

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

IN THE MATTER OF: )  
 )  
Hartford Insurance Company of Midwest )  
One Hartford Plaza )  
Hartford, Connecticut 06155 )

Examination of Hartford Insurance Company of 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 Hartford Insurance Company of Midwest, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on February 25, 2014, 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 Hartford Insurance Company of 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.

April 9, 2014  
Date

Cynthia D. Donovan  
Cynthia D. Donovan  
Chief Financial Examiner

**CERTIFIED MAIL NUMBER: 9214 8901 0661 5400 0030 4216 42**

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

IN THE MATTER OF: )  
 )  
Hartford Insurance Company of Midwest )  
One Hartford Plaza )  
Hartford, Connecticut )

Examination of Hartford Insurance Company of Midwest

### FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the Hartford Insurance Company of Midwest (hereinafter "Company") for the time period January 1, 2008 through December 31, 2012.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on January 13, 2014.

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 February 25, 2014 and was received by the Company on March 3, 2014

The Company did not file any objections.

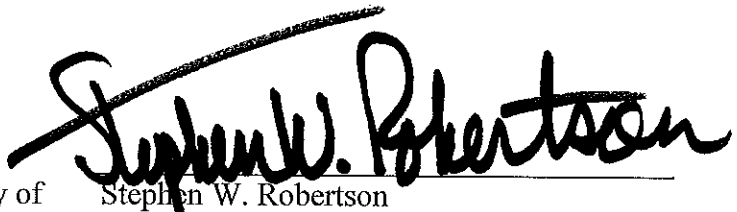
NOW THEREFORE, based on the Verified Report of Examination, I hereby make the following **FINDINGS**:

1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of the Hartford Insurance Company of Midwest as of December 31, 2012.
2. That the Examiner's Recommendations are reasonable and necessary in order for the Hartford Insurance Company of Midwest 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 9 day of  
April, 2014.



Stephen W. Robertson  
Insurance Commissioner  
Indiana Department of Insurance

## ABOUT AFFIRMATIONS

The following pages for affirmations need to be signed by each Board Member and returned to the Indiana Department of Insurance within thirty (30) days in accordance with I.C. §27-1-3.1-12(b).

If your affirmations list individuals that are no longer on your Board of Directors, you may simply retype the form on plain white paper with the correct names and a line to the right for signature. If the names are misspelled, you may do the same, simply re-type the corrected form with a line to the right for signature.

Should you have any questions or difficulties with these forms or you require additional time past the thirty (30) day requirement, please do not hesitate to contact this department at (317) 232-2390.

*Robert H. Winkler*

**STATE OF INDIANA**

**Department of Insurance**

**REPORT OF EXAMINATION**

**OF**

**HARTFORD INSURANCE COMPANY OF THE MIDWEST**

NAIC Co. CODE 37478  
NAIC GROUP CODE 0091

As of

December 31, 2012



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# STATE OF INDIANA

MICHAEL R. PENCE, 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 13, 2014

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

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 3733, an examination has been made of the affairs and financial condition of:

**Hartford Insurance Company of the Midwest  
One Hartford Plaza  
Hartford, Connecticut 06155-0001**

hereinafter referred to as the "Company", or "HICM", an Indiana domestic stock property and casualty insurance company. The examination was conducted at the corporate offices of the Company in Hartford, Connecticut.

The Report of Examination, reflecting the status of the Company as of December 31, 2012, is hereby respectfully submitted.

ACCREDITED BY THE  
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES  
(317) 232-2413

COMPANY COMPLIANCE  
(317) 233-0697

CONSUMER SERVICES  
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MEDICAL MALPRACTICE  
(317) 232-2402

SECURITIES / COMPANY RECORDS  
(317) 232-1991

## SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI) as of the period ending December 31, 2007. The present risk-focused examination was conducted by Noble Consulting Services, Inc., and covered the period from January 1, 2008 through December 31, 2012, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition 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.

