Examination Warrant Number 14-00626-10030-R1

Report of Examination of

Westchester Fire Insurance Company
Philadelphia, PA

As of December 31, 2014

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Harrisburg, Pennsylvania
March 10, 2016

Honorable Joseph DiMemmo, CPA
Deputy Insurance Commissioner
Commonwealth of Pennsylvania
Insurance Department
Harrisburg, Pennsylvania

Dear Sir:

In accordance with instructions contained in Examination Warrant Number 14-00626-10030-R1 dated April 4, 2014, an examination was made of

Westchester Fire Insurance Company, NAIC Code: 10030

a Pennsylvania domiciled multi-state stock property and casualty company, hereinafter referred to as "Company" or "WFIC." The examination was conducted at the Company's home office, located at 436 Walnut Street, Philadelphia, PA 19106.

A report of this examination is hereby respectfully submitted.

SCOPE OF EXAMINATION

The Pennsylvania Insurance Department ("Department") has performed an examination of the Company, which was last examined as of December 31, 2009. This examination covered the five-year period from January 1, 2010 through December 31, 2014.

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

The Handbook requires that the Department plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, evaluate system controls and procedures used to mitigate those risks, and review subsequent events. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles.

The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, in accordance with 40 P.S. § 323.5(a), and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

For each year during the period under examination, the Certified Public Accountant ("CPA") firm of PricewaterhouseCoopers LLP ("PwC") provided an unmodified audit opinion on the Company's year-end financial statements based on statutory accounting principles. Relevant work performed by the CPA, 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 as part of the coordinated examination:

Company	State	NAIC Code
ACE American Insurance Company ("ACE American")	PA	22667
ACE Fire Underwriters Insurance Company	PA	20702
ACE Insurance Company of the Midwest	IN	26417
ACE Property and Casualty Insurance Company	PA	20699
Agri General Insurance Company	IA	42757
Atlantic Employers Insurance Company	NJ	38938
Bankers Standard Fire and Marine Company	PA	20591
Bankers Standard Insurance Company	PA	18279
Century Indemnity Company	PA	20710
Illinois Union Insurance Company	IL	27960
Indemnity Insurance Company of North America	PA	43575
Insurance Company of North America	PA	22713
Pacific Employers Insurance Company	PA	22748
Penn Millers Insurance Company	PA	14982
Westchester Surplus Lines Insurance Company	GA	10172

HISTORY

The Company commenced business April 1, 1967 and was incorporated as Alaska Pacific Assurance Company on May 27, 1971, under the laws of the state of Alaska. On April 27, 1995, the Company redomesticated from Alaska to Iowa and adopted the name CIGNA Indemnity Insurance Company. The Company redomesticated from Iowa to Pennsylvania on October 16, 1995. On November 1, 1999, the Company changed its name to ACE Indemnity Insurance Company.

On February 8, 1996, in conjunction with the Insurance Commissioners of seven other domiciliary states, the Insurance Commissioner of Pennsylvania approved INA Financial Corporation's ("INA Financial") Plan of Restructuring and Recapitalization (the "Plan"). Under the Plan, INA Financial's domestic property and casualty subsidiaries were reorganized into two separate operations: one operation manages ongoing or active business and the other manages run-off policies and claims primarily relating to asbestos and environmental pollution exposures. Under the Plan, the Insurance Company of North America ("INA") divided into two entities, an active company, INA, and an inactive company, CCI Insurance Company. The Plan also provided for the simultaneous mergers of CCI Insurance Company and CIGNA Specialty Insurance Company with and into Century Indemnity Company resulting in one single run-off company. As a result of the mergers, Century Indemnity Company's business includes its own policyholders, INA policyholders allocated to CCI Insurance Company, and CIGNA Specialty's policyholders.

In accordance with the Plan, INA Financial contributed $375 million of additional capital to the run-off company and assumed debts of the run-off company. Additionally, the active operation provided the inactive subsidiary with an aggregate excess of loss reinsurance treaty protecting both the surplus and cash payment ability of the inactive company. Further, INA Financial agreed to retain at least 10% of any dividend paid by the active companies up to $50 million as an additional source of capital for the inactive company. This "Dividend Fund" and the earnings thereon would be contributed to the inactive company prior to the aggregate excess of loss treaty being triggered.

At the conclusion of the 1996 restructuring of INA Financial Corporation, INA Holdings Corporation owned the stock of the active insurance company subsidiaries and Brandywine Holdings Corporation ("Brandywine Group") owned the stock of Century Indemnity Company. The Brandywine Group included three Pennsylvania domiciled insurance companies: Century Indemnity Company; Century Reinsurance Company and ACE American Reinsurance Company, in addition to other entities.

On July 2, 1999, ACE Limited acquired the property and casualty insurance company subsidiaries of CIGNA Corporation. CIGNA Corporation sold INA Corporation and its subsidiaries to ACE INA Holdings, Inc. ("ACE INA"), a subsidiary of ACE Limited, for $3.45 billion.

The application for acquisition was filed with the Department on February 11, 1999 and approved June 14, 1999. The applicants were: ACE Limited; ACE Prime Holdings, Inc.; and ACE INA. The businesses acquired included the following entities:

- INA Corporation, a Pennsylvania business corporation and wholly owned subsidiary of CIGNA Holdings, Inc.
- INA Financial Corporation, a Delaware business corporation and wholly owned subsidiary of INA Corporation.
- Brandywine Holdings Corporation, a Delaware business corporation and wholly owned subsidiary of INA Financial Corporation.
- INA Holdings Corporation, a Delaware business corporation and wholly owned subsidiary of INA Financial Corporation.

ACE Limited is a holding company which, until July 18, 2008, was incorporated with limited liability under the Cayman Islands Companies Law. In March 2008, the Board of Directors ("the Board") approved a proposal to move ACE Limited's jurisdiction of incorporation from the Cayman Islands to Zurich, Switzerland ("the Continuation"). In July 2008, during ACE Limited's annual general meeting, the shareholders approved the Continuation and ACE Limited became a Swiss company effective July 18, 2008.

On January 1, 2011, ACE U.S. Holdings, Inc. purchased the Company from Indemnity Insurance Company of North America. Additionally on January 1, 2011, Westchester Fire Insurance Company (NAIC Co. Code 21121), a New York domiciled company, merged with and into the Company. The Company changed its name from ACE Indemnity Insurance Company to its current name, Westchester Fire Insurance Company effective January 1, 2011, in conjunction with this merger.

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

MANAGEMENT AND CONTROL

CAPITALIZATION

As of the examination date, December 31, 2014, the Company's total capital was $906,058,134, consisting of $124,168,040 of aggregate write-ins for special surplus funds; 70,000 capital shares of issued and outstanding common stock with a par value of $71.43 per share amounting to $5,000,100; $298,429,489 of paid in and contributed surplus; and $478,460,505 in unassigned funds (surplus).

The Company's minimum capital and 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 satisfied the capital and surplus requirements throughout the examination period.

STOCKHOLDER

The Company is a wholly owned subsidiary of ACE U.S. Holdings, Inc., a Delaware company. During the examination period, the following dividend payments, including ordinary and extraordinary dividends, were made to ACE U.S. Holdings, Inc.:

Year	Dividend
2014	$ 65,000,000
2013	$ 21,000,000
2012	$410,000,000
Total	$496,000,000

INSURANCE HOLDING COMPANY SYSTEM

During the period under examination, the Company met the requirements for filing an insurance holding company system annual registration statement, in compliance with 40 P.S. § 991.1404. For each of the years under examination, ACE American filed the Statement with the Department by March 31 on its own behalf, as well as on behalf of the other Pennsylvania domestic insurance companies ultimately controlled by ACE Limited.

ACE Limited is named as the ultimate controlling person in the system. ACE Limited is a publicly held holding company traded on the New York Stock Exchange, under the symbol "ACE." ACE Limited is widely held, with beneficial owners, Wellington Management Company, LLP, Capital World Investors, BlackRock Inc., Vanguard Group Inc., JP Morgan Chase & Co. and State Street Corporation each holding more than 5% of ACE Limited common shares as of December 31, 2014. The global headquarters of ACE Limited is located in Zurich, Switzerland.

Members of the holding company system include the following entities shown below. Members of the holding company being examined as part of the ACE property and casualty subgroup examination are identified with an asterisk (*).

- ACE Limited (Switzerland)
    - ACE Life Insurance Company (CT, USA)
    - **Westchester Fire Insurance Company (PA, USA)***
    - Westchester Surplus Lines Insurance Company (GA, USA)*
    - Combined Insurance Company of America (IL, USA)
        - Combined Life Insurance Company of New York (NY, USA)
    - INA Holdings Corporation (DE, USA)
        - Bankers Standard Insurance Company (PA, USA)*
            - Bankers Standard Fire and Marine Company (PA, USA)*
        - ACE American Insurance Company (PA, USA)*
            - Pacific Employers Insurance Company (PA, USA)*
                - Illinois Union Insurance Company (IL, USA)*
            - Rain and Hail Insurance Service, Inc. (IA, USA)
                - Agri General Insurance Company (IA, USA)*
            - Penn Millers Holding Corporation (PA, USA)
                - PMMHC Corp. (PA, USA)
                    - Penn Millers Insurance Company (PA, USA)*
        - ACE Property and Casualty Insurance Company (PA, USA)*
            - Atlantic Employers Insurance Company (NJ, USA)*
            - ACE Fire Underwriters Insurance Company (PA, USA)*
            - ACE Insurance Company of the Midwest (IN, USA)*
        - Indemnity Insurance Company of North America (PA, USA)*
        - Insurance Company of North America (PA, USA)*
    - Century Indemnity Company (PA, USA)*
        - Century International Reinsurance Company Ltd. (Bermuda)
    - ACE Insurance Company (PR, USA)
    - ACE Seguros S.A. (Peru)
    - ACE Insurance Limited (Australia)
    - ACE European Group Limited (United Kingdom)
    - ACE Insurance S.A.-N.V. (Belgium)
    - CJSC ACE Insurance Co. (Russia)
    - ACE Seguros S.A. (Mexico)
    - ACE Insurance Limited (South Africa)
    - ACE INA Overseas Insurance Company Ltd. (Bermuda)
        - ACE INA Insurance (Canada)
        - ACE INA Life Insurance (Canada)
        - ACE Insurance Limited (Singapore)
    - ACE Arabia Insurance Company Limited B.S.C. (C) (Saudi Arabia)
    - ACE Seguros S.A. (Argentina)
    - ACE Life Insurance Company Limited (Vietnam)
    - ACE Insurance Limited (Hong Kong)

PT. ACE INA Insurance (Indonesia)
ACE Seguradora S.A. (Brazil)
ACE Seguros de Vida S.A. (Chile)
ACE Seguros S.A. (Chile)
ACE Seguros S.A. (Ecuador)
ACE Life Insurance Company Egypt, S.A.E (Egypt)
ACE Resseguradora S.A. (Brazil)
ACE Fianzas Monterrey S.A. (Mexico)
ABA Seguros S.A. de C.V. (Mexico)
ACE Insurance Limited (Pakistan)
Insurance Company of North America (Philippines)
Egyptian American Insurance Company (Egypt)
Rio Guayas Compania de Seguros y Reaseguros S.A. (Ecuador)
ACE Bermuda Insurance Ltd. (Bermuda)
    Corporate Officers & Directors Assurance Ltd. (Bermuda)
    ACE Capital Title Reinsurance Company (PA, USA)
    ACE Bermuda International Insurance (Ireland) Limited (Ireland)
    Paget Reinsurance Ltd. (Bermuda)
ACE Tempest Life Reinsurance Ltd. (Bermuda)
    ACE Tempest Reinsurance Ltd. (Bermuda)
ACE Global Markets Limited (United Kingdom)
ACE Insurance S.A.R.L. (Macau)
ACE Arabia Cooperative Insurance Company (Saudi Arabia)
ACE Insurance Co. (Japan) Limited (Japan)
ACE American Fire and Marine Insurance Co. (South Korea)
ACE Seguros S.A. (Colombia)
ACE Insurance (Switzerland) Limited (Switzerland)
    Ace Reinsurance Switzerland Ltd. (Switzerland)

ACE Limited's holdings, inclusive of the companies listed in the preceding chart, is a global insurance and reinsurance organization, serving the needs of commercial and individual customers in more than 200 countries and jurisdictions. ACE Limited provides specialized insurance products, such as personal accident, supplemental health and life insurance to individuals in select countries. The reinsurance operations include both property and casualty and life companies. ACE Limited reported consolidated GAAP equity at December 31, 2014, of approximately $30.0 billion.

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, 2014:

Name and Address	**Principal Occupation**
John J. Lupica Newtown, PA	Vice Chairman, ACE Limited/ACE Group Chairman, Insurance – North America
James M. English Newtown, PA	Chief Operations Officer (North America) Westchester Fire Insurance Company
Matthew G. Merna	President

Mendham, NJ	ACE Capital Title Reinsurance Company
Douglas Poetzsch West Islip, NY	EVP & CTO, ACE North American Claims ACE American Insurance Company
David J. Lupica Alpharetta, GA	Division President ACE Commercial Risk Services
Kevin M. Rampe New Hope, PA	Global Corporate Officer/ General Counsel North America, ACE American
Bruce L. Kessler Atlanta, GA	SVP, ACE Group Division President, ACE Westchester
Christopher A. Maleno Manhasset, NY	SVP, ACE Group Division President, ACE USA
Edward D. Zaccaria New Hope, PA	President, Global Underwriting Group Insurance Company of North America
Paul G. O'Connell Princeton, NJ	Executive Vice President, Chief Actuary Global Property & Casualty, ACE Group
Joseph F. Fisher Philadelphia, PA	Chief Finance Officer ACE North America
Caroline Clouser Princeton, NJ	Executive Vice President Medical Risk & Life Services
Deborah Ann Giss Stalker Landenberg, PA	Deputy General Counsel ACE Group
Mary Boyd Whitehouse Station, NJ	Division President ACE Private Risk Services
Catherine Fabbitti Brooklyn, NY	Division President ACE Private Risk Services

All directors serve a one-year term as provided in the by-laws. Elections are held at the Annual Meeting of INA Holdings Corporation, the Stockholder.

The Company provides all employees with the ACE Employee Code of Conduct ("Code"), which includes a section on conflicts of interest. Employees are invited to express concerns or solicit comments via e-mail or a toll-free telephone number. The Code is reviewed, reaffirmed and redistributed to employees annually. At least annually, all employees are asked to review the Code, not only as prompted by training, but also by certifying that they have read and understood the Code.

COMMITTEES

The Board appoints an Executive Committee and Investment Committee as provided in the by-laws. Our review of the Executive and Investment Committee meeting minutes indicates the committees are acting in accordance with the Company's by-laws. The directors and/or officers were assigned to serve on the following Committees as listed below:

Investment Committee	**Executive Committee**
John J. Lupica	John J. Lupica
Joseph F. Fisher	Joseph F. Fisher
Bruce L. Kessler	Bruce L. Kessler

WFIC achieves compliance with the Board committee membership requirements of 40 P.S. § 991.1405(c)(3)(ii), (4) and (4.1) through 40 P.S. § 991.1405(c)(5), which 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, an attorney in fact for a reciprocal exchange, a mutual insurance holding company or a publicly held corporation having a board of directors and committees thereof which already meet the requirements of paragraphs (3), (4) and (4.1)". The ultimate controlling parent, ACE Limited, of the Company is publicly traded on the New York Stock Exchange and a review of its Board and Committee structures reflects compliance with the independence requirements of 40 P.S. § 1405(c)(3), (4) and (4.1). Consistent with 40 P.S. § 991.1405(c)(5), the Company is considered to be in compliance with the overall dictates of Pennsylvania's laws as they relate to the existence, composition, and independence of Board and committees thereof.

OFFICERS

As of the examination date, December 31, 2014, the following officers were appointed and serving in accordance with the Company's by-laws:

Name	Title
John J. Lupica	President and Chairman of the Board
Rebecca L. Collins	Secretary
Joseph F. Fisher	Treasurer and Chief Finance Officer
Paul G. O'Connell	Chief Actuary
Mary Boyd	Executive Vice President
Caroline Clouser	Executive Vice President
James M. English	Executive Vice President
Catherine Fabbitti	Executive Vice President
William P. Garrigan	Executive Vice President
Bruce L. Kessler	Executive Vice President
David J. Lupica	Executive Vice President
Christopher A. Maleno	Executive Vice President
Matthew G. Merna	Executive Vice President
Kevin M. Rampe	Executive Vice President
Henry O. Schramm II	Executive Vice President
Deborah Ann Giss Stalker	Executive Vice President
John P. Taylor	Senior Vice President
Jose Vasquez	Executive Vice President
Edward D. Zaccaria	Executive Vice President

CORPORATE RECORDS

MINUTES

A compliance review of corporate minutes revealed the following:

- The annual meetings of the Company's Stockholder were held in compliance with its by-laws.
- The Stockholder elects directors at such meetings in compliance with the by-laws.

- The Stockholder ratified the prior year's actions of the officers and directors.
- Quorums were present at all directors' meetings.
- The Company's investment and reinsurance transactions are approved quarterly by the Board.
- All directors regularly attend Board meetings.
- The Company's Board meeting minutes reflect approval of reinsurance contracts.

ARTICLES OF INCORPORATION

The Articles of Incorporation were amended effective March 16, 2010 and July 21, 2010, to reflect business updates related the Company's mergers (as discussed in the *History* section of this report, see page 2).

BY-LAWS

The by-laws were amended effective July 11, 2013, to reflect updated language under Article V - Miscellaneous, Section 5.5 Indemnification.

SERVICE AND OPERATING AGREEMENTS

The Company is a party to a number of service and operating agreements with its affiliates. These agreements, which may include more than one affiliate, can be classified as one of the following types: administrative; accounting and legal service; expense allocation; reinsurance services (including brokerage); investment advisory; employee leasing; and tax allocation. The examination team reviewed a sample of these agreements and found them to be in compliance with the standards contained in 40 P.S. § 991.1405, with the exception of the agreements between the ACE American and ESIS, Inc. ("ESIS"), an affiliated company, and the agreements between ACE American and its affiliated property and casualty insurance companies with ESIS (see page 10). All of the reviewed agreements are in writing and received approval by the Company's Board.

ACE American and ESIS are party to several "Service" agreements whereby ACE American provides staffing, administrative, and technical services to ESIS, whereas ESIS provides services related to maintaining third party claims administrative services to ACE American. In addition, the ACE property and casualty insurance companies, including ACE American, entered into a Master Claim Service Agreement and a SIU Service and Support Agreement with ESIS. In the first of these two agreements, ESIS provides claims adjusting services as a licensed third party claims administrator to these companies. In the second of the agreements, the ACE property and casualty insurers have delegated to ESIS their obligations to: (a) investigate potentially fraudulent claim activity, and (b) to report potentially fraudulent claim activity to governmental authorities as required by law or filed fraud plan.

Interwoven in the fabric of these agreements is a Cash Management Services Agreement between ACE American and ESIS. Under this agreement, effective January 1, 1999, all funds presently in the possession of ESIS or received in the future by ESIS for ACE American or ESIS from their respective customers are deposited in an account in the name of and under the control of ACE American. ACE American sees to the investment of such funds in securities or cash accounts. ACE American subcontracts the investment duties hereunder to State Street Global Advisors, a division of State Street Bank and Trust Company. ACE American accounts for the cash received on ESIS's account and the investment thereof, including the balance being held for ESIS, the amount of investment income credited to ESIS, the amount utilized to pay ESIS checks and drafts and the amount of any interest or fees charged by ACE American. ESIS pays ACE American a fee based upon its proportionate share of the costs and expenses that ACE American incurs in providing advisory services to ESIS.

In our review of the above agreements, we noted that neither the Master Claims Service Agreement nor the SIU Service and Support Agreement contain a sufficiently specific due date for payment of the services rendered. The provision in the agreements calling for 12 equal monthly payments without specifying when these payments would be made is not considered to be a specific settlement due date. A specific due date is required within a related party agreement in accordance with the provisions of SSAP No. 25, paragraph 7 (i.e., "Transactions between related parties must be in the form of a written agreement. The written agreement must provide for timely settlement of amounts owed, with a specified due date."). Lack of a specific due date is a violation of 40 P.S. § 991.1405(a)(1) as agreements without a specific due date are not be considered fair and reasonable.

The ACE property and casualty insurance companies should amend or replace the Master Claims Service Agreement and the SIU Service and Support Agreement, including specific dates for issuing invoices for services rendered and for payment of such services to the service provider in the amended or replacement agreements in compliance with SSAP No. 25, paragraph 7, and 40 P.S. § 991.1405(a)(1).

Additionally, the Company is party to a number of agreements with external parties e.g., third party administrators, service providers, brokers, and investment advisors, which are not listed here as they were not considered material to the examination.

REINSURANCE

The ACE Property & Casualty Reinsurance Program can be categorized into four components: Affiliated Reinsurance, External Reinsurance, Captive Reinsurance, and Pools and Associations.

AFFILIATED REINSURANCE

POOLING AGREEMENT ("Pool Companies")

ACE American participates in an intercompany reinsurance pooling agreement and serves as the lead company in the pool ("Intercompany Pool"). Under the terms of this agreement, ACE American reinsures 100% of the gross business written by each of the Pool Companies with the exception of a company's foreign branch business and voluntary and mandatory pools and association business, which remains in the direct writing company. The foreign branch business is ceded 100% to a foreign affiliate, and the voluntary and mandatory pools and association business is not ceded and remains in the direct writing company. The Intercompany Pool determines the extent of gross written business it intends to cede to third parties and cedes this business through ACE American and ACE Property and Casualty Insurance Company ("ACE P&C"). Balances ceded to ACE P&C exclude ACE American's and Insurance Company of North America's foreign branch business that is ceded 100% to a foreign affiliate. ACE American retrocedes the remaining net business to each of the other Pool Companies in proportion to their contractual pool share.

The names, NAIC company code and pool participation percentage of the companies participating in the Intercompany Pool at December 31, 2014 are shown in the following chart:

Pool Participants	NAIC Code	Pool Participation
ACE American Insurance Company	22667	37.0%
ACE Property and Casualty Insurance Company	20699	35.0%
Pacific Employers Insurance Company	22748	17.8%
Insurance Company of North America	22713	5.0%
Bankers Standard Insurance Company	18279	2.1%
Indemnity Insurance Company of North America	43575	2.0%
Bankers Standard Fire and Marine Company	20591	0.9%
ACE Fire Underwriters Insurance Company	20702	0.2%
Pool Participation Total		100.0%

In addition to the affiliated reinsurance provided under the pooling agreement above, the aforementioned Pool Companies had the following reinsurance agreements with affiliates:

Pool Companies and WFIC with ACE INA Overseas Insurance Company Ltd

On December 31, 2000, as amended for a company name change on January 1, 2011, the Pool Companies and the Company entered into a reinsurance agreement with a Bermuda affiliate, ACE INA Overseas Insurance Company, Ltd ("AIOIC"). Under the terms of this agreement, AIOIC will reimburse these companies for any and all ultimate net losses incurred by these companies under certain workers' compensation insurance and reinsurance policies issued by the companies. Coverage is provided by AIOIC for all incurred losses, allocated loss adjustment expenses, uncollectible reinsurance and any loss based assessments pertaining to losses occurring on workers' compensation insurance policies issued on or prior to December 31, 2000, net of all salvage, subrogation and other recoverables. Settlements of premiums and losses under this agreement are on a funds held basis with funds remaining on deposit with the ceding companies.

Pool Companies and WFIC with ACE Tempest Reinsurance Limited

Effective January 1, 2007, the Pool Companies and WFIC entered into a loss portfolio transfer agreement with a Bermuda affiliate, ACE Tempest Reinsurance Ltd. ("ATRL"). Under the terms of this agreement, ATRL will reimburse these companies for any and all ultimate net loss and allocated loss adjustment expenses incurred up to $1.4 billion for workers' compensation insurance and reinsurance policies, classified under certain business classification codes, issued by these companies on or after January 1, 2001, and on or before December 31, 2005. Effective January 1, 2011, WFIC's participation in this treaty was terminated on a cut-off basis. Consideration payable to ATRL is based on the premiums and losses that are ceded under the terms of the contracts.

ACE American Insurance Co. and Westchester Surplus Lines Insurance Co.

Effective January 1, 2010, Westchester Surplus Lines Insurance Company ("WSLIC") terminated its 90% quota share reinsurance agreement with WFIC on a cut-off basis. WSLIC contemporaneously entered into an in-kind agreement with ACE American. On January 1, 2010, WFIC returned unearned premium of $127.2 million to WSLIC and then WSLIC ceded it to ACE American. WFIC shall continue to remain liable for losses related to earned premium on policies it previously assumed under the 90% quota share reinsurance agreement with WSLIC.

WFIC with ACE Tempest Reinsurance Limited

WFIC and a Bermuda affiliate, ATRL, entered into a net liabilities quota share reinsurance agreement with a term from January 1, 2013 to January 1, 2014, renewing automatically until cancelled. Under the terms of the agreement, WFIC cedes to ATRL 20% of the net earned premium attributable to the policies in-force during the agreement's term excluding unallocated loss adjustment expenses. In addition, the agreement includes loss occurrence caps and also includes an aggregate accident loss ratio cap of 150% of net earned premium. As of January 1, 2014, the parties entered into a new agreement that changed the cession rate to 15%.

