Report

of the

Examination of

Pacific Indemnity Company

Milwaukee, Wisconsin

As of December 31, 2016

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, *Governor*
Theodore K. Nickel, *Commissioner*

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March 30, 2018

Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

PACIFIC INDEMNITY COMPANY
Milwaukee, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Pacific Indemnity Company (the company) was conducted in 2012 as of December 31, 2011. The current examination covered the intervening period ending December 31, 2016, and included a review of such 2017 and 2018 transactions as deemed necessary to complete the examination.

The examination of the company was conducted concurrently with the examination of those property and casualty insurers owned by Chubb Limited that were subsidiaries of The Chubb Corporation prior to January 15, 2016. The Indiana Department of Insurance acted in the capacity as the lead state for the coordinated examinations. Work performed by the Indiana Department of Insurance was reviewed and relied on where deemed appropriate.

The examination was conducted using a risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. This approach sets forth guidance for planning and performing the examination of an insurance company to evaluate the financial condition, assess corporate governance, identify current and prospective risks (including those that might materially affect financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately at the end of the "Financial Data" section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers by the Indiana Department of Insurance, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Indiana Department of Insurance. Pacific Indemnity Company is a part of a larger intercompany pooling arrangement. The actuary reviewed the adequacy of the company's loss and loss adjustment expense reserves at the pool level. The actuary's results were reported to the examiners-in-charge for all subsidiaries under examination. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

Pacific Indemnity Company was incorporated on January 16, 1926, under the laws of California and commenced business on February 5, 1926. Effective December 31, 1997, the company redomesticated to the state of Wisconsin.

The Chubb Corporation, a New Jersey holding company, acquired financial control of the company and its respective subsidiaries effective November 15, 1967, through an exchange of shares. On December 5, 1969, The Chubb Corporation transferred ownership of Pacific Indemnity Company to its wholly owned subsidiary, Federal Insurance Company (Federal), domiciled in Indiana.

On July 1, 2015, it was announced that ACE Limited (ACE) had agreed to acquire The Chubb Corporation. Effective January 14, 2016, The Chubb Corporation merged with William Investment Holdings Corporation, a wholly owned subsidiary of ACE created for the purpose of the transaction. The Chubb Corporation was the surviving corporation and became a wholly owned indirect subsidiary of ACE. The Chubb Corporation subsequently merged with and into ACE INA Holdings, Inc., a Delaware corporation and indirect subsidiary of ACE, with ACE INA Holdings, Inc., continuing as the surviving corporation. ACE INA Holdings, Inc., subsequently changed its name to Chubb INA Holdings, Inc. On January 15, 2016, ACE was renamed Chubb Limited. Chubb Limited is a Swiss-incorporated holding company of the group of companies.

In North America, the merged company is comprised of operations formerly controlled by ACE Limited, through ACE American Insurance Company (ACE American), domiciled in Pennsylvania, and operations formerly controlled by The Chubb Corporation, through Federal. These operations are referred to as “legacy ACE” and “legacy Chubb,” respectively. During the ongoing consolidation period the North American operations are in the process of being combined and rationalized. The legacy ACE subsidiaries, including ACE American, are headquartered in Philadelphia, PA. The legacy Chubb subsidiaries, including Federal and Pacific Indemnity Company, are headquartered in Whitehouse Station, NJ. The details of the merged entities will be discussed in the sections captioned “Management and Control,” and “Affiliated Companies.”

Northwestern Pacific Indemnity Company was a wholly owned subsidiary of Pacific Indemnity Company until it was acquired by Cottage Insurance Holdings, Inc., effective February 12, 2014. The company's other wholly owned subsidiary, Texas Pacific Indemnity Company, was merged into Pacific Indemnity Company, effective September 30, 2017. Currently, Pacific Indemnity Company has no surviving downstream subsidiaries.

Effective January 1, 1998, Federal replaced Chubb & Son Inc. (a New York corporation) as the manager of the legacy Chubb subsidiaries through a management agreement. Federal is the primary employer for the legacy Chubb subsidiaries. The legacy Chubb subsidiaries under Federal, including Pacific Indemnity Company, generally have no employees of their own and rely on Federal for the staff essential to run the day-to-day operations. Federal currently manages the insurance business and provides financial advisory services to the legacy Chubb subsidiaries.

Effective October 1, 2017, Pacific Indemnity Company became a direct wholly owned subsidiary of Chubb INA Holdings Inc. Federal, which wholly owned Pacific Indemnity Company, distributed 100% of the stock of Pacific Indemnity Company to Chubb INA Holdings Inc. Chubb INA Holdings Inc., is owned 80% by Chubb Group Holdings, and 20% directly by Chubb Limited, the company's ultimate parent.

Legacy Chubb business is in midsize commercial accounts (middle market) offering commercial multiple peril, commercial auto physical damage and liability, employer liability, products liability, accident and health, and workers compensation coverages. In contrast, legacy ACE business is with larger commercial accounts (major market) in similar lines. Legacy Chubb is a significant writer of "specialty" products such as contractor surety, directors and officers liability, and errors and omissions coverages. Legacy Chubb markets to high net-worth individuals offering homeowners multiple peril, auto physical damage and liability, inland marine (boat), aircraft coverage, earthquake coverage, flood insurance, musical instrument coverage, and fine art coverage, with policies offering strong catastrophe protection.

Pacific Indemnity Company is licensed in the District of Columbia and all 50 states. The company markets its products through an agency system of 5,661 independent agencies, and 157 independent agents as of December 31, 2016.

In 2016, the company wrote direct premium in the following states:

New York	$212,578,434	31.0%
Massachusetts	72,817,085	10.6
California	42,980,693	6.3
Florida	33,142,713	4.9
Arizona	31,661,560	4.6
Ohio	31,373,859	4.6
All others	260,359,158	38.0
Total	$684,913,502	100.0%

Pacific Indemnity Company is specifically licensed to transact the following lines of business as defined by s. Ins 6.75 (2), Wis. Adm. Code:

(a) Fire, Inland Marine, and Other Property
(b) Ocean Marine
(c) Disability
(d) Liability and Incidental Medical Expense
(e) Automobile and Aircraft
(f) Fidelity
(g) Surety
(J) Credit
(k) Worker’s Compensation
(l) Legal Expense
(m) Credit Unemployment
(n) Miscellaneous Insurance

The following table is a summary of the net insurance premiums written by the Pacific Indemnity Company in 2016. The growth of the company is discussed in the "Financial Data" section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Fire	$ 855,147	$ 23,706,038	$ 16,855,444	$ 7,705,741
Allied lines	472,583	16,458,248	9,244,904	7,685,927
Homeowners multiple peril	301,881,776	309,574,922	411,441,684	200,015,014
Commercial multiple peril	30,760,707	242,497,504	128,485,447	144,772,764
Ocean marine	0	14,879,151	5,083,532	9,795,619
Inland marine	85,000,178	91,337,926	109,840,242	66,497,862
Medical professional liability—occurrence	0	0	27,396	(27,396)
Medical professional liability—claims made	0	909,210	261,807	647,403
Earthquake	6,102,219	10,733,389	8,870,233	7,965,375
Group accident and health	0	35,637,051	8,982,094	26,654,957
Other accident and health	0	1,684,419	352,940	1,331,479
Workers' compensation	172,846,021	197,395,503	216,425,870	153,815,654
Other liability—occurrence	28,591,423	170,243,577	92,737,835	106,097,165
Other liability—claims made	267,604	234,541,031	79,966,234	154,842,401
Excess workers' compensation	0	186,171	67,703	118,468
Products liability—occurrence	4,599,572	38,230,039	16,114,777	26,714,834
Products liability—claims made	622,102	3,610,394	2,313,884	1,918,612
Private passenger auto liability	20,827,335	38,417,676	30,192,262	29,052,749
Commercial auto liability	357,073	34,055,746	10,621,863	23,790,956
Auto physical damage	21,473,445	48,054,439	34,061,966	35,465,918
Aircraft (all perils)	0	3,449,565	2,556,996	892,569
Fidelity	327,250	40,451,825	13,626,194	27,152,881
Surety	5,000,992	37,828,321	17,911,808	24,917,505
Burglary and theft	698,197	6,850,194	2,866,851	4,681,540
Boiler and machinery	4,229,878	16,514,093	8,899,740	11,844,231
Credit	0	42,567	34,632	7,935
Warranty	0	353,678	82,680	270,998
Reinsurance—non-proportional assumed property	0	(19,094)	(3,996)	(15,098)