The examination of the Connecticut domestic property and casualty insurance companies of The Hartford Financial Services Group, Inc., (HFSG) or (Group) was called by the Connecticut Insurance Department (CID) in accordance with the Handbook guidelines, through the NAIC's Financial Examination Electronic Tracking System. The CID served as the lead state on the examination, and the Illinois Department of Insurance and the INDOI served as participants.

Oliver Wyman Actuarial Consulting, Inc., a consulting actuarial firm appointed by the CID, conducted a review of the Company's loss and loss adjustment expense reserves as of December 31, 2012. There were no actuarial adjustments resulting from the review performed by Oliver Wyman Actuarial Consulting, Inc.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

## HISTORY

The Company was incorporated on September 11, 1979, as an Indiana stock property and casualty insurance company and commenced business on January 1, 1980.

The Company was a wholly owned subsidiary of Hartford Fire Insurance Company (HFIC), a Connecticut-domiciled stock property and casualty insurer. The Company is now a direct, 100% owned subsidiary of the Group, a publicly traded stock corporation engaged primarily in providing insurance and financial services including commercial and personal property and casualty products, as well as individual life, group life, and group disability insurance products and investment product services in the United States and internationally.

## CAPITAL AND SURPLUS

As of December 31, 2012, the Company had 5,000 shares of authorized common stock with a par value of \$1,000 per share, of which 4,200 were issued and outstanding.



## DIVIDENDS TO STOCKHOLDERS

The Company did not pay any dividends during the examination period.

## TERRITORY AND PLAN OF OPERATION

The Company is licensed to write multiple lines of property and casualty insurance in all fifty (50) states and the District of Columbia.

Member companies of the Hartford Fire Insurance Company Pool (Pool) provide the following commercial and consumer coverages through two (2) of HFSG's reporting segments: Property and Casualty Commercial and Consumer Markets. Property and Casualty Commercial provides automobile, liability, livestock, marine, property, umbrella, and workers' compensation coverage to commercial accounts primarily throughout the United States; along with a variety of customized insurance products and risk management services including fidelity, professional liability, specialty casualty, and surety coverage to commercial accounts. Consumer Markets provides standard automobile, homeowners, and home-based business coverage to individuals across the United States, including a special program designed exclusively for members of AARP. Consumer Markets also operates as a member contact center for health insurance products offered through the AARP health program.

## GROWTH OF THE COMPANY

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

| <u>Year</u> | <u>Admitted<br/>Assets</u> | <u>Liabilities</u> | <u>Surplus and<br/>Other Funds</u> | <u>Premiums<br/>Earned</u> | <u>Net Income</u> |
|-------------|----------------------------|--------------------|------------------------------------|----------------------------|-------------------|
| 2012        | \$470,143,468              | \$117,403,236      | \$352,740,232                      | \$ 49,450,253              | \$ 20,954,012     |
| 2011        | 451,522,608                | 121,517,424        | 330,005,185                        | 49,354,834                 | 19,693,450        |
| 2010        | 422,690,728                | 113,097,916        | 309,592,812                        | 48,483,332                 | 23,354,648        |
| 2009        | 383,026,428                | 118,320,425        | 264,706,004                        | 49,568,390                 | 21,738,708        |
| 2008        | 355,996,368                | 115,844,341        | 240,152,028                        | 51,592,729                 | 22,704,387        |

Surplus and other funds grew steadily throughout the examination period. The growth in surplus is primarily attributable to the Company's net income, in addition to a cash capital contribution from HFSG in 2010.

## MANAGEMENT AND CONTROL

### Directors

The Articles of Incorporation provide that the business affairs of the Company are to be managed by a Board of Directors (Board) consisting of not less than five (5) members. The shareholder, at its annual meeting, elects the members of the Board.

