

REPORT OF EXAMINATION
OF THE
ALLIED INSURANCE COMPANY
AS OF
DECEMBER 31, 2004

Filed June 8, 2006

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Los Angeles, California
March 31, 2006

Honorable John Garamendi
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

ALLIED INSURANCE COMPANY

(hereinafter also referred to as the Company) at the primary location of its books and records, 1601 Chestnut Street, Philadelphia, Pennsylvania. The Company's statutory home office and main administrative office is located at 750 South Figueroa Street, Los Angeles, California 90017.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 1999. This examination covers the period from January 1, 2000 through December 31, 2004. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2004, as deemed necessary under the circumstances.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company and business in force by states; loss experience; and sales and advertising. The examination was conducted contemporaneously with the examinations of fourteen affiliated companies that are all domiciled in Pennsylvania. The affiliated company examinations were

conducted by Pennsylvania and contract examiners representing the Pennsylvania Department of Insurance with the participation of examiners representing the insurance departments of California (NAIC Western Zone) and Mississippi (NAIC Southeastern Zone). All of the affiliated companies share common operating procedures, use the same statistical and accounting systems, and are administered by the same management and other personnel. Where appropriate, the tests and other analytical work, which the examination team performed, were adopted for use in the examination of the Company.

SUBSEQUENT EVENTS

The California Insurance Department granted consent to the Plan of Merger between the Company with and into its affiliate, Ace American Insurance Company, effective December 31, 2005. The Company's separate existence ceased and the surviving corporation, Ace American Insurance Company, possessed all of the rights, privileges, powers and franchises of the non-survivor, of a public as well as a private nature, and is subject to all of the restrictions, disabilities and duties of the Company.

The purpose of the merger was to simplify the ACE Group's corporate structure and to eliminate costs associated with maintaining the separate existence of the Company.

COMPANY HISTORY

The Company was organized in November 1967 as a California corporation, under its original name of California Food Industry Insurance Company. Its initial purpose was to engage in workers compensation insurance. It changed its name to Allied Insurance Company in December 1977. It was maintained as an inactive enterprise by the INA Corporation (INA) until November 1978 when it obtained its certificate of authority as a property and casualty insurer from the California Department of Insurance. Underwriting operations commenced at that time exclusively in the private passenger automobile insurance business.

In 1982, INA entered into a merger agreement with Connecticut General Corporation, and consequently both became subsidiaries of the newly formed CIGNA Corporation.

In 1986, the Company's parent at the time, Insurance Company of North America, transferred its financial interests in the Company to INA Financial Corporation ("INA Financial") in the form of a stockholder dividend. INA Financial was a member of the CIGNA Corporation's property and casualty insurance division. In 1989, it purchased another 1,500 shares of the Company's capital stock. Subsequently, INA Financial transferred its ownership of the Company in February 1996 to the Indemnity Insurance Company of North America, which remained as the Company's parent company up to the time of this examination.

The Company has an authorized capital stock of 5,000 shares of common stock with a par value of \$1,000 per share. All of the 3,000 outstanding shares are issued to the Indemnity Insurance Company of North America, which in turn is indirectly owned by INA.

The Company had ceased active insurance operations in November 1991, when it reinsured all of its then-existing liabilities to an affiliate, California Union Insurance Company. In the aftermath of INA's corporate restructuring activities in 1995, California Union (renamed CIGNA Specialty Insurance Company) was merged into and absorbed by Century Indemnity Company. Century Indemnity has since operated as the claims run-off management company for the discontinued lines of business of the CIGNA Corporation's property and casualty insurance division.

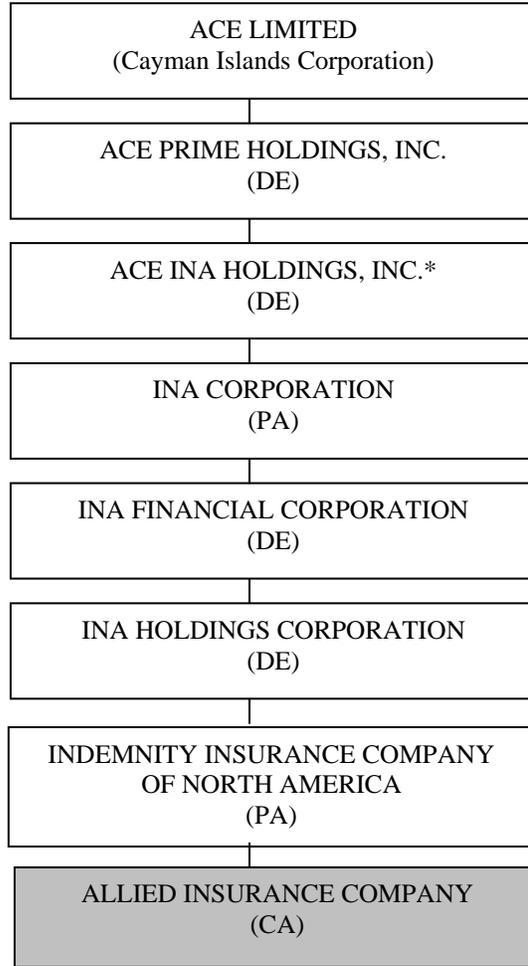
In July 1999, the CIGNA Corporation sold its interests in the INA companies to ACE Limited, a holding company based in the Cayman Islands.

