

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

IN THE MATTER OF:)
)
Citizens Insurance Company of the Midwest)
9229 Delegates Row, Suite 100)
Indianapolis, IN 46240-3824)

Examination of Citizens 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 Citizens 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 Citizens 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.

Date 4/13/2016
Cynthia D. Donovan
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 91 7190 0005 2720 0057 5842

STATE OF INDIANA)
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COUNTY OF MARION) COMMISSIONER OF INSURANCE

IN THE MATTER OF:)
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Citizens Insurance Company of the Midwest)
9229 Delegates Row, Suite 100)
Indianapolis, IN 46240-3824)

Examination of Citizens Insurance Company of the Midwest

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the Citizens Insurance Company of the Midwest (hereinafter "Company") for the time period January 1, 2012 through December 31, 2014.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on December 22, 2015

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 10, 2016 and was received by the Company on March 14, 2016.

On March 21, 2016, 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:

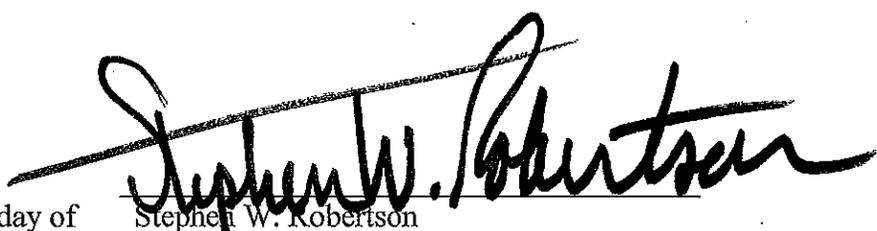
1. The suggested modifications to the Verified Report of Examination submitted by the Company are reasonable and shall be incorporated into the Verified Examination Report. A copy of the Verified Report of Examination, as amended, is attached hereto.

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, 2014.
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 13th day of April, 2016.

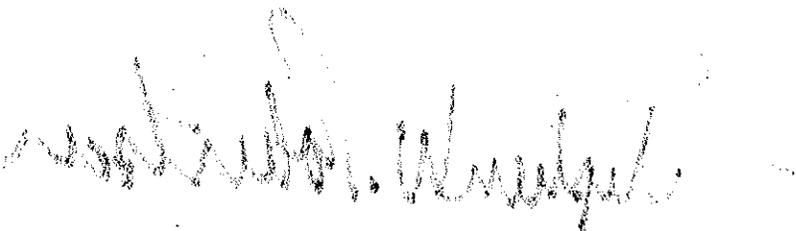

Stephen W. Robertson
Insurance Commissioner

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.

A handwritten signature in cursive script, appearing to read "Michael J. [unclear]". The signature is written in dark ink on a light background.

STATE OF INDIANA
Department of Insurance
REPORT OF EXAMINATION

OF

CITIZENS INSURANCE COMPANY OF THE MIDWEST

NAIC Co. CODE 10395
NAIC GROUP CODE 0088

As of

December 31, 2014



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STATE OF INDIANA

IDOI

MICHAEL R. PENCE, Governor

Indiana Department of Insurance

311 W. Washington Street, Suite 103

Indianapolis, Indiana 46204-2787

Telephone: (317) 232-2385

Fax: (317) 232-5251

Stephen W. Robertson, Commissioner

December 22, 2015

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 3847, an examination has been made of the affairs and financial condition of:

**Citizens Insurance Company of the Midwest
9229 Delegates Row, Suite 100
Indianapolis, Indiana 46240-3824**

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

The Report of Examination, reflecting the status of the Company as of December 31, 2014, 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 EXAMINATIONS/FINANCIAL SERVICES (317) 232-2390 MEDICAL MALPRACTICE (317) 232-2402 SECURITIES/COMPANY RECORDS (317) 232-1991 STATE HEALTH INSURANCE PRO 1-800-332-4674

SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI) as of the period ending December 31, 2011. The present risk-focused examination was conducted by Noble Consulting Services, Inc., and covered the period from January 1, 2012 through December 31, 2014, 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 New Hampshire domestic insurance companies of The Hanover Insurance Group (THG) was called by the New Hampshire Insurance Department (NHID) in accordance with the Handbook guidelines, through the NAIC's Financial Examination Electronic Tracking System. The NHID served as the lead state on the examination, and the Delaware Department of Insurance, Illinois Department of Insurance, INDOI, Michigan Department of Insurance and Financial Services, New York State Department of Financial Services, Ohio Department of Insurance, and Texas Department of Insurance served as participants.

