EXAMINATION REPORT

OF THE

CENTRE INSURANCE COMPANY

AS OF

DECEMBER 31, 2011

Karen Weldin Stewart, CIR-ML
Commissioner

Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2011 of the

CENTRE INSURANCE COMPANY

is a true and correct copy of the document filed with this Department.

Attest By: Brandi Biddle

Date: June 26, 2013

In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 26th day of June, 2013.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner

Delaware Department of Insurance

REPORT ON EXAMINATION

OF THE

CENTRE INSURANCE COMPANY

AS OF

DECEMBER 31, 2011

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 26th day of June, 2013

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SALUTATION

April 26, 2013

Honorable Karen Weldin Stewart, CIR-ML
Commissioner of Insurance
Delaware Department of Insurance
Rodney Building
841 Silver Lake Boulevard
Dover, Delaware 19904

Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 12.012, dated March 12, 2012, an examination has been made of the affairs, financial condition and management of the

CENTRE INSURANCE COMPANY

hereinafter referred to as "Company", incorporated under the laws of the State of Delaware as a stock company with its home office located at 2711 Centerville Road, Suite 400, Wilmington, Delaware. The examination was conducted at the main administrative office of the Company located at 1 Liberty Plaza, 165 Broadway, 30th Floor; New York, New York 10006. The report of such examination is submitted herewith.

SCOPE OF EXAMINATION

The last examination of the Company was conducted by the Delaware Department of Insurance as of December 31, 2006. This examination of the Company covers the period from January 1, 2007 through December 31, 2011, and encompasses a general review of transactions during the period, the Company's business policies and practices, as well as management and relevant corporate matters, with a determination of the financial condition of the Company at

December 31, 2011. Transactions subsequent to the examination date were reviewed where deemed necessary.

We conducted our examination in accordance with the *National Association of Insurance Commissioners Financial Condition Examiners Handbook* (NAIC Handbook) and generally accepted statutory insurance examination standards consistent with the insurance laws and regulations of the State of Delaware. The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risk within the Company, and evaluating its system controls and procedures used to mitigate those risks. The examination also includes an assessment of the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to Delaware state regulations.

All accounts and activities of the Company were considered in accordance with the risk focused examination process. The examination report only addresses regulatory information revealed by the examination process.

For the year ended December 31, 2011, the Company was granted an exemption from the annual CPA audit requirement by the Delaware Department of Insurance in accordance with 18 <u>Del. Admin. Code</u> 301 § 17.1. The last external audit of the Company was performed by PricewaterhouseCoopers, LLP as of December 31, 2008.

The examination included independently performed process reviews, risk assessments, and detail control and substantive testing. In addition, the examination included a review of the work completed by the New York Department of Insurance on the coordinated examination of

Zurich American Insurance Group (ZAIG) as of December 31, 2011. The examination utilized the work of the coordinated examination where corporate governance and other shared services were directly applicable to the Company's management and operations. In some cases this included reliance on external audit workpapers prepared by Pricewaterhouse Coopers, LLP that were utilized in the coordinated examination. The lead company within the coordinated examination group was the New York domiciled Zurich American Insurance Company (ZAIC).

This report of examination was confined to financial statements and comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description. The Company has no employees and does not directly participate in any pension, stock ownership or insurance plan. Accordingly, the examination report excludes related disclosures required by the NAIC Handbook.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings or material adjustments to the Company's financial statements that warranted disclosure in this examination report.

SUBSEQUENT EVENTS

Effective March 1, 2013, the Company and Centre Solutions (U.S.) Limited entered into a novation agreement which eliminated all future liabilities with regards to the Facultative Quota Share Agreement between the Company and its affiliate, Steadfast Insurance Company (Steadfast). The Delaware Department of Insurance approved the transaction on March 19, 2013. The net impact on the Company was a loss of $24 thousand.

COMPANY HISTORY

The Company was originally incorporated under the laws of the State of Delaware on May 26, 1977, for the purpose of changing the corporate domicile of London Guarantee &

Accident Company of New York to Delaware. After numerous changes in ultimate control throughout the late 1970's and early 1980's, the Company was acquired by the California Compensation Insurance Company (Cal Comp) on February 16, 1995. Cal Comp was a direct subsidiary of Business Insurance Group, Inc. and was ultimately controlled by Foundation Health Corporation. On February 17, 1995 the Company changed its name from London Guarantee & Accident Company of New York to Business Insurance Company.

The Company was acquired by Superior National Insurance Group, Inc. on December 10, 1998. In anticipation of this acquisition, the Company cancelled its pooling arrangement with the Business Insurance Group of companies as of October 1, 1998, and ceded reserves were returned to the Company.

Centre Solutions Holdings (Delaware) Limited acquired the Company from Superior National Insurance Group, Inc. (SNIG) and changed its name to Centre Insurance Company on December 18, 1998. Concurrent with the acquisition, 100% of the Company's gross liabilities and obligations arising out of policies written prior to the acquisition were reinsured through a loss portfolio transfer to its prior affiliates, Cal Comp and Superior National Insurance Company (SNIC). The Company continued to write new and renewal workers compensation insurance through underwriting agreements with SNIG affiliates. All risk on the workers compensation business was ceded under a reinsurance agreement with Cal Comp. In September 2000, the SNIG and its affiliates including Cal Comp and SNIC were placed into rehabilitation by the California Department of Insurance. At this time, the Company ceased writing workers compensation insurance under the SNIG underwriting management agreements. As a result of the rehabilitation, the Company's reinsurance on the workers compensation business was cancelled. A settlement was subsequently reached with the California receiver and the Company continues to administer the workers compensation business originally produced prior to the Centre Solutions Holdings (Delaware) Limited acquisition or through SNIG affiliates subsequent to the acquisition. In addition to the SNIG workers compensation insurance, the Company wrote other lines of business through various other underwriting management agreements between 1998 and 2004. However, due to rating downgrades from both Standard & Poor's and Moody's on the Centre Group of companies, the last remaining line of business was placed in voluntary run-off as of March 31, 2004.