MANAGEMENT AND CONTROL

The Company is an indirect subsidiary of ACE Limited, the ultimate parent corporation of the ACE group of insurance companies (ACE Group). ACE Limited was established in 1985 originally by an alliance of several large public companies in the United States. ACE is a global commercial

property and casualty insurance and reinsurance company with a physical presence in more than 50 countries conducting business in more than 140 countries.

A modified organizational chart depicting ownership of the Company by the ACE Group follows:



* 80% of ACE INA Holdings, Inc. is owned by ACE Prime Holdings, Inc. and 20% by ACE Limited

The ACE companies division of the INA Holdings Corporation have a common slate of board of directors and officers that actively direct and supervise the operation of the member companies.

A listing of the members of the board and principal officers serving on December 31, 2004 follows:

Directors

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
William N. Curcio New York, New York	President ACE Risk Management
Brian E. Dowd Philadelphia, Pennsylvania	President Westchester Specialty Group
Richard C. Franklin Philadelphia, Pennsylvania	Senior Vice President Corporate Underwriting
Robert Gaffney Philadelphia, Pennsylvania	Executive Vice President, Westchester Specialty Programs Allied Insurance Company
William P. Garrigan Rosewell, Georgia	Executive Vice President and Chief Operating Officer Westchester Specialty Group
John J. Lupica Philadelphia, Pennsylvania	President Professional Risk and Regional Operations
James W. Macdonald Philadelphia, Pennsylvania	Chief Underwriting Officer Allied Insurance Company
Francis W. McDonnell Philadelphia, Pennsylvania	Chief Financial Officer Allied Insurance Company
Paul G. O'Connell Philadelphia, Pennsylvania	Executive Vice President and Chief Actuary Allied Insurance Company
Ed K. Ota, Jr. Philadelphia, Pennsylvania	General Counsel ACE INA
Susan Rivera Philadelphia, Pennsylvania	President ACE USA
Charles E. Stauber Philadelphia, Pennsylvania	Executive Vice President Specialty Claims Allied Insurance Company

Name and Residence

Edward D. Zaccaria
Philadelphia, Pennsylvania

Principal Business Affiliation

President
Specialty P&C Group

Principal Officers

Name

Title

Susan Rivera	President
William N. Curcio	Executive Vice President
Brian E. Dowd	Executive Vice President
Robert J. Gaffney	Executive Vice President
Geoffrey G. Gregory	Executive Vice President
John J. Lupica	Executive Vice President
Charles E. Stauber	Executive Vice President
Edward D. Zaccaria	Executive Vice President
Samuel B. Cupp	Senior Vice President
James M. English	Senior Vice President
Richard C. Franklin	Senior Vice President
William P. Garrigan	Senior Vice President
David J. Lupica	Senior Vice President
James W. Macdonald	Senior Vice President
Francis W. McDonnell	Senior Vice President, Chief Financial Officer and Treasurer
G. Kent Miller	Senior Vice President
Paul G. O'Connell	Senior Vice President and Chief Actuary
Ed K. Ota, Jr.	Senior Vice President, General Counsel and Assistant Secretary
William M. Siegle	Senior Vice President
Jose Vasquez	Senior Vice President
Albert D. Ciavardelli	Vice President
John S. Edmonds	Vice President
Michael A. McClelland	Vice President
Gregory Stern	Vice President and Associate General Counsel
John P. Taylor	Vice President
Anthony J. Francolino	Assistant Vice President
Daniel J. Gallagher, Jr.	Assistant Vice President
Karen P. Gordon	Secretary
George D. Mulligan	Secretary

Management Agreements

The Company has no operational facilities or employees of its own. All business operations are performed for the Company by ACE American Insurance Company through a service agreement, which had been in effect since the implementation of INA's corporate restructuring program of 1995. The compensation for those services is based on allocation procedures that are consistently applied to all the other service recipients.

Effective July 2, 1999, the Company participates in a federal income tax allocation agreement with several subsidiaries of the ACE Prime Holdings, Inc. No participant is required to pay more, or receive a refund less, than the amount it would have paid or received if it had computed its tax liabilities on a separate-return basis. The computation of the tax shares for each affiliate member differed between those subsidiaries with taxable income and those with tax losses in a given tax year. Those with taxable income were paid an amount equal to their tax liability reduced by all tax credits, and at the tax rate applicable to them on a separate-return basis. Those with tax losses and who would have a claim for tax refunds were paid an amount equal to what it would have been entitled to receive directly from the Internal Revenue Service.

The Company retains the services of an outside company, BlackRock Financial Management, Inc., to manage its investment portfolio and other securities. An Investment Manager Agreement signed by the Company along with other affiliates covers the terms of that arrangement. A separate custodial agreement with State Street Bank and Trust Company of California provides for the safekeeping of the securities.

