REPORT ON EXAMINATION

OF

ASI PREFERRED INSURANCE CORP.

ST. PETERSBURG, FLORIDA

AS OF

DECEMBER 31, 2011

BY THE

FLORIDA OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

April 5, 2013

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, 2011, of the financial condition and corporate affairs of:

ASI PREFERRED INSURANCE CORP.
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, 2011, through December 31, 2011. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2010. This examination commenced with planning at the Office on January 7, 2013, to January 11, 2013. The fieldwork commenced on January 28, 2013, and concluded as of April 5, 2013.

This financial examination was an association 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 findings or exceptions noted during the examination as of December 31, 2011.

Prior Exam Findings

There were no findings, exceptions or corrective action to be taken by the Company for the examination as of December 31, 2006.

HISTORY

General

The Company was incorporated in Florida on February 13, 2008, and commenced business on April 14, 2008, as ASI Preferred Insurance Corp.

The Company was authorized to transact the following insurance coverage in Florida on April 14, 2008, and continued to be authorized as of December 31, 2011:

Fire	Other liability
Homeowners multiple peril	Allied lines
Inland Marine	

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

Dividends to Stockholders

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

Capital Stock and Capital Contributions

As of December 31, 2011, the Company's capitalization was as follows:

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

The Company is owned by American Strategic Insurance Corp. (40%), and ARX Holding Corp. (60%). American Strategic Insurance Corp. is wholly owned by ARX Holding Corp. who in turn is owned 46% by XL Re Ltd., a Bermuda company, 25% by ARX Executive Holdings, LLP, a Florida company, 10% by Marc Fasteau, a New York resident, 10% by Fasteau Insurance Holdings, LLC, a Delaware company, and the remaining 9% was owned by various other individuals and entities.

The parent contributed $14,000,000 gross paid in and contributed surplus to the Company as of December 31, 2011.

Surplus Notes

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

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

The Company had no acquisitions, mergers, disposals, and purchase or sales through reinsurance during the period under this examination.

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 and 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, 2011, were:

Directors

Name and Location	Principal Occupation
John Franklin Auer St. Petersburg, Florida	American Strategic Insurance Corp. President, Director and CEO
Susan Cross (a) Hamilton, Bermuda	XL Re, Ltd. Senior Vice President
Marc Fasteau New York, New York	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

(a) Resigned effective January 1, 2013, and was replaced by Charles Cooper effective January 1, 2013.

The Board, 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
Angel Bostick	Vice President and General Counsel
Mary Frances Fournet	Vice President
Antonio Scognamiglio	Vice President
Marc Fasteau	Chairman and Secretary

The Company's Board appointed several internal committees. Following were the principal internal board committees and their members as of December 31, 2011:

Audit Committee	Investment Committee
Marc Fasteau [1]	Marc Fasteau [1]

