

REPORT ON EXAMINATION

OF

ARK ROYAL INSURANCE COMPANY

ST. PETERSBURG, FLORIDA

AS OF

DECEMBER 31, 2010

BY THE

FLORIDA OFFICE OF INSURANCE REGULATION

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December 30, 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 690-138.005, 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, 2010, of the financial condition and corporate affairs of:

**ARK ROYAL INSURANCE COMPANY
805 EXECUTIVE CENTER DR, STE 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, 2010, through December 31, 2010. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2009. This examination commenced with planning at the Office on October 3, 2011, to October 7, 2011. The fieldwork commenced on October 10, 2011, and concluded as of December 30, 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 findings or exceptions noted during this examination.

Prior Exam Findings

There were no findings, exceptions or corrective action to be taken by the Company for the examination as of December 31, 2009.

SUBSEQUENT EVENTS

Changes have been made to the management of the Company subsequent to the examination date. As of November 7, 2011, Christopher Kard replaced Ann Worthington as CFO.

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 order.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2010:

Homeowners' multiple 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, 2010, 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 \$10,140,000 in cash to the Company as of December 31, 2010.

Surplus Debentures

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

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

The Company was not party to any acquisitions, mergers, disposals, dissolutions, or 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 compliance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code, 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 Section 628.231, Florida Statutes. Directors serving as of December 31, 2010, 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
Ann R. Worthington (a)	Treasurer
Robert H. Willis	Secretary

(a) Resigned as of December 31, 2011 and was replaced by Christopher Kard on November 7, 2011.

The Company's Board appointed several internal committees. Following were the principal internal board committees and their members as of December 31, 2010:

Executive Committee

Dennis Ruppel¹
Robert H. Willis
Craig H. Sher

Audit Committee

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

Investment Committee

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

Compensation Committee

Robert H. Willis
Craig H. Sher
Frank C. Peck
Chairman¹

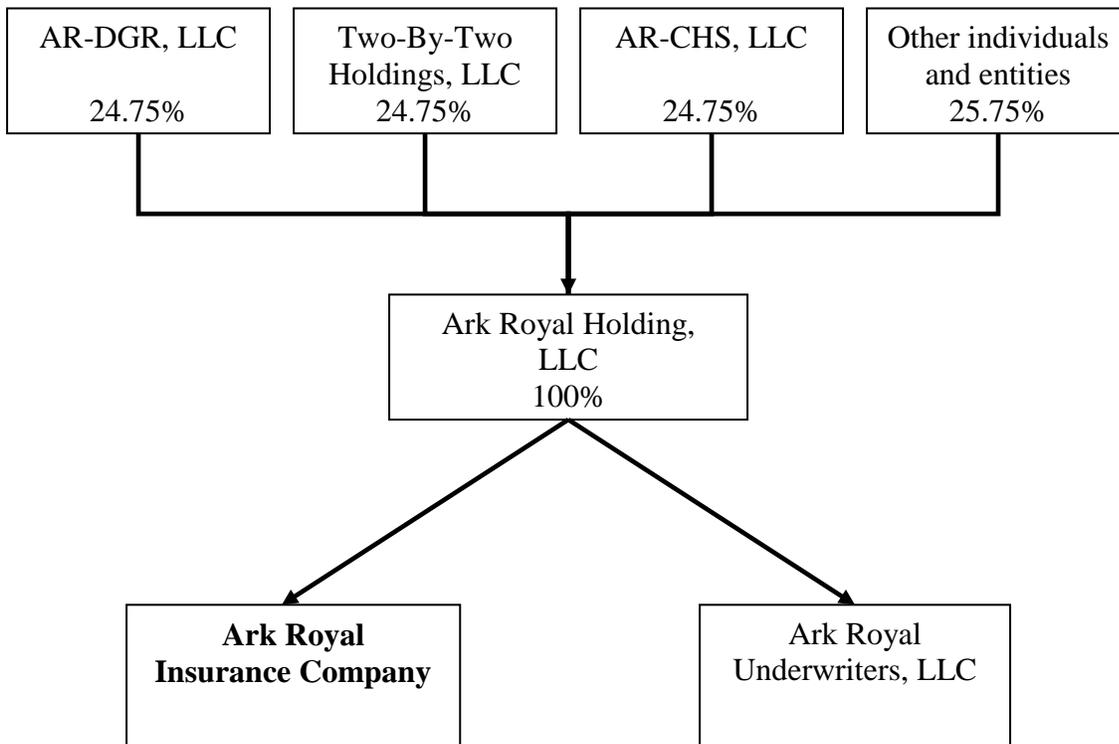
Affiliated Companies

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 March 1, 2011, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

An organizational chart as of December 31, 2010, reflecting the holding company system, is shown below. Schedule Y of the Company's 2010 annual statement provided a list of all related companies of the holding company group.

