Report

of the

Examination of

Pacific Indemnity Company

Milwaukee, Wisconsin

As of December 31, 2011

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, *Governor*
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February 22, 2013

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 (Pacific Indemnity or the company) was conducted in 2007 as of December 31, 2006. The current examination covered the intervening period ending December 31, 2011, and included a review of such 2012 transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the NAIC <u>Financial Condition Examiners Handbook</u>, which sets forth guidance for planning and performing an examination to evaluate the financial condition and identify prospective risks of an insurer. This approach includes the obtaining of information about the company including corporate governance, the identification and assessment of inherent risks within the company, and the evaluation of system controls and procedures used by the company to mitigate those risks. The examination also included an assessment of the principles used and significant estimates made by management, as well as an evaluation of the overall financial statement presentation and management’s compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations.

The examination of the company was conducted concurrently with the examination of property and casualty insurance companies owned, directly or indirectly, by The Chubb Corporation. Representatives of the Indiana Department of Insurance acted in the capacity as the lead state for the coordinated exams. Work performed by the Indiana Department of Insurance was reviewed and relied on where deemed appropriate.

The examination consisted of a review of all major phases of the company's operations and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Employees' Welfare and Pension Plans
Territory and Plan of Operations
Affiliated Companies
Growth of Company
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of 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, 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

A consulting actuary was appointed by the Indiana Department of Insurance. The actuary reviewed the adequacy of the company's loss and loss adjustment expense reserves. The actuary's results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

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

The Chubb Corporation (Chubb), 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, Chubb transferred ownership of the company to its wholly owned subsidiary, Federal Insurance Company (hereinafter also Federal), which is one of the larger insurance carriers in the United States.

Chubb is a holding company for a family of property and casualty insurance companies known informally as The Chubb Group of Insurance Companies (Chubb Group). The Chubb Group ranks among the largest insurance organizations in the world and is recognized as an industry leader in providing specialized insurance coverages for select commercial customer groups as well as unique products and services for the upscale personal lines market. Chubb's approximate10,000 employees serve customers from offices in North America, South America, Europe and Asia.

Chubb owns directly or through subsidiaries thirteen domestic property and casualty companies. Nine of these companies, including Pacific Indemnity, participate in an inter-company pooling arrangement. The other four domestic members of the Chubb Group cede 100% of their business to one of the nine direct pool participants. For additional information related to affiliates, see the section of this report titled "Affiliated Companies." Additional information related to the inter-company pooling arrangement and other significant reinsurance programs are discussed further in the section of this report titled "Reinsurance."

Effective January 1, 1998, Federal replaced Chubb & Son Inc. (a New York corporation) as the manager of the Chubb Group. Federal is the primary employer for the Chubb Group. Other members of the Chubb Group generally have no employees of their own and rely on Federal for the staff essential to run the day-to-day operations. Federal manages the insurance business and provides financial advisory services to the other group members. Chubb is headquartered in Warren, New Jersey.

Federal initially pays the majority of expenses for the Chubb Group. Expenses other than federal taxes and management services are allocated in accordance with the affiliated pooling reinsurance agreement according to each insurer's participation in premiums and losses. Federal tax allocations are established in accordance with a written consolidated federal income tax agreement. Reimbursement for management service expenses is paid to Federal in accordance with a contract effective January 1, 1998. Inter-company balances with affiliates are created in the ordinary course of business with settlements performed on a quarterly basis. Written agreements with affiliates are further described in the section of this report titled "Affiliated Companies."

In the United States and Canada, the Chubb Group is represented by approximately 5,000 independent agents and accepts business on a regular basis from an estimated 500 insurance brokers. Outside the United States, the Chubb Group is represented by approximately 3,000 insurance agencies and brokers. Additional business is produced through participation in certain underwriting pools and syndicates.

In 2011, the company wrote direct premium in the following states:

New York	$187,437,889	30.2%
Massachusetts	65,938,275	10.6
Florida	32,677,335	5.3
California	31,111,351	5.0
All others	303,605,482	48.9
Total	$620,770,332	100.0%

As of the examination date, the company was licensed in all 50 states and the District of Columbia.

In the state of Wisconsin, the company is 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 company in 2011. 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	$ 752,740	$ 29,102,687	$ 3,390,957	$ 26,464,470
Allied lines	834,653	5,452,829	1,186,971	5,100,511
Homeowner's multiple peril	270,534,234	259,534,999	254,905,988	275,163,245
Commercial multiple peril	28,977,801	266,617,077	65,677,467	229,917,411
Ocean marine		20,923,012	2,192,807	18,730,205
Inland marine	73,872,476	104,157,139	82,601,642	95,427,973
Medical professional liability – occurrence	0	(25,483)	(18,257)	(7,226)
Medical professional liability – claims made	0	551,995	0	551,995
Earthquake	5,369,398	9,301,906	4,457,606	10,213,698
Group accident and health	11,353	19,586,930	1,434,848	18,163,435
Other accident and health	0	141,964	0	141,964
Worker's compensation	148,886,061	123,995,264	132,948,984	139,932,341
Other liability – occurrence	29,342,646	154,807,965	35,352,615	148,797,996
Other liability – claims made	1,142,288	261,523,461	12,333,515	250,332,234
Excess worker's compensation	47,656	749,294	34,972	761,978
Products liability – occurrence	4,545,077	36,018,503	4,612,567	35,951,013
Products liability – claims made	464,442	9,885,099	3,093,511	7,256,030
Private passenger auto liability	23,251,624	32,812,927	20,041,324	36,023,227
Commercial auto liability	217,200	25,679,407	1,139,873	24,756,734
Auto physical damage	19,840,887	35,633,081	18,493,211	36,980,757
Aircraft (all perils)	0	18,146,689	10,022,151	8,124,538
Fidelity	273,061	42,167,881	1,120,507	41,320,435
Surety	5,741,262	41,895,250	4,943,667	42,692,845
Burglary and theft	631,899	6,029,999	540,119	6,121,779
Boiler and machinery	6,033,574	15,800,243	7,476,334	14,357,483
Credit	0	451,578	359,418	92,160
Warranty	0	15,215	0	15,215
Reinsurance – non-proportional assumed property	0	717,883	36,282	681,601
Reinsurance – non-proportional assumed liability	0	765,277	277,388	487,889
Reinsurance – non-proportional assumed financial lines	0	(35,347)	(19,227)	(16,120)
Total All Lines	$620,770,332	$1,522,404,724	$668,637,240	$1,474,537,816

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of ten members. Ten directors are elected annually to serve a one-year term. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the Chubb Group. The directors receive no compensation specific to their service on the board because all are employees of the holding company system.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Walter Barnes Annandale, NJ	Senior Vice President and Chief Actuary Chubb & Son, a Division of Federal Insurance Company	2013
James Darling Yorba Linda, CA	Senior Vice President, Chubb & Son, a Division of Federal Insurance Company	2013
John Kennedy Towaco, NJ	Senior Vice President and Chief Accounting Officer, The Chubb Corporation	2013
Paul Krump Mendham, NJ	Executive Vice President The Chubb Corporation	2013
William Macan Yardley, PA	Vice President, Corporate Counsel and Secretary The Chubb Corporation	2013
Harold Morrison Basking Ridge, NJ	Executive Vice President The Chubb Corporation	2013
Douglas Nordstrom Cranford, NJ	Vice President and Treasurer The Chubb Corporation	2013
Dino Robusto Short Hills, NJ	Executive Vice President The Chubb Corporation	2013
Richard Spiro White Plains, NY	Executive Vice President and Chief Financial Officer The Chubb Corporation	2013
Jeffrey Updyke Guilford, CT	Senior Vice President, Chubb & Son, a Division of Federal Insurance Company	2013

Officers of the Company

The officers serving at the time of this examination are as follows:

Name	Office	2011 Compensation
Dino Robusto	Chairman	$357,379
Paul Krump	President	385,903
Richard Spiro	Senior Vice President	538,868
Walter Barnes	Vice President & Actuary	221,590
William Macan	Vice President & Secretary	45,172
Douglas Nordstrom	Vice President & Treasurer	88,302

These officers are compensated by an upstream affiliate and their compensation is allocated among affiliates. The amount listed is the portion allocated to Pacific Indemnity Company.