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Reinsurance—non-proportional assumed liability	0	(185,807)	(69,287)	(116,520)
Reinsurance—non-proportional assumed financial lines	0	(4,668)	(3,944)	(724)
Total All Lines	$684,913,502	$1,617,433,108	$1,227,849,791	$1,074,496,819

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors currently consists of seven members. The number of directors constituting the board of directors shall be fixed from time to time by resolution passed by the board of directors. Each director need not be a shareholder of the corporation, or a resident of the state of incorporation. Each director is elected at the annual meeting of shareholders and holds office until the next annual shareholders meeting, or until his/her earlier resignation or removal. If the director's term expires, the director may continue to serve until a respective successor is elected and qualified, until his/her earlier resignation or removal, or until there is a decrease in the number of directors. A decrease in the number of directors does not shorten an incumbent director's term. The directors receive no compensation specific to their service on the board because all are employees of the holding company system.

The current board of directors consists of the following persons:

Name	Principal Occupation	Term Expires
Paul J. Krump Whitehouse Station, NJ	Executive Vice President Chubb Group President NA[1] Commercial and PRS[2] Chubb Limited.	2018
James A. Darling Los Angeles, CA	Regional Executive Officer Pacific Region in Sales & Marketing Chubb Limited.	2018
Harold L. Morrison, Jr. Whitehouse Station, NJ	Senior Vice President Chubb Group Division President NA Field Operations Chubb Limited.	2018
John J. Lupica Whitehouse Station, NJ	Vice Chairman Chubb Group NA Major Accounts & Specialty Ins. Chubb Limited.	2018
Paul G. O'Connell Philadelphia, PA	SVP Chubb Group Chief Actuary Chubb Limited.	2018
Kevin M. Rampe Philadelphia, PA	Director of Global Legal Operations General Counsel NA Chubb Limited.	2018

[1] NA means North America in all cases.

[2] PRS means Personal Risk Services, a division of NA Personal P&C Insurance operations. PRS offers comprehensive personal insurance products and services to meet the evolving needs of successful families and individuals.

Drew K. Spitzer Whitehouse Station, NJ	Executive Vice President Chief Financial Officer NA Chubb Limited.	2018

Officers of the Company

The officers serving as of December 31, 2016, are as follows:

Name	Office	2016 Compensation
Paul J. Krump	Chairman & President	$158,628
Drew K. Spitzer	EVP, CFO & Treasurer	27,516
Paul G. O'Connell	SVP & Chief Actuary	55,193
John P. Taylor	Senior Vice President	12,007
Brandon M. Peene	Vice President & Secretary	6,864

These officers are compensated by an upstream affiliate; compensation is reported on an allocated basis.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Executive Committee
Paul J. Krump
John J. Lupica
Drew K. Spitzer
Harold L. Morrison, Jr.

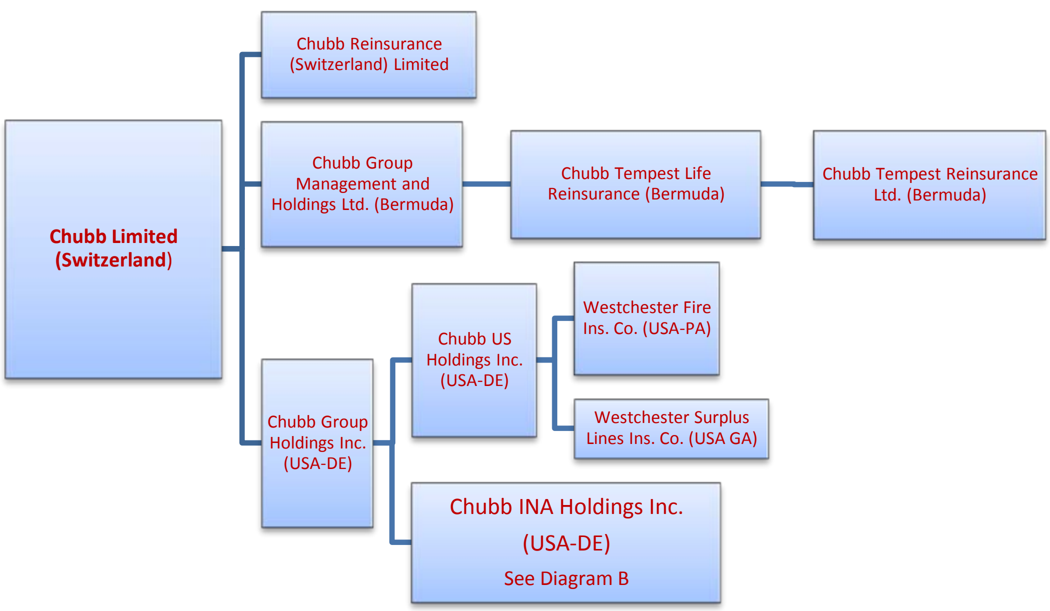
Investment Committee
Paul J Krump
John J. Lupica
Drew K. Spitzer

IV. AFFILIATED COMPANIES

Pacific Indemnity Company is a member of a holding company system ultimately controlled by Chubb Limited, a Switzerland company. Due to the enormity and worldwide dispersal of the corporate interests of Chubb Limited, this report will confine its discussion to include the post-merger affiliates in the United State and their upstream affiliates in Europe of significance to Pacific Indemnity Company. Significant affiliates were determined by two criteria: (1) affiliates that are in a direct line with Pacific Indemnity Company and, (2) the primary affiliates involved in the intercompany pooling arrangements.

