

REPORT ON EXAMINATION
OF THE
STEADFAST 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

STEADFAST INSURANCE COMPANY

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

Attest By: Brandi Bidde

Date: June 18, 2013



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 18th day of June, 2013.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION
OF THE
STEADFAST 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.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart", is written over a horizontal line.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 18th day of June, 2013

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SALUTATION

April 24, 2013

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

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No.12.011, dated March 12, 2012, an examination has been made of the affairs, financial condition and management of the

STEADFAST INSURANCE COMPANY

hereinafter referred to as “Company” or “Steadfast” incorporated under the laws of the State of Delaware as a stock Company with its statutory office located at 32 Loockerman Street, Suite 202, Dover, Delaware. The examination was conducted at the main administrative office of the Company located at 1400 American Lane, Schaumburg, Illinois.

The report of this examination is respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the five year period from January 1, 2007 through December 31, 2011. The last financial condition examination of the Company covered the period ending December 31, 2006. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination was planned and performed by representatives of the Delaware Department of Insurance (“DE DOI”) in accordance with the National Association of Insurance Commissioner's (“NAIC”) Financial Condition Examiners Handbook

(Handbook). The NAIC Handbook requires the examination be performed to evaluate the financial condition and identify the prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks at the Company, and evaluating system controls and procedures to mitigate those risks. This examination also included an assessment of the principles used and significant estimates made by management, as well as the overall financial statement presentation and management's compliance with Statutory Accounting Principles (SSAP) as adopted by the DE DOI.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

The examination of Steadfast was performed in association with the coordinated multi-state examination of Zurich American Insurance Company ("ZAIC"), a New York domicile company. The New York Department of Financial Services ("NYDFS") was designated as the lead state in the multi-state association examination ("NY Exam"). ZAIC is the ultimate parent of a group of thirteen (13) wholly owned property and casualty insurance companies ("Zurich Group") based in the United States of America. ZAIC is the lead company in the inter-company reinsurance pool (collectively referred to as "Pool" or "ZAIC Pool") of the fourteen Group companies (includes ZAIC). The Group consists of the following participants:

<u>Company</u>	<u>State</u>	<u>NAIC Code</u>
Zurich American Insurance Company (as lead)	NY	16535
American Guarantee and Liability Insurance Company	NY	26247
American Zurich Insurance Company	IL	40142
Zurich American Insurance Company of Illinois	IL	27855
Steadfast Insurance Company	DE	26387
Maryland Casualty Company	MD	19356
Northern Insurance Company of New York	NY	19372
Assurance Company of America	NY	19305
Fidelity and Deposit Company of Maryland	MD	39306
Colonial American Casualty & Surety Company	MD	34347
Universal Underwriters Insurance Company	KS	41181
Universal Underwriters of Texas Insurance Company	TX	40843
Empire Fire & Marine Insurance Company	NE	21326
Empire Indemnity Insurance Company	OK	21334

Of these ZAIC Pool participants, the following states participated in this coordinated examination; New York (as lead), Maryland, Illinois, Nebraska, and Delaware. California participated in the coordinated exam. Texas, Oklahoma and Kansas chose not to participate in this exam. As noted above, DE DOI participated in this coordinated examination of the ZAIC Pool and relied on significant portions of work performed by the NY Exam team and other states participating as also indicated above.

None of the entities in the Company's holding structure are publicly traded in the U.S. and are, therefore, not required to comply with the Sarbanes-Oxley Act of 2002. The multi-state association examination also relied on audit work performed by the Zurich Group independent public accountants when appropriate.

The examination included a general survey of the Company's business policies and practices, management, any corporate matters incident thereto, a verification and evaluation of assets and a determination of liabilities as of December 31, 2011. Transactions subsequent to the latter date were reviewed where deemed necessary.

The following key activities were identified and provided the basis for the risk focused examination approach.

