Pennsylvania | Chief Finance Officer ACE North America |
| John Joseph Lupica Newtown, Pennsylvania | President ACE, USA Inc. |
| Carolyn Louise Scheiben Richmond, Indiana | Assistant Vice President, Operations ACE, USA Inc. |
| Dennis Albert Crosby Jr. Suwanne, Georgia | President and Chief Executive Officer ACE Westchester |
| William Paul Garrigan Milton, Georgia | Executive Vice President and Chief Operating Officer ACE Westchester |
| Christopher Anthony Maleno Manhasset, New York | President ACE Casualty Risk |
| Drew Kiehn Spitzer Philadelphia, Pennsylvania | Senior Vice President ACE, USA Inc. |
| William Nicholas Curcio Garden City, New York | President ACE Risk Management |
| Bruce Lloyd Kessler Philadelphia, Pennsylvania | Chief Underwriting Officer ACE North America |
| Paul Gerard O'Connell Philadelphia, Pennsylvania | Executive Vice President and Chief Actuary ACE, USA Inc. |
| Edward Dominic Zaccaria New Hope, Pennsylvania | President Global Underwriting Group Insurance Company of North America |
| Brian Edward Dowd Newtown, Pennsylvania | Chief Executive Officer ACE North America |
| Suresh Krishnan Darien, Connecticut | General Counsel ACE, USA Inc. |
| Paul Ramsey East Windsor Hill, Connecticut | Executive Vice President ACE USA Claims |

Officers

The Company's Bylaws state that the officers of the Company, who shall be chosen by the Board of Directors, shall consist of a Chairman of the Board, a President, a Secretary, a Treasurer, and such other officers necessary to conduct the business of the Company. The same person may hold any two or more offices. The following is a list of key officers and their respective titles as of December 31, 2009:

| <u>Name</u> | <u>Office</u> |
|------------------------|-----------------------|
| Brian Edward Dowd | Chairman of the Board |
| John Joseph Lupica | President |
| Drew Kiehn Spitzer | Treasurer |
| George Dennis Mulligan | Secretary |

CONFLICT OF INTEREST

The Company requires officers and directors to review and sign Conflict of Interest statements on an annual basis. Based on a review of the signed statements for each year of the examination period, officers and directors listed in the management and control section of this report have reviewed and signed their statements annually.

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" when elected.

CORPORATE RECORDS

Articles of Incorporation and Bylaws

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

Minutes

The Board of Directors and Shareholder meeting minutes were reviewed for the period under examination through the fieldwork date and significant actions taken during each meeting were noted. It was noted that the annual meetings and other regular Board meetings were held in accordance with the Company's Bylaws.

AFFILIATED COMPANIES

Organizational Structure

The following abbreviated organizational chart shows the upstream holding company and insurance company affiliates:

| | <u>NAIC Co.</u> | <u>Domiciliary</u> |
|--|-----------------|--------------------|
| | <u>Code</u> | <u>State</u> |
| ACE Limited | | Switzerland |
| ACE Group Management and Holdings Ltd. | | Bermuda |
| ACE Capital Title Reinsurance Company | 50028 | NY |
| ACE Group Holdings, Inc. | | DE |
| ACE Life Insurance Company | | CT |
| ACE INA Holdings Inc. | | DE |
| Combined Insurance Company of America | | IL |
| INA Financial Corporation | | DE |
| Brandywine Holdings Corporation | | DE |
| Century Indemnity Company | 20710 | PA |
| Indemnity Insurance Company of North America | 43575 | NY |
| ACE Indemnity Insurance Company | 10030 | PA |
| ACE American Insurance Company | 22667 | PA |
| Pacific Employers Insurance Company | 22748 | PA |
| Illinois Union Insurance Company | 27960 | IL |
| Insurance Company of North America | 22713 | PA |
| Bankers Standard Insurance Company | 18279 | PA |
| ACE Property and Casualty Insurance Company | 20699 | PA |
| ACE Fire Underwriters Insurance Company | 20702 | PA |
| Atlantic Employers Insurance Company | 38938 | NJ |
| ACE Insurance Company of the Midwest | 26417 | IN |
| ACE Structured Products, Inc. | | DE |
| ACE INA International Holdings, Ltd. | | DE |
| ACE Insurance Company | 30953 | PR |
| Westchester Fire Insurance Company | 21121 | NY |
| Westchester Surplus Lines Insurance Company | 10172 | GA |

Affiliated Agreements:

The following is a summary of the Company's affiliated agreements and transactions that were disclosed as part of the Form B – Holding Company Registration Statement and were filed as required with the IDOI in accordance with IC 27-1-23-4 and IC 27-6-1.1-5.

