Examination Warrant Number 13-00218-20427-R1

Report of Examination of

American Casualty Company of Reading, Pennsylvania
Radnor, Pennsylvania

As of December 31, 2013

American Casualty Company of Reading, Pennsylvania

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Harrisburg, Pennsylvania
March 31, 2015

Honorable Stephen J. Johnson, CPA
Deputy Insurance Commissioner
Commonwealth of Pennsylvania
Insurance Department
Harrisburg, Pennsylvania

Dear Sir:

In accordance with instructions contained in Examination Warrant Number 13-00218-20427-R1, dated, March 1, 2013, an examination was made of

American Casualty Company of Reading, Pennsylvania, NAIC Code: 20427

a Pennsylvania domiciled stock property and casualty insurance company, hereinafter referred to as "ACCO" or "Company". The examination was conducted at the Company's main administrative office, located at CNA Plaza, 333 South Wabash Avenue, Chicago, Illinois 60604.

A report of this examination is hereby respectfully submitted.

SCOPE OF EXAMINATION

The Company was last examined as of December 31, 2008.

This examination covered the five-year period from January 1, 2009 through December 31, 2013, and consisted of a general survey of the Company's business practices, management, and operations, and an evaluation of the Company's financial condition as of the latter date. Material subsequent events were also reviewed.

Work programs employed in the performance of this examination were designed to comply with the standards promulgated by the Pennsylvania Insurance Department ("Department") and the National Association of Insurance Commissioners ("NAIC").

The format of this report is consistent with the current practices of the Department and the examination format prescribed by the NAIC. It is limited to a description of the Company, a discussion of financial items that are of specific regulatory concern, and a disclosure of other significant regulatory information.

For each year during the period under examination, the Certified Public Accounting ("CPA") firm of Deloitte & Touche, LLP of Chicago, Illinois provided an unmodified audit opinion on the Company's year-end financial statements based on the combined statutory financial statements of Continental Casualty Company ("CCC"), on statutory accounting principles. Relevant work performed by the CPA firm, during its annual audit of the Company, was reviewed during the examination and incorporated into the examination workpapers.

The following companies were examined at the same time during the above examination:

Company	**NAIC Code**
P & C	
Continental Casualty Company (IL)	20443
Columbia Casualty Company (IL)	31127
National Fire Insurance Company of Hartford (IL)	20478
Transportation Insurance Company (IL)	20494
Valley Forge Insurance Company (PA)	20508
The Continental Insurance Company (PA)	35289
The Continental Insurance Company of New Jersey (NJ)	42625
Surety	
Western Surety Company (SD)	13188
Surety Bonding Company of America (SD)	24047
Universal Surety of America (SD)	13200
Life	
Continental Assurance Company (IL)*	64213

* On August 1, 2014, CNA Financial Corporation ("CNAF") announced the completion of the sale of Continental Assurance Company ("CAC") to a subsidiary of Wilton Re Holdings Limited.

HISTORY

The Company was incorporated on July 31, 1902, and commenced business on January 1, 1903. On October 1, 1963, CCC, a property and casualty insurance company domiciled in the state of Illinois, acquired all of the Company's outstanding shares of common stock.

The Company is currently authorized to transact those classes of insurance described in 40 P.S. § 382, Section 202, Subsection (b), Paragraph (1) Fire and Allied Lines, (2) Inland Marine and Auto Physical Damage, and (3) Ocean Marine; and Subsection (c), Paragraph (1) Fidelity and Surety, (2) Accident and Health, (3) Glass, (4) Other Liability, including professional liability, medical malpractice, prepaid legal, etc., (5) Boiler and Machinery, (6) Burglary and Theft, (7) Credit, (8) Water Damage, (9) Elevator, (10) Livestock, (11) Auto Liability, (12) Mine and Machinery, (13) Personal Property Floater and (14) Workers' Compensation.

MANAGEMENT AND CONTROL

CAPITALIZATION

As of the examination date, December 31, 2013, the Company's total capital was $140,751,211 consisting of 840,000 capital shares of issued and outstanding common stock with a par value of $5.00 per share amounting to $4,200,000 ; $64,242,834 in paid in and contributed surplus; and $72,308,377 in unassigned funds (surplus).

The Company's minimum capital and minimum surplus requirements for the types of business for which it is licensed, pursuant to 40 P. S. § 386, is $2,350,000 in capital and $1,175,000 in surplus. The Company has met all governing requirements throughout the examination period.

STOCKHOLDER

The Company became a wholly owned subsidiary of CCC, an Illinois domiciled insurance company, on October 1, 1963. CCC is a wholly owned subsidiary of The Continental Corporation ("TCC"), which is a wholly owned subsidiary of CNA Financial Corporation ("CNAF"), of which 89.87 percent is owned by Loews Corporation, the ultimate controlling entity in the corporate group.

Pursuant to the requirements of 40 P.S. §§ 991.1404, on December 4, 2009, the Company paid an ordinary cash dividend of $11,445,000 to its parent and sole stockholder, CCC. All dividend payments were declared and properly authorized by the Board of Directors. No extraordinary dividends were paid during the period under examination.

INSURANCE HOLDING COMPANY SYSTEM

The Company meets the requirements for filing an insurance holding company system registration statement, in compliance with 40 P.S. §§ 991.1401-991.1413. The insurance holding company registration statements have been filed on behalf of the Company over the examination period.

The Company is a wholly owned subsidiary of Continental Casualty Company (CCC), which is a wholly owned subsidiary of The Continental Corporation (TCC), which is a wholly owned subsidiary of CNA Financial Corporation (CNAF), of which 89.87 percent is owned by Loews Corporation, the ultimate controlling entity in the corporate group.

Loews Corporation is a diversified holding company, with its direct subsidiaries engaged in the following types of business: commercial property and casualty insurance; operation of offshore oil and gas drilling rigs; exploration, production and marketing of natural gas and oil, including natural gas liquids; transportation and storage of natural gas and natural gas liquids and gathering and processing of natural gas; and the operation of a chain of luxury hotels.

Members of the Holding Company System include the following entities listed below:

- Loews Corporation (DE)
    - CNA Financial Corporation, (DE) – 89.87%
        - 1897 Corporation, (DE)
        - CNA Financial Capital I (DE)
        - CNA Financial Capital II (DE)
        - CNA Financial Capital III (DE)
        - CNA Structured Settlements, Inc. (IL)
        - The Continental Corporation (NY)

- Hardy Underwriting Bermuda Limited (BMU)
  - Hardy ARIG Insurance Management W.L.L. (BHR) - 50%
  - Hardy Bermuda Limited (BMU)
  - Hardy Guernsey Limited (GGY)
  - Hardy Underwriting Group PLC (GBR)
    - Hardy (Underwriting Agencies) Limited (GBR)
    - Hardy Underwriting Limited (GBR)
    - Hardy IC Ltd. (GBR)
    - Hardy Underwriting Asia Pte. Ltd (SGP)
    - Hardy Names Ltd. (GBR)
    - Hardy Insurance Services Limited (GBR)
- CNA Solutions, Inc. (IL)
  - Financial Services Representatives PG, Inc. (IL)
- Continental Reinsurance Corp. International, Ltd (BMU)
  - Bishophouse, Limited (BMU) 30%
- Continental Casualty Company (IL)
  - CNA Warranty Services, Inc. (AZ)
    - CNA Warranty Services of Florida, Inc. (FL)
  - **American Casualty Company of Reading, PA (PA)**
    - Valley Forge Insurance Company (PA)
  - Columbia Casualty Company (IL)
  - National Fire Insurance Company of Hartford (IL)
  - Transportation Insurance Company (IL)
  - Continental Assurance Company (IL)
  - North Rock Insurance Company Limited (BMU)
  - CNA National Warranty Corporation (AZ)
    - CNA National Warranty Corporation-Florida (FL)
    - Continental Service Plan, Inc. (NJ)
    - Continental Service Provider, Inc. (IL)
  - CNA Europe Hold Ltd (GBR) – 72.72% (CCC), 27.28% (CIC)
    - CNA Insurance Company Limited (GBR)
      - Maritime Insurance Company Ltd (GBR)
  - The Continental Insurance Company (PA)
    - The Continental Insurance Company of New Jersey (NJ)
    - IDBI Managers, Inc. (NY)
  - Viaticus, Inc. (DE)
  - CNA Claim Plus, Inc. (NV)
  - CNA Investor Services, Inc. (IL)
  - CNA Real Estate Services, Inc. (IL)
  - CNA Realty LLC (DE)
  - E.G. Company (IL)
  - Foothill & Mountain Center, Inc. (IL)
  - Los Lunas Center, Inc. (IL)
  - Western Surety Company (SD)

Surety Bonding Company of America (SD)
Universal Surety of America (SD)

BOARD OF DIRECTORS

Management of the Company is vested in its Board of Directors ("Board"), which was comprised of the following members as of the examination date, December 31, 2013:

Name and Address	Principal Occupation
Thomas Firouz Motamed New Hope, Pennsylvania	Chairman, Chief Executive Officer and President
Jonathan David Kantor Purchase, NewYork	Executive Vice-President, Secretary and General Counsel
Larry Albert Haefner Chicago, Illinois	Executive Vice-President and Chief Actuary
D. Craig Mense Chicago, Illinois	Executive Vice President and Chief Financial Officer
Thomas Pontarelli Glenview, Illinois	Executive Vice President and Chief Administration Officer
Lawrence John Boysen Park Ridge, Illinois	Senior Vice-President and Corporate Controller
Stathy Darcy Glenview, Illinois	Senior Vice-President and Deputy General Counsel

The Board shall be comprised of at least seven members elected annually by a majority of the shares represented at the annual meeting of shareholders. Each director will serve for one year or until the next annual meeting of the shareholders and their successors are elected and duly qualified.

The Company maintains interlocking directorates with several affiliated insurance and non-insurance entities to gain efficiencies performing overlapping Board processes.

The Company has a conflict of interest policy. The Conflict of Interest, as well as an affirmation of the Company's Statement of Principles, is sent to all employees and directors annually and completed electronically.

The Company does not have committees of its own; all committees are established at the upstream parent level, CCC and CNAF.

COMMITTEES

The following directors and/or officers of the Company's upstream parents were assigned to serve on the Committees as listed below:

Finance Committee
Thomas F. Motamed (Chair)
Jonathan D. Kantor
Larry A. Haefner

Audit Committee
Paul J. Liska (Chair)
Jose O. Montemayor
Don M. Randell

D. Craig. Mense Thomas Pontarelli	Marvin Zonis

Reinsurance Committee	**Reinsurance Security Committee**
D. Craig Mense (Chair) Jonathan D. Kantor Peter J. Lies *	Peter J. Lies, Senior Vice-President * Sheila Chapman, Vice-President, Operations Martin Basich, Vice-President, Finance

*Peter J. Lies subsequently left the Company on April 30, 2014.