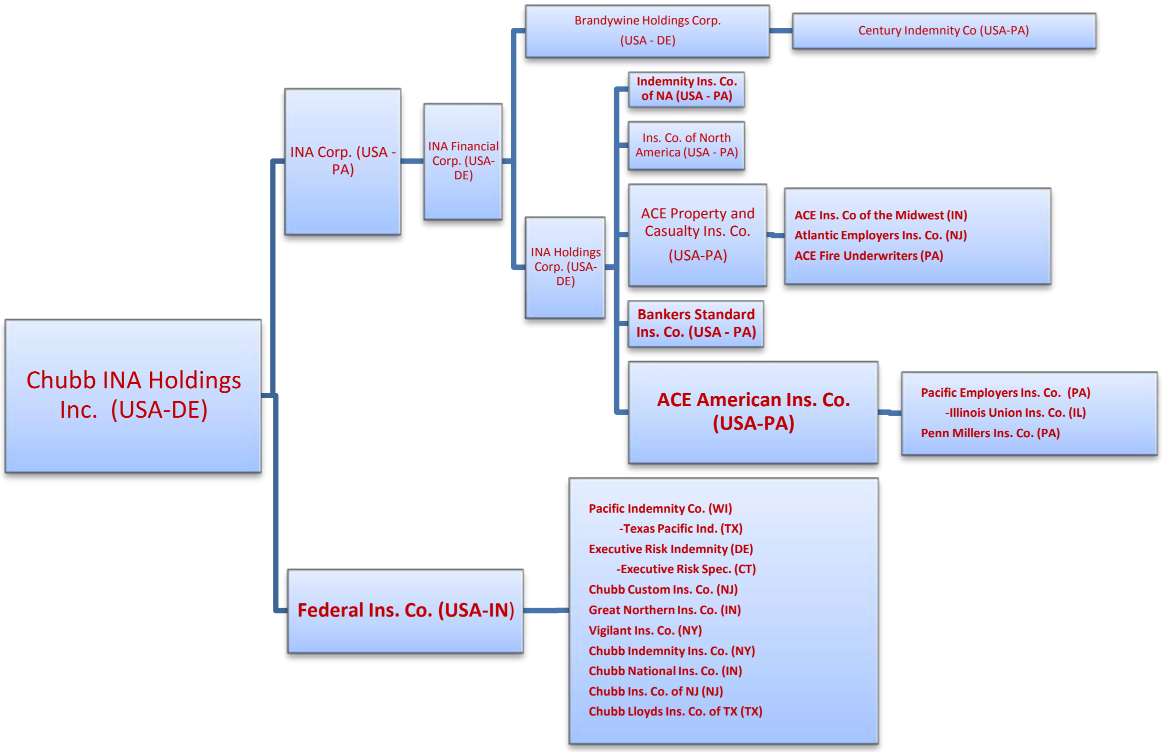
Organizational Charts
As of December 31, 2016

Diagram A—Significant downstream affiliates of Chubb Limited (Switzerland):



Note: Chubb INA Holdings, Inc. is owned 80% by Chubb Group Holdings, Inc. and is owned 20% directly by Chubb Limited (Switzerland).

Diagram B—Significant downstream affiliates of Chubb INA Holdings, Inc.:



Succession of Control

Chubb Limited (Switzerland)

Chubb Limited is a global provider of insurance products covering property and casualty, accident and health, reinsurance, and life insurance. As of December 31, 2016, the consolidated audited financial statements (US GAAP Basis) of Chubb Limited reported assets of $159.8 billion, liabilities of $111.5 billion, shareholders' equity of $48.3 billion, and net income of $4.1 billion.

Chubb Reinsurance Switzerland Limited (Switzerland)

Chubb Reinsurance Switzerland Limited (CRSL), a wholly owned subsidiary of Chubb Limited, exclusively assumes business via four reinsurance treaties from affiliated U.S.-based Chubb group companies. CRSL does not retrocede any business to third party reinsurance. CRSL assumed business from the ACE USA Pool under a reinsurance treaty, and will be assuming business under the US Pooling Structure, effective on January 1, 2018. As of December 31, 2016, the audited financial statements (US GAAP Basis) of CRSL reported assets of $5.9 billion, liabilities of $4.7 billion, shareholders' equity of $1.2 billion, and net income of $445 million.

Chubb Group Management and Holdings Limited (Bermuda)

Chubb Group Management and Holdings Limited (CGM&H), a wholly owned subsidiary of Chubb Limited, holds interests in a variety of international subsidiaries. Most notably CGM&H has a 100% ownership interest in two Bermuda affiliates, Chubb Tempest Life Reinsurance Limited (Chubb Tempest Life), and its downstream subsidiary Chubb Tempest Reinsurance Limited (Chubb Tempest Re). As of December 31, 2016, the consolidated unaudited financial statements (US GAAP Basis) of CGM&H reported assets of $13.1 billion, liabilities of $36 million, shareholders' equity of $13.0 billion, and net income of $1.6 billion.

Chubb Tempest Reinsurance Limited (Bermuda)

Chubb Tempest Re, a wholly owned subsidiary of Chubb Tempest Life, provides property catastrophe, property, casualty and accident and health reinsurance for a diverse group of customers worldwide. As of December 31, 2016, the audited financial statements (US GAAP

Basis) of Chubb Tempest Re reported assets of $17.7 billion, liabilities of $9.9 billion, shareholders' equity of $7.7 billion, and net income of $1.3 billion.

Chubb Group Holdings Inc. (Delaware)

Chubb Group Holdings Inc. is a wholly owned subsidiary of Chubb Limited, and holds interests in mainly North American subsidiaries, including Chubb US Holdings Inc. and its wholly owned subsidiaries, Westchester Fire Insurance Company (Westchester) and Westchester Surplus Lines Insurance Company, and Chubb INA Holdings Inc. and its wholly owned subsidiary, INA Corporation. As of December 31, 2016, the consolidated unaudited financial statements (US GAAP Basis) of Chubb Group Holdings Inc. reported assets of $30.8 billion, liabilities of $10.0 billion, shareholders' equity of $20.8 billion, and net income of $1.4 billion.

Chubb INA Holdings Inc. (Delaware)

Chubb INA Holdings Inc. is a wholly owned subsidiary of Chubb Group Holdings Inc. and holds interests in mainly North American subsidiaries, most notably INA Corporation (Pennsylvania) and Federal (Indiana), as well as INA Financial Corporation (Delaware) and its downstream subsidiaries, which include ACE American Insurance Company (Pennsylvania). Federal and ACE American are the lead companies in the Federal Pool and the ACE USA Pool, respectively. Effective October 1, 2017, Pacific Indemnity Company became a direct wholly owned subsidiary of Chubb INA Holdings Inc. As of December 31, 2016, the consolidated unaudited financial statements (US GAAP Basis) of Chubb INA Holdings Inc. reported assets of $138.1 billion, liabilities of $113.5 billion, shareholders' equity of $24.6 billion, and net income of $1.8 billion.

INA Corporation (Pennsylvania)

INA Corporation is a holding company whose primary wholly owned subsidiary is INA Financial Corporation (Delaware). As of December 31, 2016, the consolidated unaudited financial statements (US GAAP Basis) of INA Corporation reported assets of $22.3 billion, liabilities of $130 million, shareholders' equity of $22.2 billion, and net income of $1.1 billion.

INA Financial Corp. (Delaware)

INA Financial Corporation (INA Financial) is a subsidiary of INA Corporation. INA Financial's direct subsidiaries consist of Brandywine Holdings Corporation and INA Holdings Corporation. As of December 31, 2016, the unaudited financial statements (US GAAP Basis excluding equity of subsidiaries) of INA Financial reported assets of $2.5 billion, liabilities of $249 million, shareholders' equity of $2.3 billion, and net income of $14 million.

Brandywine Holdings Corp. (Delaware)

Brandywine Holdings Corporation (Brandywine) is a wholly owned subsidiary of INA Financial Corporation. Brandywine's direct subsidiaries include Century Indemnity Company (Pennsylvania). Century Indemnity Company has an Excess of Loss Agreement with ACE American (ACE USA Pool) and this will continue under the US Pooling Structure, effective on January 1, 2018. As of December 31, 2016, the unaudited financial statements (US GAAP Basis excluding equity of subsidiaries) of Brandywine reported assets of $552 million, liabilities of $294 million, shareholders' equity of $259 million, and net losses of ($10) million.