WFIC with ACE Reinsurance (Switzerland) Limited

WFIC and a Swiss affiliate, ACE Reinsurance (Switzerland) Ltd. ("ARSL"), entered into a net liabilities quota share reinsurance agreement with a term from January 1, 2013 to January 1, 2014, renewing automatically until cancelled. Under the terms of the agreement, WFIC cedes to ARSL 15% of the net earned premium attributable to the policies in-force during the agreement's term excluding unallocated loss adjustment expenses. In addition, the agreement includes loss occurrence caps and also includes an aggregate accident loss ratio cap of 150% of net earned premium. As of January 1, 2014, the parties entered into a new agreement that changed the cession rate to 20%.

Century Indemnity Company

As provided in the 1996 Restructuring Order ("the Order") creating the Brandywine Group run-off companies, Century Indemnity Company ("Century") issued to a number of the active ACE property and casualty insurance companies ("ACE Companies") a General Liability Reinsurance Agreement ("GL87"). In the GL87 agreement, Century agreed to reinsure certain defined liabilities of these companies arising from direct general liability policies issued prior to January 1, 1987. At the same time, the ACE Companies issued an Excess of Loss Reinsurance Treaty ("XOL") to Century with a limit of $800 million to protect the surplus and cash flow of

Century. Included in the GL87 agreement is a unique provision that suspends Century's obligation to settle reinsurance payments to the ACE Companies as long as Century cedes reserves to the XOL. Century currently cedes reserves to the XOL and projects that it will do so until the year 2068.

On September 19, 2013, the Department approved Century's request, as a consistent interpretation of the intent of certain provisions of the Order, to discount its reinsurance payables to the ACE Companies under the GL87 agreement. The cumulative net effect, as of December 31, 2014, for the discounting of the GL87 reinsurance payables on the ACE Companies is a decrease to surplus of $429.6 million, which was recorded as change in accounting principles in 2013 and any change moving forward as an "Aggregate write-in for miscellaneous income" on the income statement. Century recorded a similar entry to record the effect of the discount, which offset those amounts recorded by the ACE Companies.

Certified Affiliated Reinsurers

As of December 31, 2014, the Department had approved the following affiliated reinsurers as Certified Reinsurers pursuant to 40 P.S. § 442.1(a) and 31 Pa. Code 161.3(a):

Reinsurer Name	Certified Rating	Collateral Required
ACE Tempest Reinsurance Ltd.	Secure-2	10%
ACE Reinsurance (Switzerland) Ltd.	Secure-2	10%
ACE INA Overseas Insurance Company Ltd.	Secure-3	20%

EXTERNAL REINSURANCE

Reinsurance Intermediaries

Reinsurance intermediaries utilized by various ACE property and casualty insurance companies ("ACE") include: Aon Re, Inc., Guy Carpenter and Company, Inc., Willis, Benfield, Inc., and JLT Re Solutions, Inc. All are licensed by the Department as required by 40 P.S. § 321.2 and ACE has written authorizations in place as required by 40 P.S. § 321.6. However, 40 P.S. § 321.3 requires that written authorizations between the reinsurance intermediary and the insurer they represent should contain certain specific termination provisions as specified in the statute. The written authorizations that ACE has in place with their reinsurance intermediaries is not in compliance with the specified termination provisions required by 40 P.S. § 321.3.

ACE should amend or replace the written authorizations with their reinsurance intermediaries to be compliant with the requirements of 40 P.S. § 321.3.

Reinsurance Program

The External Reinsurance Program provides indemnification to the companies by unaffiliated reinsurers, excluding captive reinsurers, and voluntary and mandatory pools. The program consists of many treaties in force or in runoff, supplemented by facultative placements. Due to the size and complexity of the program, a large number of authorized and unauthorized reinsurers participate. The following general treaty programs were in place as of the examination date, December 31, 2014:

Abbreviations utilized in the following reinsurance treaty schematics:

Business Units:

AEG = ACE Europe Group
AGG = ACE Group Global
ANAPS = ACE North American Property & Specialty
AOG = ACE Overseas General
APR = ACE Professional Risk
APRS = ACE Private Risk Services
ARM = ACE Risk Management
AWSG = ACE Westchester Specialty Group
CRR = Commercial Risk Services
USAIG = United States Aircraft Insurance Group

Treaty Types:

CAT = Catastrophe
QS = Quota Share
XOL = Excess of Loss

Line of Business:

HPL = Hospital Professional Liability
MPC1 = Multi Peril Crop Insurance
WC = Workmen's Compensation

Accident and Health	Layer	Placement %	Attachment Point	Limit
Employers Stop Loss QS	1	50.00%		$ 1,000,000
Employers Stop Loss QS	2	100.00%	$ 1,000,000	$ 1,000,000
Employers Stop Loss QS	3	100.00%	$ 2,000,000	$ 3,000,000
Employers Stop Loss QS	4	100.00%	$ 5,000,000	Unlimited
Employers Stop Loss XOL	1	100.00%	$ 1,000,000	Unlimited
Employers Stop Loss XOL	1	100.00%	$ 1,000,000	$ 1,000,000
Employers Stop Loss XOL	2	100.00%	$ 2,000,000	$ 3,000,000
Employers Stop Loss XOL	3	100.00%	$ 5,000,000	Unlimited
Kindergarten-12 Medical CAT QS	1	69.64%		$ 5,600,000
Kindergarten-12 Medical CAT QS	1	69.64%		$ 5,600,000
Kindergarten-12 Medical CAT QS	1	73.64%		$ 6,425,000
Pro Financial Sports Disability QS	1	85.00%		$ 25,000,000
Pro Financial Sports Disability Upper Limit QS	1	100.00%	$ 25,000,000	$ 35,000,000
Pro Financial Sports Disability Upper Limit QS	2	100.00%	$ 65,000,000	$ 40,000,000
Pro Financial Sports Disability XOL	1	100.00%	$ 3,333,000	$ 4,167,000
Pro Financial Sports Disability XOL	2	100.00%	$ 7,500,000	$ 5,000,000
Pro Financial Sports Disability XOL	3	100.00%	$ 12,500,000	$ 12,500,000
Special Insurance Service Upper QS	1	90.00%		$ 5,000,000
AGG Personal Accident CAT Lower Layers	1	100.00%	$ 5,000,000	$ 15,000,000
AGG Personal Accident CAT Upper Layers	1	100.00%	$ 20,000,000	$ 30,000,000
AGG Personal Accident CAT Upper Layers	2	100.00%	$ 50,000,000	$ 50,000,000
AGG Personal Accident CAT Upper Layers	3	100.00%	$ 100,000,000	$ 100,000,000
AGG Personal Accident CAT Upper Layers	4	100.00%	$ 200,000,000	$ 200,000,000
AGG Personal Accident Per Person Sect. A XOL	1	100.00%	$ 2,000,000	$ 8,000,000
PA USA, Canada & CICA CAT XOL	1	100.00%	$ 2,500,000	$ 2,500,000

Airport/Aviation	Layer	Placement %	Attachment Point	Limit
ACE USA Airports Aviation QS	1	40.00%		$ 100,000,000
ACE USA Airports Hull & Liability XOL	1	60.00%	$ 5,000,000	$ 10,000,000
ACE USA Airports Hull & Liability XOL	2	60.00%	$ 15,000,000	$ 10,000,000
ACE USA Airports Hull Risk XOL	1	60.00%	$ 2,000,000	$ 8,000,000
ACE USA Airports Liability Risk XOL	1	60.00%	$ 25,000,000	$ 75,000,000
ANAPS Satellites XOL	1	100.00%	$ 5,000,000	$ 5,000,000
ANAPS USAIG Pool QS	1	50.00%		Unlimited