The following is a listing of persons serving as directors at December 31, 2012, and their principal occupations as of that date:

| <u>Name and Address</u>                      | <u>Principal Occupation</u>   |
|--|---|
| Douglas G. Elliot<br>Rocky Hill, Connecticut | Executive Vice President and President of Commercial Markets<br>The Hartford Financial Services Group, Inc. |
| André A. Napoli<br>Farmington, Connecticut   | Executive Vice President and President of Consumer Markets<br>The Hartford Financial Services Group, Inc.   |
| Mark J. Niland<br>Simsbury, Connecticut      | Head of Portfolio Management<br>The Hartford Financial Services Group, Inc.                                 |
| Robert W. Paiano<br>Farmington, Connecticut  | Senior Vice President and Treasurer<br>The Hartford Financial Services Group, Inc.                          |
| Anthony J. Phifer<br>Zionsville, Indiana     | Regional Vice President, Claims<br>The Hartford Financial Services Group, Inc.                              |

#### Officers

The Company's Bylaws state that the officers of the Company shall consist of the President, one (1) or more Vice Presidents or Assistant Vice Presidents, one (1) or more Secretaries or Assistant Secretaries, a Treasurer, one (1) or more Associate or Assistant Treasurers, and such other officers as may be appointed by the Board. The President shall be elected by the Board from its own members.

The following is a list of key officers and their respective titles as of December 31, 2012:

| <u>Name</u>      | <u>Office</u>  |
|------------------|--|
| André Napoli     | Chief Executive Officer and President                |
| Jonathan Bennett | Executive Vice President and Chief Financial Officer |
| Michael Kookan   | Senior Vice President and Chief Actuary              |
| Thomas Moran     | Senior Vice President and Director of Taxes          |
| Robert Paiano    | Senior Vice President and Treasurer                  |
| Michael Hazel    | Vice President and Controller                        |
| Terence Shields  | Assistant Vice President and Corporate Secretary     |

#### Corporate Governance

Corporate governance was evaluated through a review of the Company's corporate governance procedures, Executive Officer and Board member interviews, Board general meeting minutes, committee minutes, and other examination documentation. The corporate governance review followed the format provided by Exhibit M of the Handbook.

## CONFLICT OF INTEREST

The Company maintains a Code of Conduct which addresses conflicts of interest. Officers, directors, and specifically designated employees are asked to comply with this Code of Conduct. Officers and specifically designated employees are required to certify their compliance with the Code of Conduct annually. The Company last required its officers and specifically designated employees to certify their compliance in 2012.

## OATH OF OFFICE

IC 27-1-7-10(i) stipulates that every director, when elected, shall take and subscribe to an oath stating 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. The Company is in violation of this statute since the Company was unable to provide signed copies of the Oath of Office statements as of December 31, 2012. The same violation was also listed in the Report of Examination as of December 31, 2007. See the Other Significant Issues section of this Report of Examination.

## CORPORATE RECORDS

### Articles of Incorporation

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

### Bylaws

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

### Minutes

IC 27-1-7-7(b) states an annual meeting of Shareholders, Members, or Policyholders shall be held within five (5) months after the close of each fiscal year of the Company and at such time within that period as the Bylaws may provide. According to Article II, Section 1, of the Company's Bylaws, "The annual meeting of the stockholders of the Company shall be held at such location, at such hour, and on such day prior to June 1..." It was determined that the annual meeting of Shareholders was not held within five (5) months after the close of the fiscal year for 2010 and 2012. See the Other Significant Issues section of this Report of Examination.

The Company's meeting minutes for the examination period, and through the fieldwork date, were reviewed for the following: the Audit Committee, the Board, the Executive Committee, and the Finance Committee.

The HFSG meeting minutes for the examination period, and through the fieldwork date, were reviewed for the following: the Audit Committee, the Board, the Compensation Committee, and the Finance, Investment, and Risk Management Committee.

## AFFILIATED COMPANIES

### Organizational Structure

The following abbreviated organizational chart shows the upstream affiliates from the Company to the ultimate controlling entity as of December 31, 2012:

|  | <u>NAIC Co.<br/>Code</u> | <u>Domiciliary<br/>State</u> |
|--|--------------------------|------------------------------|
| The Hartford Financial Services Group, Inc.      |                          | DE                           |
| <b>Hartford Insurance Company of the Midwest</b> | <b>37478</b>             | <b>IN</b>                    |

### Affiliated Agreements

The following affiliated agreements and transactions were disclosed as part of the Form B – Holding Company Registration Statement and were filed with the INDOI, as required, in accordance with IC 27-1-23-4.

#### *Investment Management Agreement*

Effective October 15, 2010, the Company, along with its affiliates, entered into an Investment Management Agreement with Hartford Investment Management Company (HIMCO). Pursuant to the terms of the agreement, HIMCO is to provide investment management services to the Company in return for a management fee as outlined in the Investment Management Agreement. The Company paid \$297,906 to HIMCO in 2012 for the services provided pursuant to this agreement.

#### *Investment Pooling Agreement*

The Company is party to an Investment Pooling Agreement with various affiliates whereby the investment manager invests “extra” monies from various affiliated companies in qualified short-term investments in the name of Hartford Short-Term Investment Pool. Investment income and expenses are allocated on a pro-rata basis.

#### *Tax Allocation Agreement*

The Company is party to a Tax Allocation Agreement with the Group and its affiliates whereby federal income tax returns are filed on a consolidated basis based on separate tax return calculations.

#### *Intercompany Liquidity Agreement*

Effective December 31, 2011, the Company joined the Intercompany Liquidity Agreement, dated December 31, 2010, between the Group and its listed affiliates. The agreement provides a mechanism for short-term loans between the parties to the agreement. Loans may not exceed \$2 billion.

#### *Services and Cost Allocation Agreement*

HFIC incurred and paid certain expenses on behalf of the Company and acted as the banker for the Company without a signed written agreement as of year-end 2012. Statement of Statutory Accounting Principles (SSAP) No. 25 states, in part, that “transactions between related parties must be in the form of a written agreement”. See the Other Significant Issues section of this Report of Examination.

### FIDELITY BOND AND OTHER INSURANCE

The Company is insured under a fidelity policy issued by five (5) insurers (Ace American Insurance Company, Continental Casualty Insurance Company, Federal Insurance Company, Fidelity and Deposit Company of Maryland, and St. Paul Fire and Marine Insurance Company) to HFSG. HFSG and its affiliates are listed as named insureds. The coverage includes an aggregate liability of \$200 million, single loss limit of liability of \$100 million, and a single loss deductible of \$10 million. The fidelity bond meets the prescribed minimum coverage specified by the NAIC.

In addition, the Company is listed as a named insured on various policies issued to HFSG. Coverages include, but are not limited to business automobile liability, commercial property, computer crime, directors and officers liability, employment practices liability, errors and omissions liability, fiduciary, general liability, and workers' compensation.

### PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company has no direct retirement plans. All personnel are employees of affiliated companies.

### STATUTORY DEPOSITS

The Company reported the following statutory deposits, at December 31, 2012:

| <u>State</u>                | <u>Book Value</u>    | <u>Fair Value</u>    |
|-----------------------------|----------------------|----------------------|
| For All Policyholders:      |                      |                      |
| Indiana                     | \$ 3,190,481         | \$ 3,398,845         |
| All Other Special Deposits: |                      |                      |
| Arizona                     | 13,799,588           | 14,877,505           |
| California                  | 358,218,187          | 388,789,215          |
| Delaware                    | 115,973              | 127,259              |
| Department of Labor         | 103,248              | 104,672              |
| Georgia                     | 113,334              | 118,095              |
| Idaho                       | 55,275               | 56,504               |
| Kansas                      | 100,378              | 109,960              |
| Massachusetts               | 158,145              | 173,535              |
| Montana                     | 277,100              | 292,180              |
| Nevada                      | 325,664              | 341,123              |
| New Mexico                  | 340,001              | 354,285              |
| North Carolina              | 325,000              | 325,273              |
| Oregon                      | 6,548,987            | 6,857,700            |
| Virginia                    | 82,425               | 85,887               |
| Total Deposits              | <u>\$383,753,786</u> | <u>\$416,012,038</u> |

## REINSURANCE

The property and casualty companies listed below participate in an Intercompany Reinsurance and Pooling Agreement whereby all property and casualty business written by these companies is ceded to the HFIC, which acts as the lead pool reinsurer. The total pooled business is then redistributed to the various participants based on pre-determined percentages. Each participant in the pool agrees to cede to the HFIC, and the HFIC accepts, assumes, and reinsures 100% of each other participant's underwriting liabilities. HFIC then negotiates and purchases external reinsurance intended to limit the net underwriting exposure of all pool participants and then cedes back to each of the pool participants their respective share of the net business.

Each participant will share to the extent of their pooling share: (a) all premiums written, (b) all amounts paid or incurred during such period for losses, loss adjustment expenses, other underwriting expenses, and other specific losses arising out of their underwriting operations, (c) all claims and settlements involving business covered by the agreement, and (d) all resulting net underwriting income or loss. All participants settle their accounts monthly, within thirty (30) days of closing.

The following are the member companies and their participation percentages in effect at December 31, 2012:

| Name of Pool Members                                       | Percentage<br>of Pool | Domiciliary<br>State |
|--|-----------------------|----------------------|
| Hartford Fire Insurance Company                            | 41.50%                | CT                   |
| Hartford Accident and Indemnity Company                    | 32.69%                | CT                   |
| Hartford Insurance Company of Illinois                     | 10.10%                | IL                   |
| <b>Hartford Casualty Insurance Company</b>                 | <b>5.50%</b>          | <b>IN</b>            |
| Hartford Underwriters Insurance Company                    | 4.00%                 | CT                   |
| Pacific Insurance Company, Limited                         | 1.70%                 | CT                   |
| <b>Twin City Fire Insurance Company</b>                    | <b>1.50%</b>          | <b>IN</b>            |
| Nutmeg Insurance Company                                   | 0.70%                 | CT                   |
| <b>Hartford Insurance Company of Midwest</b>               | <b>0.50%</b>          | <b>IN</b>            |
| Hartford Insurance Company of Southeast                    | 0.50%                 | CT                   |
| <b>Property and Casualty Insurance Company of Hartford</b> | <b>0.50%</b>          | <b>IN</b>            |
| Trumbull Insurance Company                                 | 0.50%                 | CT                   |
| Sentinel Insurance Company, Ltd.                           | 0.30%                 | CT                   |
| Hartford Lloyd's Insurance Company                         | 0.01%                 | TX                   |
| Total  | <u>100.00%</u>        |                      |

In 2012, the Company ceded \$1,338,000,507 premiums and \$2,089,968,248 in loss and loss expense reserves to HFIC and assumed \$49,225,119 in premiums and \$32,356,000 in loss and loss expense reserves arising from their share of the Pool.

## 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, 2011 and 2012, were agreed to the respective Annual Statements. The Annual Statements for the years ended December 31, 2008 through December 31, 2012, were agreed to each year's independent audit report without material exception. The Company's accounting procedures, practices, and account records were deemed satisfactory.

HARTFORD INSURANCE COMPANY OF THE MIDWEST

Assets

As of December 31, 2012

|   | <u>Per Examination*</u> |
|---|-------------------------|
| Bonds   | \$ 441,436,401          |
| Cash, cash equivalents and short-term investments                       | 11,737,526              |
| Other invested assets   | 623,153                 |
| Receivables for securities  | <u>110,000</u>          |
| Subtotals, cash and invested assets                                     | 453,907,080             |
| Investment income due and accrued                                       | 6,022,688               |
| Premiums and considerations:  |                         |
| Uncollected premiums and agents' balances in course of collection       | 2,637,233               |
| Accrued retrospective premiums  | 62,411                  |
| Current federal and foreign income tax recoverable and interest thereon | 2,126,343               |
| Net deferred tax asset  | 3,385,000               |
| Guaranty funds receivable or on deposit                                 | 30,809                  |
| Electronic data processing equipment and software                       | 41,560                  |
| Receivables from parent, subsidiaries and affiliates                    | <u>1,930,345</u>        |
| Totals  | <u>\$ 470,143,468</u>   |

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

HARTFORD INSURANCE COMPANY OF THE MIDWEST  
Liabilities, Surplus and Other Funds  
As of December 31, 2012

|   | Per Examination* |
|---|------------------|
| Losses  | \$ 73,310,106    |
| Reinsurance payable on paid losses and loss adjustment expenses       | 3,041,592        |
| Loss adjustment expenses  | 15,299,918       |
| Commissions payable, contingent commissions and other similar charges | 421,959          |
| Other expenses  | 850,604          |
| Taxes, licenses and fees  | 796,807          |
| Unearned premiums   | 23,470,676       |
| Dividends declared and unpaid:  |                  |
| Policyholders   | 99,580           |
| Remittances and items not allocated                                   | 111,994          |
| Total liabilities   | 117,403,236      |
| Common capital stock  | 4,200,000        |
| Gross paid in and contributed surplus                                 | 99,820,459       |
| Unassigned funds (surplus)  | 248,719,773      |
| Surplus as regards policyholders                                      | 352,740,232      |
| Totals  | \$ 470,143,468   |

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



HARTFORD INSURANCE COMPANY OF THE MIDWEST  
Statement of Income  
For the Year Ended December 31, 2012

|  | <u>Per Examination*</u> |
|--|-------------------------|
| <b>UNDERWRITING INCOME</b>   |                         |
| Premiums earned  | \$ 49,450,253           |
| <b>DEDUCTIONS</b>  |                         |
| Losses incurred  | 29,864,709              |
| Loss adjustment expenses incurred  | 6,063,694               |
| Other underwriting expenses incurred   | 14,312,543              |
| Total underwriting deductions  | <u>50,240,946</u>       |
| Net underwriting gain (loss)   | (790,693)               |
| <b>INVESTMENT INCOME</b>   |                         |
| Net investment income earned   | 16,354,718              |
| Net realized capital gains (losses) less capital gains tax   | 641,433                 |
| Net investment gain (loss)   | <u>16,996,151</u>       |
| <b>OTHER INCOME</b>  |                         |
| Finance and service charges not included in premiums   | 8,186,559               |
| Total other income   | <u>8,186,559</u>        |
| Net income, before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes | 24,392,017              |
| Dividends to policyholders   | <u>83,783</u>           |
| Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes  | 24,308,234              |
| Federal and foreign income taxes incurred  | <u>3,354,222</u>        |
| Net income   | <u>\$ 20,954,012</u>    |

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

HARTFORD INSURANCE COMPANY OF THE MIDWEST  
Capital and Surplus Account Reconciliation

|  | 2012                 | 2011                 | 2010                 | 2009                 | 2008                 |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|
| Surplus as regards policyholders, December 31<br>prior year                  | \$330,005,185        | \$309,592,812        | \$264,706,004        | \$240,152,028        | \$213,510,665        |
| Net income   | 20,954,012           | 19,693,450           | 23,354,648           | 21,738,708           | 22,704,387           |
| Change in net unrealized capital gains or (losses)<br>less capital gains tax | 776,440              | (696,573)            | (79,869)             | 1,140,673            | (792,028)            |
| Change in net deferred income tax  | (104,788)            | (86,670)             | (836,221)            | (531,301)            | 469,161              |
| Change in nonadmitted assets   | 769,831              | (53,359)             | 69,185               | 1,968,723            | (543,437)            |
| Cumulative effect of changes in accounting<br>principles                     | 589,000              | -                    | -                    | -                    | -                    |
| Surplus adjustments:<br>Paid in  | -                    | -                    | 22,000,000           | -                    | 5,017,555            |
| Aggregate write-ins for gains and losses in surplus                          | (249,448)            | 1,555,525            | 379,067              | 237,173              | (214,277)            |
| Change in surplus as regards policyholders for the<br>year                   | <u>22,735,048</u>    | <u>20,412,372</u>    | <u>44,886,808</u>    | <u>24,553,976</u>    | <u>26,641,362</u>    |
| Surplus as regards policyholders, December 31<br>current year                | <u>\$352,740,232</u> | <u>\$330,005,185</u> | <u>\$309,592,812</u> | <u>\$264,706,004</u> | <u>\$240,152,028</u> |

## COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to the financial statements as of December 31, 2012, based on the results of this examination.

## OTHER SIGNIFICANT ISSUES

IC 27-1-7-10(i) stipulates that every director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly, and diligently administer the affairs of the Company and will not knowingly violate any of the laws applicable to such Company. A review of corporate records disclosed that members of the Board have not signed an Oath of Office statement, per IC 27-1-7-10(i). The same violation was also listed in the Report of Examination as of December 31, 2007. It is recommended the Company implement procedures and processes to be compliant with the applicable Indiana Statute regarding Oath of Office statements.

IC 27-1-7-7(b) states an annual meeting of Shareholders, Members, or Policyholders shall be held within five (5) months after the close of each fiscal year of the Company and at such time within that period as the Bylaws may provide. According to Article II, Section 1, of the Company's Bylaws, "The annual meeting of the stockholders of the Company shall be held at such location, at such hour, and on such day prior to June 1..." It was determined that the annual meeting of Shareholders was not held within five (5) months after the close of the fiscal year for 2010 and 2012. It is recommended the Company comply with IC 27-1-7-7(b) and hold its annual meeting in the time frame outlined.

HFIC incurred and paid certain expenses on behalf of the Company and acted as the banker for the Company without a signed written agreement as of year-end 2012. Statement of SSAP No. 25 states, in part, that "transactions between related parties must be in the form of a written agreement". It is recommended that the Company prepare a Cost Allocation Agreement to comply with the SSAP No. 25 and file it with the INDOI.

The examination included an Information Technology (IT) review. As a result of this review, findings were noted in controls over operations, logical security, physical security, application changes, and corporate governance. It is recommended that the Company establish and implement appropriate control policies and procedures to strengthen its IT controls. Management has represented that remediation of items listed in the IT Report are underway.

## SUBSEQUENT EVENTS

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

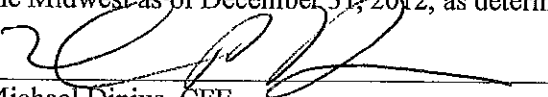
**AFFIDAVIT**

This is to certify that the undersigned is a duly qualified Examiner-in-Charge appointed by the Indiana Department of Insurance and that he, in coordination with staff assistance from Noble Consulting Services, Inc., hereinafter collectively referred to as the "Examiners", performed an examination of Hartford Insurance Company of the Midwest as of December 31, 2012.

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

This examination was performed in accordance with those procedures required by the NAIC Financial Condition Examiners Handbook and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standards and no audit opinion is expressed on the financial statements contained in this report.


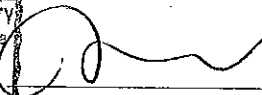
The attached report of examination is a true and complete report of condition of Hartford Insurance Company of the Midwest as of December 31, 2012, as determined by the undersigned.

  
Michael Dinius, CFE  
Noble Consulting Services, Inc.

State of: Indiana  
County of: Marion

On this 13 day of March, 2014, before me personally appeared, Michael Dinius, 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    
Notary Public