INA Holdings Corp. (Delaware)

INA Holdings Corp. is the holding company for its wholly owned subsidiaries ACE American, Insurance Company of North America, ACE Property and Casualty Insurance Company, Bankers Standard Insurance Company, and Indemnity Insurance Company of North America, all domiciled in Pennsylvania. The latter two subsidiaries have since been transferred to ACE American. As of December 31, 2016, the unaudited financial statements (US GAAP Basis excluding equity of subsidiaries) of INA Holdings Corp. reported assets of $183 million, liabilities of $3 million, shareholders' equity of $181 million, and net income of $0.

ACE American Insurance Company (Pennsylvania)

ACE American is a wholly owned subsidiary of INA Holding Corp. ACE American is part of a global insurance and reinsurance organization serving the needs of a diverse group of clients. Since 2016 ACE American has been organized into NA Commercial P&C Insurance, NA Personal P&C Insurance, and NA Agricultural Insurance. The NA Commercial P&C Insurance group has a Major Accounts division, and a Commercial Insurance division, which include both Small Commercial Insurance and Westchester. The NA Personal P&C Insurance group includes the business written by the Chubb Personal Risk Services division, which is comprised of the Chubb high net-worth personal lines, and ACE Private Risk Services division, with operations in U.S. and Canada. The NA Agricultural Insurance group provides a variety of coverages including various forms of crop insurance, and farm and ranch specialty P&C products.

ACE American's downstream wholly owned subsidiaries include the following:

- Pacific Employers Ins. Co. (PA)
  - -Illinois Union Ins. Co. (IL)
- Penn Millers Ins. Co. (PA)

ACE American has a net retention of 37% in its intercompany reinsurance pooling arrangement (ACE USA Pool) with the aforementioned subsidiaries, and will participate as a risk bearing entity having a 25% retrocession in the US Pooling Structure, effective January 1, 2018. As of December 31, 2016, the financial statements (US STAT Basis) of ACE American reported admitted assets of $13 billion, liabilities of $10.2 billion, surplus as regards policyholders of $2.8 billion, and net income of $180.9 million.

Insurance Company of North America (Pennsylvania)

Insurance Company of North America (INA) is a wholly owned subsidiary of INA Holding Corp. Like ACE American, INA is part of a global insurance and reinsurance organization, and since 2016 follows the same organizational scheme as described above. As of December 31, 2016, the financial statements (US STAT Basis) of INA reported assets of $944.2 million, liabilities of $694.0 million, surplus as regards policyholders of $250.2 million and net income of $16.5 million.

ACE Property and Casualty Insurance Company (Pennsylvania)

ACE Property and Casualty Insurance Company (ACE P&C) is a wholly owned subsidiary of INA Holding Corp. Like ACE American, ACE P&C is part of a global insurance and reinsurance organization, and since 2016 follows the same organizational scheme as described above. Its downstream wholly owned subsidiaries include the following:

- ACE Ins. Co. of the Midwest (IN)
- Atlantic Employers Ins. Co. (NJ)
- ACE Fire Underwriters Ins. Co. (PA)

ACE P&C will participate as a risk bearing entity having a 20% retrocession in the US Pooling Structure, effective January 1, 2018. As of December 31, 2016, the financial statements (US STAT Basis) of ACE P&C reported assets of $8.2 billion, liabilities of $6.0 billion, surplus as regards policyholders of $2.2 billion, and net income of $181.3 million.

Federal Insurance Company (Indiana)

Federal was organized under the laws of the state of New Jersey on February 15, 1901, and commenced business on March 2, 1901. On March 23, 1990, it was redomesticated to the state of Indiana. Federal is the primary employer for the legacy Chubb Group. Other members of the legacy Chubb Group generally have no employees of their own and rely on Federal for the staff essential to run day-to-day operations. Federal holds licenses and writes business in all 50 states, the District of Columbia, and several foreign countries. Its downstream wholly owned subsidiaries include the following:

- Pacific Indemnity Co. (WI)[3]
  - -Texas Pacific Indemnity (TX)[4]
- Executive Risk Indemnity Inc. (DE)
  - -Executive Risk Specialty Ins. Co. (CT)
  - -Chubb Custom Ins. Co. (NJ)[5]
- Great Northern Ins. Co. (IN)
- Chubb Indemnity Ins. Co. (NY)
- Vigilant Ins. Co. (NY)
- Chubb National Ins. Co. (IN)
- Chubb Ins. Co. of New Jersey (NJ)
- Chubb Lloyds Ins. Co. of Texas (TX)

[3] Effective October 1, 2017 Pacific Indemnity Company became a direct wholly owned subsidiary of Chubb INA Holdings Inc.
[4] Effective September 30, 2017 Texas Pacific Indemnity Company was merged into Pacific Indemnity Company.
[5] Chubb Custom Ins. Co. is a subsidiary of Executive Risk Indemnity Inc. as of September 30, 2017.

Federal has a 68.5% net retention in the affiliated pooling arrangement (Federal Pool) and will participate as a risk bearing entity having a 25% retrocession in the US Pooling Structure, effective January 1, 2018. As of December 31, 2016, the audited financial statements (US STAT Basis) of Federal reported admitted assets of $27.4 billion, liabilities of $16.0 billion, surplus as regards policyholders' of $11.4 billion, and net income of $3.2 billion.

Executive Risk Indemnity Inc. (Delaware)

Executive Risk Indemnity Inc. (Executive Risk Indemnity) was organized under the laws of the state of Delaware on September 23, 1977, as the American Excess Insurance Company, and commenced business on January 1, 1978. The present name was adopted on January 27, 1995. On July 19, 1999, The Chubb Corporation acquired Executive Risk, Inc. (the ultimate parent at the time), and its subsidiaries, including Executive Risk Indemnity. Executive Risk Indemnity writes in all 50 states in which it is licensed or eligible as a surplus lines writer. Effective January 1, 2000, Executive Risk Indemnity became a participant in the Federal Pool with 8% participation. Executive Risk Indemnity will participate as a risk bearing entity having a 10% retrocession in the US Pooling Structure, effective January 1, 2018. As of December 31, 2016, the financial statements (US STAT Basis) of Executive Risk Indemnity Inc. reported assets of $2.9 billion, liabilities of $1.7 billion, surplus as regards policyholders of $1.3 billion, and net income of $189.0 million.

Subsidiary of Pacific Indemnity Company

Texas Pacific Indemnity Company (Texas)

Texas Pacific Indemnity Company (Texas Pacific) was organized under the laws of Texas on February 14, 1961, and commenced business on February 17, 1961. Texas Pacific was only licensed in Texas and Arkansas and writes primarily in Texas. Texas Pacific was merged into Pacific Indemnity Company, effective September 30, 2017, with Pacific Indemnity Company being the surviving company. As of December 31, 2016, the financial statements (US STAT Basis) of Texas Pacific reported assets of $7.7 million, liabilities of $0.2 million, surplus as regards policyholders' of $7.5 million and net income of $102.9 thousand.

Written Agreements with Affiliates

As previously noted, Federal is the primary employer among the insurance subsidiaries of the Legacy Chubb Group. In addition to common staffing and management control, Pacific Indemnity Company's relationship to its affiliates is affected by various service agreements and pooling agreements. Intercompany reinsurance agreements are described in the "Reinsurance" Section of this report.