AGI Service's Actuarial Staff provided all actuarial services throughout the examination and conducted a review of the Company's actuarial related risks as of December 31, 2014. The actuarial review covering THG was performed by John Humphries, ASA, MAAA, CFE, and Alan Kaliski, FCAS, MAAA.

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

HISTORY

The Company was incorporated under the laws of the state of Indiana on September 1, 1994, and commenced business on March 8, 1996. Until December 31, 2000, the Company was a wholly owned subsidiary of Citizens Corporation, a Delaware Company. On December 31, 2000, Citizens Corporation was dissolved and the ownership of its subsidiaries was transferred to The Hanover Insurance Company. The Hanover Insurance Company (Hanover) owns all outstanding shares of the Company and is wholly-owned by Opus Investment Management, Inc. (Opus). Opus is wholly-owned by THG, a publicly traded entity.

CAPITAL AND SURPLUS

Hanover owned 100% of the Company's issued and outstanding stock throughout the examination period. There were 400 authorized shares of common stock with a par value of \$5,000 per share issued and outstanding throughout the examination period. No dividends were paid to the shareholder during the examination period.

The Company received capital contributions from Hanover during the years ended December 31, 2012, 2013, and 2014 of \$6,400,000, \$400,000, and \$2,500,000, respectively.

TERRITORY AND PLAN OF OPERATION

CICM is licensed to write business in Indiana and Michigan. In 2014, ninety-six percent (96%) of direct premiums were written in Michigan; Indiana premiums make up the remaining writings. The Company's principal line of direct business is private passenger auto. The Company also writes modest amounts of homeowners and workers' compensation lines of business. All business is one-hundred percent (100%) ceded to its affiliate, Citizens Insurance Company of America (CICA). CICM utilizes THG's independent agent network in Indiana and Michigan for product marketing and distribution. The Company remains committed to its long-term goal of maximizing after-tax investment income while preserving asset quality. As a result of ceding one-hundred percent (100%) of its business, CICM's risk-based capital percentage was 31,514%.

GROWTH OF THE COMPANY

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

Year	Admitted Assets	Liabilities	Surplus and Other Funds	Net Investment Gains	Net Income
2014	\$ 48,004,417	\$ 59,574	\$ 47,944,843	\$ 1,433,050	\$ 929,051
2013	44,551,541	57,572	44,493,969	1,449,395	982,231
2012	43,171,163	46,678	43,124,485	1,471,509	984,682

Investment income was \$1,433,050 in 2014. This is the Company's only source of revenue due to the quota-share reinsurance agreement with its affiliate CICA. Investment income earnings have remained relatively stable since 2012, but dropped slightly for each year under examination. In addition, surplus increased by 7.8% from 2013 to 2014, primarily due to a \$2,500,000 capital contribution received from Hanover.

MANAGEMENT AND CONTROL

Directors

The Bylaws provide that the business affairs of the Company are to be managed by a Board of Directors (Board) consisting of no less than seven (7) and no more than twenty (20) directors. 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.

The following is a listing of persons serving as directors at December 31, 2014, and their principal occupations as of that date:

Name and Address	Principal Occupation
Mark Leo Berthiaume Glastonbury, Connecticut	Senior Vice President The Hanover Insurance Company
Edward Joseph Clark Indianapolis, Indiana	Chief Underwriting Officer The Hanover Insurance Company
Frederick Henry Eppinger Grafton, Massachusetts	President The Hanover Insurance Company
Andrew Christopher Furman North Grafton, Massachusetts	Vice President and Treasurer The Hanover Insurance Company
David Bruce Greenfield Weston, Connecticut	Executive Vice President and Chief Financial Officer The Hanover Insurance Company
J. Kendall Huber Sudbury, Massachusetts	Executive Vice President and General Counsel The Hanover Insurance Company
Christine Bilotti-Peterson Simsbury, Connecticut	Senior Vice President The Hanover Insurance Company
John Conner Roche Hopkinton, Massachusetts	Senior Vice President The Hanover Insurance Company
Ann Kirkpatrick Tripp Rutland, Massachusetts	Senior Vice President and Chief Investment Officer The Hanover Insurance Company
Mark Joseph Welzenbach Bolton, Connecticut	Senior Vice President The Hanover Insurance Company

Officers

The Bylaws state that the elected officers of the Company shall consist of a President, a Treasurer, a Secretary, and such Vice Presidents, other Secretaries, Assistant Treasurers, Assistant Secretaries, and other officers with such titles as may from time to time be determined by the directors, including a Chairman of the Board, and a Vice Chairman of the Board. The President, Treasurer, and Secretary shall hold office until the first meeting of the directors following the annual meeting of stockholders, or any special meeting held in lieu thereof, and thereafter until his successor is chosen and qualified, or until his resignation or removal.