- Investment
- Financial Reporting
- Related Party
- Reinsurance
- Taxation
- Premiums and Underwriting
- Reserving and Claims Handling
- Expenses
- Other Liabilities and Surplus

The Pool companies and Steadfast share virtually all key activity processes, personnel and systems. A detailed review of the NY Exam work on the Pool was performed to identify work that was relevant to Steadfast. The work identified as relevant was leveraged and explanation of the reliance on the work was prepared.

In addition to items hereinafter incorporated as part of the written report, the following were checked and made part of the workpapers of this examination:

- Corporate Records
- Officers, Employees and Agents Benefit Program

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings as a result of this examination.

SUBSEQUENT EVENTS

No significant subsequent events were noted.

COMPANY HISTORY

The Company was incorporated on August 31, 1973 under the laws of Delaware as a stock multiple lines insurance company having perpetual existence. The Company's original Delaware Certificate of Authority was issued on November 28, 1983 and last amended October 4, 1991.

Common Capital Stock

All of the Company's 4,100 authorized and issued common capital shares with a \$1,000 par value per share, totaling \$4.1 million, were owed by ZAIC.

Dividends

The following dividends were paid to its parent, ZAIC, during the examination period;

<u>Year</u>	<u>Dividend Amount</u>	<u>Dividend Type</u>
2007	\$58,000,000	Ordinary
2007	10,000,000	Extraordinary
2008	53,000,000	Ordinary
2009	51,000,000	Ordinary
2010	47,800,000	Ordinary
2011	33,600,000	Ordinary
Total Dividends Paid in Exam Period	<u>\$ 253,400,000</u>	

It was verified that the Board of Directors ("Board") had approved the issuance of the dividends noted above and that DE DOI had approved the issuance.

MANAGEMENT AND CONTROL

Board of Directors

In accordance with its bylaws, the Company's Board included the required number of members. All Board members and officers were the same for all Pool companies in the Zurich Group.

The following directors were serving as of December 31, 2011.

Directors

Name and Address

Michael Thomas Foley
Barrington Hills, Illinois

Principal Occupation

Chairman & Chief Executive Officer
Zurich American Insurance Company

Earl Randall Clouser

Executive Vice President

Steadfast Insurance Company

Princeton, New Jersey

Craig Jay Fundum
Omaha, Nebraska

Steven Michael Hatch
North Barrington, Illinois

Richard Patrick Kearns
East Williston, New York

Michael Gerard Kerner
Wyckoff, New Jersey

Dennis Francis Kerrigan
North Barrington, Illinois

Mary Rose Merkel
Mount Prospect, Illinois

Nancy Diane Mueller
Kildeer, Illinois

Daniel Wayne Riordan
McLean, Virginia

Vibhu Ranjan Sharma
Wayzata, Minnesota

Angus Mark Talbot
Horgen, Switzerland

Vincent Christopher Tizzio
Summit, New Jersey

Zurich American Insurance Company

Executive Vice President
Zurich American Insurance Company

Executive Vice President
Zurich American Insurance Company

Director
Zurich American Insurance Company

Executive Vice President
Zurich American Insurance Company

Executive Vice President and
Corporate Secretary
Zurich American Insurance Company

Executive Vice President
Zurich American Insurance Company

President
Zurich American Insurance Company

Executive Vice President
Zurich American Insurance Company

Executive Vice President
Chief Financial Officer
Zurich American Insurance Company

Director
Zurich American Insurance Company

Executive Vice President
Zurich American Insurance Company

Corporate documentation for the Company's ultimate parent company, Zurich Financial Services, Ltd (ZFS), was reviewed and it was noted that the ZFS Board membership is independent and in compliance with the regulatory requirements of Switzerland. Switzerland governance requirements are similar to the requirements applicable to U.S. Stock Companies. ZFS is traded on the SIX Swiss (Stock) Exchange.

