



**EXAMINATION REPORT
OF
CENTAURI SPECIALTY INSURANCE COMPANY**

NAIC Company Code: 12573

**Sarasota, Florida
as of
December 31, 2018**

**BY THE
FLORIDA
OFFICE OF INSURANCE REGULATION**

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May 26, 2020

David Altmaier
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Commissioner:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, Rule 69O-138.005, Florida Administrative Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2018, of the financial condition and corporate affairs of

Centauri Specialty Insurance Company
4081 Lakewood Ranch Boulevard North, Suite 200
Sarasota, Florida 34240

hereinafter also referred to as "CSIC" or "the Company." Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2014 through December 31, 2018. The fieldwork, which included planning meetings held at the Florida Office of Insurance Regulation (“the Office”) commenced on April 23, 2019, and concluded as of May 26, 2020. The Company’s last full scope exam by representatives of the Office covered the period of January 1, 2010 through December 31, 2013.

The examination was a multi-state/coordinated examination conducted in accordance with the NAIC Financial Condition Examiners Handbook (“the Handbook”). The Handbook requires that the examination be planned and performed to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively. The lead state for this exam was Florida. Representatives of the Office and Louisiana Department of Insurance participated in this exam

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This included assessing significant estimates made by management and evaluating management’s compliance with the NAIC Statements of Statutory Accounting Principles (SSAP).

This examination report includes information obtained from the examination of the records, accounts, files and documents of or relative to the Company and other information as permitted by Section 624.319, Florida Statutes. There may be other items identified during the examination that, due to their nature (for example, subjective conclusions or proprietary information), are not included within the examination report but separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

Current Examination Findings

There were no material findings or exceptions noted during the examination as of December 31, 2018.

Previous Examination Findings

There were no findings, exceptions, or corrective action to be taken by the Company resulting from the examination as of December 31, 2013.

COMPANY HISTORY

General

The Company was incorporated in Florida on April 24, 2006, and obtained its Certificate of Authority from the Office on May 4, 2006. The Company commenced business on July 1, 2006, as ICAT Specialty Insurance Company.

On June 2, 2009, ICAT Specialty Insurance Company was acquired by Universal Insurance Holdings of North America, Inc. ("UIHNA"). The acquisition was approved by Consent Order 104591-09-CO issued by the Office, and the Company was renamed Universal Specialty Insurance Company ("USIC"). On May 3, 2010, UIHNA transferred ownership of the Company to Universal Insurance Company of North America ("UICNA"), a wholly-owned subsidiary of UIHNA.

Effective July 1, 2011, UICNA sold 100% of the outstanding stock of USIC to Centauri Specialty Insurance Holdings, Inc. ("CSIH"). On October 7, 2011, the Office approved the acquisition by Consent Order No. 120822-11, and contemporaneously approved a name change from USIC to Centauri Specialty Insurance Company. The transaction officially closed on October 22, 2011. The acquisition application and business plan included plans to not write in Florida for three (3) years, due to a non-compete agreement with Universal Insurance Company of North America. The Consent Order No. 120822-11 also required a minimum surplus of \$12 million for the Company to gain approval to write policies in Florida.

CSIC received approval to resume writing in the State of Florida on October 2, 2014, under the terms of Consent Order No. 160262-14.

Dividends

The Company did not declare or pay any dividends during the period of this examination.

Capital Stock and Capital Contributions

As of December 31, 2018, the Company's capitalization was as follows:

| | |
|--|--------------|
| Number of authorized common capital shares | 15,000,000 |
| Number of shares issued and outstanding | 3,000,000 |
| Total common capital stock | \$ 3,000,000 |
| Par value per share | \$1.00 |

Control of the Company was maintained by its parent, CSIH, who owned 100% of the stock issued by the Company, who in turn was owned as follows:

| | |
|--------------------------------------|------------------------|
| Lora Schroer Rees | 7.1% (10.7% voting) |
| Ricardo Antonio Espino | 12.3% (18.5% voting) |
| Seibels, Bruce & Company | 20.15% (30.45% voting) |
| Shoreline Insurance Investments, LLC | 20.15% (30.45% voting) |
| XL Financial Solutions, Inc. | 40.30% (9.99% voting) |

The examiners determined that the ultimate controlling person for the Company, as defined by Florida Statute 628.801 is Jane P. Huggins. Ms. Huggins owns 100% of Shoreline Insurance Investments and a controlling 65.9% stake in Seibels Group, which in turn owns 100% of Seibels, Bruce & Company.

