

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

AS OF
DECEMBER 31, 2009

BY THE
OFFICE OF INSURANCE REGULATION

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TALLAHASSEE, FLORIDA

March 21, 2011

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, 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, 2009, of the financial condition and corporate affairs of:

**ARK ROYAL INSURANCE COMPANY
805 EXECUTIVE CENTER DRIVE WEST, SUITE 300
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, 2009, through December 31, 2009. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2008. This examination commenced with planning at the Office on October 18, 2010, to October 22, 2010. The fieldwork commenced on November 1, 2010, and concluded as of March 21, 2011.

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.

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

This report of examination is confined to significant adverse findings, a material change in the financial statements or other information of regulatory significance or requiring regulatory action. The report comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

SUMMARY OF SIGNIFICANT FINDINGS

Current Exam Findings

There were no material adverse findings, significant non-compliance findings, or material changes in the financial statements noted during this examination.

Prior Exam Findings

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2008, along with resulting action taken by the Company in connection therewith.

Custodial Agreement

The custodian 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.

Resolution: In January 2011, the Company amended the Custodial Agreement with Sabal Trust to include the language necessary to comply with Rule 69O-143.042, Florida Administrative Code.

The revised Custodial agreement was approved by the Office on March 22, 2011.

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 party to Consent Order 91309-07, filed August 27, 2007, regarding the application for the issuance of a permit to form a domestic insurer and Consent Order 92537-07, filed November 9, 2007, regarding 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, 2009:

Homeowners multi peril	Fire
Allied Lines	Other liability
Inland Marine	

The Articles of Incorporation and the Bylaws were not amended during the period covered by this examination.

Dividends to Stockholders

There were no dividends declared or paid to its stockholders during the examination period.

Capital Stock and Capital Contributions

As of December 31, 2009, 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

The Company was a wholly-owned subsidiary of Ark Royal Holding, LLC.

The Parent contributed \$150,000 during 2009 which made a total of \$10,140,000 in cash contributed to the Company as of December 31, 2009.

Surplus Debentures

The Company had no surplus debentures during the examination period.

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

The Company was not party to any acquisitions, mergers, disposals, dissolutions, nor any purchases or sales through reinsurance during the examination period.

CORPORATE RECORDS

The recorded minutes of the shareholder, Board of Directors (Board), 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.

Conflict of Interest

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

MANAGEMENT AND CONTROL

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, 2009, were:

Directors

Name and Location	Principal Occupation
Dennis G. Ruppel Clearwater, Florida	Ark Royal Insurance Company President
Robert H. Willis St. Petersburg, Florida	Skelton, Willis, Bennett & Wallace, LLP Attorney
Ann R. Worthington St. Petersburg, Florida	Ark Royal Insurance Company Treasurer
Craig H. Sher St. Petersburg, Florida	The Sembler Company Executive Chairman
Frank C. Peck Homosassa, Florida	Retired

The Board in accordance with the Company's bylaws appointed the following senior officers:

Senior Officers

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

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, 2009:

