

REPORT ON EXAMINATION
OF
ASI ASSURANCE CORP.
ST. PETERSBURG, FLORIDA

AS OF
DECEMBER 31, 2007

BY THE
OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION.....	1
STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION	2
HISTORY	2
GENERAL	2
CAPITAL STOCK	3
DIVIDENDS TO STOCKHOLDERS	4
PROFITABILITY OF COMPANY	4
MANAGEMENT	4
CONFLICT OF INTEREST PROCEDURE.....	5
CORPORATE RECORDS	6
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE.....	6
SURPLUS DEBENTURES	6
AFFILIATED COMPANIES	6
ORGANIZATIONAL CHART	8
TAX ALLOCATION AGREEMENT	9
MANAGING GENERAL AGENT AGREEMENT	9
FIDELITY BOND.....	9
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	10
STATUTORY DEPOSITS.....	10
PLAN OF OPERATION.....	10
TERRITORY	10
TREATMENT OF POLICYHOLDERS.....	11
REINSURANCE	11
ASSUMED.....	11
CEDED	11
ACCOUNTS AND RECORDS.....	12
CUSTODIAL AGREEMENT	12
INVESTMENT ADVISORY AGREEMENT	12
INFORMATION TECHNOLOGY REPORT.....	13
FINANCIAL STATEMENTS PER EXAMINATION.....	13
ASSETS	14
LIABILITIES, SURPLUS AND OTHER FUNDS	15
STATEMENT OF INCOME.....	16

COMMENTS ON FINANCIAL STATEMENTS..... 17
 LIABILITIES 17
 CAPITAL AND SURPLUS..... 17
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS..... 18
SUMMARY OF FINDINGS 19
CONCLUSION 20

Tallahassee, Florida

June 12, 2008

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, 2007, of the financial condition and corporate affairs of:

**ASI ASSURANCE CORP.
805 Executive Center Drive West
Suite 300
St. Petersburg, FL 33702**

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

SCOPE OF EXAMINATION

This examination covered the period from January 1, 2007 through December 31, 2007. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2006. This examination commenced, with planning at the Office, on March 17, 2008, to March 21, 2008. The fieldwork commenced on March 24, 2008, and was concluded as of June 12, 2008.

This financial examination was a statutory financial examination conducted in accordance with the NAIC Financial Condition Examiners Handbook (NAIC 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 NAIC 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 NAIC 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.

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 A.M. Best 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 is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which are deemed to require special explanation or description.

Status of Adverse Findings from Prior Examination

The prior examination report contained no comments or findings.

HISTORY

General

The Company was incorporated in Florida on August 9, 2004, and commenced business on October 21, 2004. The Company underwrites through independent agents within the State of Florida.

The Company was party to Consent Order No. 77241-04-CO filed July 26, 2004, with the Office regarding the application for the issuance of a Certificate of Authority. The Company was in compliance with that order.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2007:

Fire	Inland marine
Allied lines	Other liability - occurrence
Homeowners multiple peril	

The articles of incorporation and the bylaws were not amended during the period covered by this examination.

Capital Stock

As of December 31, 2007, the Company's capitalization was as follows:

Number of authorized common capital shares	1,000
Number of shares issued and outstanding	1,000
Total common capital stock	\$1,000
Par value per share	\$1.00

Control of the Company was maintained by its parent, ARX Holding Corp., a Delaware company that owned 100% of the stock issued by the Company. ARX Holding Corp., was owned 46% by XL Re Ltd., a Bermuda corporation, 25% by ARX Executive Holdings, LLP, a Florida company, 11% by Marc Fasteau, a New York resident, 10% by Fasteau Insurance Holdings, LLC, a Delaware company and the remaining 8% was owned by other individuals and entities. XL Re Ltd. was owned 100% by Mid Ocean Holdings Ltd., a Bermuda corporation, which was owned 100% by Mid Ocean Limited, which was owned 100% by XL Capital Limited, a Cayman corporation. ARX Executive Holdings, LLP was owned 80% by John F. Auer and 20% by Kevin R. Milkey.

In March, 2007, ARX Holding Corp. made a \$3,500,000 capital contribution to the Company.

Dividends to Stockholders

The Company declared and paid dividends to its stockholder in 2007 in the amount of \$2,366,525.