Subsequent Event: Effective April 9, 2020, CSIH shareholders entered into a stock purchase agreement to sell all outstanding common stock of CSIH and outstanding equity interests in CSIC and CNIC to CSIC President, Ricardo Espino, and CSIC COO, Lora Rees. The proposed transaction is pending regulatory approval by the Office and the Louisiana Department of Insurance.

During the period of examination, the Company received \$20 million in capital contributions from CSIH.

Surplus Notes

The Company did not have any surplus notes during the period of this examination.

Acquisitions, Mergers, Disposals, Dissolutions

On September 22, 2016, an Application for Prior Notice of a Transaction regarding the Company's intent to create a Louisiana domiciled subsidiary, was filed with the Office. The Office issued a no-objection letter to the Company on October 21, 2016. CNIC was incorporated in Louisiana on January 24, 2017 and was issued a Certificate of Authority and commenced operations on June 27, 2017.

MANAGEMENT AND CONTROL

Corporate Governance

The Company's Board of Directors ("Board") serving as of December 31, 2018, are shown below:

| Directors | | | |
|---|-----------------|--------------|---|
| Name | City | State | Principal Occupation, Company Name |
| Ricardo Antonio Espino | Sarasota | Florida | President, CSIC |
| Lora Schroer Rees | Sarasota | Florida | Chief Operating Officer ("COO"), Executive Vice President ("EVP"), and Secretary, CSIC |
| Derrick Allen Irby ^(a) | Smith's Parrish | Bermuda | EVP, Head of Finance, AXA XL Re |
| Joseph Edward Dondanville | Anthem | Arizona | Consultant |
| Kyle Lee Redfearn | Tallahassee | Florida | Owner/General Counsel, Redfearn Law, PLLC |
| ^(a) Resigned effective December 31, 2019 | | | |

Senior Officers elected and serving the Company as of December 31, 2018:

| Senior Officers | | | |
|---|-------------|--------------|---|
| Name | City | State | Title |
| Ricardo Antonio Espino | Sarasota | Florida | President |
| Lora Schroer Rees | Sarasota | Florida | COO, EVP and Secretary |
| Richard Barton Runyan ^(a) | Sarasota | Florida | Chief Financial Officer, Vice President and Treasurer |
| Brooke Eileen Adler ^(b) | Sarasota | Florida | General Counsel and Vice President |
| Brian Jeffrey Biggs ^(c) | Sarasota | Florida | Chief Risk Officer and Vice President |
| Felicia Anne Cox ^(d) | Sarasota | Florida | Chief Marketing Officer and Vice President |
| <p>(a) Resigned effective October 28, 2019. Chief Financial Officer responsibilities will be temporarily filled by Mindy Barker Associates, a consulting firm from Jacksonville, Florida.</p> <p>(b) Resigned effective December 27, 2019. All legal responsibilities will be handled by CSIC's external law firm Greenberg Traurig, LLP.</p> <p>(c) Resigned effective April 23, 2020.</p> <p>(d) Resigned effective April 13, 2020.</p> | | | |

The Company's Board appointed several internal committees. The following were the principal internal board committees and their members as of December 31, 2018. The first person listed for each committee serves as the Chair.

| Audit and Actuarial Committee | | | |
|--------------------------------------|-----------------|--------------|---|
| Name | City | State | Title, Company Name |
| Derrick Allen Irby | Smith's Parrish | Bermuda | EVP, Head of Finance, AXA XL Re |
| Joseph Edward Dondanville | Anthem | Arizona | Consultant |
| Kyle Lee Redfearn | Tallahassee | Florida | Owner/General Counsel Redfearn Law, PLLC |

| Investment Committee | | | |
|-----------------------------|-----------------|--------------|---|
| Name | City | State | Title, Company Name |
| Ricardo Antonio Espino | Sarasota | Florida | President, CSIC |
| Lora Schroer Rees | Sarasota | Florida | EVP, COO, Secretary, CSIC |
| Derrick Allen Irby | Smith's Parrish | Bermuda | EVP, Head of Finance, AXA XL Re |
| Joseph Edward Dondanville | Anthem | Arizona | Consultant |
| Kyle Lee Redfearn | Tallahassee | Florida | Owner/General Counsel Redfearn Law, PLLC |