Susan Cross	John Franklin Auer
Gregory Scott Hendrick	Gregory Scott Hendrick

[1] Chairman

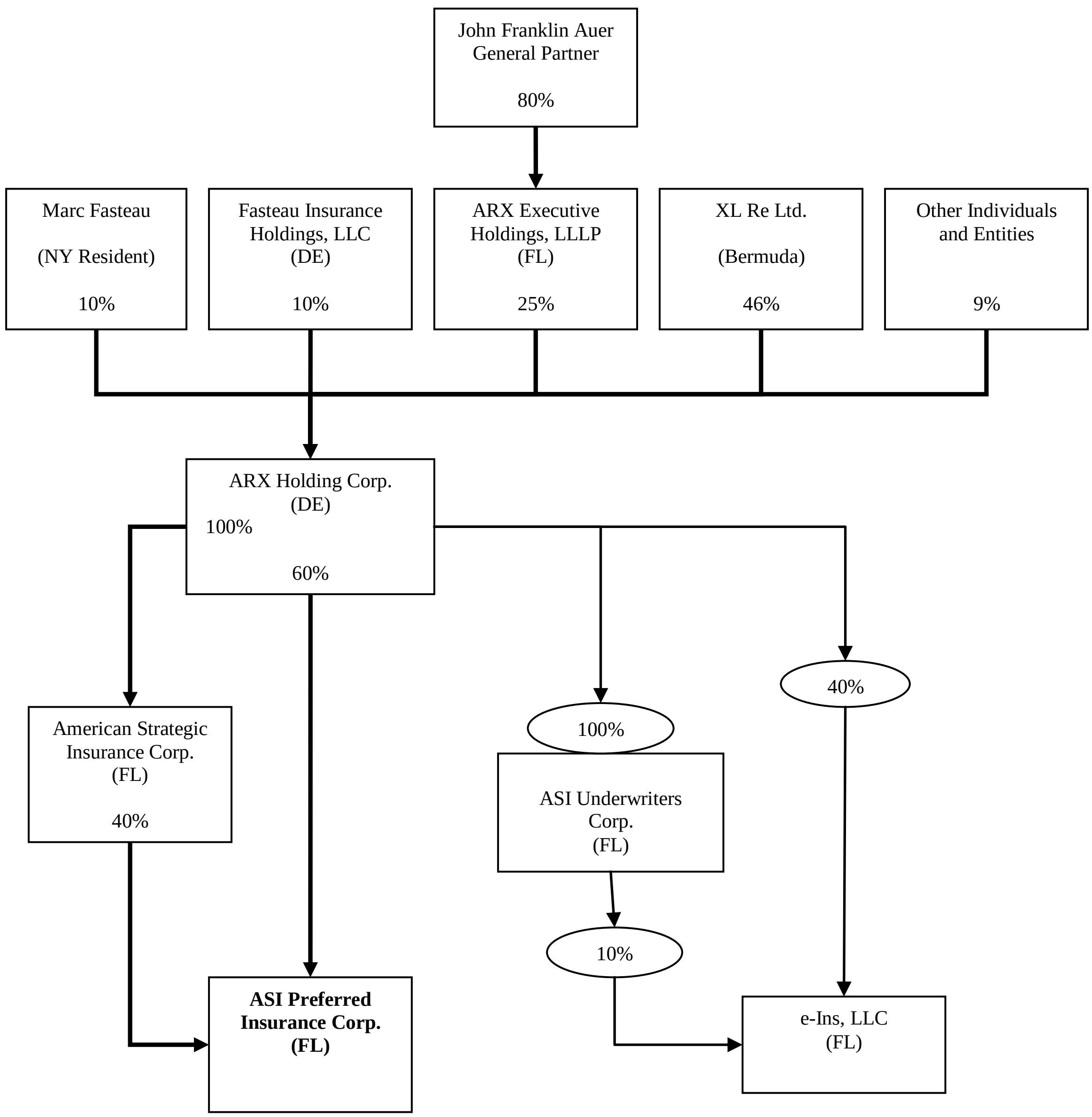
Affiliated Companies

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 January 24, 2013, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

An organizational chart as of December 31, 2011, reflecting the holding company system, is shown on the following page. Schedule Y of the Company's 2011 annual statement provided a list of all related companies of the holding company group.

ASI PREFERRED INSURANCE CORP.
ORGANIZATIONAL CHART

DECEMBER 31, 2011



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

Tax Allocation Agreement

The Company, along with its parent, filed a consolidated federal income tax return. On December 31, 2011, the method of allocation between the Company and its parent was in an amount not to exceed that which would have been due had the Company and its parent filed a separate income tax return. Within ninety (90) days of the remittance by the Company of any income tax payment to the taxing authorities, all inter-company tax receivables/payables were settled.