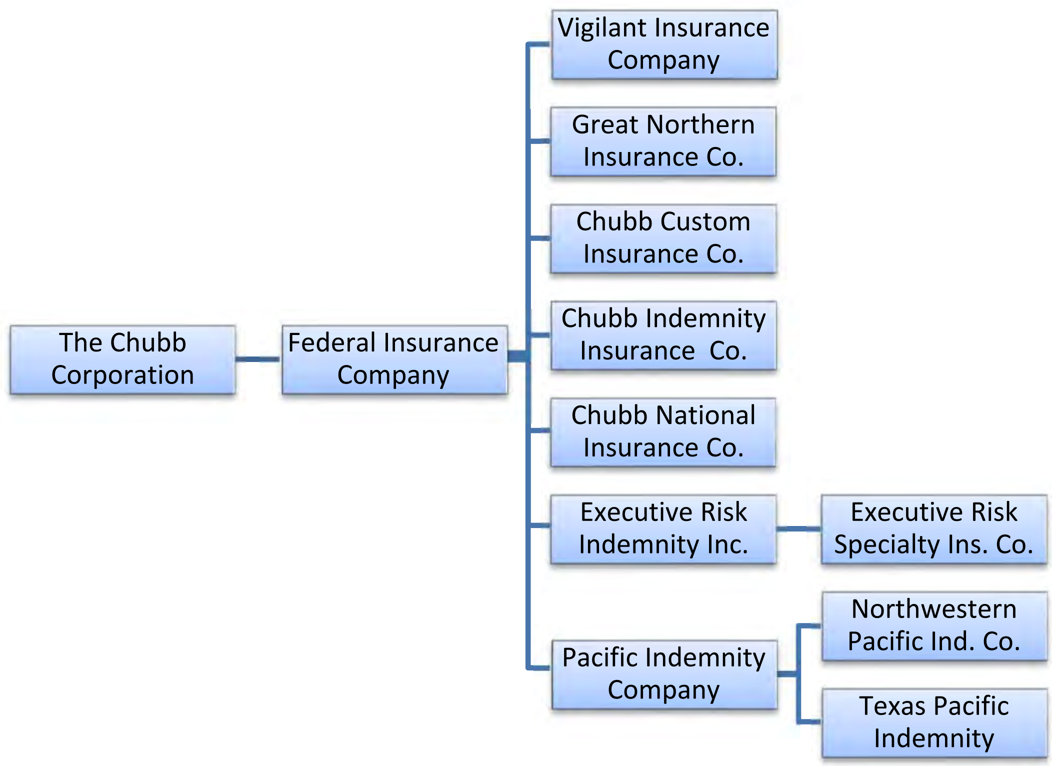
Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors; however, the bylaws do not require this formation and at this time there are no committees.

IV. AFFILIATED COMPANIES

Pacific Indemnity is a member of a holding company system ultimately controlled by The Chubb Corporation, a New Jersey corporation. Due to the sheer enormity and worldwide dispersal of the corporate interests of The Chubb Corporation, this report will confine its discussion to affiliated insurance companies with direct interest in the inter-company pooling arrangement or direct insurance subsidiaries of Pacific Indemnity. Additional information related to the inter-company pooling arrangement and other significant reinsurance programs are discussed further in the section of this report titled "Reinsurance."

A brief description of the significant affiliates follows the organizational chart .



Succession of Control

<u>The Chubb Corporation</u>

The Chubb Corporation, a New Jersey holding company, ranks among the largest property and casualty organizations in the United States. It was incorporated as a business corporation under the laws of the state of New Jersey. Its registered shares are listed on the New York Stock Exchange under the symbol CB. The group employs approximately

10,000 persons, serving customers from 120 offices in 28 countries around the world. As of December 31, 2011, the consolidated audited financial statements of Chubb reported assets of $50.865 billion, liabilities of $35.291 billion, shareholders' equity of $15.574 billion and net income of $1.7 billion on a consolidated basis.

Federal Insurance Company

Federal Insurance Company (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 Chubb Group. Other members of the Chubb Group generally have no employees of their own and rely on Federal for the staff essential to run day-to-day operations. Chubb is headquartered in Warren, New Jersey, and maintains an office in Indianapolis, Indiana. Federal holds licenses and writes business in all 50 states, the District of Columbia, and several foreign countries. Federal has a 68.5% net retention in the affiliated pooling arrangement. The 2011 statutory annual statement reported assets of $30.727 billion, liabilities of $17.019 billion, policyholders' surplus of $13.708 billion, and a net income of $1.761 billion.

Subsidiaries of Federal Insurance Company

Executive Risk Indemnity Inc.

Executive Risk Indemnity Inc. (Executive Risk) 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 company's ultimate parent at the time) and its subsidiaries, including Executive Risk. Executive Risk writes in all 50 states in which it is licensed. Effective January 1, 2000, Executive Risk became a participant in the affiliated pooling arrangement with an 8% participation. The 2011 statutory annual statement reported assets of $2.832 billion, liabilities of $1.756 billion, policyholders' surplus of $1.077 billion, and net income of $105 million.

Great Northern Insurance Company

Great Northern Insurance Company (Great Northern) was incorporated on June 26, 1952, under the laws of the state of Minnesota to become the successor to Underwriters at Lloyds of Minneapolis (organized in 1918). In 2007, Great Northern was redomesticated to the state of Indiana. Great Northern writes business in all 50 states and the District of Columbia in which it is licensed and has a 4% participation in the affiliated pooling arrangement. The 2011 statutory annual statement reported assets of $1.581 billion, liabilities of $1.145 billion, policyholders' surplus of $437 million, and a net income of $55 million.

Chubb Custom Insurance Company

Chubb Custom Insurance Company (Chubb Custom) was organized under the laws of the state of Delaware on October 3, 1980, and commenced business on December 26, 1980. Chubb Custom writes business on an admitted basis in Delaware and New Jersey in which it is licensed and on a surplus lines basis in the other 48 states and the District of Columbia. Chubb Custom has a 0.5% participation in the affiliated pooling arrangement. The 2011 statutory annual statement reported assets of $339 million, liabilities of $190 million, policyholders' surplus of $149 million, and net income of $11 million.

Chubb Indemnity Insurance Company

Chubb Indemnity Insurance Company (Chubb Indemnity) was organized under the laws of the state of New York on November 3, 1922, as Sun Indemnity Company of New York. Federal Insurance Company purchased the company on February 3, 1994, and the present name was adopted. Chubb Indemnity writes business in all 50 states and the District of Columbia in which it is licensed and has a 0.5% participation in the affiliated pooling arrangement. The 2011 statutory annual statement reported assets of $311 million, liabilities of $203 million, policyholders' surplus of $108 million, and net income of $9 million.

Chubb National Insurance Company

Chubb National Insurance Company (Chubb National) was organized under the laws of the state of Indiana on March 23, 1993, and commenced business on December 14, 1993. Chubb National writes business in most of the 50 states and the District of Columbia in which it is licensed and has a 0.5% participation in the affiliated pooling arrangement. The 2011 statutory annual statement reported assets of $245 million, liabilities of $137 million, policyholders' surplus of $108 million, and net income of $9 million.