Lending and Borrowing Agreement

Effective January 30, 1995, the Company had a Lending and Borrowing Agreement with any affiliated company participating in any inter-company reinsurance agreement, to lend to each other up to an aggregate amount of \$150,000,000 outstanding at any one time and to borrow from each other up to the aggregate amount of \$150,000,000 outstanding at any one time.

Accounts Receivable Sale Agreement

Effective May 1, 2008, an Accounts Receivable Sale Agreement was entered into by and among ACE American, the Company, and certain affiliated insurance companies (collectively, the "Sellers") and an affiliated service company, Recovery Services International, Inc. ("Purchaser"). Under the terms of the Agreement, the Sellers will sell to Purchaser certain of their premium accounts receivables. In 2009, \$0 was paid under this Agreement.

Service Agreement

Effective December 31, 1995, Century Indemnity Company (Century), along with ACE American, the Company, and other affiliates entered into a Service Agreement whereby Century provides all services required to adjust major claims, with respect to the collection of reinsurance recoverables, including without limitation, accounting, statistical, management, and other administrative services, including auditing, litigation, data processing, actuarial, and personnel services. In 2009, \$2,592 was allocated to the Company for these services.

Service Agreement

Effective December 31, 1995, ACE American along with the Company and other affiliates (the "Companies") entered into a Service Agreement whereby ACE American provides all services as are necessary for the continuing insurance and reinsurance operations of the companies, including, without limitation, underwriting, accounting, statistical, management, and other administrative services, including auditing, litigation, data processing, actuarial, and personnel services. In 2009, \$231,335 was allocated for these services.

Acquisition Agreement

On July 2, 1999, pursuant to the terms of an Acquisition Agreement by and among CIGNA Corporation, CIGNA Holdings, Inc., and ACE Limited (Limited) dated January 11, 1999, Limited acquired certain assets and companies of the Property and Casualty division of CIGNA Corporation. ACE INA Holdings, Inc. allocated corporate overhead expenses of approximately \$27,724,000 to its affiliated and subsidiary domestic insurance companies for 2009. The allocation to the Company for 2009, was \$138.

Investment Advisory Services Agreement

Effective January 1, 2001, an Investment Advisory Services Agreement was entered into by and among the Company and certain of its affiliated insurers (collectively the Client) with ACE Asset Management Inc. (ACE Asset). ACE Asset assists with the evaluation and selection of Client's investment advisors and monitors the performance, compliance, and risk profile of Client's portfolio. In 2009, \$9,624 was paid for these services.

Settlement of Intercompany Obligations Agreement

Effective September 1, 2007, a Settlement of Intercompany Obligations (the Agreement) was entered into by and among the Company and other affiliated companies as outlined in the Schedule of Parties (the Participants) attached to the Agreement. The Agreement provides for the period settlement of certain intercompany obligations of each party to the Agreement to certain other affiliated parties thereto on a net basis by: (i) setting off the amounts of such obligations owed by Participants against the amounts of such obligations receivable by other Participants; and (ii) paying in cash the remaining outstanding such obligations of the Participants which are net debtors in respect of such obligations, to the Participants which are net creditors in respect of such obligations, with the result that each such Participant shall have received or paid the amount of cash which would have been received or paid by it, if each such obligation had been paid in cash by the obligor.

Consolidated Tax Allocation Agreement

A Tax Allocation Agreement was entered into effective March 1, 2000, by and among ACE Group Holdings, Inc., the Company, and other affiliated entities for taxable periods ending after July 2, 1999. Under the Agreement, each party contributes its fair and equitable share to the federal income taxes payable by the affiliated group, who files the consolidated federal income tax return and pays the federal income taxes on a consolidated basis.

FIDELITY BOND AND OTHER INSURANCE

The Company, through its ultimate parent ACE Limited, protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond issued by Chubb Insurance Company of Europe, SE. The bond has blanket coverage of \$25,000,000 with a \$1,000,000 deductible. The fidelity bond exceeds 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 directors and officers, commercial, and general liability coverages.

STATUTORY AND SPECIAL DEPOSITS

The Company reported the following statutory deposits comprised of United States Treasury Bonds at December 31, 2009:

| <u>State</u> | <u>Book Value</u> | <u>Fair Value</u> |
|----------------------------|-------------------|-------------------|
| Not for all policyholders: | | |
| Florida | \$ 201,385 | \$ 204,680 |
| Louisiana | 101,996 | 102,426 |
| For all Policyholders: | | |
| Indiana | 110,018 | 111,474 |
| Total Deposits | <u>\$ 413,399</u> | <u>\$ 418,580</u> |

REINSURANCE

Assumed Reinsurance

The Company assumes no reinsurance.