Profitability of Company

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

	2007	2006	2005
Premiums Earned	29,378,337	17,568,495	5,995,000
Net Underwriting Gain/(Loss)	501,020	6,083,283	(260,314)
Net Income	975,504	4,684,681	(747,182)
Total Assets	72,164,316	42,444,216	37,254,392
Total Liabilities	52,525,244	25,625,008	25,614,649
Surplus As Regards Policyholders	19,639,072	16,819,208	11,639,743

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, 2007, were:

Directors

Name and Location

John Franklin Auer
St. Petersburg, Florida

Marc Fasteau, Chair
New York, New York

Principal Occupation

American Strategic Insurance Corp.
President, Director and CEO

Fulcrum Partners, LLC
Managing Director

Gregory Scott Hendrick
Hamilton, Bermuda

XL Re Ltd.
Senior Vice President

Kevin Robert Milkey
St. Petersburg, Florida

American Strategic Insurance Corp.
Executive Vice President

Robert Louis Nason
Stamford, Connecticut

XL Global Services
Executive Vice President

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

Senior Officers

Name	Title
John Franklin Auer	President and Treasurer
Kevin Robert Milkey	Executive Vice President
Marc Fasteau	Chairman and Secretary
Mary Frances Fournet	Vice President, Underwriting
Gregory Edward Stewart	Vice President, Finance
Antonio Scognamiglio	Vice President, Claims

The Company's board appointed internal committees in accordance with Section 607.0825, Florida Statutes. Following are the principal internal board committees and their members as of December 31, 2007

Audit Committee

Marc Fasteau, Chair
Gregory Scott Hendrick
Robert Louis Nason

Investment Committee

John Franklin Auer
Kevin Milkey
Marc Fasteau, Chair

Conflict of Interest Procedure

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC 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, or purchases or sales through reinsurance during this examination period.

Surplus Debentures

There were no surplus debentures issued by the Company.

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 November 13, 2007 as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

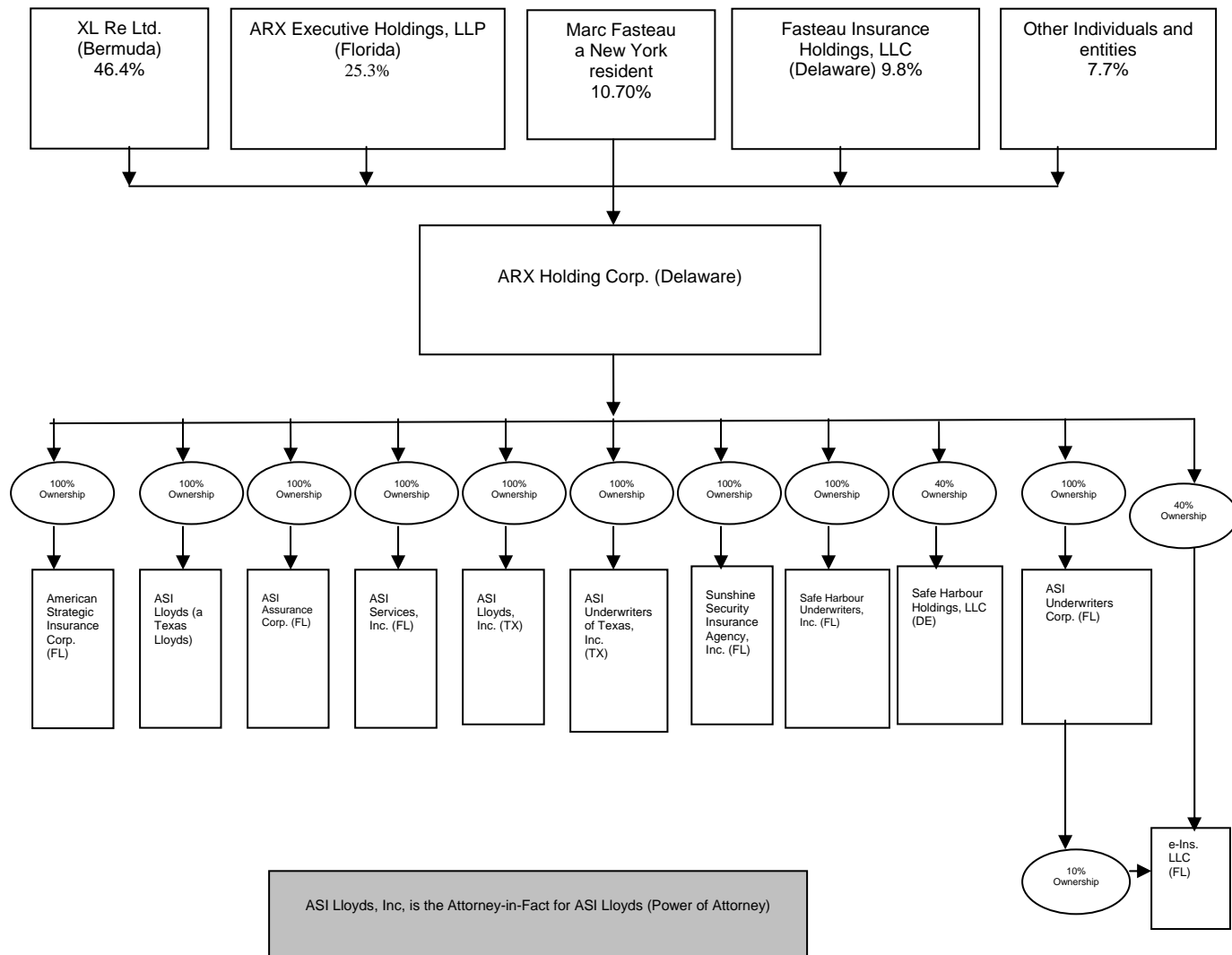
Subsequent event: The Company filed updated holding company registration statements on February 29, 2008, and May 15, 2008, to record a new affiliate company purchased, and related party agreements.

