REPORT OF EXAMINATION
OF THE

ZNAT INSURANCE COMPANY

AS OF
DECEMBER 31, 2012

Filed May 23, 2014

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Los Angeles, California
April 24, 2014

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

ZNAT INSURANCE COMPANY

(hereinafter also referred to as the Company) at its statutory home office and the primary location of its books and records, at 21255 Califa Street, Woodland Hills, California 91367.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was made as of December 31, 2008. This examination covers the period from January 1, 2009 through December 31, 2012. The examination was conducted in accordance with the National Association of Insurance Commissioners' Financial Condition Examiners Handbook. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, to identify prospective risks, and to obtain information about the Company, including corporate governance, identification and assessment of inherent risks, and the evaluation of the system controls and procedures used to mitigate those risks. This examination also included an assessment of the principles used and the significant estimates made by management, as well as an evaluation of the overall financial statement presentation, and management's compliance with Statutory Accounting Principles and Annual Statement instructions. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

The examination was conducted concurrently with the examination of the Company's parent, Zenith Insurance Company.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; pensions, stock ownership and insurance plans; growth of company; accounts and records; and statutory deposits.

COMPANY HISTORY

The Company's parent, Zenith Insurance Company (ZIC), is a wholly-owned subsidiary of Zenith National Insurance Corp. (ZNIC). On May 20, 2010, Fairfax Financial Holdings Limited (Fairfax), through its affiliates, completed the acquisition of all of the outstanding shares of ZNIC common stock that it did not already own for $38 per share in cash.

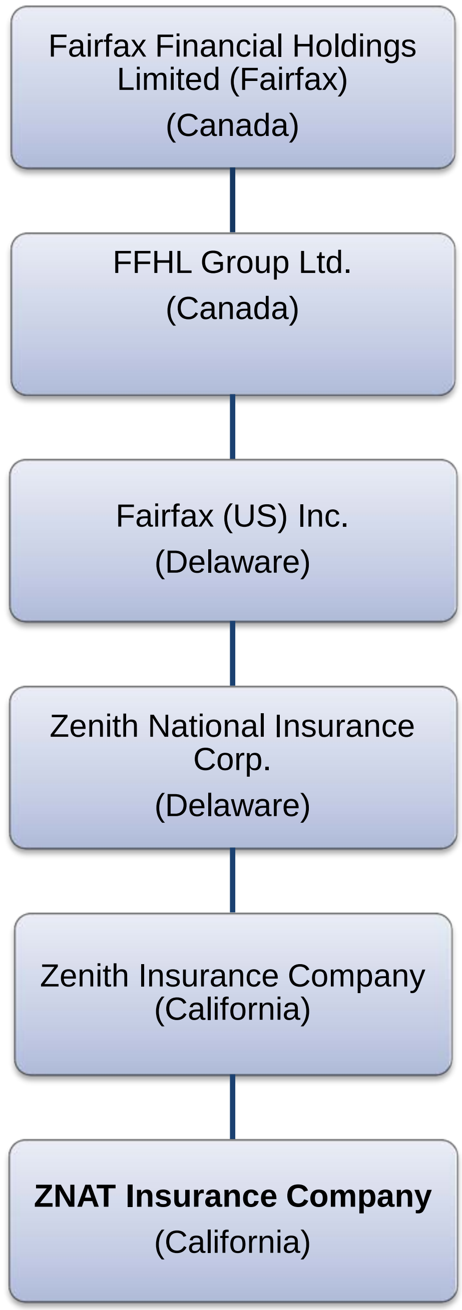
Capitalization

As of December 31, 2012, the Company has 13,000 shares of $240 par value common stock authorized and outstanding.

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of Zenith Insurance Company (ZIC), which is a wholly-owned subsidiary of Zenith National Insurance Corp. (ZNIC). ZNIC is a wholly-owned indirect subsidiary of Fairfax, a Canadian financial services holding company, whose common stock is publicly traded on the Toronto Stock Exchange. Fairfax is principally engaged in property and casualty insurance, reinsurance and associated investment management.