Audit Committee

Craig H. Sher ¹
Robert H. Willis
Frank C. Peck

Executive Committee

Dennis G. Ruppel ¹
Robert H. Willis
Craig H. Sher

Investment Committee

Ann R. Worthington ¹
Dennis G. Ruppel
Robert H. Willis

Compensation Committee

Robert H. Willis ¹
Craig H. Sher
Frank C. Peck

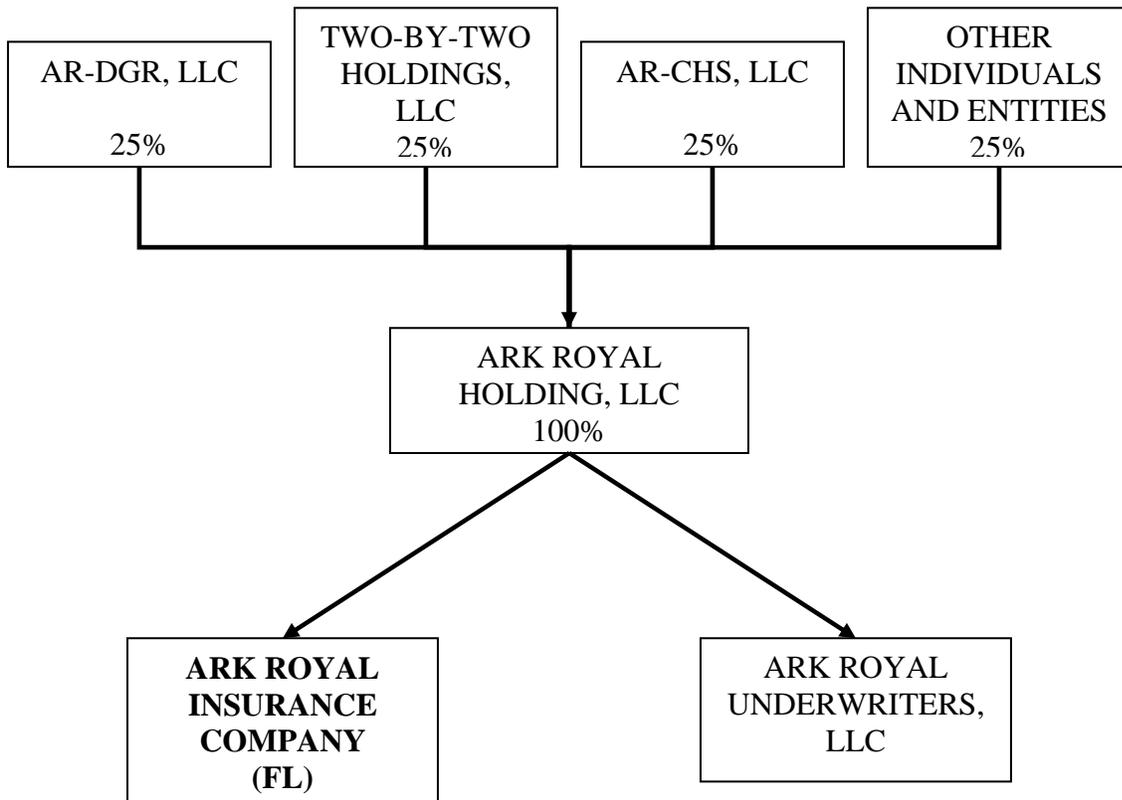
¹ Chairman

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 3, 2010, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2009, 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 ROYAL INSURANCE COMPANY
ORGANIZATIONAL CHART
DECEMBER 31, 2009**



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

Allocation of Costs Agreement

The Company entered into an agreement with related parties through common ownership with Ark Royal Holdings, LLC, and effective November 9, 2007 whereby the cost of certain shared business expenses is allocated on an equitable basis. Business expenses included shared office space, employees, 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 Settlement Agreement

The Company entered into an agreement with related parties through common ownership with Ark Royal Holdings, LLC, effective March 1, 2008, whereby the companies mutually acknowledge that in the ordinary course of business, it may become feasible for one company to pay expenses on behalf of another company. In such cases, the companies shall submit a monthly bill for any expenses incurred on behalf of another and shall remit payment in full no later than ninety (90) days after receipt.

Managing General Agent Agreement

The Company entered into a Managing General Agency Agreement with its affiliate, Ark Royal Underwriters, LLC (ARU), on September 4, 2007, for the production, servicing and acceptance of homeowners business written in the State of Florida. The agreement was originally for a one-year term with automatic renewals each successive year, unless otherwise terminated within the guidelines of the agreement. For underwriting, premium processing and claims services, the Company paid 13% of written premium plus a \$25 per policy fee for new and renewal business.

Costs incurred under this agreement during 2009 amounted to \$1,804,379 for MGA commissions and \$298,625 in MGA fees.

ARU had a vendor agreement with American Strategic Insurance Underwriters (ASIU), a wholly-owned subsidiary of ARX Holding Corp., to perform certain underwriting and policy administration services with respect to Company policies. ASIU, in turn, had an agreement with e-Ins, their affiliate, to provide policy issuance, premium billing, return premiums, commission payments and collection services.