Holding Company System

The following agreements were in effect between the Company and its affiliates:

Tax Allocation Agreement

The Company and its affiliate, Centauri Specialty Managers (CSM), entered into a tax sharing agreement ("TSA") with its common parent, CSIH, effective July 1, 2011. The TSA was amended on July 6, 2017 to include CNIC, the Company's wholly-owned subsidiary. The method of allocation among the companies is made primarily on a separate return basis with current credit for any net operating losses or other items utilized in the consolidated tax return.

Cost Allocation Agreement

The Company has a cost-sharing agreement ("CSA") with its Parent, CSIH, and affiliate CSM. Effective July 6, 2017, CSIC amended the CSA to include CNIC, the Company's wholly-owned subsidiary. The intent of the CSA is to share all costs incurred for services performed on behalf of the other parties who are not included in the Managing General Agent and Claims Administration Agreement. The CSA allows for the sharing of office space, facilities, furniture and equipment, and computer hardware and software. The CSA also provides for sharing services performed on behalf of one or more of the other parties. These services are technical, administrative, financial, and regulatory. Allocation of costs incurred is done on a direct and indirect basis. Costs are determined monthly and payable within 60 days.

Executive Management Services Agreement

The Company has an Executive Management Services Agreement (“EMS”) with an affiliate, CSM, effective July 1, 2011, amended on September 1, 2016, and again on July 6, 2017. The initial term of the EMS was three years unless terminated within the guidelines of the agreement. The EMS renews automatically for one-year periods commencing after the initial three-year period. Services provided include corporate records management, accounting, legal and IT services, marketing services, human resource management, and general executive services management. Compensation is 7.5% of written premium, payable monthly. The Company paid Centauri Specialty Managers management and services fees of approximately \$6.5 million for 2018.

Managing General Agency and Claims Administration Agreement

Effective December 1, 2016, the Company entered into a Managing General Agent (“MGA”) agreement with CSM. Effective July 6, 2017, CSIC amended the MGA agreement to include CNIC, the Company’s wholly-owned subsidiary. The terms of the agreement provide that the agreement shall continue for a period of 10 years unless terminated within the guidelines of the agreement. The MGA has the option to renew the agreement for additional five-year periods. Pursuant to this agreement, CSM agreed to market, produce, underwrite, quote, issue and administer the Company’s insurance policies, binders and endorsements in all states in which the Company is licensed. The terms of the MGA agreement give CSM the authority for underwriting, premium collection, binding authority, claims adjustment, and claims payment.

As a commission for the MGA services, CSM shall retain 17.5% of written premium. The Company paid claims fees, policy and inspection fees, and installment fees to CSM of approximately \$8.5 million for 2018. The Company also incurred MGA commission expenses of \$19 million in 2018.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Sarasota, Florida.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with Salem Trust Company executed on November 10, 2011, effective November 1, 2011.

Independent Auditor Agreement

Dixon, Hughes Goodman, LLP, an independent CPA, audited the Company's statutory basis financial statements annually for the years 2017 and 2018. For the years 2014, 2015, and 2016 KPMG, LLP served as the external auditor for the Company.

Investment Management Agreement

The Company and its subsidiary CNIC maintained an investment management agreement with New England Asset Management, Inc. (NEAM) executed on February 15, 2017. NEAM's agreement authorizes them to make trades on behalf of CSIC and CNIC. NEAM uses Board approved guidelines to ensure all investment activity maintains compliance with statutes as well as compliance with company goals and desired asset allocation. CSIC paid approximately \$153 thousand under this agreement in 2018.