Amended and Restated Tax Allocation Agreement

Effective January 15, 2016, Pacific Indemnity Company became a party to an intercompany tax allocation agreement with Chubb Group Holdings. Under the tax allocation agreement, each party contributes its equivalent share to the federal income taxes payable by the affiliated group, which pays federal income taxes on a consolidated basis.

Management Agreement

Effective January 1, 1998, and as amended September 1, 2003 and December 31, 2007, the Pacific Indemnity Company entered into a Management Agreement with Federal Insurance Company, whereby Federal acts as manager of the general insurance business and provides financial advisory services. Compensation is based on actual costs, and expenses are reconciled at the close of each calendar year.

Investment Advisory Services Agreement

Effective July 1, 2016, the Pacific Indemnity Company entered into an Investment Advisory Services Agreement with Chubb Asset Management Inc. (Chubb Asset), whereby Chubb Asset assists with the evaluation and selection of the company's investment advisors and monitors the performance, compliance, and risk profile of the company's portfolio.

SIU Service and Support Agreement

Effective August 12, 2010, and as amended on January 1, 2011, March 19, 2015, July 1, 2016, and January 1, 2018, an SIU Service and Support Agreement was entered into by and between certain Chubb Property and Casualty Insurance Companies identified in Exhibit A of the agreement and ESIS. ESIS is the third party claims administrator which provides special investigative unit services. In consideration for the provision for these services, ESIS is paid a services fee equal to the costs and expenses incurred by ESIS in providing those services. The costs shall be allocated to each insurer commensurate with the resources used to provide those services.

V. REINSURANCE

The company's reinsurance treaties in force at the time of the examination are summarized below. The contracts contained the proper insolvency provisions. Unless otherwise noted, the summaries reflect terms in force as of the date of the examination.

Affiliated Ceding Contracts

The Federal Pool

Pacific Indemnity is a participant in an intercompany reinsurance pool with affiliate insurers, which covers substantially all business. Under the provisions of the intercompany reinsurance pool, each participant company retains a share of its direct and assumed business and cedes the remaining share to the other participant companies. Business is apportioned among the participant companies based upon predetermined rates of participation, shown below. Reinsurance purchased for the benefit of the intercompany reinsurance pool is shared proportionately by each participant company. Related reinsurance balances are reported on the balance sheets of the respective companies. The provision for reinsurance is determined for each company individually based on applicable statutory regulations. Additional terms of the pool as of December 31, 2016, are outlined below:

Effective: January 1, 1994, continuous, as amended October 1, 2006

Participation:

	12/31/16
Federal	68.5%
Pacific Indemnity Company	17.0
Executive Risk Indemnity Inc.	8.0
Great Northern Insurance Company	4.0
Vigilant Insurance Company	0.5
Chubb Custom Insurance Company	0.5
Chubb National Insurance Company	0.5
Chubb Indemnity Insurance Company	0.5
Executive Risk Specialty Insurance Company	0.5

Lines covered: All domestic business except aircraft (all perils) produced through an old voluntary pool, financial guaranty, and certain old asbestos and environmental losses.

Items included: Gross written premium, ultimate net loss and all related expenses

Termination: The pool terminated effective January 1, 2018

The ACE USA Pool

ACE American Insurance Company (ACE American) is the lead company of a North American intercompany pooling structure (the ACE USA Pool). The top three companies share 89.8% of this pool. All companies participating in the pool are domiciled in the Commonwealth of Pennsylvania. ACE American reinsures 100% of the gross business written by each of the companies (except excluded business[5]). The pool determines the extent of gross written business it intends to cede to third parties and cedes the business through ACE P&C (to third party reinsurers). ACE American retrocedes the remaining net business to each of the other participants in proportion to their agreed upon pool share. Business ceded to Chubb Tempest Re (Bermuda) and Chubb Reinsurance Switzerland Limited (Switzerland) is done on a "post-pooled" basis.

Participation:		12/31/16
	ACE American Insurance Company	37.0%
	ACE Property & Casualty Insurance Company	35.0
	Pacific Employers Insurance Company	17.8
	Insurance Company of North America	5.0
	Bankers Standard Insurance Company	3.0
	Indemnity Insurance Company of North America	2.0
	ACE Fire Underwriters Insurance Company	0.2

Lines covered: All domestic business, excluding foreign branch business, voluntary and mandatory pools and association business

Items included: Gross written premium, ultimate net loss and all related expenses

Termination: The pool terminated effective January 1, 2018

The US Pooling Structure (effective January 1, 2018)

After the merger with ACE a proposal was made to combine the Legacy ACE Pool and the Legacy Chubb Pool. This proposal has since been approved by the regulating states. ACE American will assume the leadership of the US Pooling Structure. All business (except excluded business[6]) is ceded to ACE American. ACE American in turn has entered into an aggregate stop loss reinsurance treaty with CRSL. ACE American will also make cessions to third party

[5] Excluded business includes the following: Balances ceded to ACE Property & Casualty Insurance Company exclude the foreign branch business of ACE American and Insurance Company of North America, which are ceded 100% to a foreign affiliate. Voluntary/mandatory pools and association business, which remain in the direct writing companies, are also excluded.

[6] Certain branch business is excluded.

reinsurers. The remaining business will be retroceded to five participants (called the risk bearing entities)[7]. Liabilities ceded include written premium, losses, LAE (allocated and unallocated), and all expenses incurred in issuing and administering the policies. Expenses are defined as all costs, including underwriting expenses, incurred by the ceding companies. There is no provision for ceding commission as all underwriting expenses are ceded to the pool.

Effective: January 1, 2018

Participation:

	1/1/18
ACE American Insurance Company	25.0%
ACE Property & Casualty Insurance Company	20.0%
Federal Insurance Company	25.0%
Pacific Indemnity Company	20.0%
Executive Risk Insurance Company	10.0%

Lines covered: All domestic business, except excluded business

Items included: Gross written premium, ultimate net loss and all related expenses

Termination: Until canceled by agreement of the parties or with 60 days' written notice by any party

Affiliated Assuming Contracts:

1. Cedent: Texas Pacific Indemnity Company

   Reinsurer: Pacific Indemnity Company

   Effective: March 9, 1961

   Lines covered: All lines

   Retention: None

   Coverage: 100% of incurred losses and loss expenses

   Premium: 100% of gross written premium on all policies

   Termination: This contract terminated effective September 30, 2017, because Texas Pacific Indemnity Company was merged into Pacific Indemnity Company on that date.

[7] The Legacy Chubb non-risk bearing entities (Great Northern Insurance Company, Vigilant Insurance Company, Chubb Custom Insurance Company, Chubb National Insurance Company, Chubb Indemnity Insurance Company, and Executive Risk Specialty Insurance Company) will cede 100% of their gross cessions and their liabilities to Federal, which in turn, will cede them to ACE American. Similarly, except for ACE American, the legacy ACE companies will cede 100% of their gross cessions and all of their liabilities to ACE American.

Affiliated Ceding Contracts:

1. Type: Net Liabilities Quota Share Agreement

   Cedent: Pacific Indemnity Company

   Reinsurer: ACE Property and Casualty Insurance Company

   Effective: January 1, 2016, and as amended on January 1, 2017

   Lines covered: 20% of all business, and as amended 35% of all business

   Retention: None

   Coverage: Each loss occurrence, cyber risk limit, and acts of terrorism limits in the agreement have changed in the same proportion, i.e., from $100,000,000 to $175,000,000 as amended.