Retrocession and Assumption Agreement

Effective December 31, 1995, the Company entered into a Quota Share Reinsurance Agreement with Insurance Company of North America (Reinsurer) to allocate the method by which reinsurance would be ceded from Ceding Company to Reinsurer (the Old Agreement). Effective January 1, 1999, the Company and Reinsurer agreed to terminate the Old Agreement. Also effective on January 1, 1999, the Reinsurer, with the express consent of the Company, entered into a Retrocession and Assumption Agreement (New Agreement) with ACE American. Under the New Agreement, the Reinsurer agreed to transfer to ACE American, all of the Reinsurer's liabilities to the Company under the Old Agreement.

Quota Share Reinsurance Agreement

Effective January 1, 1999, the Company and ACE American entered into a Quota Share Agreement. Pursuant to the Agreement, ACE American obligates itself to accept as reinsurance of the Company, and the Company obligates itself to cede to ACE American: (i) ninety percent (90%) of the Company's Net Liability under all Policies issued by the Company and (ii) 100% of that portion of the risk under any single Policy, after giving effect to the reinsurance under subparagraph (1) above, which exceeds ten percent (10%) of the Company's policyholder surplus as of December 31, immediately preceding the effective date of such policy. In addition, if at any time, the Company's capital and surplus declines below that required by statute, the Company obligates itself to cede to ACE American such additional Net Liability of the Company, as would restore the Company's capital and surplus above such level, but not in excess of 100% of the Company's Net Liability.

Pre 1987 General Liability Reinsurance

Effective as of December 31, 1995, the Company along with certain other companies entered into a reinsurance agreement with Century whereby Century desires to provide reinsurance to the Company for all general liability policies issued by the Company with the inception dates prior to January 1, 1987. As of December 31, 2009, the total amount of liabilities ceded by the Company under this Agreement was \$29,237.

RESERVES

Paul G. O'Connell, F.C.A.S, M.A.A.A., Executive Vice President and Chief Actuary of ACE INA Holdings, Inc. was appointed by resolution of the Board of Directors on August 16, 2002, to render an opinion on the statutory-basis loss and loss adjustment expense reserves of the Company for the entire examination period.

The scope of the opinion was to examine the actuarial assumptions and methods used in determining 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 his opinion, information prepared by staff under the direction of Thomas J. Slickers 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 loss and loss adjustment expense reserves: 1) meet the requirements of the insurance laws and regulations of the State 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 adjustment 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 years ended December 31, 2005, through December 31, 2009, were agreed to each year's independent audit report with no exceptions noted. The Company's accounting procedures, practices, and account records were satisfactory.

ACE INSURANCE COMPANY OF THE MIDWEST
FINANCIAL STATEMENTS

Assets

| | As of December 31, 2009 | | | | December 31, Prior Year |
|--|-------------------------|----------------------------|-----------|-------------------|----------------------------|
| | Per Annual Statement | Examination Adjustments | Per | Examination | |
| Assets: | | | | | |
| Bonds | \$ 52,492,930 | \$ - | \$ | 52,492,930 | \$ 48,389,106 |
| Stocks: | | | | | |
| Preferred stocks | 84,375 | - | | 84,375 | 167,171 |
| Cash, cash equivalents and short-term investments | 642,658 | - | | 642,658 | 2,108,389 |
| Receivables for securities | 6,762 | - | | 6,762 | 64 |
| Subtotals, cash and invested assets | \$ 53,226,725 | \$ - | \$ | 53,226,725 | \$ 50,664,730 |
| Investment income due and accrued | 331,236 | - | | 331,236 | 421,726 |
| Reinsurance | | | | | |
| Amounts recoverable from reinsurers | 187,520 | - | | 187,520 | 23,142 |
| Net deferred tax asset | 10,817 | - | | 10,817 | 1,780 |
| Receivables from parent, subsidiaries and affiliates | 759,021 | - | | 759,021 | - |
| Aggregate write-ins for other than invested assets | - | - | | - | - |
| Total Assets | \$ 54,515,319 | \$ - | \$ | 54,515,319 | \$ 51,111,378 |

ACE INSURANCE COMPANY OF THE MIDWEST
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: | | | | |
| Losses | \$ 101,210 | \$ - | \$ 101,210 | \$ 132,113 |
| Loss adjustment expenses | 63,584 | - | 63,584 | 55,321 |
| Taxes, licenses and fees | 1,001 | - | 1,001 | 101 |
| Current federal and foreign income taxes | 273,538 | - | 273,538 | 265,882 |
| Unearned premiums | 104,379 | - | 104,379 | 1,060 |
| Ceded reinsurance premiums payable (net of ceding commissions) | 931,481 | - | 931,481 | (384) |
| Provision for reinsurance | - | - | - | 13,000 |
| Payable to parent, subsidiaries and affiliates | - | - | - | 21,886 |
| Total liabilities | \$ 1,475,193 | \$ - | \$ 1,475,193 | \$ 488,979 |
| Aggregate write-ins for special surplus funds | \$ 1,887 | - | 1,887 | \$ - |
| Common capital stock | 2,000,000 | - | 2,000,000 | 2,000,000 |
| Gross paid in and contributed surplus | 10,000,000 | - | 10,000,000 | 10,000,000 |
| Unassigned funds (surplus) | 41,038,239 | - | 41,038,239 | 38,622,399 |
| Surplus as regards policyholders | \$ 53,040,126 | \$ - | \$ 53,040,126 | \$ 50,622,399 |
| Total liabilities, capital and surplus | \$ 54,515,319 | \$ - | \$ 54,515,319 | \$ 51,111,378 |