Vigilant Insurance Company

Vigilant Insurance Company (Vigilant) was incorporated on July 17, 1939, under the laws of the state of New York as the Reserve Insurance Company. It was organized to write general fire and marine business and began operations on October 18, 1939. The present name was adopted on May 1, 1941. Vigilant writes business in all 50 states, the District of Columbia and the U.S. Virgin Islands. Vigilant has a 0.5% participation in the affiliated pooling arrangement. The 2011 statutory annual statement reported assets of $440 million, liabilities of $206 million, policyholders' surplus of $234 million, and net income of $16 million.

Subsidiaries of Executive Risk Indemnity Inc.

Executive Risk Specialty Insurance Company

Executive Risk Specialty Insurance Company (Executive Specialty) was organized under the laws of the state of Connecticut on October 29, 1991, as Executive Re Specialty Insurance Company and commenced business on December 31, 1991. Its current name was adopted on February 27, 1995. On July 19, 1999, The Chubb Corporation acquired Executive Risk, Inc., (the company's ultimate parent at the time) and its subsidiaries, including Executive Specialty. Executive Specialty writes business on an admitted basis in Connecticut, the only state in which it is licensed, and on a surplus lines basis in all other states. Effective January 1, 2000, Executive Specialty became a participant in the affiliated pooling arrangement with a 0.5% participation. The 2011 statutory annual statement reported assets of $239 million, liabilities of $122 million, policyholders' surplus of $118 million, and net income of $10 million.

Subsidiaries of Pacific Indemnity Company

Northwestern Pacific Indemnity Company

Northwestern Pacific Indemnity Company (Northwestern Pacific) was organized under the laws of the state of Oregon on February 14, 1963, and commenced business on March 1, 1963. Northwestern Pacific is licensed in seven states and writes most of its business in Oregon and California. Northwestern Pacific cedes 100% of its business to its direct parent, Pacific Indemnity. The 2011 statutory annual statement reported assets of $15.47 million, liabilities of $0.18 million, policyholders' surplus of $15.29 million, and a net income of $0.5 million.

Texas Pacific Indemnity Company

Texas Pacific Indemnity Company (hereinafter also Texas Pacific) was organized under the laws of Texas on February 14, 1961, and commenced business on February 17, 1961. Texas Pacific is only licensed in Texas and Arkansas and writes primarily in Texas. Texas Pacific cedes 100% of its business to its direct parent, Pacific Indemnity. The 2011 statutory annual statement reported assets of $7.03 million, liabilities of $0.25 million, policyholders' surplus of $6.78 million, and net income of $0.2 million.

Written Agreements with Affiliates

As previously noted, Federal is the primary employer among the insurance subsidiaries of the Chubb Group. In addition to common staffing and management control, Pacific Indemnity's relationship to its affiliates is effective by various written agreements. Reinsurance agreements are described in the "Reinsurance" Section of this report. A brief summary of the other agreements follows.

Management Agreement with Federal Insurance Company

Effective January 1, 1998, Chubb & Son, a Division of Federal Insurance Company (Chubb & Son) was appointed as the manager of the Chubb Group. In this capacity, Chubb & Son manages the insurance business and provides financial advisory services to members of the group, including Pacific Indemnity. Chubb & Son is reimbursed for all expenses associated with providing these services at cost. In addition, Chubb & Son is entitled to receive periodic reasonable advances that are settled as soon as practicable after the close of each calendar year. This agreement may be terminated at the end of any calendar year by either party giving the other nine months' prior written notice. Effective December 31, 2007, the agreement was amended to comply with SSAP No.96, Settlement Requirements for Intercompany Transactions, An Amendment to SSAP No. 25 – Accounting for and Disclosure About Transactions with

Affiliates and Other Related Parties, to include a provision to specify a settlement due date to pay amounts owed under the agreement.

Service Agreements with Downstream Subsidiaries

Northwestern Pacific has a service agreement with Pacific Indemnity, its direct parent, appointing Pacific Indemnity as an agent to provide all services with respect to its operations. Effective December 31, 2007, the agreement was amended to comply with SSAP No.96, Settlement Requirements for Intercompany Transactions, An Amendment to SSAP No. 25 – Accounting for and Disclosure About Transactions with Affiliates and Other Related Parties, to include a provision to specify a settlement due date to pay amounts owed under the agreement.

Consolidated Federal Income Tax Agreement

Pacific Indemnity is party to a consolidated federal tax agreement effective July 29, 1981, with certain affiliates, whereby it files its federal income tax on a consolidated basis with The Chubb Corporation. Under this agreement and several addendums, those wholly owned property and casualty insurance subsidiaries with taxable income are allocated a current provision or refund based on the ratio of their taxable income to the total taxable income of those companies having taxable income.

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 Pooling Agreement

The Chubb Group maintains an inter-company reinsurance pool (the Chubb pool), involving nine of the companies in the group. The pool covers all domestic business with the exception of aircraft (all perils) produced through voluntary pools and financial guaranty. Pool participants are:

Federal Insurance Company
Chubb Custom Insurance Company
Chubb National Insurance Company
Executive Risk Specialty Insurance Company
Vigilant Insurance Company
Pacific Indemnity Company
Chubb Indemnity Insurance Company
Executive Risk Indemnity Company
Great Northern Insurance Company

In addition to the nine direct pool participants, Texas Pacific Indemnity Company and Northwestern Pacific Indemnity Company cede 100% of their business to their parent, Pacific Indemnity Company; Chubb Lloyds Insurance Company of Texas cedes 100% to affiliate, Great Northern Insurance Company; and Chubb Insurance Company of New Jersey cedes 100% to its parent, Federal Insurance Company. This business is then combined with the pool participant's own direct written business before cession to the pool.

On October 1, 2006, Federal Insurance Company's participation percentage was increased from 68% to 68.5%, after assuming a 0.5% participation share of a former affiliate, which is no longer part of the Chubb Group.

The Chubb pool operates differently from a traditional U.S. pooling arrangement. In the Chubb pool, each participating company retains a designated percentage of its own business and cedes the remainder of its business directly to each of the other pool companies at each company's pool percentage, for each risk. Therefore, each participating company directly assumes a designated percentage of all other pool participants' business. To illustrate, Pacific Indemnity, which has a 17% share of the pool, cedes 83% of its business to the other eight pool participants. Pacific Indemnity also directly assumes 17% of the subject business of each of the remaining eight pool participants.

All direct premiums, expenses and claims are initially collected/paid by Chubb & Son employees, through Chubb & Son's bank accounts on behalf of the other members of the pool. There is no management fee paid to Chubb & Son. Under the pooling agreement, pooling accounts are settled quarterly through inter-company accounting and transfer of net balances. In the settlement of these balances, each party to the agreement has the right to offset amounts payable to and receivable from the same affiliate.

The Chubb Group purchases reinsurance on a group basis and apportions the cost among each participating insurer in proportion to subject premium writings. Generally, this approximates each company's contributory net exposure to reinsured limits. Each of the insurers in the Chubb pool is direct co-parties to the ceded reinsurance agreements. Reinsurance is purchased for each major class of business written except surety and are generally arranged through reinsurance intermediaries. Additional terms of the pool as of December 31, 2011, are outlined below:

Effective:	January 1, 1994, continuous, as amended October 1, 2006	
Participation:		12/31/11
	Federal Insurance Company	68.5%
	Pacific Indemnity Company	17.0
	Executive Risk Indemnity Insurance Company	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 voluntary pools and financial guaranty	
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.	Cedant:	Texas Pacific Indemnity Company
	Reinsurer:	Pacific Indemnity Company
	Effective:	March 9, 1961, continuous to present
	Lines covered:	All lines
	Retention:	None
	Coverage:	100% of incurred losses and loss expenses
	Premium:	100% of gross written premium on all policies
2.	Cedant:	Northwestern Pacific Indemnity Company
	Reinsurer:	Pacific Indemnity Company
	Effective:	January 1, 1995, continuous to present
	Lines covered:	All lines
	Retention:	None
	Coverage:	100% of incurred losses and loss expenses
	Premium:	100% of gross written premium on all policies
3.	Type:	Multiple Classes Excess of Loss
	Cedant:	Federal Insurance Company, Taiwan Branch
	Reinsurer:	Pacific Indemnity Company
	Effective:	January 1, 2010, continuous to present
	Lines covered:	Casualty, personal accident, and marine cargo excess of loss in Taiwan
	Retention:	TWD$3,000,000
	Coverage limit:	**Casualty** USD $25,000,000; **Personal Accident** USD $1,000,000
		Note: one U.S. dollar is worth about 32 Taiwan new dollars
	Premium:	18% of gross written premium on covered policies
4.	Type:	100% Quota Share Property Business
	Cedant:	Federal Insurance Company, Taiwan Branch
	Reinsurer:	Pacific Indemnity Company
	Effective:	January 1, 2007, continuous to present

Lines covered: Property business in Taiwan

Retention: None

Coverage: 100% of incurred losses and loss expenses, maximum of $50,000,000 or the capacity limit by the Strategic Business Unit (SBU) if less than $50,000,000 for the lines of business

Premium: 100% of gross net written premium on covered policies

5. Type: 100% Quota Share Cargo Business

Cedant: Federal Insurance Company, Taiwan Branch

Reinsurer: Pacific Indemnity Company

Effective: January 1, 2010, continuous to present

Lines covered: Cargo business in Taiwan

Retention: None

Coverage: 100% of incurred losses and loss expenses, maximum of $20,000,000 or the capacity limit by the SBU if less than $20,000,000 for the lines of business

Premium: 100% of gross net written premium on covered policies

6. Type: Property Per Risk Excess of Loss

Cedant: Chubb Insurance Company of Canada

Reinsurer: Pacific Indemnity Company

Effective: April 1, 2011 – April 1, 2012

Lines covered: Commercial property business written including boiler and machinery and ocean marine

Retention: C$15,000,000

Coverage: 100% of net loss in excess of C$15,000,000 in respect to any one risk and not to exceed C$10,000,000 in respect of each and every risk and every loss in excess of C$15,000,000. Maximum for telecommunications operators, boilers and machinery, and horses is C$15,000,000. In respects to perils such as earthquake (including fire following), windstorm and riots, maximum recovery is C$10,000,000.

Premium: 1.98% of gross net earned premium income. Deposit premiums are required and must be paid in four quarterly installments.

Commission: Ceding commission allowed of 32.5% of gross reinsurance premiums

7. Type: Casualty & Professional Liability Per Risk Excess of Loss

Cedant: Chubb Insurance Company of Canada

Reinsurer: Pacific Indemnity Company

Effective: January 1, 2011 – January 1, 2012

Lines covered: Casualty insurance business

Retention: C$15,000,000

Coverage: 100% of ultimate net loss not to exceed C$10,000,000 of incurred losses and loss expense

Premium: 5.63% of net written premium and the in force unearned premiums on covered policies

8. Type: Property Catastrophe Excess of Loss

Cedant: Chubb Insurance Company of Canada

Reinsurer: Pacific Indemnity Company

Effective: April 1, 2011 – April 1, 2012

Lines covered: All property business written including boiler and machinery and ocean marine

Retention: C$75,000,000

Coverage: 100% of net loss in excess of C$75,000,000 in respect to ultimate net loss each and every loss occurrence and not to exceed C$25,000,000 in respect of ultimate net loss each and every risk and every loss occurrence.

Premium: .30% of gross net earned premium income. Rendered as soon as practicable after expiration of the contract.

9. Type: Property Catastrophe Excess of Loss

Cedant: Chubb Insurance Company of Canada

Reinsurer: Pacific Indemnity Company

Effective: April 1, 2011 – April 1, 2012

Lines covered: All property business written including boiler and machinery and ocean marine

Retention: $100,000,000

Coverage: Varies by layer - 100% of net loss in excess of $100,000,000 in respect to ultimate net loss each and every loss occurrence and not to exceed $250,000,000 in respect of ultimate net loss each and every risk and every loss occurrence.

Layer Limit		Retention	Rate	Participation of Pacific Indemnity
$ 50M	X	$100M	.837%	15%
75M	X	150M	.729%	25%
125M	X	225M	.675%	25%

Premium: Varies by layer of gross net earned premium income. Rendered as soon as practicable after expiration of the contract.

10. Type: Property Catastrophe Excess of Loss

Cedant: Chubb Insurance Company of Canada

Reinsurer: Pacific Indemnity Company

Effective: April 1, 2011 – June 20, 2011
June 20, 2011 – April 1, 2012

Lines covered: All property business written including boiler and machinery and ocean marine

Retention: $350,000,000

Coverage: Differs by the term of net loss in excess of $350,000,000 in respect to ultimate net loss each and every loss occurrence and not to exceed $125,000,000 in respect of ultimate net loss each and every risk and every loss occurrence.

Term	Limit		Retention	Rate	Participation of Pacific Indemnity
4/1/2011 – 6/20/2011	125M	X	$350M	flat premium	100%
6/20/2011 – 4/1/2012	125M	X	$350M	flat premium	20%

Premium: Flat premium paid for the term

11. Type: Property Catastrophe Excess of Loss

Cedant: Chubb Insurance Company of Canada

Reinsurer: Pacific Indemnity Company

Effective: April 1, 2011 – April 1, 2012

Lines covered: All property business written including boiler and machinery and ocean marine

Retention: $475,000,000

Coverage: 100% of net loss in excess of $475,000,000 in respect to ultimate net loss each and every loss occurrence and not to exceed $25,000,000 in respect of ultimate net loss each and every risk and every loss occurrence.

	Premium:	Flat premium paid for the term
12.	Type:	Property Catastrophe Excess of Loss
	Cedant:	Chubb Insurance Company of Canada
	Reinsurer:	Pacific Indemnity Company
	Effective:	April 1, 2011 – April 1, 2012
	Lines covered:	All property business written including boiler and machinery and ocean marine
	Retention:	$500,000,000
	Coverage:	39% of net loss in excess of $500,000,000 in respect to ultimate net loss each and every loss occurrence and not to exceed $400,000,000 in respect of ultimate net loss each and every risk and every loss occurrence.
	Premium:	Flat premium paid for the term
13.	Type:	Surety excess of loss
	Cedant:	Chubb Insurance Company of Canada
	Reinsurer:	Pacific Indemnity Company
	Effective:	January 1, 2006, continuous to present
	Lines covered:	All Surety business written
	Retention:	C$10,000,000
	Coverage:	100% of net loss in excess of C$10,000,000 in respect to net loss each and every principal and not to exceed C $40,000,000 in respect of net loss each and every principal.
	Premium:	14.4% of net premium written on covered policies
14.	Type:	Multi-line excess of loss
	Cedant:	Chubb Insurance (China) Company Limited
	Reinsurer:	Pacific Indemnity Company
	Effective:	April 1, 2011 – April 1, 2012
	Lines covered:	All property, marine and casualty business written by the Chubb Insurance (China) Company Limited
	Retention:	RMB 20,000,000

Coverage: 2.0736% of net loss in excess of RMB 20,000,000 in respect to net loss each and every principal and not to exceed RMB 15,000,000 in respect of net loss each and every principal.

Premium: 1.98% of gross net earned premium income. Deposit premiums are required and must be paid in four quarterly installments.