In 2007, Centre Solutions Holdings (Delaware), Limited was merged into its direct parent Centre Solutions (U.S.) Limited (CSUS), which is an insurance and reinsurance company domiciled in Bermuda. As a result, ownership of the Company was transferred from Centre Solutions Holdings (Delaware) Limited to CSUS. The Delaware Department of Insurance approved an exemption from a Form A filing related to the merger because the transaction did not result in a change in the ultimate control or ownership of the Company.

Common Capital Stock and Paid-in Surplus

As amended, the Certificate of Incorporation authorizes the Company to issue 5,000 shares of $1,000 par value common stock. As of December 31, 2011, the Company had 5,000 shares of authorized, issued, and outstanding capital stock totaling $5,000,000. All shares of the Company are owned by Centre Solutions (U.S.) Limited (CSUS).

As of December 31, 2011, the Company reported gross paid in and contributed surplus of $21,918,784. During the examination period, the Company returned $50 million, $50 million, and $35 million of gross paid in and contributed surplus to CSUS for the years ended 2007, 2008 and 2011, respectively.

Dividends

The Company paid one dividend during the examination period. In 2010, the Company paid an ordinary dividend in the amount of $5.7 million. The dividend was properly approved by the Company's board of directors. The following changes occurred in the capital and surplus accounts since the prior examination date:

Description	Common Capital Stock	Gross Paid In and Contributed Surplus	Unassigned Funds (Surplus)	Totals
Balance as of January 1, 2006	$ 5,000,000	$ 145,238,396	$ (15,649,287)	$ 134,589,109
2007 Capital Paid-In		(50,000,000)		(50,000,000)
2007 Dividends			-	-
2007 Operations			14,421,358	14,421,358
Balance as of December 31, 2007	$ 5,000,000	$ 95,238,396	$ (1,227,929)	$ 99,010,467
2008 Capital Paid-In		(50,000,000)		(50,000,000)
2008 Dividends			-	-
2008 Operations			2,049,897	2,049,897
Balance as of December 31, 2008	$ 5,000,000	$ 45,238,396	$ 821,968	$ 51,060,364
2009 Capital Paid-In		-		-
2009 Dividends			-	-
2009 Operations			5,621,105	5,621,105
Balance as of December 31, 2009	$ 5,000,000	$ 45,238,396	$ 6,443,073	$ 56,681,469
2010 Return of Capital		-		-
2010 Dividends			(5,700,000)	(5,700,000.00)
2010 Operations			3,484,890	3,484,890
Balance as of December 31, 2010	$ 5,000,000	$ 45,238,396	$ 4,227,963	$ 54,466,359
2011 Return of Capital		(35,000,000)		(35,000,000)
2011 Dividends			-	-
2011 Operations			2,452,425	2,452,425
Balance as of December 31, 2011	$ 5,000,000	$ 10,238,396	$ 6,680,388	$ 21,918,784

CORPORATE RECORDS

The minutes of the Board of Directors, Stockholders and committees of the Board were reviewed for the period under examination. The recorded minutes documented activities and transactions of the Company.

The bylaws require the Board of Directors to meet annually after the annual stockholders meeting and provide for written consent in lieu of formal meetings. The minutes of the meetings verified annual meetings took place in each year of the examination period.

Copies of the Form B and C Holding Company Registration Statements filed with the Delaware Department of Insurance during the period under examination were reviewed. Per the review, the Company has not complied with the provisions of 18 Del. Admin. Code 1801. The examination determined the Company failed to update its Form B and Form C filings to disclose affiliated agreements including updates to all affiliated agreements for amendments, terminations, and other changes.

Therefore:

It is recommended that the Company disclose and update information related to all of its affiliated arrangements in its annual Form B and Form C filings to the Delaware Department of Insurance pursuant to 18 Del. Admin. Code 1801 and 18 Del. C. § 5005.

MANAGEMENT AND CONTROL

Pursuant to its bylaws, the business and affairs of the Company are managed by or under the direction of its Board of Directors. Accordingly, the Board of Directors may perform all lawful acts not otherwise reserved by stockholders or prohibited by either law or the Certificate of Incorporation. The bylaws initially set the number of directors at seven and allow the number to be changed by the Shareholders or a majority vote of the Directors. On January 1, 1999, the number of Directors was set at a minimum of seven and a maximum of thirteen by board resolution.