Officers

In accordance with its bylaws, the Board elected the required executive officers. The following officers were serving as of December 31, 2011:

Officers

Michael Thomas Foley	Chairman & Chief Executive Officer
Nancy Diane Mueller	President
Dennis Francis Kerrigan	Executive Vice President & Corporate Secretary
Barry Sajowitz Paul	Treasurer
Earl Randall Clouser	Executive Vice President
Bob David Effinger, Jr.	Executive Vice President & Chief Actuary
Martin Feuer	Executive Vice President
Craig Jay Fundum	Executive Vice President
Steven Michael Hatch	Executive Vice President
Tina Gaye Mallie	Executive Vice President
Mary Rose Merkel	Executive Vice President
John Clarence Parker	Executive Vice President
Daniel Wayne Riordan	Executive Vice President
Vibhu Ranjan Sharma	Executive Vice President and Chief Financial Officer
Vincent Christopher Tizzio	Executive Vice President

Committees

In accordance with the Company's bylaws, the Board voted to elect the Executive Committee from its own members and appointed committees as required. As of December 31, 2011 the Board has appointed the following significant committees and members:

Executive Committee

Michael Thomas Foley, Chairman
Nancy Diane Mueller
Dennis Francis Kerrigan
Vibhu Ranjan Sharma
Randall Clouser

Audit Committee

The board of directors of the Company designated the Zurich Holding Company of America, Inc. Audit Committee as the Audit Committee for the Company. The members of the Audit Committee as of December 31, 2011 are:

Wayne Fisher, Chairman
Richard Patrick Kearns
Donald Nicolaisen
Susan Bies

Reinsurance Committee

Bob David Effinger, Jr., Chairman
Dan Loris
Vibhu Ranjan Sharma

ZFS board and committee structure was also reviewed and was found to be adequate.

Conflict of Interest

The Company has an established procedure for the disclosure of any material interest or affiliation on the part of any of its officers, directors, or responsible employees which is in or is likely to conflict with the official duties of such person. A Conflict of Interest questionnaire is distributed annually. Conflict of Interest Statements completed by all directors and officers were reviewed and the information contained therein disclosed no evidence of conflicting interests.

Holding Company System

As previously noted, the Company is an indirect subsidiary of ZFS, a Switzerland domiciled holding company. General insurance and life insurance products and services are

available through subsidiaries within the Zurich Financial Services Group. ZFS Group has approximately 60,000 employees delivering general insurance and life insurance products and services. These products and services are provided to individuals, small businesses, and mid-sized and large companies, including multinational corporations, in more than 170 countries. As of December 31, 2011, ZFS Group wrote \$47 billion in gross premium, held \$387 billion in assets and reported \$34 billion in equity.

A review was made of the holding company registration statements and forms filed with the DE DOI. Filings were in compliance with 18 Del C. 50.

The following is an abbreviated organizational chart that reflects the direct relationships between the Company, its ultimate parent and its Pool participants, as of December 31, 2011:

- Zurich Holding Company of America, Inc. (DE)
 - Zurich American Insurance Company (NY) (Pool Lead)
 - Steadfast Insurance Company (DE)**
 - American Zurich Insurance Company (NY)
 - Zurich American Insurance Company of Illinois (IL)
 - Maryland Casualty Company (MD)
 - Assurance Company of America (NY)
 - Northern Insurance Company of New York (NY)
 - Fidelity and Deposit Company of Maryland (MD)
 - Colonial American Casualty and Surety Company (MD)
 - Empire Fire & Marine Insurance Company (NE)
 - Empire Indemnity Insurance Company (OK)
 - Universal Underwriters Insurance Company (KS)
 - Universal Underwriters of Texas Insurance Company (TX)
 - American Guarantee and Liability Insurance Company (NY)

All 100% ownerships unless otherwise noted.

Intercompany Agreements

In addition to the intercompany Pooling Agreement discussed in Reinsurance section of this report, the Company was a party to the following agreements with members of its holding company system at December 31, 2011:

Intercompany Service Agreement (Pool)

Effective January 1, 2008, and as amended January 1, 2010 and March 31, 2011, the Company and all other entities that are members of the Pool entered into an agreement with ZAIC to provide a variety of administrative and back-office support type services to the participating entities at cost. Services include accounting, human resources related, group management, compliance and risk management, procurement services, tax, information technology (IT), financial and overall business management services. The financial category includes budgeting, cash management, investment management and analysis and advice. Costs are to be allocated out to each entity based upon actual or agreed upon methodology, with monthly reporting and settlement to follow within a stated maximum number of days. This agreement superseded the Amended and Restated Information Technology Service Agreement previously in effect since 2003.

Intercompany Tax Sharing Agreement

The Company is a participant in a tax sharing agreement with all of the direct and indirect subsidiaries of Zurich Holding Company of America, Inc. (ZHCA). The Tax Sharing Agreement was originally effective in December 1981, and subsequently Amended and Restated in its entirety with an effective date of January 1, 2006. The Company's federal income tax return is consolidated with other affiliated entities within the ZHCA holding company group. The agreement sets out the method of allocating tax between the companies, which in general provides that the allocation is to be based upon separate return calculation with no immediate benefit for a

taxable loss. Intercompany tax balances are to be settled within thirty days following applicable transactions.

FIDELITY BOND

The fidelity bond coverage documents named Zurich Holding Company of America Inc. as insured. The policy had riders that named Steadfast and all of the other participants in the Pool as insured. The fidelity bond was issued by Liberty Mutual Insurance Company in amount of \$9,500,000 and in effect from March 1, 2011 through March 1, 2012. This amount meets the suggested limits of insurance coverage per the NAIC Examiners Handbook.

TERRITORY AND PLAN OF OPERATION

The Company is licensed only in the State of Delaware in which it did not write any direct business during the exam period. However Steadfast was eligible to operate as a surplus lines insurer in all of the remaining states, the District of Columbia, Guam, Puerto Rico, and the U. S. Virgin Islands. Direct surplus lines business is written by the Company in 39 other alien territories. Of the Company's 2011 \$946.3 million direct written premiums, \$22.1 million or 2.3% was written in other alien territories.

The Company wrote primarily other liability business on an occurrence and claims made basis during the exam period. The Company utilizes the resources of ZAIC to market its products.

GROWTH OF THE COMPANY

The financial growth of the Company since the last examination was compiled from its annual statements is summarized as follows:

<u>Year</u>	<u>Net Admitted Assets</u>	<u>Surplus as Regards to Policyholders</u>	<u>Change in Capital and Surplus</u>	<u>Gross Premiums Written</u>	<u>Net Income</u>
2011	\$568,836,806.00	\$442,298,861.00	-3.09%	\$1,151,070,573.00	\$24,576,194.00
2010	\$577,544,806.00	\$456,412,683.00	-4.67%	\$1,262,427,809.00	\$31,636,693.00
2009	\$629,698,984.00	\$478,792,742.00	-6.16%	\$1,301,605,450.00	\$32,746,752.00
2008	\$537,264,529.00	\$510,231,412.00	-5.45%	\$1,416,364,364.00	\$35,129,836.00
2007	\$760,822,170.00	\$539,663,481.00		\$1,581,687,583.00	\$56,807,212.00

The Company indicated that the decrease in gross written premiums during the exam period was primarily attributable to a slowdown in the U.S. economy in general; and reductions in spending on infrastructure and construction projects in particular.

LOSS EXPERIENCE

Due to Steadfast's 100% cession participation in the Pool, no net loss reserves were reported during the exam period. Steadfast contributed the following gross business to the Pool as of December 31, 2011.

<u>Year</u>	<u>Gross Premium (000)</u>	<u>Gross Paid Loss (000)</u>	<u>Gross Ratio</u>
2011	\$1,151,070	\$ 634,884	55%
2010	\$1,262,428	\$ 923,109	73%
2009	\$1,301,605	\$ 957,682	74%
2008	\$1,416,364	\$ 752,682	53%
2007	\$1,581,687	\$ 709,042	45%

The company is conditionally obligated to its policy and assumed reinsurance contract holders in the event the default of any third party reinsurer or pooling participants. An independent actuarial review of the ZAIC loss reserves, which included the Pool business, was performed as part of the 2011 NY Exam. No findings were noted as a result of the independent actuarial review. The adequacy of the Pool reserves indicates that the risk of any Company conditional obligation is currently unlikely.

REINSURANCE

Steadfast 2011 direct, assumed, and ceded premiums are as follows:

Direct	\$ 946,251,084	82%
Reinsurance Assumed		
Assumed from Affiliates	170,895,884	15%
Assumed from Non-Affiliates	<u>33,923,605</u>	<u>3%</u>
Gross Premiums	<u>\$ 1,151,070,573</u>	<u>100%</u>
Reinsurance Ceded		
Ceded to Affiliates	890,547,113	77%
Ceded to Non-Affiliates	<u>260,523,460</u>	<u>23%</u>
Total Ceded	<u>\$ 1,151,070,573</u>	<u>100%</u>
Net Premiums Written	<u>\$ 0</u>	
Assumed Reinsurance (000 omitted)		
Non US affiliates insurers	\$ 170,896	83%
US unaffiliated insurers	9,228	5%
Pool business	1,151	1%
Non US unaffiliated insurers	<u>23,544</u>	<u>12%</u>
Total Assumed	<u>\$ 204,819</u>	<u>100%</u>
Ceded Reinsurance (000 omitted)		
ZAIC	\$ 800,700	70%
Pool business	368	0%
Other US unaffiliated insurers	65,471	6%
Other non US unaffiliated insurers	27,014	2%
Non US affiliated insurers	89,846	8%
Unauthorized US unaffiliated insurers	24,954	2%
Unauthorized non US unaffiliated insurers	<u>142,717</u>	<u>12%</u>
Total Ceded	<u>\$ 1,151,070</u>	<u>100%</u>

Assumed Reinsurance

The Company assumed \$102 million from its affiliate, Zurich Ireland Insurance Company under eleven agreements. The largest of the agreements provided reinsurance on political risk and trade credit policies. The remaining affiliated and unaffiliated assumed premium consisted of a variety of agreements involving smaller assumed premium amounts.

Ceded Reinsurance

All direct premiums written by the Company are ceded to ZAIC under the pooling agreement, leaving \$0 net premiums written.

During 2011, premium was ceded under one hundred and sixty nine (169) agreements. The largest agreement in terms of premium was the pooling agreement which ceded \$801 million. The cession to the Pool was 90% of Company's ceded amount to affiliates of \$890 and 70% of ceded total of \$1,151 million.

The next largest in terms of 2011 ceded premiums, included four agreements totaling \$135 million. These agreements covered political risks, trade credit risks, large captive risks, and facultative cessions. The remaining affiliated and unaffiliated ceded premium consisted of a variety of agreements involving smaller assumed premium amounts.

Intercompany Pooling Agreement

Effective January 1, 2009, the Company entered into an amended intercompany pooling agreement, this agreement superseded the Amended and Restated Inter-Company Pooling Agreement originally entered into on January 1, 1999. A total of fourteen (14) affiliated insurers have also entered in to the agreement. ZAIC is the lead company in the Pool. The agreement provides that all transactions included in the net income or loss resulting from each participant's underwriting operations and the related asset and liability accounts after effects of third-party reinsurance of reinsurance are distributed to ZAIC with no retrocession. As a result of the agreement, the only remaining assets, liabilities and income items on the Company's balance sheet and income statement were related to statutory deposits, investments, investment income, third-party reinsurance balances and balances that result from timing differences. The agreement also states that ZAIC is liable for any participant amounts disallowed relating to unauthorized reinsurers and non-admitted assets.

Amendments to the agreement were made subsequent to the effective date. These amendments were limited to adding or deleting participants in the Pool.

At December 31, 2011, the following fourteen insurers participated in the Pool:

American Guarantee and Liability Insurance Company (NY)
American Zurich Insurance Company (IL)
Assurance Company of America (NY)
Colonial American Casualty & Surety Company (MD)
Empire Fire & Marine Insurance Company (NE)
Empire Indemnity Insurance Company (OK)
Fidelity and Deposit Insurance Company of Maryland (MD)
Maryland Casualty Company (MD)
Northern Insurance Company of New York (NY)
Steadfast Insurance Company (DE)
Universal Underwriters Insurance Company (KS)
Universal Underwriters of Texas Insurance Company (TX)
Zurich American Insurance Company (NY) (Pool Lead)
Zurich American Insurance Company of Illinois (IL)

ZAIC reinsures a portion of the Pool risks to control their net exposure and limit the volatility to incurred losses by product line. ZAIC utilizes a variety of reinsurance agreements to control exposures to losses including facultative, quota share, excess of loss, and catastrophe reinsurance. A review of the Pool coverage placed by ZAIC was performed on a sample basis and the contracts were determined to be in compliance with statutory requirements.

ACCOUNTS AND RECORDS

As a result of Steadfast's participation in the Pool and an Intercompany Services Agreement with ZAIC, Steadfast relies on ZAIC to provide insurance accounting operation functions. The accounts and records description below are applicable to all Pool participants.

Prior to 2009, the infrastructure and systems supporting ZAIC (including Steadfast) insurance transaction processing and financial reporting systems resided within the data center of Farmers Insurance Exchange (Farmers), an affiliated entity of ZAIC . Beginning in

2009, ZAIC leveraged the services of a third-party, Computer Sciences Corporation (CSC), for the purposes of providing day-to-day IT operational and transaction processing support. For cost reduction and operational efficiency purposes, the CSC service level agreement included provisions for the consolidation and relocation of significant systems from the data center of Farmers to CSC's Chicago Data Center (CDC). Executive management from ZAIC and CSC provided project management oversight of these activities, and by mid-April 2012, consolidation and relocation of significant systems were complete.

The primary financial reporting system is a third party application from SAP. SAP R/3 is used for managing daily general ledger activities and accounting processing. Dashboards, financial reporting, and statistical reporting are supported by ZAIC consolidated accounting, general ledger and policy management data warehouse. Users granted access to the ZAIC network may connect from remote location and administration offices via a virtual private network.

In-house IT operations support an integrated group of significant claims, underwriting, and accounting transaction processing systems, hardware and services. Disaster recovery plans, services have been established and tested. Business continuity planning includes off-site real time systems data storage.

STATUTORY DEPOSITS

STATE	Deposits For The Benefit of		All Other Special Deposits	
	Book/Adjusted Carrying Value	Fair Value	Book/Adjusted Carrying Value	Fair Value
Arkansas			\$ 129,546	\$ 169,263
Delaware	\$ 2,682,116	\$ 3,529,381	100,167	102,961
Massachusetts			791,278	1,043,059
New Hampshire			1,688,602	1,711,785
New Mexico	214,632	286,250	132,220	135,908
New York			2,410,076	3,220,312
South Carolina			167,668	228,021
Canada			96,250,405	100,008,698
US Dept of Labor			499,906	505,352
TOTAL DEPOSIT	\$ 2,896,748	\$ 3,815,631	102,169,868	107,125,359

FINANCIAL STATEMENTS

The following pages contain the Company's Financial Statements for the year ending December 31, 2011, as determined by this examination, with supporting exhibits as detailed below:

Assets,
Liabilities, Capital and Surplus,
Statement of Income and Capital and Surplus Account,
Reconciliation of Surplus since last Examination