The following abridged organizational chart, which is limited to the Company's parent along with its subsidiary insurance companies, depicts the Company's relationship within the holding company system (all ownership is 100%):


Fairfax Financial Holdings Limited (Fairfax)
(Canada)
FFHL Group Ltd.
(Canada)
Fairfax (US) Inc.
(Delaware)
Zenith National Insurance Corp.
(Delaware)
Zenith Insurance Company
(California)
ZNAT Insurance Company
(California)

Management of the Company is vested in a three-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2012 follows:

Directors

Name and Location	Principal Business Affiliation
Michael E. Jansen Agoura Hills, California	Executive Vice President and General Counsel ZNAT Insurance Company
Jack D. Miller Moraga, California	Chief Executive Officer and President ZNAT Insurance Company
Kari L. Van Gundy Chatsworth, California	Executive Vice President, Chief Financial Officer, and Treasurer ZNAT Insurance Company

Principal Officers

Name	Title
Jack D. Miller	Chief Executive Officer and President
Kari L. Van Gundy	Executive Vice President, Chief Financial Officer and Treasurer
Michael E. Jansen	Executive Vice President and General Counsel
Jason T. Clarke	Executive Vice President and Chief Actuary
Davidson M. Pattiz	Executive Vice President
Hyman J. Lee Jr.	Senior Vice President, Assistant General Counsel, and Secretary

Audit Committee

Fairfax, as the ultimate controlling entity of the Company, has designated the Fairfax Audit Committee (comprised of certain independent members of the Fairfax board of directors) as the audit committee of the Company for purposes of complying with the audit committee requirements of California Insurance Code Section 900.2 and Title 10, Chapter 5, Subchapter 3, Article 3.3, Section 2309.3 of the California Code of Regulations. The following are the members of the Fairfax Audit Committee: Alan D. Horn, Robert J. Gunn, Timothy R. Price, and Anthony F. Griffiths.

Intercompany Agreements

Administrative Services and Cost Sharing Agreement: ZNIC and its insurance subsidiaries are parties to an Administrative Services and Cost Sharing Agreement dated January 1, 2008 (amended October 9, 2008, December 28, 2009, and September 30, 2011). Under the terms of the agreement, costs of shared facilities, services, and expenses incurred by the Company's parent, ZIC, are allocated to each party using actual and reasonable costs. During the years 2009, 2010, 2011, and 2012, the Company paid ZIC \$24.6 million, \$24.3 million, \$26.5 million, and \$31.0 million, respectively. The current agreement, which includes all of its amendments, was approved by the California Department of Insurance (CDI) on August 30, 2011.

Inter-Company Tax Allocation Agreement: The Company was a party to an Amended and Restated Tax Sharing Agreement effective December 19, 2006 prior to the current Inter-Company Tax Allocation Agreement, effective May 21, 2010. The current agreement provides for participants to file a consolidated federal income tax return with ZNIC. Allocation of taxes is based upon separate return calculations with inter-company tax balances payable or receivable being settled in amounts equal to the amounts which would be due to or from federal taxing authorities if separate returns were filed. During the years 2009, 2010, 2011, and 2012, the Company incurred federal and foreign income taxes of $5,735, $(56,394), $(565,410), and $-0-, respectively. The current agreement was approved by the CDI on June 14, 2010.

Investment Management Agreement: The investment portfolio of the Company is currently managed by Hamblin Watsa Investment Counsel, Ltd. (HWIC), the investment manager for the Fairfax Group of companies, under an Investment Management Agreement dated May 20, 2010. During the years 2010, 2011, and 2012, the Company paid HWIC $152,808, $140,648, and $160,985, respectively, in fees under the terms of the agreement. This agreement was approved by the CDI on June 14, 2010.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2012, the Company was licensed to transact multiple lines of property and casualty insurance in the following 24 states:

Alabama	Georgia	Mississippi	North Carolina	Texas
Arizona	Illinois	Missouri	Oklahoma	Utah
Arkansas	Indiana	Nebraska	Pennsylvania	Virginia
California	Iowa	Nevada	South Carolina	West Virginia
Delaware	Kentucky	New Jersey	Tennessee	

During 2010, the Company's immediate parent, Zenith Insurance Company (ZIC), started a non-workers' compensation property-casualty business specializing in California agriculture. The Company, through its Inter-Company Pooling Agreement with ZIC, assumes a portion of this business which consists of commercial and farm automobile, property, and liability coverages.