The Directors are elected annually by the Stockholder and serve until resignation or their successors are elected and qualified. Directors duly elected and serving as of December 31, 2011 and their principal residence locations are as follows:

Name	Address	Business Affiliation
Patrick C. Tiernan	London, UK	President & Business Unit CEO
Michael G. Baschwitz	New York, NY, USA	Vice President & Head of P&C Centrally Managed Business North America
Ali E. Rifai	New York, NY, USA	General Counsel & Senior Vice-President
Dawn Cummings-Fritz	Schaumburg, IL, USA	Vice President, Insurance Tax Planning with Zurich North America
Steven J. Gaeta	New York, NY, USA	Vice President
Elizabeth A. Lawn	New York, NY, USA	Vice President
Diana L. Branciforte	New York, NY, USA	Vice President, Controller & Treasurer

Officers were elected in accordance with the bylaws during the period under examination. The bylaws require election of a President, one or more Vice Presidents, a Secretary, and a Treasurer. A Chairman of the Board and other officers may be elected as the Board of Directors deems necessary. Only the Chairman is required to be a Director. The following officers were serving as of December 31, 2011:

Name	Title
Patrick C. Tiernan	President
Thomas F. Grogan	Secretary
Diana L. Branciforte	Treasurer
Glenn Carrascoso	Vice President
Ernest I. Wilson	Senior Vice President

Holding Company System

The Company is a member of an Insurance Holding Company System pursuant to 18 Del. C. § 5001. The Company is a wholly owned subsidiary of Centre Solutions (U.S.) Limited, an insurance and reinsurance company domiciled in Bermuda. The Company and its direct parent are ultimately controlled by Zurich Insurance Group Ltd (formerly known as Zurich Financial Services Ltd prior to April 4, 2012), which is a financial services company domiciled in Switzerland and traded on the SIX Swiss stock exchange. As of December 31, 2011, no shareholder held ten percent or more of the voting shares of Zurich Insurance Group Ltd (the Ultimate Controlling Party).

The following is an abbreviated organizational chart that reflects the identities and interrelationships between the Company, its parents, and affiliates with direct business relationships with the Company as of December 31, 2011:

- Zurich Insurance Group Ltd[1] [Switzerland]
  - Zurich Versicherungs-Gesellschaft AG[2] [Switzerland]
    - CMSH Limited [Bermuda]
      - Zurich Investment Services Limited [Bermuda]
      - Centre Group Holdings Limited [Bermuda]
        - Centre Solutions (Bermuda) Limited [Bermuda]
          - Centre Group Holdings (U.S.) Limited [Delaware]
            - Centre Reinsurance (U.S) Limited [Bermuda]
            - Centre Solutions (U.S) Limited [Bermuda]
              - Centre Life Insurance Company [Massachusetts]
              - **Centre Insurance Company [Delaware]**
    - Zurich Holding Company of America, Inc.[3] [Delaware]
      - Zurich Alternative Asset Management, LLC
      - Zurich American Insurance Company[4] [New York]
        - Steadfast Insurance Company [Delaware]

Note: All ownership percentages are 100% unless otherwise indicated.

[1] Formerly known as Zurich Financial Services Ltd or Zurich Financial Services AG, prior to name change effective April 4, 2012.

[2] Zurich Versicherungs-Gesellschaft AG is also known as Zurich Insurance Company Ltd, which operates a branch in Bermuda.

[3] Zurich Holding Company of America, Inc. is owned 99.871% by Zurich Versicherungs-Gesellschaft AG and 0.129% by Crown Management Services Ltd, a wholly owned subsidiary of CMSH Limited.

[4] Companies examined as part of the New York Department Insurance financial examination of the Zurich American Insurance Group included American Guarantee and Liability Insurance Company (NY), American Zurich Insurance Company (IL), Assurance Company of America (NY), Colonial American Casualty and Surety Company (MD), Empire Fire and Marine Insurance Company (NE), Fidelity and Deposit Insurance Company of Maryland (MD), Maryland Casualty Company (MD), Northern Insurance Company of New York (NY), Steadfast Insurance Company (DE), Zurich American Insurance Company (NY) and Zurich American Insurance Company of Illinois (IL). Other states participating in the examination were California, Delaware, Illinois, Maryland and Nebraska.

Management and Service Agreements

As of December 31, 2011, the Company had no direct employees and all services were provided under various affiliated and unaffiliated management and administrative contracts. Below is a summary of all material agreements in effect as of December 31, 2011.

Affiliated Agreements

As of December 31, 2011, the Company had the following service and other agreements in effect with affiliates:

- Centre Group Holdings (U.S.) Limited - Effective January 1, 2004, the Company entered into two Intercompany Services Agreements with Centre Group Holdings (U.S.) Limited (CGHUS). Under the first agreement, CGHUS is the service provider and the Company is the service recipient under the agreement. In accordance with the agreement, CGHUS provides certain services such as accounting, actuarial, administration and transaction management, finance, human resources, legal, claims, risk management, work-out, real estate analysis, payor, senior management, tax and management information services. The contract allows CGHUS to provide, or contract with affiliates, subsidiaries or third parties to provide, any or all of the services. All costs and expenses are allocated based on actual time and expenses incurred, actual usage and availability of services, value created, the size, the number, complexity, risk exposure and value of transactions involved or any other method of allocation. The agreement requires CGHUS to provide a statement to the Company no later than sixty days after each quarter and requires the Company to provide payment within thirty days after the invoice receipt. The Company did not make timely settlement in accordance with the agreement in the first and second quarters of the year ended December 31, 2011. In addition, as of December 31, 2011, the Company reported a payable to parent, subsidiary, and affiliate in the amount of $1.9 million due to CGHUS for a balance outstanding since 2007. The Company paid CGHUS subsequent to the examination period in the first quarter of 2013.

Therefore:

It is recommended the Company comply with the settlement provisions of its affiliated administration agreements.