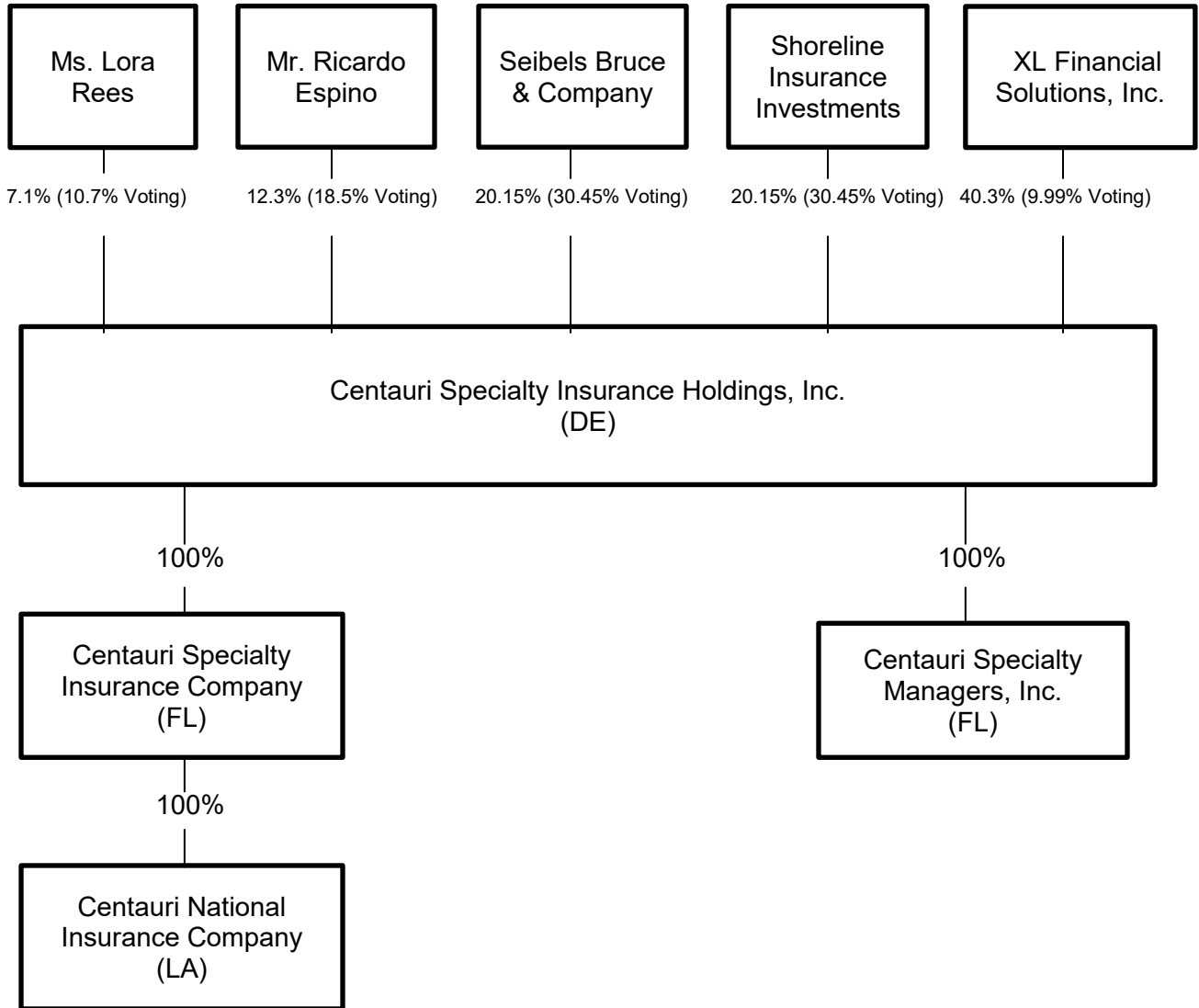
Corporate Records Review

The recorded minutes of the Shareholder, Board, and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board documented its meetings and approval of Company transactions and events in accordance with the Handbook.

Organizational Chart

A simplified organizational chart as of December 31, 2018, reflecting the holding company system, is shown on the following page.

**Centauri Specialty Insurance Company
Simplified Organizational Chart
December 31, 2018**



The examiners determined that the ultimate controlling person for the Company, as defined by Florida Statute 628.801 is Jane P. Huggins. Ms. Huggins owns 100% of Shoreline Insurance Investments and a controlling 65.9% stake in Seibels Group which in turn owns 100% of Seibels, Bruce & Company.

Subsequent Events:

Effective March 31, 2020, Centauri Specialty Managers, Inc. was sold to Applied Underwriters, Inc.

Effective April 2, 2020, CSIH shareholders entered into a stock purchase agreement to sell all outstanding common stock of CSIH and outstanding equity interests in CSIC and CNIC to CSIC President, Ricardo Espino, and CSIC COO, Lora Rees. The transaction is pending regulatory approval by the Office and the Louisiana Department of Insurance.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance in the following states as of December 31, 2018:

| | |
|---------------|----------------|
| Alabama | Mississippi |
| Florida | North Carolina |
| Hawaii | Oklahoma |
| Louisiana | South Carolina |
| Massachusetts | Texas |

The Company was authorized for the following lines of business in the State of Florida as of December 31, 2018:

| | |
|-----------------|------------------------|
| Fire | Homeowners Multi-Peril |
| Allied Lines | Commercial Multi-Peril |
| Other Liability | Inland Marine |

REINSURANCE

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, intermediary clause, transfer of risk, reporting, and settlement information deadlines.

Reinsurance Assumed

Effective September 1, 2017, the Company entered into a quota share reinsurance agreement to assume 100% of CNIC's \$32.5 million direct written premium, excluding National Flood Insurance Program ("NFIP") premiums. As of December 31, 2018, the Company owed CNIC \$570,016 related to assumed reinsurance losses and LAE.

Reinsurance Ceded

The Company is exposed to low frequency, high severity events, such as hurricanes. However, due to the relatively narrow coverage terms offered under the Company's policies and use of reinsurance, the Company was largely protected from adverse development on net loss and loss adjustment expense reserves. In 2018, the Company placed \$153.8 million or 82% of gross written premium with unaffiliated reinsurers. The Company's ceded reinsurance consisted of property and casualty quota share ("QS"), catastrophe excess of loss ("XOL"), catastrophe aggregate ("CA"), multiple line per risk excess of loss contracts ("MLPR"), and facultative contracts ("FC").

The Company's reinsurance program strategically spreads risk among over sixty (60) highly-rated, highly-capitalized reinsurers. Of these, all are rated A- (Excellent) or better by A.M. Best, AA- by Standard and Poor's, or are fully collateralized. No single reinsurance entity accounts for more than 6% of the program.

The Company renewed three net quota share reinsurance agreements effective January 1, 2018 and one effective December 31, 2018. The Company also entered into two new net quota share reinsurance agreements effective June 30, 2018 and September 30, 2018 with new reinsurers. Terms for each net quota share agreement are as follows:

| Reinsurer | Effective | Expiration | Participation | Cat Coverage |
|-----------------------|------------------|-------------------|----------------------|---------------------|
| Catlin Re Switzerland | 01/01/2018 | 01/01/2019 | 5% | \$ 0 |
| SCOR/Partner Re | 01/01/2018 | 01/01/2019 | 10% | 15,000,000 |
| Catlin Re Switzerland | 01/01/2018 | 01/01/2019 | 5% | 15,000,000 |
| Catlin Re Switzerland | 06/30/2018 | 06/30/2019 | 5% | 15,000,000 |
| Partner Re | 09/30/2018 | 05/31/2019 | 15% | 7,000,000 |

| | | | | |
|-------------------------|------------|------------|-----|------------|
| Third Point Reinsurance | 09/30/2018 | 05/31/2019 | 15% | 7,000,000 |
| Catlin Re Switzerland | 12/31/2018 | 12/31/2019 | 15% | 15,000,000 |

The Company also writes insurance policies under the National Flood Insurance Program's "Write Your Own Program" in which 100% of the premiums and related losses are ceded to the Federal Government. The Company retains an expense allowance set by the program for the acquisition costs incurred on the policies it writes and the claims it processes.