**ARK ROYAL INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2010



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, and 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 and automatically renews each successive year, unless otherwise terminated within the guidelines of the agreement. For underwriting, premium processing and claims services, the Company paid 13.55% of written premium plus a \$25 new business and renewal business fee per

policy. Costs incurred under this agreement during 2010 amounted to \$5,726,733 for MGA commissions and \$881,300 in MGA fees.

The MGA, ARU, had a vendor agreement with ASI Underwriters Corp. (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, an affiliate of ASIU, to provide policy issuance, premium billing, return premiums, commission payments and collection services.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up 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 qualified, 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 2010 was \$6,240.

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

The Company has been growing its personal residential program and has access to a diversified agent base through affiliated managing general agency ARU. ARU contracts with a vendor, ASIU, to issue insurance policies through a network of independent agents, located throughout the state of Florida.

The Company's net financial position improved in 2010. Net policyholders' surplus increased by \$2,267,532, compared to 2009 (30.3%). The reasons for the increase were due to a realization of net income in 2010 as compared to a net loss in 2009. The gain is attributable to the increase in earned premiums and benefits of economies of scale as the Company continues to increase written premium and control operating expenses.

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.

	2010	2009	2008	2007
Premiums Earned	11,858,303	4,132,110	779,304	0
Net Underwriting Gain/(Loss)	2,735,414	(1,684,394)	(1,195,256)	(348,919)
Net Income	2,509,304	(1,136,214)	(815,183)	(318,018)
Total Assets	30,499,109	19,468,631	11,560,377	9,692,703
Total Liabilities	19,444,021	10,981,075	2,700,851	7,252
Surplus As Regards Policyholders	11,055,088	8,487,556	8,859,526	9,685,451

LOSS EXPERIENCE

In 2010 the Company experienced favorable development for 2008 losses of \$228,000 and unfavorable development of \$235,000 for 2009 losses. The 2009 development was due to losses related to sinkholes.

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 any reinsurance during the period of this 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.

An independent CPA audited the Company's statutory basis financial statements for 2010 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 local version of Peachtree Accounting Software. All financial activity from the internally developed policy administration and claims administration systems was recorded via manual journal entry from reports generated from the policy and claims system. The Company's core policy and claims administration systems were

maintained by third party service provider e-INS, an affiliate of ASIU. Business was processed electronically through a combination of system and network resources

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company had a custodial agreement with Sabal Trust Company (Sabal) dated December 27, 2007, amended January 12, 2011. The Company's assets were held with custodian Reliance Trust Company (Reliance Trust), a sub-custodial nominee of Sabal. The Sabal custodial agreement indicated that a nominee may be appointed by Sabal; however, the nominee of Reliance Trust was not specifically indicated. **Subsequent Event:** The Company changed the wording on its custodial agreement and its investment management agreement to include reference of Reliance Trust as the custodian. The Company forwarded the executed agreements to the Office for approval on January 4, 2012.

Claims Management Services Agreement

The Company entered into a Claims Management Services Agreement with 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 2010 amounted to \$236,131 and \$0 paid in non-catastrophe and catastrophe, respectively.

Sublease Agreement

On June 1, 2007, the Company entered into a sublease agreement with American Strategic Insurance Corp. for office space of approximately 821.3 square feet located on the third floor of 805 Executive Center Drive West, St. Petersburg, Florida. Rental expense for the calendar year 2010 was \$17,211.