15. Type: Quota Share – Property Earthquake

Cedant: Federal Insurance Company (Japan)

Reinsurer: Pacific Indemnity Company

Effective: April 1, 2009, and continuous

Lines covered: All property earthquake business written by the Federal Insurance Company (Japan)

Coverage: 100% quota share of all property earthquake business written

Premium: 100% of gross net written premium

Commission: Original plus 3.5% override

Non-Affiliated Ceding Contracts:

1. Type: Property Per Risk Excess of Loss – Multiple layers

Cedants: Federal Insurance Co.; Vigilant Ins. Co.; Great Northern Ins. Co.; Chubb Ins. Co. of New Jersey; Chubb Indemnity Ins. Co.; Chubb National Ins. Co.; Pacific Indemnity Co.; Executive Risk Indemnity Co.; Executive Risk Specialty Ins. Co.; and other affiliated companies

Reinsurers: See Appendix A

Effective: April 1, 20011 – April 1, 2012

Termination: The company may terminate the participation of any reinsurer with written notice in instances of a reinsurer's financial distress or change in control

Lines covered: All commercial property business

Coverage (000's):

(000's)	**First Excess**	**Second Excess**	**Third Excess**	**Fourth Excess**	**Fifth Excess**
Retention	25,000	50,000	125,000	250,000	500,000
Coverage Limit	25,000	75,000	125,000	250,000	150,000
Aggregate	200,000	300,000	375,000	500,000	300,000
Max occ	75,000	150,000	125,000	250,000	150,000

Premium (000's): Gross Net Earned Premium Income times a factor, with required minimum premium. Deposit premiums are required and must be paid in quarterly installments on April 1, July 1, October 1, and January 1.

The premiums proportion allocation:

U S Dollars	81%
Australian Dollars	2%
Canadian Dollars	4%
Euros	13%

	First Excess	Second Excess	Third Excess	Fourth Excess	Fifth Excess
Premium factor	2.86090%	2.69150%	1.24220%	0.93350%	0.33880%
Minimum premium	45,037,037	42,370,370	19,555,555	14,696,296	5,333,334
Deposit premium	56,296,296	52,962,963	24,444,444	18,370,370	6,666,667

Commission: Ceding commission of 32.5% of gross premiums, not including option premiums

Intermediary: Guy Carpenter & Company is recognized as the intermediary

2. Type: North American Property Catastrophe Excess of Loss

Cedants: Federal Insurance Co.; Vigilant Ins. Co.; Great Northern Ins. Co.; Chubb Ins. Co. of New Jersey; Chubb Indemnity Ins. Co.; Chubb National Ins. Co.; Pacific Indemnity Co.; Executive Risk Indemnity Co.; Executive Risk Specialty Ins. Co.; and other affiliated companies

Reinsurers: See Appendix B

Effective: April 1, 2011 – April 1, 2012

Lines covered: All property business

Coverage (000's):

(000's)	First Excess	Second Excess	Third Excess	Fourth Excess
Retention	500,000	900,000	1,300,000	1,650,000
Limit	400,000	400,000	350,000	400,000
Aggregate per occurence	400,000	400,000	350,000	400,000
Entire contract	800,000	800,000	700,000	800,000

Company retains 10% of covered losses in addition to base retention

Premium (000's): Gross Net Earned Premium Income times a factor, with required minimum premium. Deposit premiums are required and must be paid in quarterly installments on April 1, July 1, October 1, and January 1.

	First Excess	Second Excess	Third Excess	Fourth Excess
Premium factor	2.72760%	1.82300%	1.21770%	0.64010%
Minimum premium	78,400,000	52,400,000	35,000,000	18,400,000
Deposit premium	98,000,000	65,500,000	43,750,000	23,000,000

Intermediary: Guy Carpenter & Company is recognized as the intermediary

3. Type: Personal Accident Per Risk & Catastrophe Excess of Loss

Cedants: Federal Insurance Co.; Vigilant Ins. Co.; Great Northern Ins. Co.; Chubb Ins. Co. of New Jersey; Chubb Indemnity Ins. Co.; Chubb National Ins. Co.; Pacific Indemnity Co.; Executive Risk Indemnity Co.; Executive Risk Specialty Ins. Co.; Quadrant Indemnity Co.; and other affiliated companies.

Reinsurers: See Appendix C

Effective: January 1, 2011 – December 31, 2011

Lines covered: All personal accident business, including war and terrorism perils

Coverage

(000's)	**Per Life**	**Conveyance Cat**
Retention	2,000	5,000
Limit	3,000	5,000
Aggregate per occurence	15,000	10,000

(000's)	**First Excess**	**Second Excess**	**Third Excess**	**Fourth Excess**	**Fifth Excess**
Retention	10,000	25,000	50,000	100,000	150,000
Limit	15,000	25,000	50,000	50,000	100,000
Aggregate limit	30,000	50,000	100,000	100,000	200,000
Any one person	2,000	2,000	2,000	2,000	2,000
Any one aircraft	75,000	75,000	75,000	75,000	75,000

Premium (000's): Gross Net Earned Premium Income times a factor, with required minimum premium. Deposit premiums are required and must be paid in quarterly installments on January 1, April 1, July 1, and October 1.

(000's)	Per Life	Conveyance Cat
Premium factor	0.17000%	0.20900%
Minimum and deposit prem	389,970	527,900

	First Excess	Second Excess	Third Excess	Fourth Excess	Fourth Excess
Premium factor	0.29600%	0.24500%	0.80700%	0.64480%	1.03700%
Minimum premium	747,650	618,830	2,038,350	1,636,750	2,619,300
Deposit premium	747,650	618,830	2,038,350	1,636,750	2,619,300

Intermediary: Aon Benfield Inc., is recognized as the intermediary

4. Type: Financial Institutions Error & Omissions and Directors & Officers

Cedants: Federal Insurance Co.; Vigilant Ins. Co.; Great Northern Ins. Co.; Chubb Ins. Co. of New Jersey; Chubb Indemnity Ins. Co.; Chubb National Ins. Co.; Pacific Indemnity Co.; Executive Risk Indemnity Co.; Executive Risk Specialty Ins. Co.; Quadrant Indemnity Co.; and other affiliated companies

Reinsurers: See Appendix D

Effective: July 1, 2011 – July 1, 2012

Lines covered: All Financial Institutions Error & Omissions and Directors & Officers

Coverage (000's): $12,500,000 per risk excess of $2,500,000 per risk. Subject to an aggregate deductible and aggregate limit.

Premium (000's): Gross net written premium income times a factor, with required minimum premium. Deposit premiums are required and must be paid in quarterly installments on July 1, October 1 January 1 and April1.

Section A	E & O	$57,715,000	rate 24.25%
Section B	D & O	$45,292,500	rate 24.75%

Intermediary: Guy Carpenter & Company is recognized as the intermediary

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, 2011, annual statement. 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. 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."

Pacific Indemnity Company
Assets
As of December 31, 2011

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$5,040,124,071	$ 0	$5,040,124,071
Stocks:			
Common stocks	427,531,699	458,257	427,073,442
Cash, cash equivalents, and short-term investments	867,211		867,211
Other invested assets	226,242,109		226,242,109
Receivables for securities	4,585,699		4,585,699
Investment income due and accrued	65,413,890		65,413,890
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	256,021,036	2,971,043	253,049,993
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	83,342,819	502,411	82,840,408
Reinsurance:			
Amounts recoverable from reinsurers	15,297,397		15,297,397
Current federal and foreign income tax recoverable and interest thereon	102,376		102,376
Net deferred tax asset	182,736,218	60,734,586	122,001,632
Receivable from parent, subsidiaries, and affiliates	31,131,181		31,131,181
Write-ins for other than invested assets:			
Equities and deposits in pools and associations	12,556,012		12,556,012
Amounts receivable under high deductible policies	2,002,821	2,671	2,000,150
State surcharges receivable	560,883		560,883
Receivable for securities	65,159	65,159	
Total Assets	$6,348,580,581	$64,734,127	$6,283,846,454

Pacific Indemnity Company
Liabilities, Surplus, and Other Funds
As of December 31, 2011