In 2012, the Company wrote $86 million of direct premiums. Of these direct premiums, $63 million (73%) were written in California, $12 million (14%) were written in Texas, and $11 million (13%) were written in the remaining states. All direct premiums written were in the workers' compensation line of business.

The Company's business is written through approximately 1,500 licensed independent insurance agents. The Company and its parent, ZIC, maintain California branch offices in Los Angeles, San Diego, Pleasanton, Sacramento, Roseville, Fresno, and Orange. Additionally, the Company maintains branch offices in Austin, Texas; East Norriton, Pennsylvania; Springfield and Itasca, Illinois; Sarasota, Orlando, and Hollywood, Florida; Charlotte, North Carolina, and Birmingham, Alabama. Branch office operations include underwriting and claims processing functions.

LOSS EXPERIENCE

The following schedule reflects the Company's net underwriting gains and losses and net income and losses as reported by the Company in its financial statements for the years under examination and through December 31, 2013:

Year	Net Premiums Earned	Net Underwriting Gain/(Loss)	Net Income/(Loss)
2009	$ 9,261,615	$ (562,635)	$ 1,236,392
2010	8,563,317	(2,490,124)	(754,986)
2011	9,916,669	(2,531,397)	(811,128)
2012	11,940,323	(1,762,574)	(853,190)
Sub-totals	$ 39,681,924	$ (7,346,730)	$ (1,182,912)
2013	13,476,266	471,772	693,056
Totals	$ 53,158,190	$ (6,874,958)	$ (489,856)

As noted above, the Company reported net underwriting losses in all years under examination. In 2013, the Company reported a net underwriting gain of $471,772. For the period of 2009 through December 31, 2013, the Company reported, in aggregate, $6.9 million of net underwriting losses and net losses of $489,856.

Underwriting Results

Net premiums earned decreased from 2009 to 2010 due to a highly competitive environment, which resulted in fewer policies in-force. Insured payroll in-force also reflected the impact of increased unemployment and declining payroll levels of the Company's policyholders due to the economic recession. Commencing in 2011, net premiums earned increased each year as prices increased in both California and Florida and the Company began to write new business.

Although loss and loss adjustment expense ratios were generally favorable during the examination period, underwriting losses were primarily attributable to high general expense (other underwriting expenses) ratios. The Company's strategy emphasizes pricing and underwriting discipline to maintain profitability rather than focusing on revenue or market share and maintaining its policyholder service infrastructure even when premium revenues decrease.

REINSURANCE

Intercompany Pooling Agreement

The Company is party to an Amended and Restated Reinsurance and Pooling Agreement with its parent, Zenith Insurance Company (ZIC), effective January 1, 2008. Under this agreement, business is pooled and premiums, losses and expenses are reapportioned and shared by the companies as follows:

Pool Member	Percentage
Zenith Insurance Company	98%
ZNAT Insurance Company	2%

Both parties to the pooling agreement are named participants in all workers' compensation reinsurance agreements with non-affiliated reinsurers and have a contractual right of direct recovery from the non-affiliated reinsurers.

The current agreement, which includes all of its amendments, was approved by the California Department of Insurance (CDI) on February 21, 2008.

Assumed

Under the pooling agreement mentioned above, the Company assumed $12.2 million of written premiums in 2012 and recorded $14.6 million of assumed known case and loss adjustment expense reserves at December 31, 2012. Included in the pooling assumed balances are premiums and losses related to the parent company's commercial property and casualty agriculture business.

Other than the pooling agreement, the Company has no reinsurance assumed as they exited the assumed reinsurance business in 2005.

Ceded

The following is a summary of the Company's principal ceded reinsurance treaties in force as of December 31, 2012 covering its workers' compensation business:

Type of Contract	Reinsurers' Name	Company's Retention	Reinsurer's Maximum Limits
Excess of Loss – Working Layer	Hannover Rueckversicherungs-AG (20%) - Authorized Odyssey America Reinsurance Corporation (10%) - Authorized Partner Reinsurance Company of the U.S. (20%) - Authorized Lloyd's Underwriter Syndicate No. 2987 (20%) - Authorized Aspen Insurance UK Limited (10%) - Authorized Swiss Reinsurance America Corporation (20%) - Authorized	$5 Million	$5 Million XS of $5 Million with a $15 Million Annual Maximum Recovery **(1)**
1st Excess of Loss	Self-Retained	$10 Million	$10 Million XS of $10 Million
2nd Excess of Loss	AXIS Specialty Ltd. (7.5%) - Unauthorized Platinum Underwriters Bermuda Ltd. (6.35%) - Unauthorized Hannover Rueckversicherungs-AG (15.0%) - Authorized ACE Property & Casualty Insurance Co. (2.0%) - Authorized Arch Reinsurance Company (7.0%) - Authorized	$-0-	$20 Million XS of $20 Million **(2)**