TERRITORY AND PLAN OF OPERATION

From the commencement of operation until its withdrawal from active operations in 1991, the Company had conducted insurance business only in California. Its core book of business consisted entirely of private passenger automobile lines of insurance. Its withdrawal from underwriting operations was partly due to the INA's orientation toward the commercial insurance market and its efforts to divest itself of underperforming lines of business. The Company reinsured its entire book of business with California Union Insurance Company. Before its merger into Century Indemnity Company in 1995, the Insurance Company of North America reinsured California Union. Since

1995, Century Indemnity Company has functioned as a run-off company for all of INA's discontinued lines of business.

The Company has not resumed insurance operation in California or elsewhere.

REINSURANCE

Assumed

The Company has no assumed reinsurance business.

Ceded

The Company maintains treaty coverage under a quota share reinsurance agreement with its major affiliate, ACE American Insurance Company. Effective since January 1, 1999, this agreement updated the arrangement it had with the Insurance Company of North America, dated December 31, 1995, which contained similar terms and provisions. The Company cedes 90% of its net liability under all of its issued insurance policies and, after the effect of such cession, 100% of the risks under each single policy that exceeds 10% of its year-end surplus. Furthermore, in the event that the Company's capital and surplus fall below a certain level of risk based capital or the minimum statutory level, the reinsurer has to accept such additional net liability as would restore them above that level. The agreement does not cover unallocated loss expenses and underwriting expenses.

ACCOUNTS AND RECORDS

As described earlier in this report, ACE American Insurance Company is the exclusive provider to a number of affiliated companies within the ACE INA holding company system of all the services necessary for the conduct of their respective businesses. It has custody and responsibility for the maintenance, but not ownership, of the books of accounts and records of those affiliates. It supplies all the required personnel and staff services needed to manage their business operations.

As an inactive insurance company, the Company has only minimal accounting activities during the period covered by this examination. Most of the transactions involved the maintenance of the investment accounts, the run-off of reinsured losses and the incidental operating expenses. Overall, the examination indicated no notable exceptions to the statutory financial statements submitted by the Company.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2004

Underwriting and Investment Exhibit for the Year Ended December 31, 2004

Reconciliation of Surplus as Regards Policyholders
from December 31, 1999 through December 31, 2004

Statement of Financial Condition
as of December 31, 2004

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 8,917,383	\$ 8,917,383	(1)
Cash and short-term investments	2,866,388	2,866,388	(1)
Interest, dividends, and real estate income due and	<u>84,317</u>	<u>84,317</u>	
Total assets	<u>\$11,868,088</u>	<u>\$ 11,868,088</u>	
 <u>Liabilities, Surplus and Other Funds</u>			
Current federal and foreign income taxes		\$ 35,940	
Net deferred tax liability		1,927	
Payable to parents, subsidiaries and affiliates		<u>20,869</u>	
Total liabilities		58,736	
Common capital stock	\$ 3,000,000		
Gross paid-in and contributed surplus	14,000,000		
Unassigned funds (surplus)	<u>(5,190,648)</u>		
Surplus as regards policyholders		<u>11,809,352</u>	
Total liabilities, surplus and other funds		<u>\$ 11,868,088</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2004

Statement of Income

Underwriting Income

Premiums earned		\$ 0
Deductions:		
Other underwriting expenses incurred	<u>\$ 22,515</u>	
Total underwriting deductions		<u>22,515</u>
Net underwriting loss		(22,515)

Investment Income

Net investment income earned	\$ 493,028	
Net realized capital gains	<u>29,120</u>	
Net investment gain		<u>522,148</u>
Net income before dividends to policyholders and before federal income taxes		499,633
Federal income taxes incurred		<u>183,000</u>
Net income		<u>\$ 316,633</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2003		\$ 11,485,019
Net income	\$ 316,633	
Change in net deferred income tax	<u>7,700</u>	
Change in surplus as regards policyholders		<u>324,333</u>
Surplus as regards policyholders, December 31, 2004		<u>\$ 11,809,352</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 1999 through December 31, 2004

Surplus as regards policyholders, December 31, 1999, per Examination			\$9,888,601
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$1,922,678		
Net unrealized capital losses		\$ 15,636	
Change in net deferred income tax	13,158		
Cumulative effect of changes in accounting principles	<u>551</u>		
Totals	<u>\$ 1,936,387</u>	<u>\$ 15,636</u>	
Net increase in surplus as regards policyholders for the examination			<u>1,920,751</u>
Surplus as regards policyholders, December 31, 2004, per Examination			<u>\$ 11,809,352</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Bonds and Short Term Investments

Securities owned by the Company at December 31, 2004 were held for safekeeping by State Street Bank and Trust Company of California, N.A. under a Custodial Agreement dated August 24, 2001.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None

Previous Report of Examination

None

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and parent's employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

Francis Matejik, CFE
Examiner-In-Charge
Department of Insurance
State of California