Assets
As of December 31, 2011

	<u>Assets</u>	<u>Non Admitted Assets</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 296,818,108	\$ 0	\$ 296,818,108	1
Preferred stocks	0	0	0	
Common stocks	142,683,943	0	142,683,943	
Cash, Cash Equivalents and Short-term Investments	341,202	0	341,202	2
Securities lending reinvested collateral assets	4,629,250	0	4,629,250	
Subtotals, cash and invested assets	<u>\$ 444,472,503</u>	<u>\$ 0</u>	<u>\$ 444,472,503</u>	
Investment income due and accrued	2,618,066	45,266	2,572,800	
Uncollected premiums and agents' balances in the course of collection	562,914	0	562,914	
Amounts recoverable from reinsurers	91,400,004	0	91,400,004	
Net deferred tax asset	1,340,762	1,324,919	15,843	
Receivables from parent, subsidiaries and affiliates	29,812,744	0	29,812,744	
Totals	<u>\$ 570,206,993</u>	<u>\$ 1,370,185</u>	<u>\$ 568,836,808</u>	

**Liabilities, Capital and Surplus
As of December 31, 2011**

		<u>Notes</u>
Losses	\$ 0	3
Reinsurance Payable on Paid Losses and Loss adjustment expenses	0	3
Commissions payable, contingent		
Other expenses	25,134	
Current federal and foreign income taxes	95,515	
Unearned premiums	0	
Ceded reinsurance premiums payable	121,788,045	
Payable for securities lending	4,629,250	
Total liabilities	<u>\$ 126,537,944</u>	
Common capital stock	\$ 4,100,000	
Gross paid in and contributed surplus	418,640,590	
Unassigned funds (surplus)	19,558,271	
Surplus as regards policyholders	<u>\$ 442,298,861</u>	
Totals	<u>\$ 568,836,805</u>	

**Statement of Income and Capital and Surplus Account
As of December 31, 2011**

		Notes
Premiums earned	\$ 0	5
Losses incurred	\$ 0	5
Loss adjustment expenses incurred	0	5
Other underwriting expenses incurred	0	
Total underwriting deductions	\$ 0	
Net underwriting gain (loss)	\$ 0	
Net investment income earned	\$ 23,966,241	
Net realized capital gains or (losses)	525,307	
Net investment gain (loss)	\$ 24,491,548	
Interest on funds held contracts	\$ 0	
Miscellaneous income	0	
Total other income	\$ 0	
Net income after dividends to policyholders	24,491,548	
Federal and foreign income taxes incurred	(84,646)	
Net income	\$ 24,576,194	
Surplus as regards policyholders, December 31, 2010	\$456,412,683	
Net income (losses)	24,576,194	
Change in net unrealized capital gains or (losses)	(5,066,954)	
Change in net deferred income tax	179,952	
Change in non-admitted assets	(203,014)	
Dividend to stockholders	(33,600,000)	6
Net change in capital and surplus for the year	\$ (14,113,822)	
Surplus as regards policyholders, December 31, 2011	\$442,298,861	

Reconciliation of Surplus since last Examination

	<u>Common Capital Stock</u>	<u>Gross Paid-in and Contributed Surplus</u>	<u>Unassigned Surplus</u>	<u>Total</u>
December 31, 2006	\$ 4,100,000	\$ 418,640,590	\$ 158,853,692	\$ 581,594,282
Operations 2007			26,069,199	26,069,199
Dividends to Stockholders			(68,000,000)	(68,000,000)
Operations 2008			23,567,932	23,567,932
Dividends to Stockholders			(53,000,000)	(53,000,000)
Operations 2009			19,561,330	19,561,330
Dividends to Stockholders			(51,000,000)	(51,000,000)
Operations 2010			25,419,941	25,419,941
Dividends to Stockholders			(47,800,000)	(47,800,000)
Operations 2011			19,486,178	19,486,178
Dividends to Stockholders			(33,600,000)	(33,600,000)
December 31, 2011	<u>\$ 4,100,000</u>	<u>\$ 418,640,590</u>	<u>\$ 19,558,272</u>	<u>\$ 442,298,862</u>

NOTES TO FINANCIAL STATEMENTSAssets

Note 1 - Bonds: \$296,818,108

The holdings were 52% of total admitted assets and 67% of the Company's total invested assets. Security composition for the year ending 2011 was comprised of the following NAIC designations.