Type of Contract	Reinsurers' Name	Company's Retention	Reinsurer's Maximum Limits
	Munich Reinsurance America Inc. (4.5%) - Authorized Odyssey America Reinsurance Corporation (4.5%) - Authorized Partner Reinsurance Company of the U.S. (5.0%) - Authorized Swiss Reinsurance America Corporation (12.5%) - Authorized Transatlantic Reinsurance Company (7.0%) - Authorized Aspen Insurance UK Limited (10.0%) - Authorized Lloyds of London (18.65%) – Authorized		
3rd Excess of Loss	Ace Tempest Reinsurance Company Ltd. (7.5%) - Unauthorized Allied World Assurance Company Ltd. (7.0%) - Unauthorized AXIS Specialty Ltd. (6.5%) - Unauthorized Platinum Underwriters Bermuda Ltd. (6.8%) - Unauthorized Hannover Rueckversicherungs-AG (5.0%) - Authorized ACE Property & Casualty Insurance Co. (2.0%) - Authorized Arch Reinsurance Company (5.5%) - Authorized Munich Reinsurance America Inc. (6.0%) - Authorized Odyssey America Reinsurance Corporation (4.5%) - Authorized Partner Reinsurance Company of the U.S. (5.0%) - Authorized Swiss Reinsurance America Corporation (7.5%) - Authorized Transatlantic Reinsurance Company (3.5%) - Authorized Aspen Insurance UK Limited (10.0%) - Authorized Lloyds of London (23.2%) – Authorized	$-0-	$35 Million XS of $40 Million **(2)**
4th Excess of Loss	Hannover Reinsurance Company Ltd. (20.0%) - Unauthorized Odyssey America Reinsurance Corporation (20.0%) - Authorized Swiss Reinsurance America Corporation (20.0%) - Authorized Aspen Insurance UK Limited (20.0%) - Authorized Lloyd's Underwriter Syndicate No. 2987 (20.0%) - Authorized	$-0-	$25 Million XS of $75 Million **(3)**

(1) Includes all terrorism and nuclear, biological, chemical, or radiological (NBCR) coverage; $5 million per 12 month period.
(2) Excludes NBCR coverage.
(3) Terrorism only; excludes NBCR coverage.

The Company maintains excess of loss and catastrophe (CAT) reinsurance which provides protection of up to $75 million for worker's compensation losses including CAT losses arising out of California earthquakes. It retains the first $5 million of each loss and any losses that exceed its annual aggregate limit of $15 million in the layer of $5 million excess of $5 million. It retains 100% of losses in the layer of $10 million excess of $10 million.

The Company similarly maintains excess of loss and CAT reinsurance which provides protection up to $100 million for acts of terrorism excluding nuclear, biological and chemical attacks and up to $10 million for acts of terrorism arising out of nuclear, biological or chemical attacks. The Company retains the first $5 million of each loss. It also retains any losses in the $5 million excess of $5 million layer which exceed its annual aggregate limit of $5 million. It retains 100% of losses in the layer of $10 million excess of $10 million.

In addition, Odyssey Reinsurance Company (Odyssey), an affiliate of the Company's ultimate parent company, participates in the Company's excess of loss reinsurance agreements and in a quota share reinsurance agreement for business written from January 1, 2002 through December 31, 2004. The Company ceded 10% of its workers' compensation premiums written under this quota share reinsurance agreement. Odyssey also participates in the Company's excess of loss reinsurance agreements for 2011 through 2012. As of year-end 2012, total recoverables from Odyssey were $184,000.

As of December 31, 2012, reinsurance recoverables for all ceded reinsurance totaled $142.1 million, or 569% of surplus as regards policyholders. The largest recoverables are from the Company's parent, ZIC ($136.1 million), General Reinsurance Corporation ($3.2 million), and Westport Insurance Corporation ($1.7 million).