- Under the second agreement, the Company is the service provider and CGHUS is the service recipient. The agreement is a reciprocal agreement with the same terms and conditions as the first agreement. As of December 31, 2011, the second agreement had not been terminated, however, no services were provided under the agreement and no fees were earned during 2011.
- Centre Group Holdings (U.S) Limited – Effective December 16, 1999, the Company entered a Tax Allocation Agreement with Centre Group Holdings (U.S.) Limited

(CGHUS) and other affiliates. In accordance with the agreement, federal income tax is to be paid or received to/from CGHUS based on the Company's taxable income or taxable loss calculated on a separate return basis. The agreement requires tax balances to be estimated and settled quarterly and tax adjustments settled annually when the tax return is filed. In December 2004, the agreement was amended to relieve the Company of all indebtedness to the parent for obligations created by the Company's utilization of affiliate losses under the Tax Sharing Agreement. The amendment stipulates the Company will receive relief in any year its taxable income is offset by affiliated losses in the future.

- Centre Group Holdings (U.S) Limited and Zurich Investment Services Limited - Effective March 19, 2002, the Company is party to an Investment Services Agreement between Centre Group Holdings (U.S) Limited (CGHUS) and Zurich Investment Services Limited (ZIS). In accordance with the agreement, ZIS provides cash management, reconciliation, settlement of trades and other back office functions with respect to accounts managed under the Investment Management Agreement with Deutsche Investment Management Americas, Inc. (DeAM).
- Centre Solutions (U.S.) Limited - Centre Solutions (U.S.) Limited - Effective January 1, 1999, Centre Solutions (U.S.) Limited (CSUS), which is now the immediate parent of the Company, issued a surety bond (the Original Surety Bond) in favor of the Company. In accordance with the terms of the Original Surety Bond, CSUS guarantees the Company's net worth to be at least the greater of one million dollars or the minimum required in accordance with applicable insurance regulations. The Original Surety Bond covers the following if issued or effective on or after January 1, 1999: any insurance, reinsurance,

surety or derivative contract; any obligation to purchase, repurchase, deliver or sell securities; any loans or other financial instruments, any obligation to post margin or collateral; any obligation to provide liquidity or otherwise provide funds to any other entity; and any other product or instrument similar to the items previously listed. Any amounts paid out by CSUS are to be repaid by the Company plus 6% interest, but are subordinated to all other obligations of the Company. Effective January 1, 2000, CSUS issued an Amended and Restated Surety Bond (the Amended Surety Bond) in favor of the Company. The Amended Surety Bond is substantially the same as the Original Surety Bond with respect to the Company's guaranteed net worth and covered items, however, the Amended Surety Bond covers items issued or executed and delivered on or after January 1, 2000. Both the Original Surety Bond and Amended Surety Bond remain in effect as of December 31, 2011, without interruption of coverage between January 1 1999 and January 1, 2000. As of December 31, 2011, there were no amounts outstanding under either surety bond.

Claims Administration Agreements

The Company is in run-off and did not write new or renewal policies under any line of business during the year ended December 31, 2011. All remaining direct loss and loss adjustment expense reserves and related claims payments made during 2011 relate to legacy lines of business originally produced through underwriting management agreements and administered by the underwriting manager or an associated claims administrator. For 2011, approximately 98% of claims payments made and 93% of the remaining gross loss and loss adjustment expense reserves at year-end relate to workers compensation business produced directly by or through underwriting management agreements with the Business Insurance Group and Superior National Insurance Group. The claims for this business are administered through the following two third party claims administration agreements:

- Risk Enterprise Management Limited - Effective August 1, 2000, the Company and Risk Enterprise Management Limited (REM) entered into a Claims Administration Services Agreement. Under the agreement, REM is the claims administrator for the workers' compensation business written by the Superior National Insurance Group, SN Insurance Agency and the Business Insurance Group. REM was an affiliate until sold to the third party of REM FMG Acquisition Corp. on November 30, 2007. In April 2012, REM was acquired by and changed its name to TRISTAR Risk Management.
- Keenan and Associates - Effective July 1, 2000, the Company and Keenan and Associates (Keenan) entered into a Claims Administration Services Agreement. In accordance with the agreement, Keenan is the claims administrator for claims from run-off workers' compensation business produced by the Superior National Insurance Group, SN Insurance Agency and the Business Insurance Group. Keenan administers workers' compensation claims mainly for school districts and city and county municipalities in California.

Other Third Party Agreements

As of December 31, 2011, the Company had the following service and other agreements in effect with unaffiliated third parties:

- Scudder Kemper Investments, Inc. / Deutsche Asset Management - Effective July 1, 2000, the Company and Scudder Kemper Investments, Inc. (SKI) entered an Investment Management Agreement. In early 2002, Deutsche Bank acquired Zurich Scudder Investments from the Company's affiliate, Zurich Financial Services. As a result of the acquisition, the services previously provided by SKI are now provided by Deutsche Asset Management (DeAM) per the terms of the original agreement and the Amended Investment Management Agreement dated March 19, 2002. In accordance with the agreement, DeAM provides various investment management, account and trade information services to the Company and the Company pays varying basis points based on the assets under management as scheduled in the agreement.

- Bank of New York – Effective August 25, 1999, the Company entered a Custodial Agreement with the Bank of New York. The agreement was amended in August 2004 to comply with the provisions outlined in the NAIC Handbook.