Losses		$2,139,072,310
Reinsurance payable on paid loss and loss adjustment expenses		158,949
Loss adjustment expenses		722,856,783
Commissions payable, contingent commissions, and other similar charges		23,398,144
Other expenses (excluding taxes, licenses, and fees)		43,016,823
Taxes, licenses, and fees (excluding federal and foreign income taxes)		8,285,434
Unearned premiums		784,198,906
Dividends declared and unpaid:		
Policyholders		12,665,971
Ceded reinsurance premiums payable (net of ceding commissions)		80,793,803
Funds held by company under reinsurance treaties		5,266,921
Amounts withheld or retained by company for account of others		1,752,802
Provision for reinsurance		16,246,398
Payable for securities		5,266,731
Write-ins for liabilities:		
Minnesota worker's compensation premium assessment		103,643
Total liabilities		3,843,083,618
Write-ins for special surplus funds:		
Recognition of additional admitted deferred income tax assets under provisions of SSAP No. 10R	$ 26,661,933	
Common capital stock	5,535,000	
Gross paid in and contributed surplus	520,019,566	
Unassigned funds (surplus)	1,888,546,337	
Surplus as regards policyholders		2,440,762,836
Total Liabilities and Surplus		$6,283,846,454

Pacific Indemnity Company
Summary of Operations
For the Year 2011

Underwriting Income		
Premiums earned		$1,452,150,937
Deductions:		
Losses incurred	$771,378,530	
Loss adjustment expenses incurred	219,810,250	
Other underwriting expenses incurred	423,796,532	
Write-ins for underwriting deductions:		
Minnesota worker's compensation premium assessment	55,712	
LAD program expense	35,541	
North Carolina private passenger auto escrow	(35,522)	
Total underwriting deductions		1,415,041,043
Net underwriting gain (loss)		37,109,894
Investment Income		
Net investment income earned	220,039,308	
Net realized capital gains (losses)	29,010,904	
Net investment gain (loss)		249,050,212
Other Income		
Net gain (loss) from agents' or premium balances charged off	(780,037)	
Write-ins for miscellaneous income:		
Miscellaneous income	42,312	
Total other income		(737,725)
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		285,422,381
Dividends to policyholders		5,300,201
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		280,122,180
Federal and foreign income taxes incurred		15,147,006
Net Income		$ 264,975,174

Pacific Indemnity Company
Cash Flow
For the Year 2011

Premiums collected net of reinsurance			$1,451,696,318
Net investment income			247,567,357
Miscellaneous income			26,136,011
Total			1,725,399,686
Benefit- and loss-related payments		$ 725,457,368	
Commissions, expenses paid, and aggregate write-ins for deductions		638,659,611	
Dividends paid to policyholders		5,858,088	
Federal and foreign income taxes paid (recovered)		25,531,254	
Total deductions			1,395,506,321
Net cash from operations			329,893,365
Proceeds from investments sold, matured, or repaid:			
Bonds	$563,203,417		
Stocks	38,382,531		
Other invested assets	57,640,862		
Net gains (losses) on cash, cash equivalents, and short-term investments	(206,658)		
Miscellaneous proceeds	(4,645,000)		
Total investment proceeds		654,375,152	
Cost of investments acquired (long-term only):			
Bonds	737,448,607		
Stocks	42,521,563		
Other invested assets	14,264,738		
Miscellaneous applications	(5,266,731)		
Total investments acquired		788,968,177	
Net cash from investments			(134,593,025)
Cash from financing and miscellaneous sources:			
Dividends to stockholders		(242,000,000)	
Net cash from financing and miscellaneous sources			(242,000,000)
Reconciliation:			
Net change in cash, cash equivalents, and short-term investments			(46,699,660)
Cash, cash equivalents, and short-term investments:			
Beginning of year			47,566,871
End of Year			$ 867,211

Pacific Indemnity Company
Compulsory and Security Surplus Calculation
December 31, 2011

Assets			$6,283,846,454
Less investments in insurance subsidiaries			22,074,998
Add security surplus of insurance subsidiaries			16,474,998
Less liabilities			3,843,083,618
Adjusted surplus			2,435,162,836
Annual premium:			
Individual accident and health	$ 141,964		
Factor	15%		
Total		$ 21,294	
Group accident and health	19,258,076		
Factor	10%		
Total		1,925,807	
Lines other than accident and health	1,505,001,626		
Factor	20%		
Total		301,000,325	
Compulsory surplus (subject to a minimum of $2 million)			302,947,426
Compulsory Surplus Excess (or Deficit)			$2,132,215,410
Adjusted surplus (from above)			$2,435,162,836
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%)			333,242,168
Security Surplus Excess (or Deficit)			$2,101,920,668

Pacific Indemnity Company
Analysis of Surplus (in thousands)
For the Five-Year Period Ending December 31, 2011

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

	2011	**2010**	**2009**	**2008**	**2007**
Surplus, beginning of year	$2,424,142	$2,220,172	$1,831,737	$1,842,863	$1,608,062
Net income	264,975	336,246	329,261	244,229	364,873
Change in net unrealized capital gains/losses	518	25,894	80,804	(66,306)	4,514
Change in net unrealized foreign exchange capital gains/losses	(1,851)	(2,122)	(472)	(4,505)	9,540
Change in net deferred income tax	(6,841)	2,248	(12,991)	32,573	29,913
Change in non-admitted assets	4,003	82,245	32,987	(81,675)	(25,084)
Change in provision for reinsurance	(1,681)	(1,264)	6,778	10,183	10,046
Dividends to stockholders	(242,000)	(220,000)	(120,000)	(120,000)	(159,000)
Write-ins for gains and (losses) in surplus:					
Change in additional admitted deferred income tax assets	(503)	723	26,442		
Change in excess of additional minimum pension liability over unrecognized prior service cost			25,626	(25,626)	
Surplus, End of Year	$2,440,763	$2,424,142	$2,200,172	$1,831,737	$1,842,863

Pacific Indemnity Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2011

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. There were no unusual results.

	Ratio	2011	2010	2009	2008	2007
#1	Gross Premium to Surplus	88.0%	85.0%	94.0%	121.0%	125.0%
#2	Net Premium to Surplus	60.0	59.0	65.0	83.0	84.0
#3	Change in Net Premiums Written	4.0	-1.0	-6.0	-1.0	-4.0
#4	Surplus Aid to Surplus	0.0	0.0	0.0	1.0	1.0
#5	Two-Year Overall Operating Ratio	79.0	74.0	75.0	73.0	70.0
#6	Investment Yield	3.9	4.0	4.1	4.2	4.2
#7	Gross Change in Surplus	1.0	10.0	20.0	-1.0	15.0
#8	Change in Adjusted Surplus	1.0	10.0	20.0	-1.0	15.0
#9	Liabilities to Liquid Assets	68.0	68.0	70.0	76.0	75.0
#10	Agents' Balances to Surplus	10.0	10.0	11.0	14.0	14.0
#11	One-Year Reserve Development to Surplus	-3.0	-3.0	-9.0	-4.0	-4.0
#12	Two-Year Reserve Development to Surplus	-7.0	-12.0	-12.0	-10.0	-9.0
#13	Estimated Current Reserve Deficiency to Surplus	-7.0	-14.0	-17.0	-17.0	-14.0

Growth of Pacific Indemnity Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2011	$6,283,846,454	$3,843,083,618	$2,440,762,836	$264,975,174
2010	6,207,721,710	3,783,579,441	2,424,142,269	336,246,137
2009	5,989,216,656	3,789,044,900	2,220,171,756	329,260,645
2008	5,687,697,888	3,855,961,363	1,831,736,525	244,228,640
2007	5,636,175,867	3,793,312,502	1,842,863,365	364,873,467
2006	5,465,092,945	3,857,031,380	1,608,061,565	374,572,007

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2011	$2,143,175,056	$1,474,537,816	$1,452,150,937	68.3%	28.8%	97.1%
2010	2,068,966,458	1,423,426,111	1,426,917,645	61.5	29.2	90.7
2009	2,067,340,889	1,431,591,204	1,478,520,061	57.7	29.0	86.7
2008	2,214,234,642	1,523,233,384	1,535,602,290	62.4	28.3	90.7
2007	2,305,797,353	1,544,127,905	1,567,926,840	54.0	28.6	82.6
2006	2,313,609,234	1,604,772,608	1,608,395,400	55.1	27.9	83.0

The company has reported favorable financial results over the examination period. It has posted a net income in all five of the years under examination ranging from $244 million in 2008 to $364 million in 2007. Admitted assets have increased 15% to $6.3 billion from $5.5 billion over the examination period. Surplus has increased 52% to $2.4 billion from $1.6 billion over the examination period.