Independent Auditor Agreement

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

INFORMATION TECHNOLOGY REPORT

Leon Pressman, CISA, IT Manager of ParenteBeard 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 as required by Section 624.411, Florida Statutes:

STATE	Description	Par Value	Market Value
FL	Cash Deposit 0.025%	\$ 300,000	\$ 300,000
	TOTAL FLORIDA DEPOSITS	<u>\$ 300,000</u>	<u>\$ 300,000</u>
	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, 2010, 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, 2010

	Per Company	Examination Adjustments	Per Examination
Bonds	\$20,976,475		\$20,976,475
Cash and Short-Term Investments	6,004,969		6,004,969
Investment Income Due and Accrued	200,098		200,098
Agents' Balances:			
Uncollected premium	326,408		326,408
Deferred premium	1,209,841		1,209,841
Reinsurance recoverable	865,294		865,294
Net Deferred Tax Asset	476,044		476,044
EDP Equipment	2,233		2,233
Receivable from parents, subsidiaries and affiliates	437,539		437,539
Aggregate write-in for other than invested assets	208		208
	<hr/>		<hr/>
Totals	\$30,499,109		\$30,499,109

ARK ROYAL INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2010

	Per Company	Examination Adjustments	Per Examination
Losses	\$3,847,207		\$3,847,207
Loss adjustment expenses	422,650		422,650
Other expenses	138,497		138,497
Taxes, licenses and fees	988,171		988,171
Current federal and foreign income taxes	459,799		459,799
Unearned premium	5,543,207		5,543,207
Advance premium	434,775		434,775
Ceded reinsurance premiums payable	7,609,715		7,609,715
Total Liabilities	\$19,444,021		\$19,444,021
Common capital stock	\$10,000		\$10,000
Gross paid in and contributed surplus	10,140,000		10,140,000
Unassigned funds (surplus)	905,088		905,088
Surplus as regards policyholders	\$11,055,088		\$11,055,088
Total liabilities, surplus and other funds	\$30,499,109		\$30,499,109

ARK ROYAL INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2010

Underwriting Income

Premiums earned		\$11,858,303
	Deductions:	
Losses incurred		\$5,622,811
Loss expenses incurred		745,271
Other underwriting expenses incurred		2,754,807
Aggregate write-ins for underwriting deductions		
Total underwriting deductions		\$9,122,889
Net underwriting gain or (loss)		\$2,735,414

Investment Income

Net investment income earned		\$675,062
Net realized capital gains or (losses)		50,837
Net investment gain or (loss)		\$725,899

Other Income

Net gain or (loss) from agents' or premium balances charged off		
Finance and service charges not included in premiums		113,760
Aggregate write-ins for miscellaneous income		
Total other income		\$113,760
Net income before dividends to policyholders and before federal & foreign income taxes		\$3,575,074
Dividends to policyholders		
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$3,575,074
Federal & foreign income taxes		1,065,770
Net Income		\$2,509,304

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$8,487,556
Net Income		\$2,509,304
Change in net unrealized capital gains or losses		26,172
Change in net deferred income tax		(150,792)
Change in non-admitted assets		(33,973)
Change in provision for reinsurance		11,000
Cumulative effect of changes in accounting principles		205,821
Aggregate write-ins for gains and losses in surplus		
Examination Adjustment		
Change in surplus as regards policyholders for the year		\$2,567,531
Surplus as regards policyholders, December 31 current year		\$11,055,088

A comparative analysis of changes in surplus is shown below.

ARK ROYAL INSURANCE COMPANY
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2010

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, 2010, per Annual Statement	\$11,055,088
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS: No Adjustment			
LIABILITIES: No Adjustment			
Net Change in Surplus:			<u>0</u>
Surplus as Regards Policyholders December 31, 2010, Per Examination			<u><u>\$11,055,088</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses

\$4,269,857

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, 2010, 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, Ronald T. Kuehn, FCAS, MAAA, CPCU, ARM, FCA of Huggins Actuarial Services, Inc., 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 reported by the Company of \$11,055,088, exceeded the minimum of \$5,000,000 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, 2010, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$11,055,088, which exceeded the minimum of \$5,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, John Romano, CPA, AFE Examiner-In-Charge, Jennifer Cox, Participating Examiner, and Leon Pressman CISA, IT Manager of ParenteBeard LLC participated in the examination. In addition, Ronald T Kuehn, FCAS, MAAA, CPCU, ARM, FCA consulting actuary of Huggins Actuarial Services, Inc. and Kyra Brown, APIR, Financial Specialist of the Office also participated in the examination.

Respectfully submitted,

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