Other officers shall hold office until the first meeting of the directors following the annual meeting of stockholders, or any special meeting held in lieu thereof, unless a shorter term is specified in the vote choosing or appointing them, or until his resignation or removal.

The following is a list of key officers and their respective titles as of December 31, 2014:

<u>Name</u>	<u>Office</u>
Frederick Henry Eppinger	President
Charles Frederick Cronin	Secretary
Andrew Christopher Furman	Vice President and Treasurer
David Bruce Greenfield	Executive Vice President and Chief Financial Officer
J. Kendall Huber	Executive Vice President and General Counsel
Andrew Scott Robinson	Executive Vice President
Mark Leo Berthiaume	Senior Vice President
Richard William Lavey	Senior Vice President
John Conner Roche	Senior Vice President
Mark Joseph Welzenbach	Senior Vice President

CONFLICT OF INTEREST

Directors and officers are required to review and sign Conflict of Interest statements annually. It was determined that all directors and officers listed in the **Management and Control** section of this Report of Examination have reviewed and signed their statements as of December 31, 2014.

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 Company and will not knowingly violate any of the laws applicable to such Company. It was determined that all directors listed in the Management and Control section of this Report of Examination have subscribed to an oath as of December 31, 2014.

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

The Board and shareholders meeting minutes were reviewed for the period under examination through the fieldwork date. 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 Company and at such time within that period as the Bylaws may provide. The Company's Bylaws specify that the annual meeting of shareholders shall be held on the third Thursday in April in each year or on such other date as may be fixed from time to time by the directors. For fiscal years 2012, 2013 and 2014, the annual meeting of shareholders were not held within five (5) months following the close of each fiscal year, as required by IC 27-1-7-7(b). See the **Other Significant Issues** section of this Report of Examination.

The Company's Board Committees, with the exception of the Investment Committee, exist at THG. THG Board Committee meeting minutes for the examination period, and through the fieldwork date, were reviewed for the following committees: Audit Committee, Investment Committee, Nominating and Corporate Governance Committee, Compensation Committee, and Committee of Independent Directors.

AFFILIATED COMPANIES

Organizational Structure

The following abbreviated organizational chart shows the Company's parent and affiliated companies as of December 31, 2014:

	NAIC Co. Code	Domiciliary State/Country
The Hanover Insurance Group, Inc.		DE
Opus Investment Management, Inc.		MA
The Hanover Insurance Company	22292	NH
Citizens Insurance Company of the Midwest	10395	IN
Citizens Insurance Company of America	31534	MI
Citizens Insurance Company of Ohio	10176	OH

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.

Consolidated Service Agreement:

Effective January 1, 2010, the Company, and its other affiliates, entered into a Consolidated Service Agreement with THG, whereby each legal entity will be charged the cost of the services provided, or expenses paid, by the entity providing the service or paying the expense. In addition, these entities will be charged a portion of the costs associated with activities that are performed for the good of THG legal entities. CICA resolves all amounts due via reinsurance transactions; therefore, the Company makes no direct payments to any other entity for transactions related to this agreement.

Consolidated Tax Agreement:

First effective December 31, 2001, and most recently amended effective November 15, 2013 (Fifth Amendment), the Company, and its other affiliates, entered into a Consolidated Tax Agreement with THG, whereby the Board has delegated the development and maintenance of appropriate federal income tax allocation policies and procedures to THG management. The federal income tax for all subsidiaries in the consolidated return of THG is calculated on a separate return basis. Any current tax liability is paid to THG. Tax benefits resulting from taxable operating losses or credits of THG's subsidiaries are reimbursed to the subsidiary when such losses or credits can be utilized on a consolidated return basis.

Investment Advisory Agreement:

First effective on January 1, 2006, and most recently amended effective October 1, 2007, the Company, and its other affiliates and parent, entered into an Investment Advisory Agreement with Opus, whereby Opus will perform certain investment advisory services for the group. For 2014, the Company paid \$60,772 to Opus for services received 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 Federal Insurance Company. The bond has an aggregate coverage limit of \$10,000,000, with a \$500,000 deductible. The fidelity bond is adequate to meet the prescribed minimum coverage specified by the NAIC.

The Company had additional types of coverage in-force at December 31, 2014, including but not limited to commercial general liability insurance, cyber liability insurance, directors & officers liability insurance, investment managers insurance, privacy & security liability insurance, professional liability E&O insurance, property insurance, and workers' compensation & employers liability insurance.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

There were no pension, stock ownership, or insurance plans reported by the Company as of December 31, 2014.

STATUTORY DEPOSITS

The Company reported the following statutory deposits at December 31, 2014:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
For All Policyholders:		
Indiana	\$ 299,429	\$ 317,204
All Other Special Deposits:		
Aggregate Alien and Other	<u>695,665</u>	<u>678,944</u>
Total Deposits	<u>\$ 995,094</u>	<u>\$ 996,148</u>

REINSURANCE

Ceded Reinsurance

An amended and restated reinsurance agreement between CICM and CICA is in place whereby one-hundred percent (100%) of liabilities are ceded to CICA. An approval letter was received from the INDOI and the amended and restated agreement was executed having an effective date of December 31, 2007.

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, 2013 and December 31, 2014, were agreed to the respective Annual Statements. The Annual Statements for the years ended December 31, 2012 through December 31, 2014, were agreed to each year's independent audit report without material exception. The Company's accounting procedures, practices, and account records were deemed satisfactory.

CITIZENS INSURANCE COMPANY OF THE MIDWEST

Assets
As of December 31, 2014

	<u>Per Examination*</u>
Bonds	\$ 47,491,594
Cash, cash equivalents and short-term investments	128,031
Subtotals, cash and invested assets	47,619,625
Investment income due and accrued	384,792
Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts	48,004,417
Total	\$ 48,004,417

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

CITIZENS INSURANCE COMPANY OF THE MIDWEST
Liabilities, Surplus and Other Funds
As of December 31, 2014

	Per Examination *
Current federal and foreign income taxes on realized capital gains (losses)	\$ 23,483
Net deferred tax liability	30,418
Payable to parent, subsidiaries and affiliates	5,673
Total liabilities excluding protected cell liabilities	59,574
Total liabilities	59,574
Common capital stock	2,000,000
Gross paid in and contributed surplus	35,052,858
Unassigned funds (surplus)	10,891,985
Surplus as regards policyholders	47,944,843
TOTALS	\$ 48,004,417

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

CITIZENS INSURANCE COMPANY OF THE MIDWEST
Statement of Income
For the Year Ended December 31, 2014

INVESTMENT INCOME	<u>Per Examination*</u>
Net investment income earned	\$ 1,440,879
Net realized capital gains or (losses) less capital gains tax	<u>(7,829)</u>
Net investment gain (loss)	<u>1,433,050</u>
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	<u>1,433,050</u>
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	1,433,050
Federal and foreign income taxes incurred	<u>503,999</u>
Net income	<u>\$ 929,051</u>

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

CITIZENS INSURANCE COMPANY OF THE MIDWEST
Capital and Surplus Account Reconciliation

	2014	2013	2012
Surplus as regards policyholders, December 31 prior year	\$ 44,493,969	\$ 43,124,485	\$ 35,751,027
Net income	929,051	982,231	984,682
Change in net deferred income tax	21,823	(12,747)	(11,224)
Surplus adjustments:			
Paid in	2,500,000	400,000	6,400,000
Change in surplus as regards policyholders for the year	3,450,874	1,369,484	7,373,458
Surplus as regards policyholders, December 31 current year	\$ 47,944,843	\$ 44,493,969	\$ 43,124,485

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to the financial statements as of December 31, 2014, based on the results of this examination.

OTHER SIGNIFICANT ISSUES

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. The Company's Bylaws specify that the annual meeting of shareholders shall be held on the third Thursday in April in each year or on such other date as may be fixed from time to time by the directors. For fiscal years 2012, 2013, and 2014, the annual meeting of shareholders were not held within five (5) months following the close of each fiscal year, as required by IC 27-1-7-7(b). It is recommended that the Company hold the annual shareholders meeting within five (5) months after the close of each fiscal year. The Company agreed with the examination finding and has put in place a procedure to assure future compliance.

There were no other significant issues requiring disclosure in this Report of Examination.

SUBSEQUENT EVENTS

On September 15, 2015, Frederick Eppinger announced plans to step down as President, Chief Executive Officer and director of THG and CICM. Eppinger will continue to serve in his current role until his successor is appointed and then will be available to assist with the transition as needed until June 30, 2016. THG's Board has initiated a search for Eppinger's replacement.

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 Citizens Insurance Company of the Midwest, as of December 31, 2014.

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 Citizens Insurance Company of the Midwest as of December 31, 2014, as determined by the undersigned.

Paul Ellis

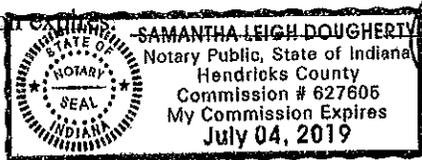
Paul Ellis, CFE
Noble Consulting Services, Inc.

State of: Indiana
County of: Marion

On this 12 day of February, 2016, before me personally appeared, Paul Ellis, 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



Samantha Leigh Dougherty
Notary Public