Class 1	270,662,740	
Class 2	17,243,176	
Subtotal	<u>287,905,916</u>	97.00%
Class 3	8,817,192	2.97%
Class 6	95,000	0.03%
	<u>296,818,108</u>	<u>100.00%</u>

Bonds investments per country for the year ending 2011 were;

Summary Bonds by Country

United States	166,685,664	56.16%
Canada	104,245,723	35.12%
Other Countries	<u>25,886,722</u>	<u>8.72%</u>
	<u>296,818,108</u>	<u>100.00%</u>

Note 2 - Common Stocks: \$ 142,683,943

The holdings were 25% of total admitted assets and 32.1% of the Company's total invested assets. The total balance reported above represent the ownership of a wholly owned affiliated insurance company, American Zurich Insurance Company, which is domiciled in Illinois. The carrying value was based on the statutory valuation of the affiliate.

Note 3 - Cash: \$ 341,202
Note 3 - Short-Term Investment: 0
\$ 341,202

The Company's cash account balances were less than 1% of both the total admitted assets and Company's total invested assets. As part of the Pooling Agreement, Steadfast and other Pool participant's operations are funded through ZAIC and the Pool. The cash position and the cash activity is largely the result of investment income and investment transactions.

Liabilities

Note 4 - Losses: \$ -0-
Note 4 - Loss Adjustment Expenses (LAE): \$ -0-

No reserves were reported by the Company during the examination period. Under the terms of the Pooling Agreement, all transactions included in the net income or loss resulting from

underwriting operations of each Pool participant, including Steadfast, and the related asset and liability accounts, after the effects of third party reinsurance, are pooled to ZAIC.

Note 5 – Dividends Paid in Exam Period: \$ 253,400,000

The Company issued and paid dividends every year of the examination period. All were ordinary except for a \$10 million extraordinary dividend paid in addition to an ordinary dividend in 2007. Approvals from Steadfast's Board and DE DOI were noted for dividends paid in the exam period.

COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS

The prior exam noted seven (7) recommendations, which were;

1. It was recommended that the Company include a full listing of each investment submitted to the Executive Committee for approval in the official records of the Executive Committee as required in 18 Del. C., Section 1304. **The Company has complied.**
2. It was recommended that the Company properly reflect officers in its statutory annual statements, and notify the Commissioner in writing of any change of personnel among its directors or principal officers as required in 18 Del. C., Section 4919. **The Company has complied.**
3. It was recommended that the Company provide all documentation pertaining to their D&O coverage consistent with 18 Del. C., Section 320; and, as is set forth in Part 2, Section P of the NAIC Financial Condition Examiners Handbook; and, which is consistent with 18 Del. C., Section 318. **The Company has complied.**
4. It was recommended that the Company amend its trust agreements to comply with Delaware Insurance Department Regulation 1003, Credit for Reinsurance, Sections 10.1.1 and 10.2.4.5. **The Company has complied.**
5. It was recommended that all reinsurance agreements with the Company named Cedent contain provisions as set forth in 18 Del. C. Section 914(a). **The Company has complied.**
6. It was recommended that the Company amend applicable letters of credit to comply with Delaware Insurance Department Regulation 1003, Credit for Reinsurance, Section 11.1. **The Company has complied.**
7. It was recommended that the Board of Directors approve agreements (and amendments) to the Insurance Company Custody Agreement as required by Part 1, IV. J.1 of the NAIC

Financial Condition Examiners' Handbook; and, which is in accordance with 18 Del. C., Section 320(a). **The Company has complied.**

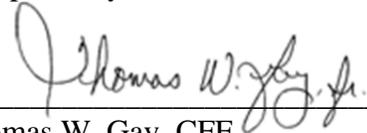
SUMMARY OF RECOMMENDATIONS

No recommendations were made as a result of this examination.

CONCLUSION

The assistance and cooperation of the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,



Thomas W. Gay, CFE
Examiner-In-Charge
State of Delaware
Northeastern Zone, NAIC