Intercompany Settlement Agreement

The Company entered into an agreement, effective December 1, 2010, with related parties through common ownership ARX Holding Corp. and Safe Harbour Holding, LLC, 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 managing general agent (MGA) audit report was obtained and no significant findings were noted. The Company entered into a Managing General Agency Agreement with its affiliate, ASI Underwriters, Inc. effective on February 1, 2007. 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 and premium processing services, the Company pays 8% of written premium plus a $25 policy fee. Claims administration services were included in the agreement. For claims processing, the Company paid a monthly commission based on 5% of non-catastrophe paid losses and 1% for catastrophe paid losses.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to $1,500,000 with a deductible of $50,000, which reached the suggested minimum as recommended by the NAIC.

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

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company’s employees were covered by a qualified, defined-contribution plan sponsored by the Company. The assets were commingled under one plan with its affiliates, ASI Underwriters of Texas, Inc., American Capital Assurance Corp., American Strategic Insurance Corp., ASI Underwriters Corp., ASI Lloyds, Safe Harbour Underwriters, LLC and Sunshine Security Insurance Agency, Inc. Contributions of up to six percent of each employee’s compensation were made each pay period. The Company’s contribution for 2011 was $137,184.

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's gross written premiums have been increasing steadily and were approximately $96,000,000 during 2011 versus an average of approximately $42,000,000 during the Company's first three years of operation, beginning in 2008. The Company is the eighteenth largest in Florida with regards to homeowners' premiums with 78,977 policies in force. The Company has generated a profit each of the last two years.

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.

	2011	**2010**	**2009**
Premiums Earned	16,324,517	12,425,477	7,145,706
Net Underwriting Gain/(Loss)	603,399	208,759	(1,824,022)
Net Income	255,226	678,460	(716,072)
Total Assets	41,071,841	36,302,435	28,294,191
Total Liabilities	25,529,600	21,893,940	14,778,356
Surplus As Regards Policyholders	15,542,241	14,408,495	13,515,835

LOSS EXPERIENCE

The Company has experienced consistent results regarding its loss experience during the past three years. Listed below is a table that details the Company's one year and two year loss development during the period of this examination.

Description	2011	2010	2009
One Year Loss Development (000):			
Development in estimated losses and loss expenses	(65)	(115)	(52)
Percent of development to policyholders' surplus	(0.5)	(0.9)	(0.5)
Two Year Loss Development (000):			
Development in estimated losses and loss expenses	(192)	(69)	
Percent of development to policyholders' surplus	(1.4)	(0.7)	

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 affiliate and non-affiliate reinsurers. The Company's reinsurance program consisted 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 the year 2011 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 JP Morgan Chase Bank National Association, effective October 22, 2007. The Company was in compliance with Rule 69O-143.042, Florida Administrative Code.

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 690-137.002 (7) (c), Florida Administrative Code.

INFORMATION TECHNOLOGY REPORT

Steven R. Sigler, CFE, AES, CISA, of Examination Resources, 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 and with various state officials as required or permitted by law:

STATE	Description	Par Value	Market Value
FL	US TREASURY NOTE, 2.5%, 03/31/2013	$325,000	$334,331
TOTAL FLORIDA DEPOSITS		$325,000	$334,331
TOTAL SPECIAL DEPOSITS		$325,000	$334,331

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2011, 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 PREFERRED INSURANCE CORP.

Assets

DECEMBER 31, 2011

	Per Company	Examination Adjustments	Per Examination
Bonds	$27,844,496	$0	$27,844,496
Stocks:			
Common	0		0
Cash and Short-Term Investments	4,782,047		4,782,047
Agents' Balances:			
Uncollected premium	1,091,254		1,091,254
Deferred premium	3,600,478		3,600,478
Reinsurance recoverable	1,946,694		1,946,694
Current federal and foreign income tax recoverable and interest thereon	308,340		308,340
Net deferred tax asset	1,241,764		1,241,764
EDP Equipment	43,727		43,727
Interest and dividend income due & accrued	212,812		212,812
Receivable from parents, subsidiaries and affiliates	40		40
Aggregate write-in for other than invested assets	189		189
Totals	$41,071,841	$0	$41,071,841