   Premium: Net Earned Premium is proportionate to the business ceded less a ceding commission.

   Termination: The contract was terminated effective January 1, 2018

Nonaffiliated Ceding Contracts

The following table summarizes the premiums ceded by the company in 2017 to its top ten unaffiliated reinsurers (in thousands of US dollars):

LIST OF TOP REINSURERS

Swiss Reinsurance America Corporation	New York	$ 20,617	13.11%
Hannover Rueckversicherung SE	Germany	11,302	7.19%
Ruckversicherungs-Gesellschaft	Germany	9,798	6.23%
Allianz Risk Transfer AG	Liechtenstein	9,085	5.78%
Allianz Global Risks US Insurance Company	Illinois	8,130	5.17%
Starr Surplus Lines Insurance Company	Illinois	4,966	3.16%
Transatlantic Reinsurance Company	New York	4,091	2.60%
Everest Reinsurance Company	Delaware	3,644	2.32%
General Reinsurance Corp	Delaware	3,179	2.02%
Partner Reinsurance Co. of U.S.	New York	3,059	1.95%
All Other Unaffiliated Reinsurers		79,368	50.48%
Total Unaffiliated Ceded Written Premiums		**$157,239**	**100.00%**

1. Type: Global Property Per Risk Excess of Loss

Reinsurer: Refer to the "List of Top Reinsurers"

Scope: Property business

	First Excess	Second Excess
Retention:		
All business	$50 million	$300 million
Personal business	$175 million	$425 million
Coverage:		
Per risk	$250 million	$350 million
Per occurrence	$375 million	$525 million
Limit of liability	$750 million	$700 million

Effective date: April 1, 2017

Termination: April 1, 2018

2. Type: Per Risk Excess of Loss (Clash)

Reinsurer: Refer to the "List of Top Reinsurers"

Scope: Property business of business units involved together in a loss

Retention:
Minimum $10 million, each and every risk
Maximum $15 million, each and every risk

Coverage: $17.5 million, each and every risk, subject to the maximum contribution of $15 million from any one business unit

Effective date: April 1, 2017

Termination: April 1, 2018

3. Type: North American Property Per Risk Excess of Loss

Reinsurer: Refer to the "List of Top Reinsurers"

Scope: First Excess: Inland marine, agriculture, small commercial, and certain other programs and locations
Second Excess: Property business

	First Excess	Second Excess
Retention:		
Inland Marine	$5 million	$25 million
Other Business	$5 million	$15 million
Coverage:		
Inland Marine	$5 million	$25 million
Other business	$10 million	$35 million
Per occurrence	$30 million	$120 million

Effective date:	April 1, 2017
Termination:	April 1, 2018

4. Type: Personal Risk Quota Share

Reinsurer:	Refer to “List of Top Reinsurers”
Scope:	Select state policies classified as personal risk liability as covered under a homeowners policy and personal risk property including but not limited to homeowners and yacht hull business when written in combination with homeowners, inland marine and fine arts business
Retention:	Proportionate share, as set forth in the Interest and Liabilities Contract
Coverage:	Proportionate share of: $200 million, each loss, each policy as respects all business except inland marine and fine arts $1 billion, each loss, each policy as respects inland marine and fine arts $4.1 billion, any one loss occurrence as respects all business
Effective date:	July 1, 2017
Termination:	July 1, 2018

5. Type: Global Property Catastrophe Excess of Loss

Reinsurer:	Refer to the “List of Top Reinsurers”
Scope:	All policies underwritten and classified as property. First Excess - North America (Coverage A) and Rest of World (Coverage B). Second Excess – United States (Coverage A) and Non-Contiguous U.S. and Canada (Coverage B)

<u>First Excess</u>

	Coverage A	Coverage B	Coverage A&B
Retention:	$1.25 billion	$175 million	$1.25 billion
Coverage:	$750 million	$750 million	$750 million

<u>Second Excess</u>

	Coverage A	Coverage B	Coverage A&B
Retention:	$2 billion	$925 million	$2 billion
Coverage:	$1.5 billion	$1.5 million	$1.5 million

Effective date:	April 1, 2017
Termination:	April 1, 2018

6. Type: Global Personal Lines Property Per Risk Excess of Loss

Reinsurer:	Refer to the “List of Top Reinsurers”

Scope:	Policies classified as personal business	

	First Excess	Second Excess
Retention:		
All property	$12 million	$50 million
	$12 million	$50 million
Coverage:		
All property	$38 million	$125 million
Loss Occurrence	$225 million	$250 million

Effective date: April 1, 2017

Termination April 1, 2018

7. Type: Personal Lines Contingency Non Peak Catastrophe Risk Excess of Loss

Reinsurer: Refer to the "List of Top Reinsurers"

Scope: Personal risk property business worldwide.
Excludes named storm and earthquake perils.

Retention: $120 million, each loss occurrence

Coverage: $300 million, each loss occurrence

Effective date: April 1, 2017

Termination: April 1, 2018

8. Type: Global Personal Lines Fine Art Excess of Loss

Scope: All interests classified as fine arts, jewelry, collector vehicles and valuable articles

Reinsurer: Lloyds Underwriters

Section A

	First Excess	Second Excess	Third Excess
Retention:	$5 million	$100 million	$200 million
Coverage:	$95 million	$100 million	$300 million
Loss Occurrence (Named Perils)	$285 million	$300 million	$900 million

Section B – Terrorism

Retention: $5 million

Coverage: $315 thousand

Effective date: April 1, 2017

Termination: April 1, 2018

9. Type: Global Surety Excess of Loss

Reinsurer: Refer to the “List of Top Reinsurers”

Scope: Coverage A – All domestic surety business (U.S. & Canada) and international surety business

Coverage B – Commercial surety business on bonds underwritten by the company’s surety operations located in the United States or Canada

Coverage C – Construction surety business and commercial surety business on bonds underwritten by the company’s surety operations located outside of the United States, Canada, or Latin America

Coverage A

Retention/Coverage:

Part	Reinsurer’s Limit of Liability	Company’s Retention	
		Section A	Section B
Part I	$75 million	$50 million	$40 million
Part II	$75 million	$125 million	$115 million
Part III	$75 million	$200 million	$190 million
Part IV	$75 million	$275 million	$265 million

Coverage B

Retention: $20 million, any one principal

Coverage: $30 million, any one principal

Coverage C

Retention: $10 million

Coverage: $30 million

Effective date: April 1, 2016

Termination: November 1, 2017

10. Type: Workers Compensation Catastrophe Excess of Loss

Reinsurer: Refer to the “List of Top Reinsurers”

Scope: All policies classified as workers’ compensation and employers liability business

	First Excess	Second Excess
Retention:	$20 million	$230 million
Terrorism & Natural Peril	$50 million	$230 million
Coverage:	$30 million	$650 million
Terrorism & Natural Peril	$30 million	$650 million

	Effective date:	April 15, 2017
	Termination:	January 1, 2019.
11.	Type:	Workers Compensation Catastrophe Facultative
	Reinsurers:	Lloyds' Underwriters
	Scope:	Workers compensation and personal accident in specific named locations only
	Retention:	\$80 million per occurrence in respect of workers' compensation locations as per attached schedule (Section 1) \$500 million per occurrence in respect of personal accident locations as per attached schedule (Section 2)
	Coverage:	\$150 million per occurrence combined for Section 1 and Section 2 and in aggregate
	Effective date:	April 15, 2016
	Termination:	April 15, 2017

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2016, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination." Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation.