An organizational chart as of December 31, 2007, reflecting the holding company system, is shown below. Schedule Y of the Company's 2007 annual statement provided a list of all related companies of the holding company group.

ASI Assurance Corp.

ORGANIZATIONAL CHART

DECEMBER 31, 2007



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

Tax Allocation Agreement

The Company, along with its parent and affiliates, filed a consolidated federal income tax return. On December 31, 2007, the method of allocation between the Company, its parent and affiliates was based upon separate return calculations.

Managing General Agent Agreement

The Company entered into a managing general agent (MGA) agreement with ASI Underwriters Corp., an affiliate, on April 1, 2005, under which ASI Underwriters Corp. provided underwriting, claims processing and premiums collection through an exclusive contract with the Company. Each month the Company paid ASI Underwriters Corp. a commission of 8% of written premium, 5% of non-catastrophe paid losses and 1% of catastrophe paid losses for these services. A non-refundable MGA fee of \$25 per new policy was also paid. In 2007 and 2006, the Company paid \$10,650,963 and \$7,417,633 in commissions and \$2,897,150 and \$1,881,325 in MGA fees, respectively.

FIDELITY BOND

The Company maintained fidelity bond coverage up to \$1,200,000 with a deductible of \$25,000. Although the coverage under that bond was sufficient for the Company on an individual basis, the coverage did not meet the minimum amount suggested by the NAIC Handbook for the entire group of companies covered under that bond.

Subsequent Event:

Effective June 23, 2008, the Company obtained increased fidelity bond coverage to \$1,500,000, which was an amount sufficient to meet the minimum amount suggested by the NAIC Handbook for the entire group of companies covered under that bond.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees. Therefore, there were no pension or retirement plans or other benefits.

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	FL ST DIV BD FIN DEPT GEN, 8.531% 7/1/10	<u>\$325,000</u>	<u>\$341,153</u>
Total Florida Deposits		<u>\$325,000</u>	<u>\$341,153</u>

PLAN OF OPERATION

Territory

The Company was licensed only in the state of Florida and wrote insurance coverage in all authorized lines as of December 31, 2007.

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 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 2007.

Ceded

The Company ceded risk on both an excess of loss and a quota share basis to both authorized and unauthorized reinsurers through a reinsurance intermediary. Letters of credit were properly established for unauthorized reinsurers.

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 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 had a custodial agreement with JP Morgan World Wide Securities Services dated December 17, 2007. This agreement was in accordance with Rule 69O-143.042, Florida Administrative Code.

Investment Advisory Agreement

The Company had an agreement with Gen Re - New England Asset Management dated July 1, 2005. Under this agreement, Gen Re - New England Asset Management managed investments within guidelines approved by the Board of Directors.

Information Technology Report

INS Services, Inc. performed a computer systems evaluation on the Company. Results of the evaluation were noted in the Information Technology (IT) 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, 2007, 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."