ASI PREFERRED INSURANCE CORP.
Liabilities, Surplus and Other Funds

DECEMBER 31, 2011

	Per Company	Examination Adjustments	Per Examination
Losses	$4,511,598		$4,511,598
Loss adjustment expenses	495,570		495,570
Commissions payable, conringent commissic	1,463,335		1,463,335
Other expenses	405,263		405,263
Taxes, licenses and fees	897,483		897,483
Unearned premium	9,317,427		9,317,427
Advance premium	2,861,726		2,861,726
Ceded reinsurance premiums payable	5,143,849		5,143,849
Payable to parent, subsidiaries and affiliates	340,988		340,988
Aggregate write-ins for liabilities	92,361		92,361
Total Liabilities	$25,529,600	$0	$25,529,600
Common capital stock	$1,000,000		$1,000,000
Gross paid in and contributed surplus	14,000,000		14,000,000
Unassigned funds (surplus)	542,241		542,241
Surplus as regards policyholders	$15,542,241	$0	$15,542,241
Total liabilities, surplus and other funds	$41,071,841	$0	$41,071,841

ASI PREFERRED INSURANCE CORP.
Statement of Income

DECEMBER 31, 2011

Underwriting Income	
Premiums earned	$16,324,517
Deductions:	
Losses incurred	$6,660,788
Loss expenses incurred	754,371
Other underwriting expenses incurred	8,305,959
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	$15,721,118
Net underwriting gain or (loss)	$603,399
Investment Income	
Net investment income earned	$623,604
Net realized capital gains or (losses)	7,853
Net investment gain or (loss)	$631,457
Other Income	
Net gain or (loss) from agents' or premium balances charged off	($2,805)
Finance and service charges not included in premiums	236,180
Aggregate write-ins for miscellaneous income	0
Total other income	$233,375
Net income before dividends to policyholders and before federal & foreign income taxes	$1,468,231
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	$1,468,231
Federal & foreign income taxes	1,213,005
Net Income	$255,226
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	$14,408,495
Net Income	$255,226
Net unrealized capital gains or losses	0
Change in net deferred income tax	747,041
Change in non-admitted assets	131,479
Change in provision for reinsurance	0
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	$1,133,746
Surplus as regards policyholders, December 31 current year	$15,542,241

A comparative analysis of changes in surplus is shown below.

ASI PREFERRED INSURANCE CORP.
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2011

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, 2011, per Annual Statement				$15,542,241
	PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS	
ASSETS:				
No Adjustment	$0	$0	$0	
LIABILITIES:				
No Adjustment	$0	$0	$0	
Net Change in Surplus:				0
Surplus as Regards Policyholders December 31, 2011, Per Examination				$15,542,241

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses $5,007,168

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, 2011, 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, Brent M. Sallay, FCAS, MAAA of Taylor-Walker & Associates, Inc., reviewed the loss and loss adjustment expense work papers provided by the Company and he was in concurrence with this opinion.

Capital and Surplus

The amount of Capital and surplus reported by the Company of $15,542,241, 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 **ASI Preferred Insurance Corp.** as of December 31, 2011, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was $15,542,241, which exceeded the minimum of $5,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Scott R. Kalna, CFE, MCM, Examiner-In-Charge, Beverly A. Dale, CFE, CIE, FLMI, CPA, Participating Examiner, Bradley R. Hazelwood, CPA, MCM, Participating Examiner, Steven R. Sigler, CFE, MCM, AES, CISA, IT Specialist, all of Examination Resources, LLC, participated in the examination. In addition, Brent M. Sallay, FCAS, MAAA, consulting actuary of Taylor-Walker & Associates, Inc., Kethessa Carpenter, CPA, Financial Examiner/Analyst Supervisor, Kyra D. Brown, APIR, Financial Specialist and Joycelyn A. Galletta, Financial Examiner/Analyst II, of the Office also participated in the examination.

Respectfully submitted,

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Mary M. James, CFE, CPM
Chief Examiner
Florida Office of Insurance Regulation