

REPORT ON EXAMINATION
OF
ARK ROYAL INSURANCE COMPANY
ST. PETERSBURG, FLORIDA

AS OF
DECEMBER 31, 2008

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

March 2, 2010

Kevin M. McCarty
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, 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, 2008, of the financial condition and corporate affairs of:

**ARK ROYAL INSURANCE COMPANY
805 EXECUTIVE CENTER DRIVE
St. Petersburg, Florida 33702**

Hereinafter referred to as, the "Company". Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2008, through December 31, 2008. This is the first statutory financial examination of the Company conducted by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2008. This examination commenced with planning at the Office on August 31, 2009, to September 4, 2009. The fieldwork commenced on September 8, 2009, and concluded as of March 2, 2010.

This financial examination was a statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

The Financial Condition Examiners Handbook requires that the examination be planned and performed 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 risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

Risk-focused examinations consist of a seven-phase process that can be used to identify and assess risk, assess the adequacy and effectiveness of strategies/controls used to mitigate risk and assist in determining the extent and nature of procedures and testing to be utilized in order to

complete the review of that activity. The process should generally include a determination of the quality and reliability of the corporate governance structure and risk management programs. In addition, it can be used for verification of specific portions of the financial statements or other limited-scope reviews, increased focus on, and can result in increased substantive testing of, accounts identified as being at high risk of misstatement. Conversely, the risk assessment process should result in decreased focus on, and fewer substantive tests on the accounts identified as being at low risk of misstatement. The risk-focused surveillance process can be used to assist examiners in targeting areas of high-risk.

In this examination, emphasis was directed to the quality, value and integrity of the statement of assets and the determination of liabilities, as those balances affect the financial solvency of the Company as of December 31, 2008. Transactions subsequent to year-end 2008 were reviewed where relevant and deemed significant to the Company's financial condition.

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

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio reports, the Demotech rating report, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) and other reports as considered necessary were reviewed and utilized where applicable within the scope of this examination.

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.

Status of Adverse Findings from Prior Examination

This was the first statutory financial examination of the Company.

HISTORY

General

The Company was incorporated in Florida on April 6, 2007, and commenced business on March 17, 2008, as Ark Royal Insurance Company.

The Company was granted a permit to form a domestic stock insurance company on August 27, 2007, pursuant to Consent Order 913909-07-CO, filed August 27, 2007. The Company was also party to Consent Order 92537-07-CO, filed November 9, 2007, regarding the application for the issuance of a Certificate of Authority. The Company was in compliance with the provisions of these Consent Orders.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2008:

Homeowners multi peril Allied Lines	Inland Marine Fire	Other Liability
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During 2008, the Company wrote homeowners and inland marine business. The Company filed for approval for rates and forms in July, 2009, and plans to write in other authorized lines of business when rates and forms are approved by the Office.

The Articles of Incorporation were amended on August 22, 2007, to increase the par value per share from one cent (\$.01) to one dollar (\$1). The Bylaws were amended on August 8, 2007, to increase the number of directors of the Company from one to five.

Capital Stock

As of December 31, 2008, the Company's capitalization was as follows:

Number of authorized common capital shares	10,000
Number of shares issued and outstanding	10,000
Total common capital stock	\$10,000
Par value per share	\$1.00

Control of the Company was maintained by its parent, Ark Royal Holdings, LLC, who owned 100% of the stock issued by the Company.

Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of operations, as reported in the filed annual statements.

	2008	2007
Premiums Earned	779,304	
Net Underwriting Gain/(Loss)	(1,195,256)	(348,919)
Net Income	(815,183)	(318,018)
Total Assets	11,560,377	9,692,703
Total Liabilities	2,700,851	7,252
Surplus As Regards Policyholders	8,859,526	9,685,451

Dividends to Stockholders

The Company did not pay any dividends to its stockholders in 2008 or 2007 in accordance with Section 628.371, Florida Statutes.

Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2008, were:

Directors

Name and Location

Dennis G. Ruppel
Clearwater, FL

Ann R. Worthington
St. Petersburg, Florida

Principal Occupation

President / Chairman of the Board
Ark Royal Insurance Company

Treasurer
Ark Royal Insurance Company

Craig H. Sher
St. Petersburg Beach, FL

Executive Chairman
The Sembler Company

Robert H. Willis
St. Petersburg, FL

Attorney
Skelton, Willis, Bennett & Wallace, LLP

Frank C. Peck
Homosassa, FL

Retired

The Board of Directors (Board) in accordance with the Company's bylaws appointed the following senior officers:

Senior Officers

Name	Title
Dennis G. Ruppel	President
Ann R. Worthington	Treasurer
Robert H. Willis	Secretary

The Company's Board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following were the principal internal board committees and their members as of December 31, 2008:

Compensation Committee

Robert H. Willis¹
Craig H. Sher
Frank C. Peck

Audit Committee

Craig H. Sher¹
Robert H. Willis
Frank C. Peck

Investment Committee

Ann R. Worthington¹
Dennis G. Ruppel
Robert H. Willis

Executive Committee

Dennis G. Ruppel¹
Robert H. Willis
Craig H. Sher
Chairman¹

Conflict of Interest Procedure

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook.

Corporate Records

The recorded minutes of the shareholder, Board of Directors, and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales through Reinsurance

There were no acquisitions, mergers, disposals, dissolutions, and purchase or sales through reinsurance during the period covered by the examination.

Surplus Debentures

The Company did not have surplus debentures during the period covered by this examination.

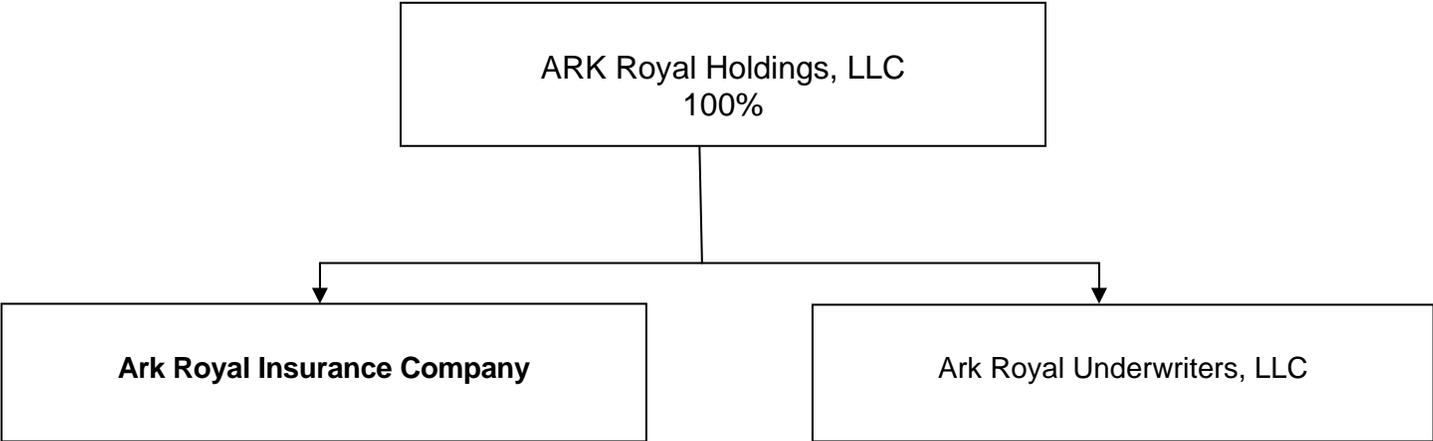
AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on February 18, 2009, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2008, reflecting the holding company system, is shown below. Schedule Y of the Company's 2008 annual statement provided a list of all related companies of the holding company group.

**ARK INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2008



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

Allocation of Costs Agreement

Effective November 9, 2007, the Company, Ark Royal Holdings, LLC (parent), and Ark Royal Underwriters, LLC (MGA) entered into an allocation of costs agreement to allocate certain shared business expenses on an equitable basis. Business expenses included shared office space, employee, administrative and other expenses. Under the terms of the agreement each party would settle its cash obligation to other parties on a monthly or more frequent basis.

Intercompany Agreement

Effective March 1, 2008, the companies in the holding company group entered into an inter-company agreement to pay expenses on behalf of another company. Expenses included, but were not limited to, reinsurance settlements; federal and state income tax payments; and shared overhead expenses, including salary, related benefits, rent & utilities expenses on leased space. According to the terms of the agreement, the Company would submit/receive a bill once a month for any paid expenses on behalf of one another and would receive/remittance payment in full 90 days after receipt.

Managing General Agent Agreement

On September 4, 2007, the Company entered into an MGA agreement with Ark Royal Underwriters, LLC, an affiliate, for the production, servicing and acceptance of homeowners business written in the State of Florida. Under the terms of the agreement, the MGA was responsible for billing, receiving and rendering receipts for premiums due to the Company. The MGA charged \$25 per policy fee to the Company's insureds for each line of business handled under the agreements.

Ark Royal Underwriters, LLC (MGA) had a vendor agreement with American Strategic Assurance Corp (ASIU), a wholly owned subsidiary of Arx Holding Corp., to perform certain

underwriting, policy administration, and other services with respect the Company policies. ASIU in turn had an agreement with e-Ins, another affiliate of ASIU, to provide policy issuance, premium billing, return premiums, commission payments and collection services.

FIDELITY BOND AND OTHER INSURANCE

The Company did not have a fidelity bond as of December 31, 2008, as required to meet the NAIC's suggested minimum amount of coverage.

The parent maintained Directors and Officers (D&O) liability, commercial package liability, and property insurance coverage for the holding company group which included the Company during the period covered by this examination. The policy coverage was \$5,000,000 with a deductible of \$25,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

All employees of the Company were covered by a qualified defined contribution plan sponsored by the Company. Employees could contribute up to allowable limits set by regulation and the Company may make matching contributions at 4% of salary.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes:

STATE	Description	Par Value	Market Value
FL	Cash	\$ 300,000	\$ 300,000
TOTAL SPECIAL DEPOSITS		<u>\$300,000</u>	<u>\$300,000</u>

INSURANCE PRODUCTS

Territory

The Company was authorized to transact insurance in the State of Florida only.

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1) (j), Florida Statutes.

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1) (i) 3a, Florida Statutes.

REINSURANCE

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

Assumed

The Company did not assume risks during the period covered by this examination.

Ceded

The Company ceded risk on a catastrophe excess of loss and multiple line excess of loss basis during 2008. The Company also ceded risk to Florida Hurricane Catastrophe Fund (FHCF) during the period covered by this examination.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in St. Petersburg, Florida, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2007 and 2008, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

The Company's accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office.

The Company and non-affiliates had the following agreements:

Custodial Agreement

On December 27, 2007, the Company entered into a custodial agreement with Sabal Trust Company for the custody of its securities. The custodial agreement did not meet the requirements of Rule 69O-143.042 (2) Florida Administrative Code as follows per subsection:

- (b) Securities held indirectly by the custodian and securities in a clearing corporation shall be separately identified on the custodian's official records as being owned by the company.
- (e) The custodian shall be required to furnish no less than monthly the insurance company with reports of holding of custodied securities.
- (l) In the event that there is a loss of custodied securities ...the custodian shall promptly replace the securities.
- (n) In the event that the custodian gains entry in a clearing corporation though an agent, there shall be an agreement between the custodian and the agent.
- (o) The custodian shall provide written notification to the Office if the custodial agreement with the insurer has been terminated, or if 100% of the assets in any one custody account have been withdrawn.

Claims Management Agreement

On October 3, 2007, the Company entered into a claims management services agreement with ASIU Underwriters Corp, an affiliate of American Strategic Insurance Company to provide claims administration and management services with respect to the Company's policies. ASIU provided claim adjustment services which included processing, monitoring, supervising, adjusting, reporting and settling of all claims. The Company paid ASIU within fourteen days after the close of each month the Claims Administration Fee in accordance with Exhibit D of the agreement. Claim Administration Fee included five percent of all incurred losses for each month

for non-catastrophe claims and one percent of all incurred losses for each month with respect to any catastrophic event claims.

Lease Agreement

On June 1, 2007, the Company entered into a sublease agreement with American Strategic Insurance Corp (ASI) for premises approximately 821.3 square foot located on the Third Floor, of 805 Executive Center Drive West, St. Petersburg, FL. The monthly rent effective July 1, 2008 was \$1,589.64.

Independent Auditor Agreement

The Company had an agreement with Gregory, Sharer & Stuart, and P.A. for the periods ended December 31, 2008 and 2007 to provide audits of the financial statements.

Information Technology Report

Highland Clark, 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.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2008, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

ARK ROYAL INSURANCE COMPANY
Assets

DECEMBER 31, 2008

	Per Company	Examination Adjustments	Per Examination
Bonds	\$7,593,988		\$7,593,988
Cash	3,195,040		3,195,040
Investment Income due & accrued	120,380		120,380
Agents' Balances:			
Uncollected premium	139,488		139,488
Deferred premium	325,473		325,473
Current federal income tax	27,000		27,000
Net deferred tax assets	5,453		5,453
EDP	12,474		12,474
Receivable from parents, subsidiaries	141,081		141,081
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Totals	\$11,560,377	\$0	\$11,560,377
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ARK ROYAL INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2008

	Per Company	Examination Adjustments	Per Examination
Losses	\$468,373		\$468,373
Loss adjustment expenses	51,521		51,521
Other expenses	29,944		29,944
Taxes, licenses and fees	51,215		51,215
Unearned premium	2,217,295		2,217,295
Advance Premiums	45,427		45,427
Ceded reinsurance premiums payable	(163,223)		(163,223)
Drafts outstanding			
Payable to parent, subsidiaries and affiliates	299		299
Aggregate write-ins for liabilities			
Total Liabilities	\$2,700,851	\$0	\$2,700,851
Common capital stock	\$10,000		\$10,000
Gross paid in and contributed surplus	9,990,000		9,990,000
Unassigned funds (surplus)	(1,140,474)		(1,140,474)
Surplus as regards policyholders	\$8,859,526		\$8,859,526
Total liabilities, surplus and other funds	\$11,560,377	\$0	\$11,560,377

ARK ROYAL INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2008

Underwriting Income

Premiums earned		\$779,304
	Deductions:	
Losses incurred		563,780
Loss expenses incurred		64,987
Other underwriting expenses incurred		1,345,793
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$1,974,560
Net underwriting gain or (loss)		(\$1,195,256)

Investment Income

Net investment income earned		\$372,372
Net realized capital gains or (losses)		0
Net investment gain or (loss)		\$372,372

Other Income

Net gain or (loss) from agents' or premium balances charged off		\$0
Finance and service charges not included in premiums		7,701
Aggregate write-ins for miscellaneous income		0
Total other income		\$7,701
Net income before dividends to policyholders and before federal & foreign income taxes		(\$815,183)
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		(\$815,183)
Federal & foreign income taxes		0
Net Income		(\$815,183)

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$9,685,451
Net Income		(\$815,183)
Net unrealized capital gains or losses		0
Change in deferred income tax		227,017
Change in non-admitted assets		(237,759)
Change in excess statutory over statement reserves		0
Surplus adjustments: Paid in		0
Aggregate write-ins for gains and losses in surplus		0
Examination Adjustment		0
Change in surplus as regards policyholders for the year		(\$825,925)
Surplus as regards policyholders, December 31 current year		\$8,859,526

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$519,894

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2008, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The actuary contracted by the Office to review work papers provided by the Company was in concurrence with this opinion.

Capital and Surplus

The amount reported by the Company of \$8,859,526 exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**ARK ROYAL INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2008

The following is a reconciliation of Surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders December 31, 2008, per Annual Statement	\$8,859,526
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	PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS
ASSETS			
No adjustment			\$0
LIABILITIES			
No adjustment			\$0
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2008, Per Examination			\$8,859,526

SUMMARY OF FINDINGS

Compliance with previous directives

This is a first year examination of the Company.

Current examination comments and corrective action

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2008.

Fidelity Bond

The Company did not secure fidelity coverage in the recommended amount as established by NAIC guidelines in manuals adopted in Rule 69O-137.001, Florida Administrative Code. **We recommend that the Company obtain fidelity coverage at the recommended amount set forth in NAIC guidelines.**

Custodial Agreement

The custodial agreement executed with Sabal Trust Company did not meet the requirements of Rule 69O-143.042 (2) (b) (e) (l) (n) (o), Florida Administrative Code. **We recommend that the Company amend its custodial agreement with Sabal Trust Company and include all of the requirements of Rule 69O-143.042, Florida Administrative Code as noted above.**

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Ark Royal Insurance Company**, as of December 31, 2008, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$8,859,526 in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Kethessa Carpenter, CPA, Financial Examiner/Analyst Supervisor, Richard Shaffer, Financial Specialist, and Kay Kufera, FCAS, MAAA, of Kufera Consulting, Inc. participated in the examination. We also recognize Tracy Gates, CISA, of Highland Clark participation in the examination.

Respectfully submitted,

Samita Lamsal
Financial Examiner/Analyst II
Florida Office of Insurance Regulation