ACE INSURANCE COMPANY OF THE MIDWEST
FINANCIAL STATEMENTS

Statement of Income

| | As of December 31, 2009 | | | |
|---|--------------------------------|-----------------------------|------------------------|--------------------------------|
| | Per Annual Statement | Exam Adjustments | Per Examination | December 31, Prior Year |
| UNDERWRITING INCOME | | | | |
| Premiums earned | \$ 28,017 | \$ - | \$ 28,017 | \$ 9,662 |
| DEDUCTIONS | | | | |
| Losses incurred | \$ (18,061) | \$ - | \$ (18,061) | \$ 46,150 |
| Loss adjustment expenses incurred | 27,531 | - | 27,531 | (39,674) |
| Other underwriting expenses incurred | (14,704) | - | (14,704) | 49,469 |
| Total underwriting deductions | \$ (5,234) | \$ - | \$ (5,234) | \$ 55,945 |
| Net underwriting gain (loss) | \$ 33,251 | \$ - | \$ 33,251 | \$ (46,283) |
| INVESTMENT INCOME | | | | |
| Net investment income earned | \$ 2,075,275 | \$ - | \$ 2,075,275 | \$ 2,349,407 |
| Net realized capital gains (losses) | 1,066,257 | - | 1,066,257 | (866,638) |
| Net investment gain (loss) | \$ 3,141,532 | \$ - | \$ 3,141,532 | \$ 1,482,769 |
| Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes | \$ 3,174,783 | - | \$ 3,174,783 | \$ 1,436,486 |
| Net income, after dividends to policyholders, after capital gains and before all other federal and foreign income taxes | \$ 3,174,783 | \$ - | \$ 3,174,783 | \$ 1,436,486 |
| Federal and foreign income taxes incurred | 665,000 | - | 665,000 | 641,000 |
| Net Income | \$ 2,509,783 | \$ - | \$ 2,509,783 | \$ 795,486 |
| CAPITAL AND SURPLUS ACCOUNT | | | | |
| Surplus as regards policyholders, December 31 prior year | \$ 50,622,399 | \$ - | \$ 50,622,399 | \$ 49,774,474 |
| Net income | \$ 2,509,783 | \$ - | \$ 2,509,783 | \$ 795,486 |
| Change in net unrealized capital gains or (losses) | 17,367 | - | 17,367 | 24,853 |
| Change in net deferred income tax | (298,538) | - | (298,538) | 255,729 |
| Change in nonadmitted assets | 154,040 | - | 154,040 | (240,143) |
| Change in provision for reinsurance | 13,000 | - | 13,000 | 12,000 |
| Cumulative effect of changes in accounting principles | 20,188 | - | 20,188 | - |
| Aggregate write-ins for gains and losses in surplus | 1,887 | - | 1,887 | - |
| Change in surplus as regards policyholders for the year | \$ 2,417,727 | \$ - | \$ 2,417,727 | \$ 847,925 |
| Surplus as regards policyholders, December 31 current year | \$ 53,040,126 | \$ - | \$ 53,040,126 | \$ 50,622,399 |

COMMENTS ON THE FINANCIAL STATEMENTS

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

SUBSEQUENT EVENTS

There were no events occurring subsequent to the completion of fieldwork and prior to the issuance of this report that were deemed in need of disclosure.

MANAGEMENT REPRESENTATION

In support of contingencies and accuracy of information provided during the course of the examination, the Examiners obtained a completed management representation letter in the standard NAIC format. This letter was executed by key financial personnel of the Company and provided to the IDOI.


AFFIDAVIT

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



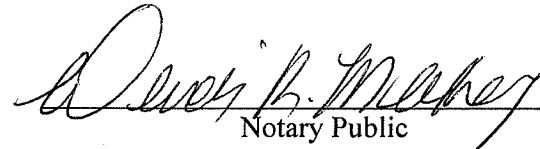
Daniel P. McBay, CFE
Noble Consulting Services, Inc.

State of:
County of:

On this 10 day of February 2011, before me personally appeared, Daniel P. McBay, to sign this document.

IN WITNESS WHEREOF, 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



Notary Public