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2012

Underwriting and Investment Exhibit for the Year Ended December 31, 2012

Reconciliation of Surplus as Regards Policyholders
from December 31, 2008 through December 31, 2012

Statement of Financial Condition
as of December 31, 2012

Assets	Assets	Assets Not Admitted	Net Admitted Assets	Note
Bonds	$ 17,359,570	$ 0	$ 17,359,570	
Cash, cash equivalents and short-term investments	40,579,415		40,579,415	
Receivables for securities	160,000		160,000	
Investment income due and accrued	117,366		117,366	
Uncollected premiums and agents' balances in course of collection	189,441	11,213	178,228	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	173,937		173,937	
Reinsurance:				
Amounts recoverable from reinsurers	32,558		32,558	
Funds help by or deposited with reinsured companies	2,641		2,641	
Other amounts receivable under reinsurance contracts	3,412		3,412	
Net deferred tax asset	1,488,400		1,488,400	
Guaranty funds receivable or on deposit	75,723		75,723	
Aggregate write-ins for other than invested assets	140,252	41	140,211	
Total assets	$ 60,322,715	$ 11,254	$ 60,311,461	

Liabilities, Surplus and Other Funds

Losses		$ 17,999,153	(1)
Reinsurance payable on paid losses and loss adjustment expenses		2,265	
Loss adjustment expenses		4,389,617	(1)
Commissions payable, contingent commissions and other similar charges		122,497	
Other expenses		208,805	
Taxes, licenses and fees		299,986	
Unearned premiums		1,028,580	
Advance premiums		23,261	
Ceded reinsurance premiums payable		34,652	
Amounts withheld or retained by company for account of others		87,237	
Payable to parent, subsidiaries and affiliates		11,231,171	
Aggregate write-ins for liabilities		(65,924)	
Total liabilities		35,361,300	
Aggregate write-ins for special surplus funds	$ 129,295		
Common capital stock	3,120,000		
Gross paid-in and contributed surplus	1,175,000		
Unassigned funds (surplus)	20,525,866		
Surplus as regards policyholders		24,950,161	
Total liabilities, surplus and other funds		$ 60,311,461	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2012

Statement of Income

Underwriting Income (Loss)		
Premiums earned		$ 11,940,323
Deductions:		
Losses incurred	$ 6,891,672	
Loss adjustment expenses incurred	2,392,072	
Other underwriting expenses incurred	4,419,153	
Total underwriting deductions		13,702,897
Net underwriting loss		(1,762,574)
Investment Income		
Net investment income earned	$ 999,154	
Net realized capital gains	31,822	
Net investment gain		1,030,976
Other Income (Loss)		
Net loss from agents' or premium balances charged off	$ (32,817)	
Total other loss		(32,817)
Net loss before dividends to policyholders and before federal income taxes		(764,415)
Dividends to policyholders		88,775
Net loss		$ (853,190)

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2011		$ 25,492,076
Net Loss	$ (853,190)	
Change in net deferred income tax	317,400	
Change in nonadmitted assets	11,700	
Aggregate write-ins for gains and losses in surplus	(17,825)	
Change in surplus as regards policyholders for the year		(541,915)
Surplus as regards policyholders, December 31, 2012		$ 24,950,161

Reconciliation of Surplus as Regards Policyholders from December 31, 2008 through December 31, 2012

Surplus as regards policyholders, December 31, 2008 , per Examination			$ 25,850,563
	Gain in Surplus	Loss in Surplus	
Net loss	$ 0	$ 1,182,912	
Change in net deferred income tax	424,400		
Change in nonadmitted assets	2,505		
Aggregate write-ins for gains and losses in surplus		144,395	
Totals	$ 426,905	$ 1,327,307	
Net decrease in surplus as regards policyholders for the examination period			(900,402)
Surplus as regards policyholders, December 31, 2012, per Examination			$ 24,950,161

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

The December 31, 2012 loss and loss adjustment expense reserves were evaluated by a Casualty Actuary from the California Department of Insurance. Based on the analysis performed, the Company's reserves for losses and loss adjustment expenses were found to be reasonably stated and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

None.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

/S/

Richard M. Stone, CFE
Examiner-In-Charge
Contract Insurance Examiner
Department of Insurance
State of California