Compliance with the provisions of 40 P.S. § 991.1405 (c) (3) (4) and (4.1) is achieved through the Company's upstream parent, CNAF. Pennsylvania Insurance Company Law, 40 P.S. § 991.1405(c) (5), Standards of management of an insurer within holding company system states: "The provisions of paragraphs (3), (4) and (4.1) shall not apply to a domestic insurer if the person controlling such insurer is an insurer or another business entity having a board of directors and committees thereof which already meet the requirements of paragraphs (3) (4) and (4.1)."

During our compliance review, we noted that the Company's parent, CNAF, does have an independent Audit and Compensation Committee, although it, does not have an independent Nominating Committee performing various required duties outlined in 40 PS § 991.1405(b)(4.1). Upon communication of the issue to the Company and subsequent to December 31, 2013, the Company's Board of Directors' appointed CNAF's independent Audit Committee to perform the required duties of the independent Nominating Committee. CNAF's Board of Directors' approved the appointment shortly thereafter bringing the Company into compliance with 40 P.S. § 991.1405 (c) (3), (4), (4.1) and (5).

OFFICERS

As of the examination date, December 31, 2013, the following officers were appointed and serving in accordance with the Company's By-laws:

Name	Title
Thomas Firouz Motamed	Chairman, Chief Executive Officer and President
Albert Joseph Miralles, Jr. *	Senior Vice-President and Treasurer
Jonathan David Kantor	Executive Vice-President, Secretary and General Counsel
George Ronald Fay	Executive Vice-President, Worldwide Property and Casualty Claims
Larry Albert Haefner	Executive Vice-President and Chief Actuary
Mark Irving Herman #	President and Chief Operating Officer, CNA Specialty
Robert Anthony Lindemann *	President and Chief Operating Officer, CNA Commercial
D. Craig Mense	Executive Vice-President and Chief Financial Officer
Thomas Pontarelli	Executive Vice-President and Chief Administration Officer

Timothy James Szerlong President, Worldwide Field Operations

* Albert Joseph Miralles, former Senior Vice-President and Treasurer, was reassigned to President, LTC on April 1, 2014, and was replaced with Amy C. Adams, Senior Vice-President and Treasurer, on November 7, 2014.

Robert Anthony Lindemann, President and COO, CNA Commercial, retired on December 31, 2014.

#New officer

CORPORATE RECORDS

MINUTES

A compliance review of the corporate minutes revealed the following:

- The Company's Annual Meeting of the stockholders was held in compliance with its By-laws.
- The stockholders elect the Company's directors at the Annual Meeting of the stockholders in compliance with the By-laws.
- Quorums were present at all stockholder, director and committee meetings.
- The Company's officers were appointed by the Board of Directors at the annual organizational meeting of the directors.
- The Company's investment transactions and policy are approved by the Board of Directors or a committee thereof.
- All directors attend Board meetings regularly primarily through written consent to actions in lieu of meetings.
- The Board of Directors of the Company or a committee thereof is apprised of material reinsurance transactions and approves the actions and recommendations of the reinsurance security committee.

ARTICLES OF AGREEMENT

The Company filed Articles of Amendment with the Pennsylvania Department of State and the Department on January 19, 2012. Approval was granted by both Departments. The Articles were amended to reflect a change to the Company's registered office address.

BY-LAWS

There were no changes made to the Company's By-Laws during the period under examination.

SERVICE AND OPERATING AGREEMENTS

FEDERAL INCOME TAX ALLOCATION AGREEMENT

CCC has executed a tax allocation agreement with its insurance company subsidiaries, including the Company, effective January 1, 1980, and as amended November 15, 2009 and October 1, 2011. The amendments were required to add and remove subsidiaries and update states of domicile. The agreement provides that each subsidiary will pay to, or recover from, CCC the amount of federal income taxes it would have incurred or been entitled to recover, as if the subsidiary had filed its own return.

CCC has a federal income tax allocation agreement with CNAF, who in turn is a party to an agreement with the group's ultimate parent, Loews Corporation. The tax agreements provide that each subsidiary will deposit with its respective parent, on or before the due date of each tax payment of the parent group to the IRS, an amount of estimated tax which would be payable by the subsidiary if it were filing its own federal income tax return. The agreements further provide that on or before the 15th day following the filing of the parent group's consolidated return, payment shall be made by parent to subsidiary or by subsidiary to parent, as appropriate, for any balance or refund due.

INTERCOMPANY EXPENSE AGREEMENT

The Company and its affiliates are parties to an intercompany expense agreement, effective December 1, 2008, as amended January 1, 2009, January 1, 2010, January 1, 2012 and as last amended, effective January 29, 2013. The amendments were primarily to clarify expenses allocated and affiliate limitations, allocation methodology and settlement procedures, as well as adding and removing affiliates. The agreement states that CCC shall employ persons to provide services that are commonly performed and received by insurance business organizations, as well as provide and/or pay for such other services and expenses necessary in the operations of the parties to the agreement, including salaries, rents and utility charges, equipment, external advertising, legal and auditing fees, sales, excise, value added and real estate taxes. The participants will compensate CCC for the cost of the services provided, based on an allocation of the expenses made to each receiving affiliate utilizing an equitable basis in conformity with customary insurance accounting practices and consistently applied. Expenses are to be billed no less frequently than each calendar quarter, and within twenty days of being billed each affiliate is to remit payment to CCC.

INVESTMENT FACILITIES AND SERVICE AGREEMENT

The Company became a party to an investment facilities and service agreement between Loews/CNA Holdings Inc., and CNAF and named participating subsidiaries, effective January 1, 2006 and as last amended effective January 1, 2007. In July 2011, new acquisitions were added to the agreement. Pursuant to the agreement, Loews provides investment facilities and services to CNAF and its subsidiaries. CNAF is to reimburse Loews for all reasonable costs, expenses and disbursements incurred, which are detailed on a monthly billing statement, with payment due within thirty days of the monthly billing statement receipt. These costs are then allocated down to the participating affiliates and subsidiaries with similar billing and payment terms.

A review by the exam team indicated that the agreement contained the appropriate terms and conditions, although affiliate billing and payment of allocated amounts was not consistently performed as provided for in the investment facilities and service agreement. There was no financial statement impact as expenses were appropriately accrued and presented as liabilities on the Company's financial statements. Subsequently, in August 2014, the Company corrected its process to make payment within thirty days of receipt of the monthly statement.

FEDERAL HOME LOAN BANK ADMINISTRATIVE SERVICE AGREEMENT

In 2013, CCC became a member of the Federal Home Loan Bank of Chicago, which provides CCC with access to lower cost financing on loans and standby letters of credit. CCC then entered into an administrative services agreement, effective October, 2013, with its affiliates in order to enable CCC to extend the lower cost financing to its affiliates, and for each respective affiliate to reimburse CCC for any cost it incurs in the process. Acknowledgement forms are to be signed by the affiliates when such affiliate intends to first utilize this access. As of year-end 2013 the Company has not completed an acknowledgement form.

A review of the intercompany agreements pursuant to the standards contained in 40 P.S. § 991.1405, revealed that the agreements do meet these standards, including the fair and reasonable standards.

REINSURANCE

CEDED

CNA conducts its operations through business units identifiable by product line rather than legal entity. CNA has product-specific reinsurance programs in most of its lines of business. Specific reinsurance covers purchased by the business units are coordinated with corporate covers. Both facultative and treaty reinsurance are used, with treaty coverage purchased on both quota share and excess of loss structures. Reinsurance is purchased by CNA on a consolidated basis.

Effective January 1, 2013, the Company entered into an intercompany pooling and guaranty agreement with the following affiliates: The Continental Insurance Company ("CIC"), Continental Casualty Company ("CCC"), Columbia Casualty Company ("COL"), National Fire Insurance Company of Hartford ("NFI"), Transportation Insurance Company ("TPI"), Valley Forge Insurance Company ("VFI"), and The Continental Insurance Company of New Jersey ("CNJ"). On the effective date the pool participants ceded 100% of their net business and underwriting assets and liabilities to CCC as the lead company. Prior intercompany pool participant's quota share assets and obligations have been commuted with a resulting $0 surplus effect due to the coverage provided by the intercompany pooling agreement.

Under the intercompany pooling and guaranty agreement effective January 1, 2013, CCC guaranties the collection of the pool participants third party reinsurance recoverable and assumes each pooled company's Schedule F Provision for Reinsurance statutory liability if attributable to third party reinsurance recoverable. CCC as the lead company collects premiums, pays claims, collects third party reinsurance recoveries and assumes the underwriting liabilities relating to the pooled business.

The Company indicates in the general interrogatories of the 2013 annual statement that the largest net aggregate amount insured in any one risk (excluding workers' compensation) is $0 due to the 100% cession to CCC under the intercompany pooling agreement.

The following summarizes the primary reinsurance contract in effect at December 31, 2013:

Type of contract:	100% Intercompany Pooling and Guaranty Agreement
Participants:	Company, CCC and Affiliated Insurance Entities
Effective date:	January 1, 2013
Term:	Continuous, may be terminated upon 90 days' written notice
Business covered:	All direct and assumed business and liabilities
Participation:	0.00% retained by Company
Reinsurance Limits:	None

The reinsurance contracts transfer risk and contain satisfactory insolvency and arbitration clauses.

The Company utilizes several prominent reinsurance intermediaries. Aon Benfield and Guy Carpenter account for the largest placements. The reinsurance intermediaries are licensed by the Department as required by 40 P.S. §321.2 (a) Reinsurance Intermediaries; Licensure. The Company also has this program operating pursuant to properly executed written authorizations between the Company and the reinsurance intermediaries as required by 40 P.S. §321.3.

ASSUMED

The Company did not assume any reinsurance other than those from participating in the mandatory and voluntary pools and associations. The largest pools based on premium volume were the Commonwealth Automobile Reinsurers (Massachusetts) and California Commercial Auto Insurance Plan (Rhode Island). Assumed reinsurance is ceded at 100% to CCC with the direct premium writings.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in all fifty (50) states, the District of Columbia and Puerto Rico.

The Company is a member of the CNA Group, which primarily writes commercial property and casualty business, including surety. The products and services are marketed through independent agents, brokers and delegated underwriting authority program managers ("DUAs") to a wide variety of customers, including small, medium and large businesses, insurance companies, associations, professionals and other groups.

Business produced through the U.S. commercial property and casualty insurance operations is reported/managed through four business segments. Business which has been identified as being core to the CNA Group is reported under the CNA Specialty segment or CNA Commercial segment. Non-Core business is reported/managed through the Life & Group Non-Core segment or the Corporate & Other Non-Core segment. Each segment is managed separately due to differences in their product lines and markets.

CNA Specialty

CNA Specialty provides a broad array of professional, financial and specialty property and casualty products and services, distributed through a network of brokers, independent agencies and DUA. Clients include architects, lawyers, accountants, health care professionals, financial intermediaries and public and private companies.

CNA Commercial

CNA Commercial markets a broad range of property and casualty insurance products and services to small business and middle market entities and organizations primarily through an independent agency distribution system. It also includes commercial insurance and risk management products sold to large corporations, primarily through insurance brokers. Property products include standard and excess property coverages as well as marine coverage and boiler and machinery. Casualty products include standard casualty insurance products such as workers' compensation, general and product liability, commercial auto and umbrella coverages.

Non-Core

Life & Group Non-Core primarily includes the results of the closed block of long term care group business and the run off of the individual long term care business, while the Corporate & Other Non-Core segment primarily includes the results of certain property and casualty business in run-off.

Global operations consist of CNA subsidiaries operating in Canada and Europe offering property and casualty capabilities. Hardy is an international affiliate of the Company that is a specialized Lloyd's underwriter.

Core business is produced throughout forty-two underwriting locations across the United States, designated as Branches. There are also five centralized processing operations which handle policy processing, billing and collection activities and also act as call centers to optimize service, located in Maitland, FL; Reading PA; Chicago, IL; Denver, CO and New York, NY.

As indicated above, the CNA Group's business is obtained through independent agencies, brokers and DUAs, with surplus lines business written through retailers and surplus lines brokers. Commissions are paid utilizing a direct bill or agency bill system. Certain producers are eligible for contingent commissions, which are adjusted based upon the producer's calendar year results and volume.

The Company is a participant in an intercompany pooling agreement comprised of the following eight members:

American Casualty Company of Reading, PA ("ACCO")
Continental Casualty Company ("CCC")

The Continental Insurance Company ("CIC")
The Continental Insurance Company of New Jersey ("CNJ")
Columbia Casualty Company ("COL")
National Fire Insurance Company of Hartford ("NFI")
Transportation Insurance Company ("TPI")
Valley Forge Insurance Company ("VFI")

CCC, the parent company, acts as the lead company under the pooling arrangement. Each participating affiliate company ultimately cedes 100% of its net business to CCC, with the exception of certain prospective captive business, which is ceded to CIC from CCC prior to being ceded to the captives.

The following chart summarizes the Company's Direct and Assumed, Ceded and Net Written Premiums by line of business for the year 2013:

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Written Premium	Percentage of Total
December 31, 2013				
Fire	$ 996,784	$ 996,784	$ 0	0.0%
Allied lines	1,592,023	1,592,023	0	0.0%
Commercial multiple peril	169,282,302	169,282,302	0	0.0%
Inland marine	84,523	84,523	0	0.0%
Medical malpractice - occurrence	169,215,987	169,215,987	0	0.0%
Medical malpractice - claims-made	7,402,057	7,402,057	0	0.0%
Earthquake	6,064	6,064	0	0.0%
Other accident and health	12,482	12,482	0	0.0%
Workers' compensation	156,026,012	156,026,012	0	0.0%
Other liability - occurrence	9,131,180	9,131,180	0	0.0%
Other liability - claims-made	719,567	719,567	0	0.0%
Products liability - occurrence	858,509	858,509	0	0.0%
Commercial auto liability	44,062,302	44,062,302	0	0.0%
Auto physical damage	10,236,057	10,236,057	0	0.0%
Fidelity	27,814	27,814	0	0.0%
Surety	1,635,312	1,635,312	0	0.0%
Burglary and theft	3,868	3,868	0	0.0%
Boiler and machinery	130,188	130,188	0	0.0%
Totals	$ 571,423,031	$ 571,423,031	$ 0	100.0%

SIGNIFICANT OPERATING RATIOS AND TRENDS

The underwriting ratios summarized below are on an earned/incurred basis, and encompass the five-year period covered by this examination.

	Amount	Percentage
Premiums earned	$ 0	0.0 %
Losses incurred	$ 0	0.0 %
Totals	$ 0	0.0 %

The Company reported the following net underwriting, investment and other gains or losses during the period under examination:

	2013	2012	2011	2010	2009
Admitted assets	$ 140,787,315	$ 136,634,929	$ 131,109,692	$ 125,092,360	$ 109,191,379
Liabilities	$ 36,104	$ 28,311	$ 41,228	$ 36,995	$ 1,140,276
Surplus as regards policyholders	$ 140,751,211	$ 136,606,618	$ 131,068,464	$ 125,055,365	$ 108,051,103
Gross premium written	$ 571,423,031	$ 514,963,265	$ 506,292,115	$ 474,443,508	$ 505,975,792
Net premium written	$ 0	$ 0	$ (1)	$ 1	$ (1)
Investment gain/(loss)	$ 8,247,940	$ 1,956,492	$ 1,873,074	$ 2,042,414	$ 6,037,939
Net income	$ 8,247,709	$ 1,956,492	$ 1,873,074	$ 2,042,414	$ 6,037,939

Positive net income was reported in all of the years 2009 through 2013 as a result of net investment gains.

ACCOUNTS AND RECORDS

The majority of the Company's accounting, investment, policy and claim records are maintained at its main administrative office in Chicago, Illinois.

The Audit, Compliance and Investigations ("ACI") group provides independent and objective assessments of risk management, internal control and governance processes throughout the CNA organization. The organizational model focuses on end-to-end business processes rather than aligning with discrete business units. ACI consists of approximately thirty-one (31) professionals and is organized as follows: Premium Cycle, Claim Cycle, Reinsurance & Runoff, Fraud Prevention, Identification & Investigation, and Information Technology and Financial. ACI uses a risk based audit approach rooted in the Committee of Sponsoring Organizations ("COSO") Integrated Framework and the Institute of Internal Auditors ("IIA") Standards for the Professional Practice of Internal Auditing. The internal auditors' efforts are coordinated with other control and governance functions including Sarbanes Oxley ("SOX") and Enterprise Risk Management functional quality assurance groups.

Deloitte & Touche, LLP, the Company's external auditor, conducts an ongoing audit of the combined statements of admitted assets, liabilities and capital and surplus on a statutory basis of CCC and seven of its domestic subsidiaries with interim recommendations to management and an annual certified report to the Board of Directors.

The Company primarily utilizes automated systems to maintain and account for most transactions. Financially significant information systems including system programs and application programs included:

Application	Function
Accounting Center (JPC & Integration)	Central integration point and transformation to common financial language for the feeds to GL
ACT – Automated Claim Transaction	On line transaction processing system which acts as a central repository for CNA claims information

Financial View Cubes	Multidimensional data-base (cubes) tool primarily for both GAAP & Statutory reporting
Merlin Financial View Warehouse & Datamart	Data repository & associated data marts which support all GAAP & Statutory reporting
Transactional Finance	PeopleSoft Financials 8.9 (Treasury, General Ledger, Accounts Payable, Asset Management, Travel &Expense)
Premium Entry System (PES)	Takes premiums feeds from the business areas and processes them for the ledger
ProCede	Supports ceded reinsurance processing across a variety of functions including placements, claims and claims reinsurance calculation, and payable / receivable accounting functions
Merlin Management View Warehouse & Datamart	Data warehouse for management information
Machine Account Checking	Corporate accounts receivable billing, collection, accounting and reconciliation
Maximis	Book of record for the investments & trades

The Accounting Center is comprised of the Integration and Journal Processing Centers.

The Integration Center is where accounting transformation takes place and consists of the following: journal creation, error correction facility, transformation processing and transformation rules maintenance.

The Journal Processing Center is comprised of the following: manual journals, combination edits, valid value and tree maintenance, and configuration maintenance.

Inputs to the Accounting Center are manual journal entries, Excel upload entries and source system feeds.

PENDING LITIGATION

The Company is subject to litigation and arbitration arising in the ordinary course of business. A review of the legal representation letters from the Company's General Counsel, and outside attorneys, explaining all current litigation to which the Company is a party indicated that the Company is not a party to any material litigation or arbitration other than as routinely encountered in claims activity, none of which will in the opinion of management, have a material adverse effect on the Company's financial condition.

FINANCIAL STATEMENTS

The financial condition of the Company, as of December 31, 2013, and the results of its operations for the five-year period under examination, are reflected in the following statements:

Comparative Statement of Assets, Liabilities, Surplus and Other Funds;
Comparative Statement of Income;
Comparative Statement of Capital and Surplus; and
Comparative Statement of Cash Flow

Comparative Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31,

	2013	2012	2011	2010	2009
Bonds	$ 60,525,057	$ 40,373,304	$ 37,433,151	$ 36,912,044	$ 31,086,467
Common stocks	70,926,163	74,564,005	71,186,888	67,961,436	54,028,279
Cash, cash equivalents, and short term investments	5,935,642	17,988,377	19,170,753	17,816,527	21,755,137
Receivable for securities	0	0	1	5	20
Subtotals, cash and invested assets	137,386,862	132,925,686	127,790,793	122,690,012	106.869,903
Investment income due and accrued	525,258	346,937	334,856	306,511	170,168
Amounts recoverable from reinsurers	0	0	0	0	1,049,281
Net deferred tax asset	2,875,195	3,340,468	2,984,043	2,095,714	1,092,506
Receivable from parent, subsidiaries and affiliates	0	21,838	0	123	9,521
Total	$ 140,787,315	$ 136,634,929	$ 131,109,692	$ 125,092,360	$ 109,191,379
Other expenses	30,356	28,252	27,690	28,105	27,430
Remittances and items not allocated	0	0	0	0	63,565
Payable to parent, subsidiaries and affiliates	5,748	59	13,538	8,890	1,049,281
Total liabilities	36,104	28,311	41,228	36,995	1,140,276
Aggregate write-ins for special surplus funds	0	0	1,998,057	1,397,831	738,739
Common capital stock	4,200,000	4,200,000	4,200,000	4,200,000	4,200,000
Gross paid in and contributed surplus	64,242,834	64,242,834	64,242,834	64,242,834	54,242,834
Unassigned funds (surplus)	72,308,377	68,163,784	60,627,573	55,214,700	48,869,530
Surplus as regards policyholders	140,751,211	136,606,618	131,068,464	125,055,365	108,051,103
Totals	$ 140,787,315	$ 136,634,929	$ 131,109,692	$ 125,092,360	$ 109,191,379

Comparative Statement of Income
For the Year Ended December 31,

Underwriting Income	2013	2012	2011	2010	2009
Premiums earned	$0	$0	$0	$0	$0
Investment Income					
Net investment income earned	8,157,933	1,792,728	1,774,074	1,609,126	7,445,046
Net realized capital gains or (losses)	90,007	163,764	99,000	433,288	(1,407,107)
Net investment gain or (loss)	8,247,940	1,956,492	1,873,074	2,042,414	6,037,939
Net income before dividends to policyholders and before federal and foreign income taxes	8,247,940	1,956,492	1,873,074	2,042,414	6,037,939
Federal and foreign income taxes incurred	231	0	0	0	0
Net income	$ 8,247,709	$ 1,956,492	$ 1,873,074	$ 2,042,414	$ 6,037,939

Comparative Statement of Capital and Surplus
For the Year Ended December 31,

	2013	2012	2011	2010	2009
Surplus as regards policyholders,					
December 31, previous year	$ 136,606,618	$ 131,068,464	$ 125,055,365	$ 108,051,103	$ 114,452,575
Net income	8,247,709	1,956,492	1,873,074	2,042,414	6,037,939
Net unrealized capital gains or (losses)	(3,637,843)	3,278,396	3,242,509	3,949,722	(1,496,233)
Change in net deferred income tax	(293,148)	1,111,895	297,288	(34,902,516)	(2,274,444)
Change in nonadmitted assets	(172,125)	(808,629)	0	35,255,551	1,999,878
Cumulative effect of changes in accounting principles	0	1,998,057	0	0	37,648
Surplus adjustments:					
Paid in	0	0	0	10,000,000	0
Dividends to stockholders	0	0	0	0	(11,445,000)
Aggregate write-ins for gains and losses in surplus	0	(1,998,057)	600,228	659,091	738,740
Change in surplus as regards policyholder for the year	4,144,593	5,538,154	6,013,099	17,004,262	(6,401,472)
Surplus as regards policyholders,					
December 31, current year	$ 140,751,211	$ 136,606,618	$ 131,068,464	$ 125,055,365	$ 108,051,103

Comparative Statement of Cash Flow
For the Year Ended December 31,

	2013	2012	2011	2010	2009
Cash from Operations					
Premiums collected net of reinsurance	$ 0	$ 0	$ 0	$ 0	$ (927,492)
Net investment income	8,273,731	1,998,711	1,920,338	1,486,821	7,331,625
Total income	8,273,731	1,998,711	1,920,338	1,486,821	6,404,133
Benefit and loss related payments	0	0	0	(1,049,281)	1,049,281
Commissions, expenses paid and aggregate write-ins for deductions	0	(562)	414	(674)	(27,430)
Federal and foreign income taxes paid (recovered)	231	0	0	0	0
Total deductions	231	(562)	414	(1,049,955)	1,021,851
Net cash from operations	8,273,500	1,999,273	1,919,924	2,536,776	5,382,282
Cash from Investments					
Proceeds from investments sold, matured or repaid:					
Bonds	6,535,516	1,600,885	4,868,944	20,754,560	51,789,063
Net gain or (loss) on cash and short-term investments	2,509	(160)	933	10,292	35,041
Miscellaneous proceeds	0	83	4	17,870	490
Total investment proceeds	6,538,025	1,600,808	4,869,881	20,782,722	51,824,594
Cost of investments acquired (long-term only):					
Bonds	26,891,785	4,747,142	5,440,349	26,163,550	32,568,570
Stocks	0	0	0	10,000,000	0
Total investments acquired	26,891,785	4,747,142	5,440,349	36,163,550	32,568,570
Net cash from investments	(20,353,760)	(3,146,334)	(570,468)	(15,380,828)	19,256,024
Cash from Financing and Miscellaneous Services					
Other cash provided (applied):					
Capital and paid in surplus, less treasury stock	0	0	0	10,000,000	0
Dividends to stockholders (paid)	0	0	0	0	11,445,000
Other cash provided or (applied)	27,525	(35,315)	4,770	(1,094,558)	2,022,064
Net cash from financing and miscellaneous sources	27,525	(35,315)	4,770	8,905,442	(9,422,936)
Reconciliation of cash and short-term investments:					
Net change in cash and short-term investments	(12,052,735)	(1,182,376)	1,354,226	(3,938,610)	15,215,370
Cash and short-term investments:					
Beginning of the year	17,988,377	19,170,753	17,816,527	21,755,137	6,539,767
End of the year	$ 5,935,642	$ 17,988,377	$ 19,170,753	$ 17,816,527	$ 21,755,137

SUMMARY OF EXAMINATION CHANGES

There were no examination changes to the preceding financial statements as filed with regulatory authorities over the review period.

NOTES TO FINANCIAL STATEMENTS

ASSETS

INVESTMENTS

As of December 31, 2013, the Company's invested assets were distributed as follows:

	Amount	Percentage
Bonds	$ 60,525,057	44.1 %
Common stocks	70,926,163	51.6 %
Cash	1,437,266	1.0 %
Short-term investments	4,498,376	3.3 %
Totals	$ 137,386,862	100.0 %

The Company's bond and short-term investment portfolio had the following quality and maturity profiles:

NAIC Designation	Amount	Percentage
1 - highest quality	$ 44,417,073	68.3 %
2 - high quality	20,606,360	31.7 %
Totals	$ 65,023,433	100.0 %

Years to Maturity	Amount	Percentage
1 year or less	$ 7,201,273	11.1 %
2 to 5 years	18,993,736	29.2 %
6 to 10 years	23,881,203	36.7 %
11 to 20 years	13,938,470	21.4 %
over 20 years	1,008,751	1.6 %
Totals	$ 65,023,433	100.0 %

The Company's current invested assets consist of bonds, common stocks and short-term investments with 47.4% being allocated to bonds and 51.6% being allocated to common stock of an affiliate, Valley Forge Insurance Company. The quality of the Company's bond portfolio is 100% investment grade, with 68.3% having an NAIC designation of "1" highest quality and 31.7% having an NAIC designation of "2" high quality.

Common stock accounted for 51.6% of invested assets and was the common stock of an affiliated entity, VFI. A review of the Company's valuations and methodology provided that the affiliated common stock investments were valued properly in accordance with Statement of Statutory Accounting Principles ("SSAP") No. 97, Paragraph 8b.

The Company has a written investment policy as required by 40 P.S. § 653b (b). The investment policy is reviewed and approved on at least an annual basis by the Board of Directors. The Company, at December 31, 2013, appeared to be following its investment policy.

The Company holds its investment portfolio under a custodial agreement with J. P. Morgan Trust Company, N.A. A review of the custodial agreement found it to be non-compliant; however, subsequent to the exam period and during the course of the examination, the Company and the Bank executed an amendment bringing the custodial agreement into compliance with 31 Pa Code §148a.3.

LIABILITIES

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

The Company reported reserves in the amount of $0 for losses and $0 for loss adjustment expenses ("LAE") on the December 31, 2013 Annual Statement. These amounts represent the Company's share of the intercompany pooling and guaranty agreement.

Janet E. Duncan, FCAS, MAAA, Senior Vice President and Senior Actuarial Officer of CNA, has been the Company's appointed actuary for all years in the examination period. Since the Company cedes 100% of its net liabilities to CCC, the Company has no net exposure and the actuarial opinion was written at the CCC level on a consolidated basis, as required by Annual Statement Instructions. For the period encompassing Janet E. Duncan's tenure, CCC has received a Statement of Actuarial Opinion concluding that its reserves made a reasonable provision in each of the statutory opinions and fell within a reasonable range. The loss and LAE data was reconciled to Schedule P, Part One of the Company's 2013 Annual Statement.

Deloitte & Touche, LLP, the Company's independent auditor, performed separate, independent actuarial analyses of reserves as of December 31, 2013. Their analyses concluded that reserves were within acceptable ranges and, therefore, were fairly stated.

In conjunction with the examination, the Illinois Department of Insurance ("Illinois") engaged the actuarial services of Merlinos and Associates, Inc. ("Merlinos"), as an authorized representative of Illinois to assist in risk focused examination procedures. Merlinos' scope of work included identifying and addressing risks associated with pricing and reserving, reviewing support for the carried loss and LAE reserves, and determining if the provision for loss and LAE reserves as of the examination date is adequate. Based upon the results of Merlinos' actuarial examination, they concluded that the Company's reserves were reasonable.

Both Illinois and the Pennsylvania Insurance Department have accepted the conclusions reached by Merlinos that the Company made a reasonable provision for all unpaid loss and loss adjustment expenses as of December 31, 2013.

SUBSEQUENT EVENTS

Subsequent to the examination date, December 31, 2013, the following senior officers left Company employment or were reassigned to new positions:

Albert Joseph Miralles, Senior Vice-President and Treasurer, was reassigned to President, LTC on April 1, 2014, and was replaced with Amy C. Adams, Senior Vice-President and Treasurer, on November 7, 2014.

Robert Anthony Lindemann, President and COO, CNA Commercial, retired on December 31, 2014.

Peter J. Lies, Senior Vice-President Finance, resigned from the Company on April 30, 2014.

Janet Duncan, FCAS, MAAA, Senior Vice-President, Senior Actuarial Officer and appointed actuary, resigned effective July 2, 2014, and was subsequently replaced with Michael Shane, FCAS, MAAA, Senior Vice-President and Senior Actuarial Officer - Reserving, CNA Insurance, effective November 17, 2014.

RECOMMENDATIONS

PRIOR EXAMINATION

The prior examination report contained no recommendations.

CURRENT EXAMINATION

As a result of the current examination, no recommendations are being made.

CONCLUSION

As a result of this examination, the financial condition of American Casualty Company of Reading, PA, as of December 31, 2013, was determined to be as follows:

	Amount	Percentage
Admitted assets	$ 140,787,315	100.0 %
Liabilities	$ 36,104	0.0 %
Surplus as regards policyholders	140,751,211	100.0 %
Total liabilities and surplus	$ 140,787,315	100.0 %

Amount Percentage

Since the previous examination, made as of December 31, 2008, the Company's assets increased by $25,398,486, its liabilities decreased by $900,150, and its surplus increased by $26,298,636.

This examination was conducted by INS Regulatory Insurance Services, Inc. with Joseph F. Evans, CFE, MCM as Pennsylvania Examiner-in-Charge.

Respectfully,

Annette B. Szady, CPA
Director, Bureau of Financial Examinations

Philip M. Judge, CFE
Examination Manager

Joseph F. Evans, CFE, MCM
Examiner-in-Charge

The CFE designation has been conferred by an organization not affiliated with the federal or any state government. However the CFE designation is the only designation recognized by the NAIC for the purposes of directing statutory Association examinations of insurance companies.