Pacific Indemnity Company
Assets
As of December 31, 2016

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$5,815,242,023	$ 0	$5,815,242,023
Stocks:			
Preferred stocks	7,681,000	0	7,681,000
Common stocks	96,037,143	298,803	95,738,340
Cash, cash equivalents, and short-term investments	20,534,753	0	20,534,753
Other invested assets	48,020,760	0	48,020,760
Receivables for securities	8,533	0	8,533
Investment income due and accrued	61,093,646	0	61,093,646
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	245,493,301	0	245,493,301
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	91,255,982	455,355	90,800,627
Reinsurance:			
Amounts recoverable from reinsurers	45,779,080	0	45,779,080
Other amounts receivable under reinsurance contracts	77,431	0	77,431
Net deferred tax asset	138,515,786	54,879,903	83,635,883
Receivable from parent, subsidiaries, and affiliates	23,684,435	0	23,684,435
Write-ins for other than invested assets:			
Equities and deposits in pools and associations	14,334,090	0	14,334,090
Amounts receivable under high deductible polices	1,786,444	4,405	1,782,039
State surcharges receivable	1,225,667	0	1,225,667
Summary of remaining write-ins for Line 25 from overflow page	304,815	304,815	0
Total Assets	$6,611,074,889	$55,943,281	$6,555,131,608

Pacific Indemnity Company
Liabilities, Surplus, and Other Funds
As of December 31, 2016

Losses		$2,004,395,237
Reinsurance payable on paid loss and loss adjustment expenses		502,211
Loss adjustment expenses		687,795,403
Commissions payable, contingent commissions, and other similar charges		25,192,275
Other expenses (excluding taxes, licenses, and fees)		52,629,492
Taxes, licenses, and fees (excluding federal and foreign income taxes)		7,955,091
Current federal and foreign income taxes		26,266,663
Unearned premiums		635,411,763
Advance premium		3,286,147
Dividends declared and unpaid:		
Policyholders		16,760,444
Ceded reinsurance premiums payable (net of ceding commissions)		143,948,818
Funds held by company under reinsurance treaties		198,278
Amounts withheld or retained by company for account of others		3,697,161
Remittances and items not allocated		537,736
Provision for reinsurance		5,914,370
Payable for securities		14,022,013
Total Liabilities		3,628,513,102
Common capital stock	$ 5,535,000	
Gross paid in and contributed surplus	520,019,566	
Unassigned funds (surplus)	2,401,063,940	
Surplus as Regards Policyholders		2,926,618,506
Total Liabilities and Surplus		$6,555,131,608

Pacific Indemnity Company
Summary of Operations
For the Year 2016

Underwriting Income		
Premiums earned		$1,295,105,492
Deductions:		
Losses incurred	$521,538,640	
Loss adjustment expenses incurred	168,002,016	
Other underwriting expenses incurred	341,287,215	
Write-ins for underwriting deductions:		
LAD program expense	20,128	
Total underwriting deductions		1,030,847,999
Net underwriting gain (loss)		264,257,493
Investment Income		
Net investment income earned	186,030,382	
Net realized capital gains (losses)	84,285,923	
Net investment gain (loss)		270,316,305
Other Income		
Net gain (loss) from agents' or premium balances charged off	(1,076,723)	
Write-ins for miscellaneous income:		
Merger integration expenses	(26,020,266)	
Miscellaneous income (expense)	108,907	
Total other income		(26,988,082)
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		507,585,716
Dividends to policyholders		7,713,007
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		499,872,709
Federal and foreign income taxes incurred		82,048,236
Net Income		$ 417,824,473

Pacific Indemnity Company
Cash Flow
For the Year 2016

Premiums collected net of reinsurance			$1,160,085,078
Net investment income			239,709,224
Miscellaneous income			24,854,411
Total			1,424,648,713
Benefit- and loss-related payments		$670,791,956	
Commissions, expenses paid, and aggregate write-ins for deductions		559,916,321	
Dividends paid to policyholders		7,411,410	
Federal and foreign income taxes paid (recovered)		78,445,748	
Total deductions			1,316,565,435
Net cash from operations			108,083,278
Proceeds from investments sold, matured, or repaid:			
Bonds	$959,998,162		
Stocks	290,652,423		
Other invested assets	12,661,358		
Net gains (losses) on cash, cash equivalents, and short-term investments	(290,478)		
Miscellaneous proceeds	(8,533)		
Total investment proceeds		1,263,012,932	
Cost of investments acquired (long-term only):			
Bonds	1,175,694,568		
Stocks	1,368,132		
Other invested assets	970,277		
Miscellaneous applications	35,102,336		
Total investments acquired		1,213,135,313	
Net cash from investments			49,877,619
Dividends to stockholders		293,000,000	
Net cash from financing and miscellaneous sources			(293,000,000)
Reconciliation:			
Net Change in Cash, Cash Equivalents, and Short-Term Investments			(135,039,103)
Cash, cash equivalents, and short-term investments:			
Beginning of year			155,573,856
End of Year			$ 20,534,753

Pacific Indemnity Company
Compulsory and Security Surplus Calculation
December 31, 2016

Assets			$6,555,131,608
Add security surplus excess of the insurance subsidiary			4,702,792
Less investment in insurance subsidiary			7,502,792
Less liabilities			3,628,513,102
Adjusted surplus			2,923,818,506
Annual premium:			
Individual accident and health	$ 1,331,479		
Factor	15%		
Total		$ 199,721	
Group accident and health	26,742,801		
Factor	10%		
Total		2,674,280	
Lines other than accident and health	1,098,746,729		
Factor	20%		
Total		219,749,345	
Compulsory surplus (subject to a minimum of $2 million)			222,623,346
Compulsory Surplus Excess (Deficit)			$2,701,195,160
Adjusted surplus (from above)			2,923,818,506
Security surplus (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum factor of 110%)			244,885,680
Security Surplus Excess (Deficit)			$2,678,932,826

Pacific Indemnity Company
Analysis of Surplus
For the Five-Year Period Ending December 31, 2016

The following schedule details items affecting surplus during the period under examination as reported by the company in its filed annual statements:

	2016	2015	2014	2013	2012
Surplus, beginning of year	$2,930,245,522	$2,922,213,560	$2,771,421,804	$2,496,197,948	$2,440,762,836
Net income	417,824,473	449,655,054	421,582,892	425,649,784	278,770,959
Change in net unrealized capital gains/losses	(73,793,228)	(97,198,976)	(3,576,700)	65,865,007	17,457,130
Change in net unrealized foreign exchange capital gains/losses	5,963,583	3,965,883	(380,768)	(2,004,489)	(148,226)
Change in net deferred income tax	(53,386,121)	(22,189,614)	(2,011,015)	(4,782,991)	(5,529,841)
Change in nonadmitted assets	(6,506,575)	(35,131,607)	7,899,760	34,923,537	34,267,664
Change in provision for reinsurance	(729,148)	931,222	4,277,587	4,573,008	1,279,359
Dividends to stockholders	(293,000,000)	(292,000,000)	(277,000,000)	(249,000,000)	(244,000,000)
Write-ins for gains and (losses) in surplus: Change in additional admitted deferred income tax assets recognized under the provisions of SSAP No. 10R					(26,661,933)
Surplus, End of Year	$2,926,618,506	$2,930,245,522	$2,922,213,560	$2,771,421,804	$2,496,197,948

Pacific Indemnity Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2016

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below.