The reinsurance contracts do not relieve the Company from its obligations to claimants. Failure of reinsurers to honor their obligations could result in additional losses to the Company; consequently, allowances are established for amounts past due. Anticipated recoverables due from reinsurers relating to unpaid losses and loss adjustment expenses under these treaties totaled approximately \$22.4 million on December 31, 2018. There were no balances over ninety days past due or considered uncollectible on December 31, 2018.

As of December 31, 2018, the Company did not have any retrospectively rated contracts or contracts rated for redetermination. There were no premium portfolio or effected reinsurance during 2018. The maximum amount of return commissions that would have been due back to reinsurers if all reinsurance were canceled with the return of unearned premium reserve at December 31, 2018, and 2017 is approximately \$26.6 million and \$19 million respectively.

The Company has unsecured reinsurance recoverables with the following authorized reinsurers at December 31, 2018, that exceed 3% of capital and surplus:

| Federal ID | Reinsurer | Recoverable Amount |
|------------|------------------------------------|----------------------|
| 13-3031176 | Partner Reins Co of the US | \$ 12,095,228 |
| 75-1444207 | SCOR Reinsurance Company | 2,815,261 |
| 22-2005057 | Everest Reinsurance Company | 1,786,247 |
| AA-9991310 | Florida Hurricane Catastrophe Fund | 1,545,892 |
| AA-9992201 | National Flood Insurance Program | 1,402,352 |
| AA-1120067 | Lloyd's Syndicate Number 4242 | 1,111,126 |
| AA-1340125 | Hannover Ruck SE | 930,691 |
| | Total Unsecured Recoverable | <u>\$ 21,686,797</u> |

INFORMATION TECHNOLOGY REPORT

John Sinkiewicz, CISA, GCFA, C|EH, GREM, CHFI, of The NOVO Consulting Group, LLC, performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida and with various state officials as required or permitted by law:

| State | Description | Par Value | Market Value |
|--------------------------|-------------|------------------|--------------|
| FL | Bond | 5.00% \$ 150,000 | \$ 174,640 |
| FL | Bond | 5.00% 200,000 | 206,559 |
| FL | Bond | 4.00% 275,000 | 277,014 |
| FL | Bond | 5.00% 300,000 | 302,587 |
| FL | Bond | 4.25% 500,000 | 505,131 |
| FL | Bond | 5.00% 500,000 | 505,873 |
| TOTAL FLORIDA DEPOSITS | | \$ 1,775,000 | \$ 1,797,164 |
| HI | Bond | 5.00% \$ 750,000 | \$ 820,987 |
| MA | Bond | 5.00% 100,000 | 105,793 |
| NC | Bond | 5.00% 300,000 | 312,706 |
| TOTAL OTHER DEPOSITS | | \$ 1,150,000 | \$ 1,239,486 |
| TOTAL STATUTORY DEPOSITS | | \$ 2,925,000 | \$ 3,036,650 |

FINANCIAL STATEMENTS

The following includes the Company's statutory Statement of Assets, Liabilities, Surplus and Other Funds; the statutory Statement of Income; the statutory Statement of Cash Flow; and the statutory Analysis of Changes in Surplus for the year ended December 31, 2018. The financial statements are based on the statutory financial statements filed by the Company with the Florida Office of Insurance Regulation and present the financial condition of the Company for the period ending December 31, 2018.

Centauri Specialty Insurance Company
Assets
December 31, 2018

| | Per Company | Examination Adjustments | Per Examination |
|---|-----------------------|----------------------------|-----------------------|
| Bonds | \$ 56,986,535 | | \$ 56,986,535 |
| Stocks: | | | |
| Preferred | 2,229,192 | | 2,229,192 |
| Common | 12,014,543 | | 12,014,543 |
| Real Estate: | | | |
| Properties | | | |
| Properties occupied by Company | 8,278,820 | | 8,278,820 |
| Cash and Short-Term Investments | 11,923,620 | | 11,923,620 |
| Investment income due and accrued | 385,677 | | 385,677 |
| Agents' Balances: | | | |
| Uncollected premium | 4,879,898 | | 4,879,898 |
| Deferred premium | 2,672,768 | | 2,672,768 |
| Amounts recoverable from reinsurers | 15,782,371 | | 15,782,371 |
| Current federal and foreign income taxes | 2,006,987 | | 2,006,987 |
| Net deferred tax asset | 3,248,198 | | 3,248,198 |
| Receivables from parents, subsidiaries and affiliates | 8,042,078 | | 8,042,078 |
| Aggregate write-in for other than invested assets | <u>2,245,412</u> | <u> </u> | <u>2,245,412</u> |
| Totals | <u>\$ 130,696,099</u> | <u>\$ -</u> | <u>\$ 130,696,099</u> |

**Centauri Specialty Insurance Company
Liabilities, Surplus and Other Funds
December 31, 2018**

| | Per Company | Examination Adjustments | Per Examination |
|--|------------------------------|----------------------------|------------------------------|
| Losses | \$ 19,870,266 | | \$ 19,870,266 |
| Reinsurance payable on paid losses and lae | 753,707 | | 753,707 |
| Loss adjustment expenses | 3,209,105 | | 3,209,105 |
| Commissions payable, contingent commissions and other similar charges | 73,665 | | 73,665 |
| Other expenses | 167,828 | | 167,828 |
| Taxes, licenses and fees | 709,831 | | 709,831 |
| Unearned premium | 13,627,846 | | 13,627,846 |
| Advance premium | 2,733,913 | | 2,733,913 |
| Ceded reinsurance premiums payable | 55,093,401 | | 55,093,401 |
| Funds held under reinsurance treaties | 40,595 | | 40,595 |
| Remittances and items not allocated | 69,650 | | 69,650 |
| Aggregate write-ins for liabilities | 6,095,770 | | 6,095,770 |
| Rounding | <u>1</u> | <u> </u> | <u>1</u> |
| Total Liabilities | <u>\$ 102,445,578</u> | <u>\$ -</u> | <u>\$ 102,445,578</u> |
| Common capital stock | \$ 3,000,000 | | \$ 3,000,000 |
| Gross paid in and contributed surplus | 33,300,000 | | 33,300,000 |
| Unassigned funds (surplus) | <u>(8,049,479)</u> | <u> </u> | <u>(8,049,479)</u> |
| Surplus as regards policyholders | <u>\$ 28,250,521</u> | <u>\$ -</u> | <u>\$ 28,250,521</u> |
| Total liabilities, surplus and other funds | <u><u>\$ 130,696,099</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 130,696,099</u></u> |

Centauri Specialty Insurance Company
Statement of Income
December 31, 2018

Underwriting Income

Premiums earned \$ 55,646,276

Deductions

Losses incurred \$ 52,590,337

Loss adjustment expenses incurred 11,230,152

Other underwriting expenses 2,917,344

Rounding 1

Total underwriting deductions 66,737,834

Net underwriting loss \$ (11,091,558)

Investment Income

Net investment income earned \$ 1,858,776

Net realized capital gains 140,824

Rounding (1)

Net investment gain \$ 1,999,599

Other Income

Net gain or (loss) from agents' or premium balances charged off \$ (6,762)

Finance and service charges not included in premiums 260,605

Total other income \$ 253,843

Net income before federal and foreign income taxes \$ (8,838,116)

Federal and foreign taxes incurred 336,414

Net income \$ (9,174,530)

Capital and Surplus Account

Surplus as regards policyholders for the prior year \$ 35,430,566

Net income (9,174,530)

Change in net unrealized capital gains or losses less capital gains tax (335,836)

Change in net deferred income taxes 2,358,800

Change in non-admitted assets (28,479)

Change in surplus as regards policyholders (7,180,045)

Surplus as regards policyholders for the current year \$ 28,250,521

**Centauri Specialty Insurance Company
Reconciliation of Capital and Surplus
December 31, 2018**

| | | |
|---|-----------------|-----------------------------|
| Surplus at December 31, 2013, per Examination | | \$ 18,422,370 |
| | <u>Increase</u> | <u>Decrease</u> |
| Net Income (loss) | | \$(13,534,309) |
| Change in net unrealized capital gain (loss) | \$ 881,263 | |
| Change in net deferred income tax | 2,669,605 | |
| Change in non-admitted assets | | (44,090) |
| Change in paid in surplus | 20,000,000 | |
| Aggregate write-ins for gains and losses in surplus | | (144,319) |
| Rounding | 1 | |
| Net increase (or decrease) | | <u>9,828,151</u> |
| Surplus at December 31, 2018, per Examination | | <u><u>\$ 28,250,521</u></u> |