FIDELITY BOND AND OTHER INSURANCE

The Company did not maintain fidelity bond coverage as recommended by the NAIC.

Subsequent Event: On April 28, 2010, the Company purchased fidelity bond coverage up to \$150,000 with a deductible of \$25,000, which, did not reach the suggested minimum as recommended by the NAIC. On February 7, 2011, the Company increased the coverage of their fidelity bond to \$500,000 with a deductible of \$25,000, which, reached the suggested minimum as recommended by the NAIC.

The Company also maintained Directors and Officers (D&O) liability, commercial package liability and property insurance coverage during the period of this examination.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Employees of the Company were covered by a defined-contribution plan sponsored by the Company. Employees could contribute up to allowable limits set by regulation and the Company made matching contributions at 4% of salary. The Company's contribution for 2009 was \$11,854.

TERRITORY AND PLAN OF OPERATIONS

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

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.

COMPANY GROWTH

Gross premiums written increased during the period of examination.

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.

	2009	2008	2007
Premiums Earned	4,132,110	779,304	0
Net Underwriting Gain/(Loss)	(1,684,394)	(1,195,256)	(348,919)
Net Income	(1,136,214)	(815,183)	(318,018)
Total Assets	19,468,631	11,560,377	9,692,703
Total Liabilities	10,981,075	2,700,851	7,252
Surplus As Regards Policyholders	8,487,556	8,859,526	9,685,451

LOSS EXPERIENCE

During the current examination period, the one-year net loss development was a \$125,000 redundancy.

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 under examination.

Ceded

The Company ceded risk on an excess of loss basis to a variety of authorized and unauthorized, non-affiliated reinsurers. The Company's reinsurance program consists of multiple layers of excess catastrophe coverage, multi-line excess per risk coverage, and excess catastrophe coverage (hurricane only – Florida Hurricane CAT Fund).

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, 2008 and 2009, 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

The Company maintained a custodial agreement with Sabal Trust Company entered into on December 27, 2007. The Agreement was not in compliance with Rule 69O-143.042, Florida Administrative Code.

Subsequent Event: On January 12, 2011, the Company executed an amended custodial agreement with Sabal Trust that included all the necessary language to comply with Rule 69O-143.042, Florida Administrative Code.

Claims Management Services Agreement

The Company entered into a Claims Management Services Agreement with American Strategic Insurance Underwriters (ASIU) on October 3, 2007. For claims processing, the Company paid a monthly commission based on percentage of non-catastrophe paid losses and a different percentage for catastrophe paid losses. Costs incurred under this agreement during 2009 amount to \$61,832 and \$0 paid in non-catastrophe and catastrophe, respectively.

Sublease Agreement with ASI

On June 1, 2007, the Company entered into a sublease agreement with American Strategic Insurance Corp. (ASI) for office space of approximately 821.3 square feet located on the third floor of 805 Executive Center Drive West, St. Petersburg, Florida. The monthly rent, effective July 1, 2009, was \$1,589.64.

Independent Auditor Agreement

The Company contracted with the external independent CPA firm of Gregory, Sharer & Stuart, P.A. to perform the annual audit of its financial statements as required by Rule 69O-137.002 (7) (c), Florida Administrative Code.

Information Technology Report

Steven R. Sigler, CFE, AES 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 as required by Section 624.411, Florida Statutes as required or permitted by law:

STATE	Description	Par Value	Market Value
FL	Cash Deposit 0.025%	<u>\$ 300,000</u>	<u>\$ 300,000</u>
TOTAL FLORIDA DEPOSITS		\$ 300,000	\$ 300,000
TOTAL SPECIAL DEPOSITS		<u>\$ 300,000</u>	<u>\$ 300,000</u>

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2009, 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, 2009

	Per Company	Examination Adjustments	Per Examination
Bonds	\$11,891,119		\$11,891,119
Cash and Short-Term Investments	4,717,479		4,717,479
Investment income due and accrued	132,646		132,646
Premiums and Considerations:			
Uncollected premium	425,647		425,647
Deferred premium	969,312		969,312
Net Deferred Tax Asset	658,139		658,139
EDP equipment and software	7,128		7,128
Receivables from parent, subsidiaries and affiliates	641,060		641,060
Aggregate write-in for other than invested assets	26,101		26,101
Totals	<u>\$19,468,631</u>	<u>\$0</u>	<u>\$19,468,631</u>