For the period under examination the company's loss ratio had a high of 68.3% in 2011 and a low of 54.0% in 2007. The company's expense ratio remained relatively stable over the same period of time in the 28-29% range. The company's combined ratio had a high of 97.1% in 2011 and a low of 82.6% in 2007.

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, 2011, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were six specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Compulsory and Security Surplus Calculation—It is recommended that the company calculate their Compulsory and Security Surplus correctly in accordance with s. Ins 51.80, Wis. Adm. Code.

   Action—Compliance.

2. Management and Control—It is again recommended that the company maintain with this office current biographical information on its officers and directors in compliance with s. Ins 6.52, Wis. Adm. Code.

   Action—Compliance.

3. Custodial Agreement—It is recommended that the company maintain its custodial agreement pursuant to the language suggested by the NAIC Financial Examiner's Handbook.

   Action—Compliance.

4. Other Invested Assets—It is recommended that the company prepare the Schedule BA, Part 1, in accordance with the NAIC Annual Statement Instructions – Property and Casualty.

   Action—Compliance.

5. Loss Reserves—It is recommended that in the Statement of Opinion the company's appointed actuary cite the specific information reviewed and any independent analysis done in evaluating ceded reinsurance for any potential problems with collectability in accordance with paragraph 6.c of the NAIC Annual Statement Instructions – Property and Casualty.

   Action—Compliance.

6. Loss Reserves—It is recommend that the company test the unearned premium reserves related to long-duration contracts that fulfill the conditions set forth in paragraph 23 of SSAP No. 65 in compliance with paragraphs 21 through 33 of SSAP No. 65 for every member of the Chubb Group that carries a material portion of the total unearned premium reserves related to long-duration contracts by the Group.

   Action—Compliance.

Summary of Current Examination Results

Intercompany Agreements

In review of the Amended and Restated Agreement to Allocate Consolidated U.S. Corporation Income Tax it was noted that payments of cash settlements did not have a specified due date. SSAP 25, Accounting for and Disclosure about Transactions with Affiliates and Other Related Parties, which supersedes SSAP 96, requires that transactions between related parties must be in the form of a written agreement and that the written agreement must provide for timely settlement of amounts owed, with a specified due date. 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.

VIII. CONCLUSION

Pacific Indemnity Company's 2011 annual statement reported admitted assets of $6,283,846,454, liabilities of $3,843,083,618, and surplus of $2,440,762,836. There were no adjustments to surplus or reclassifications as a result of this examination. Operations for 2011 produced a net income, after federal and foreign income taxes, of $264,975,174 on revenues of $1,452,150,937.

The company has reported favorable financial results over the examination period. It posted a net income in all five of the years under examination ranging from $244 million in 2008 to $364 million in 2007. Admitted assets have increased 15% to $6.3 billion from $5.5 billion over the examination period. Surplus has increased 52% to $2.4 billion from $1.6 billion over the examination period.

The company complied with all six of the recommendations contained in the prior examination report. There was one recommendation related to intercompany agreements.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 37 - 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.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Ana Careaga	Insurance Financial Examiner
Victoria Chi	IT Specialist

Respectfully submitted,

Terry Lorenz
Examiner-in-Charge

XI. SUBSEQUENT EVENTS

Hurricane Sandy

In October 2012, the Northeastern United States suffered catastrophic impact from Hurricane Sandy. In early December, Chubb announced that it anticipated eventual losses from this event to be approximately $880 million on a pre-tax basis and $570 million on a net-of-tax basis. Each individual member of the Chubb pool will incur losses approximate to their share of the Chubb pool. For Pacific Indemnity Company this equates to gross and net losses of approximately $150 million gross and $100 million net of tax, respectively.

XII. REINSURANCE APPENDIX

Appendix A – Property Per Risk

2011 PROPERTY PER RISK

COMPANY	First Layer Participation	Second Layer Participation	Third Layer Participation	Fourth Layer Participation	Fifth Layer Participation
Domestic Companies					
American Agricultural Insurance Company	1.7500%	0.7500%	0.6000%	0.0000%	0.0000%
Aspen Ins (UK)	2.5000%	0.0000%	0.0000%	0.0000%	0.0000%
Endurance Reinsurance Corp. of America	14.5000%	5.0000%	2.0000%	1.5000%	1.7500%
Munich Reinsurance America, Inc.	4.4000%	1.4500%	1.5000%	0.7000%	1.1100%
Odyssey America Reinsurance Corp.	1.0000%	1.7500%	1.0000%	0.5000%	0.0000%
Partner Reinsurance Company (U.S.)	5.0000%	2.5000%	0.5000%	1.0000%	0.0000%
Platinum Underwriters Reinsurance Inc.	0.0000%	1.5000%	2.0000%	2.5000%	0.0000%
QBE Reinsurance Corporation	0.0000%	0.7500%	1.0000%	0.5000%	0.0000%
Signet Star Re LLC on behalf of Berkley Insurance Company	0.0000%	0.7500%	0.5000%	1.0000%	0.0000%
Toa-Re Insurance Company of America	0.0000%	0.0000%	1.5000%	0.0000%	1.6700%
Xl Reinsurance America Incorporated	0.0000%	0.0000%	0.0000%	2.0000%	0.0000%
Houston Casualty Company	0.0000%	0.0000%	0.0000%	0.1000%	2.5000%
General Reinsurance Company	0.0000%	15.0000%	17.5000%	3.0000%	0.0000%
Munich Reinsurance America, Inc.	5.0000%	4.7000%	4.7000%	5.0000%	4.6660%
Swiss Re America Corporation	14.5000%	15.0110%	12.9000%	14.5000%	16.6700%
Transatlantic Reinsurance Company	3.6000%	1.0000%	2.0000%	3.0000%	0.0000%
Bermuda Companies					
Allied World Assurance Company Limited	0.0000%	1.0000%	1.0000%	0.7500%	0.0000%
Arch Reinsurance Ltd	0.0000%	0.0000%	2.0000%	2.0000%	0.5000%
Argo Re Limited	0.5000%	0.7500%	0.7500%	1.2500%	2.0000%
Aspen Insurance Limited	0.0000%	5.0000%	5.0000%	5.0000%	3.5000%
AXIS Specialty Limited	6.5000%	5.0000%	5.0000%	4.0000%	2.7000%
Catlin Insurance Company Ltd.	0.0000%	2.5000%	2.0000%	2.5000%	5.0000%
Hiscox Insurance Company (Bermuda) Limited	0.0000%	0.0000%	0.0000%	2.6800%	1.2500%
Validus Reinsurance, Ltd	0.0000%	0.5000%	0.5000%	1.0000%	1.0000%
Amlin Bermuda Ltd	2.5000%	2.7890%	2.6600%	2.5000%	2.5000%
Foreign Companies					
China Reinsurance (Group) Corporation	0.0000%	0.5000%	0.5000%	0.5000%	0.5000%
Hannover Ruckversicherungs	4.0000%	3.0000%	3.5000%	5.0000%	6.0000%
Mapre Re, Compania de Reaseguros S.A.	0.0000%	0.0000%	0.5000%	0.5000%	0.5000%
Munchener Ruckversicherungs-Gesellschaft AG	1.7500%	1.7500%	1.7500%	1.5000%	1.7500%
Sirius International Insurance Corp.	4.5000%	2.0000%	1.5000%	1.6700%	1.6700%
Lloyds					
Lloyds Syndicates	13.0000%	25.0500%	25.6400%	33.8500%	42.7640%
TOTAL	**85.0000%**	**100.0000%**	**100.0000%**	**100.0000%**	**100.0000%**