	Ratio	2016	2015	2014	2013	2012
#1	Gross Premium to Surplus	79.0%	82.0%	80.0%	82.0%	89.0%
#2	Net Premium to Surplus	37.0	58.0	56.0	57.0	60.0
#3	Change in Net Premiums Written	-36.0*	4.0	4.0	4.0	2.0
#4	Surplus Aid to Surplus	1.0	0.0	0.0	0.0	0.0
#5	Two-Year Overall Operating Ratio	74.0	74.0	71.0	75.0	82.0
#6	Investment Yield	3.0*	3.2	3.3	3.5	3.8
#7	Gross Change in Surplus	0.0	0.0	5.0	11.0	2.0
#8	Change in Adjusted Surplus	0.0	0.0	5.0	11.0	2.0
#9	Liabilities to Liquid Assets	59.0	62.0	62.0	64.0	68.0

	Ratio	2016	2015	2014	2013	2012
#10	Agents' Balances to Surplus	8.0	9.0	9.0	9.0	10.0
#11	One-Year Reserve Development to Surplus	-4.0	-2.0	-3.0	-4.0	-3.0
#12	Two-Year Reserve Development to Surplus	-7.0	-5.0	-7.0	-7.0	-7.0
#13	Estimated Current Reserve Deficiency to Surplus	-20.0	2.0	3.0	2.0	-5.0

Ratio No. 3 measures the company's net premiums written compared to the prior year. The exceptional result in 2016 was primarily due to the 20% Net Quota Share Reinsurance Agreement, which became effective on January 1, 2016.

Ratio No. 6 determines the company's investment yield as a percentage of investment income earned to the average total cash and invested assets and investment income due and accrued. The exceptional result in 2016 is reflective of the low yields that have persisted in the fixed maturities' markets over the recent few years. The average yields on the company's investment portfolio continue to remain depressed as proceeds from security sales and maturities are generally reinvested with lower yielding securities.

Growth of Pacific Indemnity Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2016	$6,555,131,608	$3,628,513,102	$2,926,618,506	$417,824,473
2015	6,916,030,245	3,985,784,723	2,930,245,522	449,655,054
2014	6,822,352,880	3,900,139,320	2,922,213,560	421,582,892
2013	6,640,456,676	3,869,034,872	2,771,421,804	425,649,784
2012	6,465,841,502	3,969,643,554	2,496,197,948	278,770,959
2011	6,283,846,454	3,843,083,618	2,440,762,836	264,975,174

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2016	$2,302,346,610	$1,074,496,819	$1,295,105,492	53.2%	34.3%	87.5%
2015	2,394,526,424	1,691,860,682	1,673,410,271	56.7	28.9	85.6
2014	2,341,464,233	1,624,481,899	1,596,646,300	56.2	28.4	84.6
2013	2,281,311,849	1,568,749,867	1,550,232,995	52.5	29.3	81.8
2012	2,214,857,556	1,506,128,738	1,501,887,142	66.1	29.4	95.5
2011	2,143,175,056	1,474,537,816	1,452,150,937	68.3	28.8	97.1

The Pacific Indemnity Company's consistent focus on underwriting profitability through careful risk selection and pricing are born out in the above financial information. Gross premium written, net premium written, and premium earned show a pattern of consistent annual growth of 12%, 15%, and 15%, respectively, from 2011 through 2015. The 20% Net Quota Share Reinsurance Agreement, effective January 1, 2016, has affected the growth of net premium written and premium earned in 2016 and did so even more as the 35% amendment to the agreement took effect on January 1, 2017.

The company has a strong history of combined ratios accounting for the company's profitability year after year. The combined ratios have been in the 80s for each of the past four years, 2012 through 2016. Consequently, the company has generated strong net income, increasing 58% over the past 5 years, from $265 million (2011) to $418 million (2016). The strength of the net income has afforded the company to pay dividends to upstream affiliates averaging $271 million in each of the past five years, or $1.355 billion in aggregate. The policyholder's surplus grew 23%, increasing from $2.4 billion in 2011 to $2.9 billion in 2016.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2016, is accepted.

Examination Reclassifications

No reclassifications were made as a result of the examination.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There was one recommendation in the previous examination report.

Recommendations contained in the last examination report and actions taken by the company are as follows:

Intercompany Agreements—It is recommended that the settlements in the Amended and Restated Agreement to Allocate Consolidated U.S. Corporation Income Tax be amended to contain a specified due date as required by SSAP 25.

Action—Compliance.

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

Annual Conflict of Interest Statements

Pacific Indemnity Company acknowledged that conflict of interest statements were not filled out in 2016. The Chubb Code of Conduct was being rewritten throughout 2016 to reflect the newly merged company. The code was released to employees in January 2017. The Chubb certification process includes a conflicts of interest questionnaire with the Code of Conduct acknowledgement. Chubb management has stated that this process resumed in 2017 and that Chubb collected responses from all employees worldwide. It is recommended that the company's officers, directors and key employees annually disclose all potential conflicts concerning their respective duties with the company in accordance with a directive from the Commissioner of Insurance.

Investments Custodial Agreements

The examination tested the investment custodial agreements to determine whether the contracts contain appropriate indemnification and report/data sharing provisions necessary to both safeguard the company's investments and establish an appropriate audit trail. Two deficiencies were noted with the custodial agreement between The Northern Trust Company, Canada and Pacific Indemnity Company. The agreement did not contain provisions that are prescribed in the Financial Condition Examiners Handbook. The two provisions are as follows:

> "In the event of a loss of securities, of which the custodian is obligated to indemnify the insurance company, the securities shall be properly replaced or the value of the securities and the value of any loss of rights or privileges resulting from said loss of securities shall be promptly replaced."

> "The custodian and its agents, upon reasonable request, shall be required to send all reports which they receive from a clearing corporation, which the clearing corporation permits to be redistributed including reports prepared by the custodian's outside auditors, to the insurance company on their respective systems of internal control."

It is recommended that the company amend their custodial agreement with The Northern Trust Company, Canada so that it contains all of the necessary indemnification language in accordance with the Financial Condition Examiners Handbook.

VIII. CONCLUSION

The Pacific Indemnity Company's consistent focus on underwriting profitability has improved the company's financial strength and solvency. Gross premium written, net premium written, and premium earned show a pattern of consistent annual growth of 12%, 15%, and 15%, respectively, from 2011 through 2015. The 20% Net Quota Share Reinsurance Agreement, effective January 1, 2016, has affected the growth of net premium written and premium earned in 2016, and will continue to drive net premiums down in 2017 as the 35% amendment to the agreement takes effect on January 1, 2017. The company has generated strong net income, climbing 58% over the past five years. Pacific Indemnity Company pays dividends to upstream affiliates, averaging $271 million in each of the past five years. Since 2011, the policyholder's surplus has grown 23%.

The prior examination noted one examination recommendation, which the company has complied with. The current examination noted two exam recommendations with no surplus adjustments or examination reclassifications.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 41 - **<u>Annual Conflict of Interest Statements</u>**—It is recommended that the company's officers, directors and key employees annually disclose all potential conflicts concerning their respective duties with the company in accordance with a directive from the Commissioner of Insurance.

2. Page 42 - **<u>Investments Custodial Agreement</u>**—It is recommended that the company amend their custodial agreement with The Northern Trust Company, Canada so that it contains all of the necessary indemnification language in accordance with the Financial Condition Examiners Handbook.

X. ACKNOWLEDGMENT

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