Corporate Governance

The Company's corporate governance is primarily the responsibility of its officers and directors based on delegated powers reserved to local management under the Zurich Insurance Group Ltd (the Ultimate Controlling Party) Group Governance Principles for Subsidiaries. The Company's officers and directors perform these duties under the oversight of upstream affiliates as defined by the Group Governance Model. Beyond local management and directors, oversight takes place primarily by the CMSH Limited (Bermuda) board of directors and audit committee. Under the Group Governance Model, CMSH Limited (Bermuda) ultimately reports to the European Oversight Committee and then to the Ultimate Controlling Party Board of Directors and Audit Committee.

The Group Governance Model and Group Governance Principles for Subsidiaries provide an overall hierarchy and control structure for all of the Company's business processes including a detailed Internal Control Framework. Accordingly, the Company's and the Ultimate Controlling Party's officers and directors are responsible for the management and control of operational, financial reporting, regulatory and strategic risks of the organization. Key areas relative to the Company's corporate governance structure are discussed as follows:

Board of Directors and Committees

The Company's Board of Directors is comprised solely of management; therefore, none of the Directors are considered independent. However, under the Group Governance Model independence is provided at multiple levels with the first provided by the CMSH Limited (Bermuda) Board of Directors and Audit Committee. In addition, independence is provided by the Ultimate Controlling Party where all Board members are outside Directors.

There are three primary local management committees that provide corporate governance over the continuing operations of the Company. The membership composition and responsibilities for the following three key committees were reviewed:

- Risk Mitigation & Restructuring Committee
- Asset-Liability Management & Investment Committee
- Reserving Committee

Review of the respective committee minutes indicated in-depth involvement in the Company's operations. The Risk Management & Restructuring Committee meets on a weekly basis to discuss any transactions deemed material to the Company. The Committee reviews and approves all material transactions through a required Restructuring Action Memo prior to execution. Both the Asset-Liability Management & Investment Committee and the Reserving Committee meet at least quarterly. The Board of Directors is updated on all committee activity on a regular basis. In addition, local committees report into group committees at various operational levels within the Ultimate Controlling Party.

Risk Management Activities

The Company's risk management framework is promulgated by the Ultimate Controlling Party under the Group Risk Management business unit and the Zurich Risk Policy. The Zurich Risk Policy defines risk ownership roles and responsibilities, limits risk by type, and is regularly updated and communicated throughout the organization. The Group Risk Management unit consists of a Group Risk Officer as well as other various levels of Risk Officers including a local Risk Officer that oversees the business unit specific to the Company's operations. The mission of the risk management function is to promptly identify, measure, manage, report and monitor risks that affect the achievement of strategic, operational, and financial objectives.

On an annual basis, Total Risk Profiles are completed as part of the enterprise risk management activities at the various responsibility centers within the Ultimate Controlling Party. This includes a local business unit Total Risk Profile specific to the Company's continuing operations. The Total Risk Profile is produced via a qualitative risk assessment process designed to identify and prioritize the risks and define improvement actions.

FIDELITY BONDS

The Company is a named insured on a fidelity bond covering Zurich Holding Company of America, Inc (ZHCA) issued by Liberty Mutual Insurance Company. As of December 31, 2011, ZHCA has fidelity coverage of $9,500,000 with a deductible of $500,000. The policy exceeds the NAIC Handbook suggested minimum fidelity coverage for the Company of $400,000.

TERRITORY AND PLAN OF OPERATION

The Company is authorized to write various types of property and casualty insurance and reinsurance in all fifty (50) states and the District of Columbia. Currently, the Company is in run-off with three remaining direct lines of business inforce consisting primarily of workers compensation, homeowners, and non-standard auto based on claims paid during 2011 and remaining reserves as of December 31, 2011. As of December 31, 2011, approximately 77% of the Company's gross direct loss reserves (excluding loss adjustment expense) were held for business in California, Florida, Texas, Colorado, and Arizona at 38%, 13%, 12%, 9% and 5%, respectively.

GROWTH OF THE COMPANY

The following information reflects the admitted assets, surplus as regards policyholders, gross premiums written and net income of the Company since the prior examination:

Year	Admitted Assets	Surplus as Regards Policyholders	Gross Premiums Written	Net Income (Loss)
2011	$ 103,142,144	$ 21,918,784	$ 121	$ 2,435,647
2010	$ 139,481,260	$ 54,466,359	$ 178,017	$ 3,354,817
2009	$ 262,076,437	$ 56,681,469	$ (820,793)	$ 5,792,262
2008	$ 266,164,660	$ 51,060,364	$ (557,598)	$ 2,060,792
2007	$ 345,363,809	$ 99,010,467	$ (2,462,405)	$ 8,512,017

The Company has experienced decreasing admitted assets and surplus as regards to policyholders during the period under examination due to the continued run-off of existing business, a dividend in 2010, and several returns of capital to its parent. Over the five year examination period, total admitted assets decreased by 70% and surplus as regards policyholders decreased 78%.

LOSS EXPERIENCE

The reserves for losses and loss adjustment expenses as of December 31, 2011, were $14.25 million and $5.5 million, respectively. The Company's 2011 Schedule P, Part 2 reflects a total one year redundancy of $321 thousand for incurred loss years 2010 and prior. During the examination period, the Company experienced total one year adverse development for only the year-ended December 31, 2010. The adverse development in 2010 was primarily related to a re-estimation of workers compensation reserves for accident years 2001 through 2003.

REINSURANCE

As of December 31, 2011, the Company continued to cede and assume risk under both affiliated and unaffiliated reinsurance contracts with effective dates prior to the voluntary run-off period with the exception of one new ceded contract. The following is a summary of the primary assumed and ceded reinsurance contracts inforce as of December 31, 2011.

Assumed Reinsurance

- Steadfast Insurance Company – On October 1, 2001, the Company entered a Master Novation and Indemnity Reinsurance Agreement (the Novation) with several affiliated parties. Pursuant to the Novation, the Company assumed the rights and obligations of Centre Reinsurance Company of New York (CRCNY) under the Facultative Quota Share Reinsurance Treaty (the Agreement) between CRCNY as the reinsurer and Steadfast Insurance Company (Steadfast) as the insured. Under the Agreement, the Company reinsures Steadfast for a 66.67% quota share for the Facultative Excess of Loss Reinsurance Contract (the Underlying Agreement) between Steadfast and the captives EYCAP, Limited and EYRRG (collectively referred to as E&Y) in accordance with the same terms, conditions, limits and clauses as the Underlying Agreement. The Underlying

Agreement reinsures E&Y for professional indemnity insurance on a claims-made basis to worldwide captives of Ernst & Young. For the policy period June 1, 1994 to June 1, 1995, Steadfast reinsured E&Y for $5 million in excess of $70 million per claim with a maximum aggregate limit of liability of $10 million for all losses in relation to all claims made during the term of the agreement. For the policy period June 1, 1995 to June 1, 2002, the Underlying Agreement reinsured E&Y for the first two annual limits at the layer of $10 million in excess of $65 million with a maximum aggregate limit of liability for all losses in a single annual policy period of $20 million and $140 million for the entire term of the agreement. Only certain member firms of Ernst & Young International have coverage in excess of $65 million ground up during the policy period. The Company and Centre Solutions (U.S.) Limited entered into a novation agreement subsequent to the examination period that eliminated all of the Company's future liability under the Original Agreement.

Ceded Reinsurance

Counterparty	Type of Contract	Effective Date	Line of Business	Retention / Limits	2011 Claims Paid	Reinsurance Recoverables as of 12/31/2011
CSUS	Surplus Share	1/1/1999	All - Direct & Assumed	10% of Surplus	$ -	$ 47,500,667
CSUS	Stop Loss	1/1/1999	All - Direct & Assumed	105% Net Earned Prem	1,514,545	9,517,000
General Re	Excess of Loss	1/10/1994	Workers Comp.	See Narrative	1,553,515	9,900,000
Other Contracts	Various	Various	Various	Various	816,693	5,810,500
Total Ceded Reserves					$ 3,884,753	$ 72,728,167

- Centre Solutions (U.S) Limited - Effective January 1, 1999, the Company entered a Surplus Share Reinsurance Agreement with its now immediate parent, Centre Solutions (U.S.) Limited (CSUS). The agreement provides automatic coverage for maximum net losses from any one deal or program written by the Company. In accordance with the agreement, net losses from any contract cannot exceed 10% of the Company's stated surplus measured at the most recent quarter prior to inception of the contract. The Company and CSUS actually determined the percentage of each programs' business to be ceded at the inception of each new contract to more efficiently monitor and administer the agreement. The percentage does not change unless both parties agree otherwise. The Surplus Share Reinsurance Agreement inures to the benefit of the Stop Loss Reinsurance Agreement with CSUS.

- Centre Solutions (U.S) Limited - Effective January 1, 1999, the Company entered a Stop-Loss Reinsurance Agreement with its now immediate parent, CSUS. The Stop Loss agreement provides catastrophic coverage by limiting the Company's losses in any given loss year to 105 percent of net earned premiums.
- General Reinsurance Corporation - Effective January 10, 1994, the excess of loss agreement is a legacy agreement originally issued between General Reinsurance Corporation (General Re) as the reinsurer and the California Compensation Insurance Company (CalComp) and its named affiliates, including Business Insurance Company, as the reinsured. CalComp was first acquired by the Superior National Insurance Group (SNIG) and then Centre Solutions Holdings (Delaware) Limited on December 18, 1998. The agreement covers workers' compensation and employers' liability business written by CalComp prior to termination of the agreement effective December 11, 1998. In accordance with the original agreement General Re accepted the net loss per occurrence in the amount of $4.5 million in excess of $500 thousand. The agreement has several Endorsements as follow:

a.) Endorsement No. 2 – The original coverage limits were retroactively amended to change the retention to $1.5 million in excess of $500 thousand and $3 million in excess of $2 million for the first excess cover and second excess cover, respectively.

b.) Endorsement No. 3 – The original coverage limits were amended with respect to losses resulting from occurrences taking place on or after January 1, 1996. The limits were amended to change the retention to $1 million in excess of $1 million and $3 million in excess of $2 million for the first excess cover and second excess cover, respectively.

ACCOUNTS AND RECORDS

All administrative and technology services are provided under the management services agreements with affiliates or other third party administrators. The Company utilizes mainframe, Sun UNIX operating systems, Oracle databases, Windows operating systems and MS-SQL databases to process data. The Company utilizes a SAP general ledger, which runs on an AIX/DB2 operating system/database combination. The SAP general ledger integrates accounts payable, accounts receivable, and other general accounting processes including the investment and underwriting/claims systems.