Appendix B – North American Property Catastrophe

2011 NORTH AMERICAN PROPERTY CAT

COMPANY	First Layer Participation	Second Layer Participation	Third Layer Participation	Fourth Layer Participation
Domestic Companies				
American Agricultural Insurance Co.	0.55000%	0.55000%	0.90000%	0.40000%
Munich Reinsurance America, Inc.	0.63000%	0.60000%	0.50000%	0.00000%
Odyssey America Reinsurance Corporation	2.50000%	2.50000%	2.50000%	1.00000%
QBE Reinsurance Corporation	0.00000%	0.00000%	0.75000%	0.25000%
The Toa Reinsurance Company of America	1.00000%	0.00000%	1.50000%	0.00000%
Transatlantic Reinsurance Company	1.60000%	2.20000%	5.50000%	4.35000%
General Reinsurance Company	0.00000%	4.59375%	7.61000%	1.25000%
Munich Reinsurance America, Inc.	0.75000%	1.25000%	1.42000%	1.50000%
Swiss Reinsurance America Corp.	3.00000%	7.00000%	9.35000%	8.25000%
Bermuda Companies				
Ace Tempest Reinsurance Ltd.	1.00000%	1.00000%	0.50000%	0.50000%
Allied World Assurance Company Ltd.	0.85000%	0.65000%	0.33000%	0.00000%
Alterra Bermuda Limited	1.50000%	1.00000%	1.50000%	1.00000%
Arch Reinsurance Limited	1.90000%	1.40000%	0.00000%	1.40000%
Argo Re Limited	1.75000%	1.75000%	2.00000%	0.50000%
Aspen Insurance Limited	2.50000%	2.50000%	2.50000%	0.00000%
Axis Specialty Limited	3.00000%	3.00000%	3.00000%	4.00000%
Catlin Insurance Company Limited	1.00000%	1.00000%	0.00000%	2.00000%
DaVinci Reinsurance	0.25000%	0.25000%	0.25000%	0.75000%
Endurance Specialty Insurance Limited	2.50000%	0.00000%	0.00000%	0.00000%
Partner Reinsurance Company Limited	3.00000%	3.00000%	3.00000%	4.00000%
Platinum Underwriters Bermuda Limited	1.00000%	0.00000%	0.00000%	2.00000%
Renaissance Reinsurance, Limited	0.25000%	0.25000%	0.25000%	0.75000%
Tokio Millenium Re Ltd.	0.00000%	0.00000%	0.00000%	1.37500%
Validus Reinsurance Ltd.	2.25000%	1.50000%	0.75000%	0.25000%
XL Re Limited	0.83400%	0.83400%	0.00000%	0.83400%
Foreign Companies				
Mapfre Re Compania De Reaseguros SA	0.65000%	0.65000%	0.65000%	0.65000%
Hannover Ruckversicherungs	2.50000%	3.00000%	0.50000%	0.00000%
Munchener Ruckversicherungs - Gesellschaft	0.00000%	1.50000%	1.50000%	1.50000%
Sirius International Insurance Corporation	2.75000%	2.75000%	3.30000%	0.00000%
Sompo Japan Insurance Inc.	0.00000%	0.00000%	0.00000%	1.50000%
SCOR Global P&C S.E. (SCOR Switzerland AG)	1.25000%	1.25000%	2.25000%	1.25000%
Lloyds				
Lloyd's Syndicates	20.20000%	15.90000%	17.80000%	14.72500%
TOTAL	**60.96400%**	**61.87775%**	**70.11000%**	**55.98400%**

Appendix C - Accident

2011 ACCIDENT

COMPANY	Per Life Participation	Conveyance Participation
Domestic Companies		
Endurance Reinsurance Corp. of America	4.00000%	0.00000%
Munich Reinsurance America, Inc.	43.50000%	0.00000%
Centurion Life Insurance Company	5.00000%	0.00000%
Transatlantic Reinsurance Company	7.50000%	0.00000%
Bermuda Companies		
Aspen Insurance Limited	0.00000%	7.50000%
Foreign Companies		
Brit Insurance Company	0.00000%	15.00000%
Sirius International Insurance Corporation	18.75000%	0.00000%
Lloyds		
Lloyds Syndicates	21.25000%	77.50000%
TOTAL	**100.00000%**	**100.00000%**

COMPANY	First Layer Participation	Second Layer Participation	Third Layer Participation	Fourth Layer Participation	Fifth Layer Participation
Domestic Companies					
Endurance Reinsurance Corp. of America	0.00000%	0.00000%	12.00000%	9.50000%	2.00000%
Munich Reinsurance America, Inc.	0.00000%	0.00000%	0.00000%	0.00000%	0.00000%
Centurion Life Insurance Company	37.50000%	8.00000%	0.00000%	0.00000%	0.00000%
Transatlantic Reinsurance Company	4.00000%	5.00000%	5.58000%	1.00000%	2.42000%
Swiss Reinsurance America Corp	0.00000%	0.00000%	10.50000%	12.00000%	15.00000%
Bermuda Companies					
Allied World Assurance Company Ltd.	0.00000%	0.00000%	13.00000%	10.00000%	10.00000%
Arch Reinsurance Ltd.	0.00000%	0.00000%	0.00000%	2.00000%	8.00000%
Aspen Insurance Limited	8.00000%	7.84000%	0.00000%	0.00000%	0.00000%
Hannover Re (Bermuda) Ltd.	0.00000%	0.00000%	10.00000%	10.00000%	10.00000%
Alterra Bermuda Ltd	0.00000%	0.00000%	0.00000%	3.00000%	3.00000%
Amlin Bermuda Ltd	0.00000%	3.14000%	1.26000%	1.41000%	0.85000%
Foreign Companies					
Brit Insurance Company	0.00000%	0.00000%	4.74000%	0.00000%	0.00000%
Muenchener Rueckversicherungs-Gesellschaft	0.00000%	0.00000%	7.50000%	7.50000%	7.50000%
Sirius International Insurance Corporation	0.00000%	15.00000%	0.00000%	0.00000%	0.00000%
Lloyds					
Lloyds Syndicates	50.50000%	61.02000%	15.42000%	18.59000%	11.23000%
TOTAL	**100.00000%**	**100.00000%**	**80.00000%**	**75.00000%**	**70.00000%**

Appendix D – Financial Institutions E & O and D & O

2011 DFI E&O and D&O

COMPANY	**Section A Errors & Omissions Participation**	**Section B Directors & Officers Participation**
Domestic Companies		
Alterra Reinsurance USA Inc.	3.5000%	9.0000%
AXIS Reinsurance Company	0.0000%	6.5000%
Berkley Insurance Company	2.0000%	4.0000%
Transatlantic Reinsurance Company	25.0000%	25.0000%
Bermuda Companies		
Renaissance Reinsurance Ltd.	0.0000%	2.5000%
Foreign Companies		
Hannover Rueckversicherungs	8.0000%	10.0000%
Munchener Ruckversicherungs-Gesellschaft	17.5000%	0.0000%
TOTAL	**56.0000%**	**57.0000%**