No adjustments were made to surplus as regards policyholders as a result of the examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

Liabilities

Losses and Loss Adjustment Expenses

Scott Weinstein, FCAS, MAAA, KPMG, appointed by the Board, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2018, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office consulting actuary, Solomon Frazier, FSA, FCAS, MAAA, of Taylor Walker Consulting, reviewed the loss and loss adjustment expense work papers provided by the Company and was in concurrence with this opinion.

Capital and Surplus

The amount of capital and surplus reported by the Company of \$28,250,520, exceeded the minimum of \$10 million required by Section 624.408, Florida Statutes.

SUBSEQUENT EVENTS

The subsequent events period considered for the examination was December 31, 2018, through the date of the completion of this examination report.

Effective October 28, 2019, the Company's Chief Financial Officer, Richard Runyan, resigned. Mindy Barker Associates, a consulting firm from Jacksonville, Florida will temporarily fill the responsibilities of Chief Financial Officer.

Effective December 27, 2019, Brooke Adler resigned as General Counsel. All legal responsibilities will be handled by CSIC's external law firm Greenberg Traurig, LLP.

Effective December 31, 2019, Derrick Irby resigned as CSIC Director. CSIC filed regulatory forms for Felicia Cox to fill his position as Director.

Effective April 13, 2020, Felicia Cox resigned as CSIC Director and Chief Marketing Officer.

Effective March 31, 2020, Applied Underwriters (Applied) acquired CSM from CSIH. Proceeds of the sale of CSM by CSIH were directed to increase capital and surplus in CSIC (\$10 million) and to pay off an inter-company debt owed by CSM to Hancock-Whitney Bank (\$9 million). As part of the acquisition, Applied entered into an Option Agreement with CSIH and its two principal officers, whereby Applied has an option to purchase CSIH and its two (2) carrier subsidiaries. Applied is a national provider of workers' compensation insurance, other lines of commercial insurance, and risk transfer and financing plans. The company is headquartered in Omaha, Nebraska.

Effective April 2, 2020, CSIH shareholders entered into a stock purchase agreement to sell all outstanding common stock of CSIH and outstanding equity interests in CSIC and CNIC to CSIC President, Ricardo Espino, and CSIC COO, Lora Rees. The transaction involved CSIC management expanding their ownership to 100% of the equity in CSIH, with Applied's insurance operation North American Casualty holding options to buy CSIH and its subsidiaries from Mr. Espino and Ms. Rees at a future date. The proposed acquisition of the Company by Mr. Espino and Ms. Rees is currently pending regulatory approval from Florida and Louisiana.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Centauri Specialty Insurance Company** as of December 31, 2018, consistent with the insurance laws of the State of Florida.

In addition to the undersigned, the following also participated in the examination:

| | | |
|---|------------------------|----------------------------|
| Marie Stuhlmuller | Examination Manager | Office |
| Lori Ruggiero, CFE, CIE | Participating Examiner | NOVO Consulting Group, LLC |
| Mike Masuen, CFE, CISA | Participating Examiner | NOVO Consulting Group, LLC |
| John Sinkiewicz, CISA, GCFA, GREM, CHFI | IT Specialist | NOVO Consulting Group, LLC |
| Solomon Frazier, FSA, FCAS, MAAA | Actuary | Taylor-Walker Consulting |

Respectfully submitted,

Jeffrey Good

Jeffrey Good, CFE, CIE, CPCU, AIAF, ARC
Examiner-in-Charge
The NOVO Consulting Group, LLC
Representing the Florida Office of Insurance Regulation

Daniel W. Applegarth

Daniel W. Applegarth, CFE, CPA, PIR
Chief Financial Examiner
P&C Financial Oversight
Florida Office of Insurance Regulation