The Company utilizes three primary subsidiary ledger systems to record transactions for investments, underwriting/claims and reserving including: CAMRA, CENSYS, and RESVAL, respectively. Investment valuation and accounting is performed in Bermuda by Zurich Investment Services using the CAMRA investment management system. CAMRA is a third party software application that is common in the insurance and financial services industry. The CENSYS system handles underwriting and claims accounting and is proprietary software. All premium and loss data is recorded in the CENSYS system via bordereau received from administrators and underwriting managers. The RESVAL system is also a proprietary system and is interfaced with CENSYS to receive data for reserving and then provides final reserves back to CENSYS for posting to the general ledger.

A review of the adjusted trial balance as of December 31, 2011, indicated the balances consisted of International Financial Accounting Standards (IFRS) ledger accounts with non-ledger IFRS to Statutory Accounting Principle adjustments. The adjusted trial balance as of December 31, 2011, supported the financial data of the Company's 2011 annual statement. The Company utilizes an early cut-off for recording its claims data due to its reliance on third party administrators and the timing of the receipt of this data. The claims information reported represents business through October of each year. It was noted that the Company was consistent in its usage of cut-off periods and makes reasonable estimates for items occurring after the cut-off period. Monthly reconciliations of the general ledger to supporting account detail ledgers are performed by the various departments involved.

A review and assessment of the Company's information systems and related controls was performed by INS Services, Inc.

STATUTORY DEPOSITS

Listed below are the statutory deposits, which were verified during the examination:

State	Deposit Type	Book Value	Fair Value
Arizona	Bonds	$ 5,368,828	$ 5,786,888
Arkansas	Bonds	250,623	338,525
California	Bonds	25,462,204	25,475,912
Delaware	Bonds	3,359,859	3,489,545
Georgia	Bonds	209,936	218,097
Idaho	Bonds	907,662	1,074,685
Kansas	Bonds	120,333	125,665
Kentucky	Bonds	109,995	114,241
Louisiana	Bonds	81,952	85,162
Massachusetts	Bonds	164,911	171,362

Nevada	Bonds	109,834	111,448
New Mexico	Bonds	314,905	327,145
North Carolina	Bonds	581,230	618,893
Ohio	Bonds	169,952	176,554
Oregon	Bonds	316,433	344,999
Virginia	Bonds	528,819	549,396
Total		**$ 38,057,476**	**$ 39,008,517**

FINANCIAL STATEMENTS

The following statements show the assets, liabilities, surplus and other funds of the Company, as determined by this examination, as of December 31, 2011:

Analysis of Assets, Liabilities and Surplus
Summary of Operations
Reconciliation of Capital and Surplus

Analysis of Assets, Liabilities & Surplus
As of December 31, 2011

	Assets	Nonadmitted Assets	Net Admitted Assets	Notes
Bonds	$ 93,515,361	$ -	$ 93,515,361	1
Mortgage Loans	1,816,911	-	1,816,911	
Cash and Short-Term Investments	6,763,680	-	6,763,680	
Investment Income Due and Accrued	648,423	57,664	590,759	
Reinsurance Recoverables from Reinsurers	455,433	-	455,433	
Net Deferred Tax Asset	20,193,174	20,193,174	-	
Aggregate Write-ins for Other Than Invested Assets	15,471	15,471	-	
Total Assets	$123,408,453	$20,266,309	$103,142,144	

	Liablities and Surplus Items	Notes
Losses	$ 14,246,144	2
Reinsurance Payable on Paid Loss and Loss Adjustment Expenses	10	
Loss Adjustment Expenses	5,538,856	2
Other Expenses	1,765,273	
Current Federal & Foreign Income Taxes	888,367	
Unearned Premiums	1,235	
Ceded Reinsurance Premiums Payable	21	
Funds Held by Company Under Reinsurance Treaties	55,712,746	3
Remittances and Items not Allocated	880,290	
Payable to Parent, Subsidiaries, and Affiliates	2,146,113	
Aggregate Write-ins for Liabilities	44,305	
Total Liabilities	$ 81,223,360	
Common Capital Stock	$ 5,000,000	
Gross Paid in and Contributed Surplus	10,238,396	
Unassigned Funds (surplus)	6,680,388	
Total Surplus as Regards Policyholders	$ 21,918,784	
Total Liabilities, Surplus and Other Funds	$ 103,142,144	

Summary of Operations
For the Period Ended December 31, 2011
and
Reconciliation of Capital and Surplus
Since the Prior Examination

Income:		
Premiums earned	$	(8,742)
Net investment income earned		2,698,024
Net realized capital gains		1,620,566
Other income		21,190
Total income	$	4,331,038
Expenses:		
Losses incurred	$	(1,569,492)
Loss adjustment expenses incurred		1,332,734
Other Underwriting Expenses		1,598,038
Aggregate Write-ins for Underwriting Deductions		-
Federal and Foreign Income Tax Incurred		534,111
Total Expenses	$	1,895,391
Net Income:	$	2,435,647

Capital and Surplus, December 31, 2006			$	134,589,109
Net Income				22,155,535
Additions:				
Change in net unrealized capital gains or (losses)	$	11,658,371		
Total Additions		11,658,371		
Deductions:				
Change in net deferred income tax	$	(5,784,231)		
Surplus adjustments: Paid in		(135,000,000)		
Dividends to Stockholders		(5,700,000)		
Total Deductions		(146,484,231)		
Capital and Surplus, December 31, 2011			$	21,918,784

NOTES TO THE FINANCIAL STATEMENTS

Note 1:
Bonds **$ 93,515,361**

As of December 31, 2011, the Company reported total bond investments with book adjusted carrying values in the amount of $93.5 million and fair market values of $96.2 million. Bond holdings and bonds classified as short-term investments consist primarily of direct obligations of the United States Government and corporate bonds at 41.5% and 29.3% of book adjusted carrying value, respectively. The Company also had 18.8% of total bonds invested in corporate, residential, and other loan backed and structured securities. The remaining 10.3% of total bonds was invested in United States Government or United States agency residential and commercial mortgage backed securities. As of December 31, 2011, 99.7% of total bond holdings were investment grade with 45.5%, 46%, and 5.6% maturing within less than one year, one year to five years and five to ten years, respectively. The examination verified the existence, ratings and reported values for the bond securities as of December 31, 2011.