**ASI Assurance Corp.
Assets**

DECEMBER 31, 2007

	Per Company	Examination Adjustments	Per Examination
Bonds	\$44,087,795		\$44,087,795
Cash	14,209,777		14,209,777
Investment income due and accrued	474,170		474,170
Agents' Balances:			
Uncollected premium	848,797		848,797
Deferred premium	4,439,309		4,439,309
Amounts recoverable from reinsurers	2,219,849		2,219,849
Current federal and foreign income tax recoverable and interest thereon	1,099,633		1,099,633
Net deferred tax asset	2,172,580		2,172,580
Receivable from parents, subsidiaries and affiliates	484,903		484,903
Aggregate write-in for other than invested assets	2,127,502		2,127,502
Totals	\$72,164,315	\$0	\$72,164,315

**ASI Assurance Corp.
Liabilities, Surplus and Other Funds**

DECEMBER 31, 2007

	Per Company	Examination Adjustments	Per Examination
Losses	\$7,472,556		\$7,472,556
Loss adjustment expenses	800,580		800,580
Commissions payable, contingent commissions	2,444,146		2,444,146
Other expenses	649,438		649,438
Taxes, licenses and fees	1,671,115		1,671,115
Unearned premium	30,348,865		30,348,865
Advance premiums	5,902,645		5,902,645
Ceded reinsurance premiums payable	3,004,065		3,004,065
Payable to parent, subsidiaries and affiliates	131,773		131,773
Aggregate write-ins for liabilities	100,061		100,061
Total Liabilities	\$52,525,244	\$0	\$52,525,244
Common capital stock	\$1,000		\$1,000
Gross paid in and contributed surplus	14,999,000		14,999,000
Unassigned funds (surplus)	4,639,072		4,639,072
Surplus as regards policyholders	\$19,639,072		\$19,639,072
Total liabilities, surplus and other funds	\$72,164,316	\$0	\$72,164,316

**ASI Assurance Corp.
Statement of Income**

DECEMBER 31, 2007

Underwriting Income		
Premiums earned		\$29,378,337
	Deductions:	
Losses incurred		14,843,860
Loss expenses incurred		984,795
Other underwriting expenses incurred		13,048,663
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		<u>\$28,877,318</u>
Net underwriting gain or (loss)		\$501,019
Investment Income		
Net investment income earned		\$2,200,497
Net realized capital gains or (losses)		7,246
Net investment gain or (loss)		<u>\$2,207,743</u>
Other Income		
Finance and service charges not included in premiums		\$232,821
Total other income		<u>\$232,821</u>
Net income before dividends to policyholders and before federal & foreign income taxes		\$2,941,584
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		<u>\$2,941,584</u>
Federal & foreign income taxes		<u>1,966,080</u>
Net Income		\$975,504
Capital and Surplus Account		
Surplus as regards policyholders, December 31 prior year		\$16,819,208
Net Income		\$975,504
Net unrealized capital gains or losses		1,197,076
Change in non-admitted assets		(486,191)
Surplus adjustments: Paid in		3,500,000
Aggregate write-ins for gains and losses in surplus		(2,366,525)
Examination Adjustment		0
Change in surplus as regards policyholders for the year		<u>\$2,819,864</u>
Surplus as regards policyholders, December 31 current year		<u><u>\$19,639,072</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$8,273,136

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, 2007, make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

INS Consultants, Inc. reviewed work papers provided by the Company and was in concurrence with this opinion.

Capital and Surplus

The amount reported by the Company of \$19,639,072, exceeds the minimum required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**ASI ASSURANCE CORP.
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2007

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, 2007, per Annual Statement	\$19,639,072
---	--------------

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustment			0
LIABILITIES:			
No adjustment			0
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2007, per Examination			\$19,639,072

SUMMARY OF FINDINGS

Compliance with previous directives

There were no comments or recommendations made in the 2006 examination report issued by the Office.

Current examination comments and corrective action

This examination had no comments or recommendations requiring corrective action.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **ASI Assurance Corp.** as of December 31, 2007, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$19,639,072 in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Barry Armstrong, CFE, Supervisor, Pat Casey Davis, CFE, CPA, Examiner in Charge, Bill Holmes, CFE, Financial Examiner, Lori Ruggiero, CFE, CIE, Financial Examiner, all of INS Regulatory Insurance Services, Samita Lamsal, Financial Examiner, and Mike Young, Financial Examiner participated in this examination. We also recognize INS Consultants, Inc. and INS Services, Inc. participation in the examination.

Respectfully submitted,

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