Agriculture	Layer	Placement %	Attachment Point	Limit
ACE AGRI Crop Hail Stop Loss Annual	1	66.03%	$ 126,000,000	$ 50,400,000
ACE AGRI Crop Hail Stop Loss Multi-Year	1	28.98%	$ 126,000,000	$ 50,400,000
ACE AGRI MPCI QS Multi-Year	1	8.00%		Unlimited
ACE AGRI MPCI Stop Loss	1	15.00%	$ 1,457,881,128	$ 44,178,216
ACE AGRI MPCI Stop Loss	2	17.26%	$ 1,502,059,344	$ 73,630,360
ACE AGRI MPCI Stop Loss	3	34.25%	$ 1,575,689,704	$ 176,712,864
ACE AGRI MPCI Stop Loss	4	30.30%	$ 1,752,402,568	$ 265,069,296
ACE AGRI MPCI Stop Loss Multi-Year	1	41.96%	$ 1,457,881,128	$ 44,178,216
ACE AGRI MPCI Stop Loss Multi-Year	2	40.89%	$ 1,457,881,128	$ 559,590,736
ACE AGRI MPCI Stop Loss Multi-Year	3	39.70%	$ 1,502,059,344	$ 73,630,360
ACE AGRI MPCI Stop Loss Multi-Year	4	22.71%	$ 1,575,689,704	$ 176,712,864
ACE AGRI MPCI Stop Loss Multi-Year	5	26.66%	$ 1,752,402,568	$ 265,069,296
ACE AGRI Casualty Clash XOL	1	100.00%	$ 1,000,000	$ 4,000,000
ACE AGRI Casualty Clash XOL	2	100.00%	$ 5,000,000	$ 5,000,000
ACE AGRI Casualty Umbrella XOL	1	100.00%	$ 1,000,000	$ 4,000,000
ACE AGRI Casualty Umbrella XOL	2	100.00%	$ 5,000,000	$ 5,000,000
ACE AGRI Property Per Risk XOL	1	12.50%	$ 2,500,000	$ 2,500,000
ACE AGRI Farm & Ranch Property CAT	1	95.00%	$ 7,500,000	$ 7,500,000
ACE AGRI Farm & Ranch Property CAT	2	95.00%	$ 15,000,000	$ 10,000,000

Auto Liability	Layer	Placement %	Attachment Point	Limit
AEG Motor Excess	1	100.00%	$ 10,000,000	$ 15,000,000
AEG Motor Excess	2	100.00%	$ 25,000,000	Unlimited
AEG Motor Primary	1	100.00%	$ 2,500,000	$ 2,500,000
AEG Motor Primary	2	100.00%	$ 5,000,000	$ 5,000,000
ACR Custom Casualty Auto Liability XOL	1	100.00%	$ 500,000	$ 500,000
ACR Excess Auto Carve Out QS	1	60.00%		$ 4,000,000

Environmental Risk	Layer	Placement %	Attachment Point	Limit
ACE North American Environ. Liab. Sect. A QS	1	28.22%		$ 15,000,000
ACE North American Environ. Liab. Sect. A QS	2	42.34%		$ 20,000,000
ACE North American Environ. Liab. Sect. A QS	3	45.80%		$ 25,000,000
ACE North American Environ. Liab. Sect. A XOL	1	15.00%	$ 15,000,000	$ 10,000,000

General/Excess Liability	Layer	Placement %	Attachment Point	Limit
ACE Casualty Risk Excess QS	1	50.00%		$ 25,000,000
ACE Casualty Risk Excess Surplus Share	1	67.00%		$ 25,000,000
AWSG Casualty Umbrella & High Excess QS	1	60.00%		$ 25,000,000
AWSG Casualty Primary QS	1	35.00%		$ 2,000,000
AWSG Product Recall QS	1	60.00%		$ 10,000,000
AWSG Product Recall QS	2	73.33%		$ 15,000,000
AWSG Railroad QS	1	50.00%		$ 20,000,000
APRS Personal Umbrella Variable QS	1	22.86%		$ 37,500,000
APRS Personal Umbrella Variable QS	1	77.14%		$ 87,500,000
APRS Personal Umbrella XOL	1	20.00%	$ 50,000,000	$ 50,000,000
CRR Umbrella QS	1	67.50%		$ 10,000,000
CRR Umbrella QS	1	75.00%		$ 10,000,000

Marine	Layer	Placement %	Attachment Point	Limit
ACE USA Commercial Marine	1	80.00%	$ 5,000,000	$ 5,000,000
ACE USA Commercial Marine Cargo Reporter	1	100.00%	$ 10,000,000	$ 50,000,000
ACE USA Commercial Marine Excess Liab. QS	1	67.50%		$ 10,000,000
ACE USA Recreational Marine	1	100.00%	$ 5,000,000	$ 5,000,000
ACE USA Recreational Marine	2	100.00%	$ 10,000,000	$ 15,000,000
AGG Marine	1	100.00%	$ 25,000,000	$ 50,000,000
AGG Marine	2	100.00%	$ 75,000,000	$ 50,000,000
AGG Marine	3	90.00%	$ 125,000,000	$ 20,000,000
APRS Equipment Breakdown QS	1	100.00%		$ 100,000,000

Medical Risk/Life Sciences	Layer	Placement %	Attachment Point	Limit
ACE Medical Risk HPL and Misc. Facilities QS	1	30.00%		$ 15,000,000
ACE Medical Risk Managed Care QS	1	50.00%		$ 25,000,000

Professional Risk	Layer	Placement %	Attachment Point	Limit
ACE Group Kidnap & Ransom Quota Share	1	100.00%		$ 10,000,000
APR Cyber Risk Quota Share	1	75.00%		$ 15,000,000
APR Cyber Risk Quota Share	2	35.00%		$ 15,000,000

Property/Property CATastrophe	Layer	Placement %	Attachment Point	Limit
AGG Property CAT XOL	1	68.57%	$ 500,000,000	$ 500,000,000
AGG Property CAT XOL	2	20.10%	$ 500,000,000	$ 775,000,000
AGG Property CAT XOL	3	76.57%	$ 1,000,000,000	$ 275,000,000
ACE North America Property Per Risk XOL	1	100.00%	$ 5,000,000	$ 10,000,000
ACE North America Property Per Risk XOL	2	50.00%	$ 5,000,000	$ 10,000,000
ACE North America Property Per Risk XOL	3	91.50%	$ 15,000,000	$ 10,000,000
ACE North America Property Per Risk XOL	4	91.50%	$ 25,000,000	$ 25,000,000
ACE North America Property Per Risk XOL	5	8.50%	$ 15,000,000	$ 35,000,000
APRS Property Per Risk XOL	1	100.00%	$ 5,000,000	$ 5,000,000
APRS Property Per Risk XOL	2	100.00%	$ 10,000,000	$ 15,000,000
APRS Property Per Risk XOL	3	100.00%	$ 25,000,000	$ 25,000,000
APRS Property CAT XOL	1	55.00%	$ 25,000,000	$ 50,000,000
APRS Property CAT XOL - Reverse Franchise	1	45.00%	$ 25,000,000	$ 50,000,000
AWSG Property Per Risk	1	100.00%	$ 2,500,000	$ 2,500,000
AWSG Property Per Risk	2	100.00%	$ 5,000,000	$ 5,000,000
AWSG Property Per Risk	3	100.00%	$ 10,000,000	$ 15,000,000
AWSG Property CAT Surplus Share	1	100.00%		$ 20,000,000
AGG CAT XOL (AOG)	1	6.00%	$ 75,000,000	$ 75,000,000
AOG & ANAPS Property Per Risk Combined	1	100.00%	$ 50,000,000	$ 200,000,000
AOG & ANAPS Property Per Risk Combined	2	100.00%	$ 15,000,000	$ 22,500,000
ANAPS Energy QS	1	72.50%		$ 150,000,000

Surety	Layer	Placement %	Attachment Point	Limit
ACE Surety Contractors XOL	1	90.50%	$ 1,000,000	$ 4,000,000
ACE Surety Contractors XOL	2	90.50%	$ 5,000,000	$ 10,000,000
ACE Surety XOL	1	90.00%	$ 1,000,000	$ 4,000,000
ACE Surety XOL	2	100.00%	$ 5,000,000	$ 5,000,000
ACE Surety XOL	3	100.00%	$ 10,000,000	$ 30,000,000
ACE Surety XOL	4	100.00%	$ 40,000,000	$ 30,000,000
ACE Surety XOL	5	100.00%	$ 70,000,000	$ 30,000,000
ACE Surety XOL	6	100.00%	$ 100,000,000	$ 50,000,000

Workmen's Compensation	Layer	Placement %	Attachment Point	Limit
ARM Industrial AID	1	100.00%	$ 1,000,000	$ 2,000,000
ARM Industrial AID	2	50.00%	$ 3,000,000	$ 7,000,000
ARM Industrial AID	3	50.00%	$ 3,000,000	$ 7,000,000
ARM WC Direct Assignment QS	1	100.00%		$ 30,965,890
ARM WC Direct Assignment Aggregate Excess *	1	100.00%	115% Loss Ratio	Unlimited
AGG WC CAT Excess	1	59.17%	$ 20,000,000	$ 30,000,000
AGG WC CAT Excess Sect. A & B	2	96.58%	$ 200,000,000	$ 300,000,000
AGG WC CAT Excess	3	96.25%	$ 500,000,000	$ 200,000,000
ARM Workmen's Compensation	1	60.00%	$ 10,000,000	$ 10,000,000

* ACE American Insurance Company has an 18% participation in this treaty.

CAPTIVE REINSURANCE PROGRAM

The Company, and its affiliates, assumes a portion of the risks insured by certain "captive" insurers (i.e., insurance companies owned by larger institutions, corporations, trade associations, local governments, educational institutions, etc. and insuring only the risks of that institution). These risks are generally assumed through an excess of loss treaty arrangement. These treaties limit the captive insurer's losses either by occurrence or on an annual aggregate basis. Thus these large institutions are insured through their "captive" insurers and the losses of those "captive" insurers are limited by the reinsurance placed with the ACE family of insurance companies.

POOLS AND ASSOCIATIONS

The Company participates in various mandatory and voluntary pools and associations. The Company, inclusive of its affiliates, is a major writer of crop and hail coverage, which is reinsured by the Federal Crop Insurance Corporation.

TERRITORY AND PLAN OF OPERATION

The Company distributes its insurance products through a limited group of retail brokers. In addition to using brokers, certain products are distributed through channels such as general agents, independent agents, managing general agents, managing general underwriters, alliances, affinity groups and direct marketing operations.

North American property and casualty ("P&C") operations are organized into five groups or business units: ACE USA, ACE Westchester, ACE Bermuda, ACE Private Risk Services, and ACE Commercial Risk Services. ACE USA distributes its coverage through retail brokers, provides a broad array of specialty property, casualty, and accident and health insurance products and risk management services to corporate clients across the United States and Canada. ACE Westchester specializes in excess and surplus lines specialty products, including property, inland marine, casualty, professional lines, and environmental liability products distributed through wholesale and select retail brokers. ACE Bermuda writes high-level excess liability, property, political risk and directors and officers insurance worldwide. ACE Private Risk Services provides high net worth individuals and families with homeowners, automobile, valuables, umbrella and recreational marine insurance. ACE Commercial Risk Services offers specialty insurance products and solutions for small businesses through a broad range of distribution channels.

The Company is licensed to write property and casualty insurance in all fifty states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, and several foreign countries. On a direct writings basis the Company's five most significant lines of business are Other Liability – Claims Made, Surety, Other Liability – Occurrence, Inland Marine and Fidelity which accounted for 92.5% of direct written premium and totaled $572.9 million for the year ended December 31, 2014.

Major writings of the Company are Surety, Other Liability – Occurrence, and Other Liability – Claims Made, accounting for 82.3% of the direct and assumed premiums for the year ended December 31, 2014. The Company's premium writings are summarized in the following chart:

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Written Premium	Percentage of Total
Fire	$ 11,079,776	$ 6,430,419	$ 4,649,357	1.3%
Allied lines	11,727,086	6,655,132	5,071,954	1.4%
Commercial multiple peril	0	(2,727)	2,727	0.0%
Inland marine	36,687,865	15,582,710	21,105,155	6.2%
Earthquake	3,552,487	1,936,819	1,615,668	0.5%
Other liability - occurrence	123,220,410	84,296,401	38,924,009	11.4%
Other liability - claims-made	236,779,718	86,726,506	150,053,212	43.8%
Products liability - occurrence	10,710,734	5,996,303	4,714,431	1.4%
Products liability - claims-made	642,144	288,264	353,880	0.1%
Commercial auto liability	7,360,966	5,435,988	1,924,978	0.6%
Aircraft	4,222,113	2,794,018	1,428,095	0.4%
Fidelity	20,960,423	7,719,326	13,241,097	3.9%
Surety	163,015,585	67,042,887	95,972,698	28.0%
Burglary and theft	5,508,657	1,928,030	3,580,627	1.0%
Boiler and machinery	70,719	70,931	(212)	0.0%
Reinsurance - Non-proportional Assumed Financial Lines	6,017	5,235	782	0.0%
Totals	$ 635,544,700	$ 292,906,242	$ 342,638,458	100.0%

SIGNIFICANT OPERATING RATIOS AND TRENDS

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

	Amount	Percentage
Premiums earned	$ 1,296,465,532	100.0 %
Losses incurred	$ 591,737,962	45.7 %
Loss expenses incurred	162,356,874	12.5 %
Other underwriting expenses incurred	412,472,342	31.8 %
Net underwriting gain or (loss)	129,898,354	10.0 %
Totals	$ 1,296,465,532	100.0 %

The Company reported the following net underwriting, investment and other gains or losses during the five-year period covered under this examination:

	2014	2013	2012	2011	2010
Admitted assets	$ 2,011,859,711	$ 2,056,086,204	$ 2,119,270,815	$ 2,420,497,569	$ 57,135,046
Liabilities	$ 1,105,801,577	$ 1,149,515,330	$ 1,305,567,622	$ 1,315,873,590	$ 20,118,240
Surplus as regards policyholders	$ 906,058,134	$ 906,570,874	$ 813,703,193	$ 1,104,623,979	$ 37,016,806
Gross premium written	$ 635,544,700	$ 578,240,135	$ 506,054,688	$ 445,361,308	$ 9,819,464
Net premium written	$ 342,638,456	$ 226,428,094	$ 389,770,945	$ 343,278,219	$ 6,985,348
Underwriting gain/(loss)	$ 31,884,447	$ 52,841,746	$ 4,111,606	$ 40,519,424	$ 541,131
Investment gain/(loss)	$ 69,706,302	$ 86,262,969	$ 118,144,424	$ 97,705,914	$ 1,405,749
Other gain/(loss)	$ 17,065,711	$ 3,439,871	$ 14,579,835	$ 15,722,896	$ (43,160)
Net income	$ 81,853,460	$ 114,050,686	$ 103,790,865	$ 101,973,234	$ 1,261,560

PENDING LITIGATION

CLAIMS AND OTHER LITIGATION

The Company is party to various lawsuits and arbitration matters, which have arisen in the ordinary course of business. This category of business litigation typically involves, among other things, allegations of underwriting errors or misconduct, employment claims, regulatory activity, or disputes arising from business ventures. Management believes the outcome of these matters will not have a material adverse effect on the Company's results of operation, liquidity, or financial position, although it is possible the effect could be material to the Company's results of operation for an individual reporting period.

BUSINESS PRACTICES LITIGATION

In all of the lawsuits described above, plaintiffs seek compensatory and in some cases special damages without specifying an amount. As a result, the Company cannot at this time estimate their potential costs related to these legal matters and, accordingly, no liability for compensatory damages has been established in the financial statements.

The Company's ultimate liability for these matters will not have a material adverse effect on the Company's results of operation, liquidity, or financial position. It is possible, however, the effect could be material to the Company's results of operation for an individual reporting period.

OTHER LITIGATION

A legal representation letter was obtained from the Company's General Counsel. No material legal issues affecting the Company were presented in the letter.

FINANCIAL STATEMENTS

The financial condition of the Company, as of December 31, 2014, 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

Westchester Fire Insurance Company

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

	2014	2013	2012	2011	2010
Bonds	$ 1,978,280,686	$ 1,774,825,880	$ 1,915,932,115	$ 2,125,068,507	$ 47,805,108
Common stocks	3,117	0	0	0	0
Cash, cash equivalents, and short term investments	(195,189,943)	48,912,929	(18,827,084)	60,003,335	3,886,107
Other invested assets	18,233,877	7,000,703	7,262,039	10,262,100	0
Receivable for securities	79,095	21,008	32,366	186,743	21,149
Securities lending reinvested collateral assets	13,053,471	22,552,914	53,214,280	71,974,070	681,735
Subtotals, cash and invested assets	1,814,460,303	1,853,313,434	1,957,613,716	·2,267,494,755	52,394,099
Investment income due and accrued	19,326,013	16,193,041	17,136,830	18,572,101	373,718
Premiums and agents' balances due	77,396,247	73,348,855	56,678,650	49,457,492	2,156,550
Amounts recoverable from reinsurers	52,266,456	33,116,301	32,831,164	49,494,013	813,549
Current federal and foreign income tax recoverable and interest thereon	0	0	2,951,263	0	0
Net deferred tax asset	27,453,759	27,513,566	37,079,202	35,442,659	433,564
Receivable from parent, subsidiaries and affiliates	20,956,933	52,564,458	14,943,441	0	963,566
Aggregate write-ins for other than invested assets	0	36,549	36,549	36,549	0
Total	$ 2,011,859,711	$ 2,056,086,204	$ 2,119,270,815	$ 2,420,497,569	$ 57,135,046
Losses	$ 721,967,062	$ 822,458,819	$ 887,967,599	$ 864,432,224	$ 10,431,802
Reinsurance payable on paid loss and loss adjustment expenses	7,000,656	12,003,731	22,170,709	9,691,231	1,194,710
Loss adjustment expenses	182,391,990	181,231,923	215,795,145	231,545,571	2,394,557
Commissions payable, contingent commissions and other similar charges	6,406,076	6,566,517	6,588,649	6,464,902	43,747
Taxes, licenses and fees	3,742,356	2,386,131	3,515,562	2,747,690	62,436
Current federal and foreign income taxes	2,948,809	531,252	0	6,508,193	115,825
Unearned premiums	185,962,253	162,490,379	215,324,197	187,860,407	2,445,363
Ceded reinsurance premiums payable (net of ceding commissions)	62,588,702	63,683,119	28,737,222	23,407,588	1,700,971
Funds held by company under reinsurance treaties	5,973,257	2,053,210	4,484,136	5,745,573	1,045,201
Amounts withheld or retained by company for account of others	3,904,691	3,913,398	3,911,868	34,277,983	0
Remittances and items not allocated	(848,307)	(817,615)	(638,023)	(115,061)	0
Provision for reinsurance	23,277,480	24,239,277	31,579,281	39,700,938	0
Payable to parent, subsidiaries and affiliates	286,871	500,631	1,324,319	19,361,191	0
Payable for securities	8,361,033	3,485,792	11,006,475	6,974,148	0
Payable for securities lending	13,059,705	22,565,480	53,242,370	72,094,016	683,628
Aggregate write-ins for liabilities	(121,241,057)	(157,776,714)	(179,441,887)	(194,823,004)	0
Total liabilities	1,105,801,577	1,149,515,330	1,305,567,622	1,315,873,590	20,118,240
Aggregate write-ins for special surplus funds	124,168,040	115,190,473	111,710,473	112,002,723	131,445
Common capital stock	5,000,100	5,000,100	5,000,100	5,000,100	5,000,100
Gross paid in and contributed surplus	298,429,489	295,331,592	292,187,374	289,280,640	21,500,000
Unassigned funds (surplus)	478,460,505	491,048,709	404,805,246	698,340,516	10,385,261
Surplus as regards policyholders	906,058,134	906,570,874	813,703,193	1,104,623,979	37,016,806
Totals	$ 2,011,859,711	$ 2,056,086,204	$ 2,119,270,815	$ 2,420,497,569	$ 57,135,046

Comparative Statement of Income
For the Year Ended December 31,

Underwriting Income	2014	2013	2012	2011	2010
Premiums earned	$ 319,179,825	$ 279,119,099	$ 362,307,472	$ 329,340,754	$ 6,518,382
Deductions:					
Losses incurred	117,044,263	108,514,721	197,276,795	165,508,069	3,394,114
Loss expenses incurred	63,203,796	21,890,819	46,312,620	29,968,453	981,186
Other underwriting expenses incurred	107,047,319	95,871,813	114,606,451	93,344,808	1,601,951
Total underwriting deductions	287,295,378	226,277,353	358,195,866	288,821,330	5,977,251
Net underwriting gain or (loss)	31,884,447	52,841,746	4,111,606	40,519,424	541,131
Investment Income					
Net investment income earned	74,341,739	72,512,194	91,181,889	101,566,839	1,383,154
Net realized capital gains or (losses)	(4,635,437)	13,750,775	26,962,535	(3,860,925)	22,595
Net investment gain or (loss)	69,706,302	86,262,969	118,144,424	97,705,914	1,405,749
Other Income					
Aggregate write-ins for miscellaneous income	17,065,711	3,439,871	14,579,835	15,722,896	(43,160)
Total other income	17,065,711	3,439,871	14,579,835	15,722,896	(43,160)
Net income before dividends to policyholders and before federal and foreign income taxes	118,656,460	142,544,586	136,835,865	153,948,234	1,903,720
Federal and foreign income taxes incurred	36,803,000	28,493,700	33,045,000	51,975,000	642,160
Net income	$ 81,853,460	$ 114,050,886	$ 103,790,865	$ 101,973,234	$ 1,261,560

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

	2014	2013	2012	2011	2010
Surplus as regards policyholders,					
December 31, previous year	$ 906,570,874	$ 813,703,193	$ 1,104,623,979	$ 929,062,044	$ 16,738,375
Net income	81,853,460	114,050,886	103,790,865	101,973,234	1,261,560
Net unrealized capital gains or (losses)	(5,513,470)	(722,495)	1,714,684	(481,650)	13,770
Change in net unrealized foreign exchange capital gain or (loss)	22,235	(880)	194	8,480	(981)
Change in net deferred income tax	(2,550,733)	(24,526,656)	(4,704,447)	464,785	14,009
Change in nonadmitted assets	(405,926)	14,583,904	7,249,527	3,566,256	17,751
Change in provision for reinsurance	961,797	7,340,004	8,121,657	(2,727,823)	0
Cumulative effect of changes in accounting principles	0	(1,300)	14,573,250	0	0
Capital changes:					
Paid in	0	0	0	0	1,500,100
Surplus adjustments:					
Paid in	3,097,897	3,144,218	2,906,734	73,863,156	18,000,000
Dividends to stockholders	(65,000,000)	(21,000,000)	(410,000,000)	0	0
Aggregate write-ins for gains and losses in surplus	(12,978,000)	0	(14,573,250)	(1,124,503)	(527,778)
Change in surplus as regards policyholder for the year	(512,740)	92,867,681	(290,920,786)	175,561,935	20,278,431
Surplus as regards policyholders,					
December 31, current year	$ 906,058,134	$ 906,570,874	$ 813,703,193	$ 1,104,623,979	$ 37,016,806

* The 2011 beginning of year surplus as regards policyholders increased by $892,045,238 to account for the Westchester Fire Insurance Company (NAIC Co. Code 21121 - a New York domiciled company) merger into the Company in 2011 and match the prior year amount in the Company's 2011 annual statement filing.

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

	2014	2013	2012	2011	2010
Cash from Operations					
Premiums collected net of reinsurance	$ 337,507,846	$ 244,573,686	$ 387,879,706	$ 341,314,159	$ 7,045,076
Net investment income	82,134,032	84,519,417	99,179,889	103,500,188	1,708,992
Miscellaneous income	(457,768)	118,906	75,409	44,141	20,840
Total income	419,184,110	329,212,009	487,135,004	444,858,488	8,774,908
Benefit and loss related payments	243,149,298	187,280,752	144,599,093	201,172,042	561,995
Commissions, expenses paid and aggregate write-ins for deductions	167,895,264	153,477,417	175,777,878	171,874,487	2,639,667
Federal and foreign income taxes paid (recovered)	44,167,546	15,362,967	54,465,722	49,367,366	733,335
Total deductions	455,232,108	356,121,136	374,842,693	422,213,895	3,935,017
Net cash from operations	(36,047,998)	(26,909,127)	112,292,311	22,644,593	4,839,891
Cash from Investments					
Proceeds from investments sold, matured or repaid:					
Bonds	360,284,435	655,608,473	1,018,171,418	407,968,809	32,316,187
Other invested assets	558,685	659,883	4,755,815	0	0
Miscellaneous proceeds	4,817,154	0	4,186,704	9,496,557	0
Total investment proceeds	365,660,274	656,268,356	1,027,113,937	417,465,366	32,316,187
Cost of investments acquired (long-term only):					
Bonds	586,339,516	518,313,792	770,822,900	548,831,779	53,452,516
Other invested assets	13,321,810	1,530,709	2,154,138	4,833,265	0
Miscellaneous applications	0	7,509,325	0	70,087	3,295
Total investments acquired	599,661,326	527,353,826	772,977,038	553,735,131	53,455,813
Net cash from investments	(234,001,052)	128,914,530	254,136,899	(136,269,765)	(21,139,626)
Cash from Financing and Miscellaneous Services					
Other cash provided (applied):					
Capital and paid in surplus, less treasury stock	0	0	0	71,000,000	19,000,000
Dividends to stockholders (paid)	65,000,000	21,000,000	410,000,000	0	0
Other cash provided or (applied)	90,946,178	(13,265,390)	(35,259,629)	73,631,803	(781,301)
Net cash from financing and miscellaneous sources	25,946,178	(34,265,390)	(445,259,629)	144,631,803	18,218,699
Reconciliation of cash and short-term investments:					
Net change in cash and short-term investments	(244,102,872)	67,740,013	(78,830,419)	31,006,631	1,918,964
Cash and short-term investments:					
Beginning of the year	48,912,929	(18,827,084)	60,003,335	28,996,704	1,967,143
End of the year	$ (195,189,943)	$ 48,912,929	$ (18,827,084)	$ 60,003,335	$ 3,886,107

*The 2011 beginning of year cash and short-term investments amount increased by $25,110,597 to account for the Westchester Fire Insurance Company (NAIC Co. Code 21121- a New York domiciled company) merger into the Company in 2011 and match the prior year amount in the Company's 2011 annual statement filing.

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, 2014, the Company's invested assets were distributed as follows:

	Amount	Percentage
Bonds	$ 1,978,280,686	109.1 %
Common stocks	3,117	0.0 %
Cash	(209,597,077)	(11.6)%
Short-term investments	14,407,134	0.8 %
Other invested assets	18,233,877	1.0 %
Receivable for securities	79,095	0.0 %
Securities lending reinvested collateral assets	13,053,471	0.7 %
Totals	$ 1,814,460,303	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	$ 1,339,625,504	67.2 %
2 - high quality	508,996,424	25.5 %
3 - medium quality	93,558,946	4.7 %
4 - low quality	49,058,637	2.5 %
5 - lower quality	414,942	0.0 %
6 - in or near default	1,033,369	0.1 %
Totals	$ 1,992,687,822	100.0 %

Years to Maturity	Amount	Percentage
1 year or less	$ 244,087,613	12.2 %
2 to 5 years	646,671,234	32.5 %
6 to 10 years	873,445,964	43.8 %
11 to 20 years	130,691,246	6.6 %
over 20 years	97,791,765	4.9 %
Totals	$ 1,992,687,822	100.0 %

The Company's $1.98 billion of bonds comprises about 109.1% of the total cash and invested assets, due to a negative cash balance at year-end. In all categories, the annual statement values fall within an acceptable range for the property and casualty industry. The bond portfolio is comprised of $711 million of securities in U.S. government, foreign governments and political subdivisions; $714 million in unaffiliated securities including credit tenant loans rated by the

Securities Valuation Office of the NAIC; and $553 million in commercial mortgage obligations, asset backed securities, and commercial mortgage backed securities. As of December 31, 2014, the bond portfolio's fair value of $2,045,322,648 exceeded the book adjusted carrying value of $1,978,280,685 by approximately $67.0 million, or 3.4% of the book value. The gross yield on the bond portfolio is consistent when compared to the industry during the past five years.

Approximately 92.7% of the Company's bonds are categorized as NAIC 1 or 2. The Company holds approximately $252 million in privately placed bonds. The Company's private bond portfolio is diversified across various industries and issuers. The Company's bond portfolio has 88.5% of its holdings in maturities of ten years or less and 32.5% in maturities of two to five years. Both of these statistics are comparable line with the industry averages.

The Company holds less than 0.01% of its investments in common stock, none in preferred stock and 0.7% in mutual funds (securities lending reinvested collateral amount).

The Company owns no real estate.

The Company's other long term investments within the Schedule BA asset category equate to approximately $18 million. This amount is made up of several joint venture or partnership interests and contains no concentration risk.

The examiners reviewed the Custodial Agreement with State Street Bank and Trust Company for compliance with the provisions of 31 Pa. Code § 148.a.3 and found the Custodial Agreement complies with the regulation.

The Company has a written investment policy as required by 40 P.S. § 653b(b). The Board reviews and approves the investment policy on an annual basis. The Company was following its investment policy at December 31, 2014.

LIABILITIES

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

The Company reported $721,987,062 and $182,391,990 for losses and loss adjustment expenses, respectively, on the December 31, 2014 Annual Statement. The Company's reserving methodology has been consistently followed since the prior examination.

Paul G. O'Connell, FCAS, MAAA, Executive Vice President and Chief Actuary of ACE INA Holdings, Inc., has been the Company's appointed actuary for all years in the examination period. For each year in the examination period, Mr. O'Connell issued a Statement of Actuarial Opinion that the Company's carried reserves make a reasonable provision.

The Department engaged the actuarial examination services of Risk and Regulatory Consulting, LLC ("RRC") of Farmington, Connecticut to perform a risk-focused review of the loss and LAE reserves, the forecasting and reserving models, and pricing and underwriting activities for all companies in the ACE property and casualty subgroup, in conjunction with this examination. In the course of their work, RRC actuarial examiners relied upon the underlying financial and risk-focused procedures performed by the financial examiners, the Company's Internal Audit Department, and the work of the Company's CPA.

Certain risks within the reserving and pricing processes required Phase 5 substantive test work. To mitigate the reserving risks, RRC performed an independent actuarial analysis of selected segments of the loss and LAE reserves as of December 31, 2014 that were assessed to present the highest risk of variability as determined by the risk-focused examination process. RRC also reviewed the loss and LAE reserve actual versus expected emergence through December 31, 2015 for selected segments.

Based upon the procedures performed, the RRC actuarial examiners determined that the Company's loss and LAE reserves fall within a reasonable range. The Department has accepted the appointed actuary's statement that reserves "make a reasonable provision for all unpaid loss and loss adjustment expense obligations combined of the Company under the terms of its contracts and agreements" such that the carried reserves are acceptable for purposes of this examination.

SUBSEQUENT EVENTS

On July 1, 2015, ACE Limited announced it would acquire The Chubb Corporation in a deal ultimately valued at approximately $29.5 billion. According to ACE Limited management, the combined company will remain a growth company with complementary products, distribution, and customer segments, and will continue to focus on underwriting discipline. As of December 31, 2015, on an aggregate basis, the combined company had total shareholders' equity of nearly $45 billion and cash, investments and other assets of $154 billion. This acquisition was finalized on January 14, 2016.

RECOMMENDATIONS

PRIOR EXAMINATION

The prior examination report contained the following recommendations:

1. Going forward, it is recommended that the Company prepare a premium deficiency reserve calculation at the MCC level on at least an annual basis in accordance with SSAP No. 53, paragraph 15-16 and have such readily available for the Department, upon request.

   The Company has complied with this recommendation.

CURRENT EXAMINATION

As a result of the current examination, the following recommendations are being made:

1. The ACE property and casualty insurance companies should amend or replace the Master Claims Service Agreement and the SIU Service and Support Agreement; including specific dates for issuing invoices for services rendered and for payment of such services to the service provider in the amended or replacement agreements in compliance with SSAP No. 25, paragraph 7, and 40 P.S. § 991.1405(a)(1). (See "Service and Operating Agreements", page 9).

2. ACE should amend or replace the written authorizations with their reinsurance intermediaries to be compliant with the requirements of 40 P.S. § 321.3. (See "Reinsurance Intermediaries", page 13).

CONCLUSION

As a result of this examination, the financial condition of Westchester Fire Insurance Company, as of December 31, 2014, was determined to be as follows:

		Amount	Percentage
Admitted assets	$	2,011,859,711	100.0 %
Liabilities	$	1,105,801,577	55.0 %
Surplus as regards policyholders		906,058,134	45.0 %
Total liabilities and surplus	$	2,011,859,711	100.0 %

Since the previous examination, made as of December 31, 2009, the Company's assets increased by $1,976,442,587, its liabilities increased by $1,087,122,828, and its surplus increased by $889,319,759.

This examination was conducted by Susan Bernard, CFE, representing California; F. Laurence Lindberg, CPA, CFE and Alex Quasnitschka, CFE, of RRC representing Georgia; Virginia M. Godek, CFE, and Chantel Long, and Joseph G. Jacobs, CFE, of RRC representing Illinois; Cindy Donovan, Chief Financial Examiner, and Roy Eft, CFE, Examination Manager, Mike Dinius, CFE, CPA, Lisa Warrum, CFE, CPA, and Paul Ellis, CPA, CFE, all of Noble Consulting Services, Inc. representing Indiana; Jim Armstrong, CPA, CFE, and Dan Mathis, CFE and Alex Quasnitschka, CFE, of RRC representing Iowa; Vince Kaighn, CFE, and Vinod Manchanda, AFE, representing New Jersey; Melissa Greiner, Bernard Mingo, CFE, and James Carpino all of the Pennsylvania Insurance Department; and LeeAnne Creevy, CPA, CISA, CITP, CRMA, MCM, Patrick Tracy, CPA, CFE, Craig Moore, CPA, CFE, Todd Sauer, Alan Gutierrez-Arana, CRISC, CISA, Inet+, A+, QSA, PICP, Tom Hayden, CISA, AES, Lisa Chanzit, FCAS, MAAA, ARM, Mike C. Dubin, FCAS, MAAA, FCA, Anne Kelly, FCAS, MAAA, John Purple, FCAS, MAAA, Stephan Donk, Amber Kinney, CPA, CFE, CISA, Shawn Hernandez, CFE, Kathleen Wilson and William Michael, CFE, CIA, CPCU, ARe, all of RRC, with the latter in charge.

Respectfully,

Melissa L. Greiner
Director
Bureau of Financial Examinations

Kelly A. Monaghan, CPA, AFE
Examination Manager

William Michael -cdd

William Michael, CFE, CIA, CPCU, ARe
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.