Note 2:
Losses **$ 14,246,144**
Loss Adjustment Expenses **$ 5,538,856**

INS Consultants, Inc. (Consulting Actuary) performed a review of the inherent risks, management oversight and other mitigating controls over the Company's actuarial processes and procedures. The review included detail testing of the Company's loss and loss adjustment expense reserves as of December 31, 2011. The Company's actuarial staff provided the Consulting Actuary the statement of actuarial opinion and the supporting actuarial data, documents and calculations. The Consulting Actuary determined there were deficiencies in the quality of supporting documentation for the Company's 2011 Actuarial Opinion.

Therefore:

It is recommended the Company improve the quality of the supporting documentation for its Actuarial Opinion.

Samples of underlying claim and policy files were reviewed in order to test the accuracy and completeness data supporting the reserve calculations. No material exceptions were noted during that review. The Company develops ultimate loss estimates based on industry development patterns such as those published by A.M. Best and National Council of Compensation Insurance. In the Consulting Actuary's opinion the Company's booked net loss and loss adjustment expense reserves are reasonably stated as of December 31, 2011.

Note 3:
Funds Held by Company Under Reinsurance Treaties $ 55,712,746

As of December 31, 2011, the Company reported $55.7 million in funds withheld under reinsurance treaties. Of the total funds withheld under reinsurance treaties $20.6 million and $35.1 million relate to the Centre Solutions (U.S.) Limited Surplus Share Reinsurance Agreement and Stop Loss Reinsurance Agreement, respectively. The examination reviewed the funds withheld balances and related settlements performed under the contracts during the year ended December 31, 2011. In addition to the funds withheld under these contracts, the Company is party to a trust agreement with Centre Solutions (U.S.) Limited with an underlying market value of $20.6 million as of December 31, 2011. The examination reviewed the trust account and verified its existence and valuation as of December 31, 2011.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The following is a summary of the recommendations contained in the prior examination report as of December 31, 2006, and comments regarding the Company's compliance during the current examination period.

Capitalization

1. It was recommended that the Company disclose all capital contributions received in "Schedule Y" of its Annual Statement regardless of the nature of the contribution.

   The Company has complied with this recommendation.

Management and Control

2. It was recommended that the Company promptly comply with 18 Del. C. § 4919 and notify the Delaware Commissioner of any changes to its directors and principal officers.

   The Company has complied with this recommendation

Insurance Holding Company System

3. It was recommended that the Company disclose all of its affiliated arrangements via Form B and Form C filings to the Delaware Department of Insurance pursuant to 18 Del. Admin. Code 1801 and 18 Del. C. § 5005.

   The Company has not complied with this recommendation.

Related Party Agreements/Tax Sharing Agreement

4. It was recommended that the Company comply with the tax settlement provisions of its tax allocation agreement.

   The Company has complied with this recommendation.

Related Party Agreements/Other Agreements

5. It was recommended that the Company enter into a formal written arrangement with Centre Group Holdings (U.S.) Limited and submit all transactions to the Delaware Department of Insurance for approval. It was also recommended that the Company disclose such transactions with parent, affiliates and subsidiaries in accordance with the NAIC Annual Statement Instructions.

The Company has complied with this recommendation.

Loss Reserves and Loss Adjustment Expense

6. It was recommended that the Company continue it quality control efforts as regards loss file maintenance, supporting documentation, and case reserve change tracking.

   The Company has complied with this recommendation.

7. It was recommended that in the future, actuarial reports, which represent the supporting documentation for the Company's Statement of Actuarial Opinion, contain the appropriate documentation.

   The Company has not complied with this recommendation.

SUMMARY OF RECOMMENDATIONS

The examination recommendations that warranted disclosure in the report on examination as of December 31, 2011 are as follows:

1. **It is recommended that the Company disclose and update information related to all of its affiliated arrangements in its annual Form B and Form C filings to the Delaware Department of Insurance pursuant to 18 Del. Admin. Code 1801 and 18 Del. C. § 5005.**

2. **It is recommended the Company improve the quality of the supporting documentation for its Actuarial Opinion.**

3. **It is recommended the Company comply with the settlement provisions of its affiliated administration agreements.**

CONCLUSION

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

Description	**December 31, 2011**	**December 31, 2006**	**(Decrease)**
Assets	$103,142,144	$554,529,190	($451,387,046)
Liabilities	$81,223,360	$419,940,093	($338,716,733)
Capital and Surplus	$21,918,784	$134,589,097	($112,670,313)

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. and the consulting information technology specialist with INS Services, Inc. is acknowledged.

Respectfully submitted,

Richard E Palmatary, CPA, CFE
Examiner In-Charge
State of Delaware
Northeastern Zone, NAIC