ARK ROYAL INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2009

	Per Company	Examination Adjustments	Per Examination
Losses	\$1,717,046		\$1,717,046
Loss adjustment expenses	189,075		189,075
Other expenses	117,410		117,410
Taxes, licenses and fees	292,071		292,071
Unearned premiums	6,723,047		6,723,047
Advance premiums	337,487		337,487
Ceded reinsurance premiums payable	1,593,938		1,593,938
Provision for reinsurance	11,000		11,000
Total Liabilities	\$10,981,075	\$0	\$10,981,075
Common capital stock	\$10,000		\$10,000
Gross paid-in and contributed surplus	10,140,000		10,140,000
Unassigned funds (surplus)	(1,662,444)		(1,662,444)
Surplus as regards policyholders	\$8,487,556	\$0	\$8,487,556
Total liabilities, surplus and other funds	\$19,468,631	\$0	\$19,468,631

ARK ROYAL INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2009

Underwriting Income

Premiums earned		\$4,132,110
	Deductions:	
Losses incurred		2,483,607
Loss expenses incurred		263,865
Other underwriting expenses incurred		3,069,032
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		<u>\$5,816,504</u>
Net underwriting gain or (loss)		(\$1,684,394)

Investment Income

Net investment income earned		\$486,443
Net realized capital gains or (losses)		23,732
Net investment gain or (loss)		<u>\$510,175</u>

Other Income

Finance and service charges not included in premiums		32,492
Aggregate write-ins for miscellaneous income		0
Total other income		<u>\$32,492</u>

Net income before dividends to policyholders and before federal & foreign income taxes		(\$1,141,667)
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		(\$1,141,667)
Federal & foreign income taxes		<u>(5,453)</u>
Net Income		<u><u>(\$1,136,214)</u></u>

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$8,859,526
Net Income		(\$1,136,214)
Net unrealized capital gains or losses		(26,172)
Change in net deferred income tax		517,653
Change in non-admitted assets		133,763
Change in provision for reinsurance		(11,000)
Change in excess statutory over statement reserves		0
Surplus adjustments: Paid-In		150,000
Aggregate write-ins for gains and losses in surplus		0
Examination Adjustment		0
Change in surplus as regards policyholders for the year		<u>(\$371,970)</u>
Surplus as regards policyholders, December 31 current year		<u><u>\$8,487,556</u></u>

A comparative analysis of changes in surplus is shown below.

ARK ROYAL INSURANCE COMPANY
Comparative Analysis of Changes In Surplus

DECEMBER 31, 2009

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, 2009, per Annual Statement	\$8,487,556
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No Adjustments			\$0
LIABILITIES:			
No Adjustments			\$0
Net Change in Surplus:			<u>0</u>
Surplus as Regards Policyholders December 31, 2009, Per Examination			<u><u>\$8,487,556</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses	<u>\$1,906,121</u>
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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, 2009, 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 engaged an independent actuarial firm, The Actuarial Advantage, Inc., to review the Loss and Loss Adjustment Expense Reserves carried in the Company's balance sheet as of December 31, 2009 and was in concurrence with this opinion.

Capital and Surplus

The amount reported by the Company of \$8,487,556 exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

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, 2009, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$8,487,556, which exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Steven R. Sigler, CFE, AES, Examiner-In-Charge; Sheri Kenney, CFE and Brad Hazelwood, Participating Examiners, and Tracy Gates, CPA, CISA, IT Manager, of Highland Clark, LLC participated in the examination. Dennis Henry, FCAS, MAAA, consulting actuary of Actuarial Resources; and Maurice Fuller, Financial Examiner/Analyst II and Frank Jones, Reinsurance Financial Specialist, of the Office, also participated in the examination.

Respectfully submitted,

Kethessa Carpenter, CPA
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation