



**EXAMINATION REPORT
OF**

**ARK ROYAL INSURANCE COMPANY
(N.K.A. PROGRESSIVE PROPERTY
INSURANCE COMPANY)**

NAIC Company Code: 13038

ST. PETERSBURG, FLORIDA

**as of
December 31, 2015**

**BY THE
FLORIDA OFFICE OF INSURANCE REGULATION**

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May 15, 2017

David Altmaier
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, 2015, of the financial condition and corporate affairs of

Ark Royal Insurance Company
(N.K.A Progressive Insurance Company)
1 ASI Way N
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, 2015 and commenced with planning at the Office on October 25, 2016 to October 27, 2016. The fieldwork commenced on October 31, 2016 and concluded as of May 15, 2017. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) covering the period of January 1, 2010 through December 31, 2010.

The examination was a multi-state examination conducted in accordance with the NAIC Financial Condition Examiners Handbook (Handbook). The Handbook requires that the examination be planned and performed to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statements of Statutory Accounting Principles (SSAP).

This examination report includes significant findings of fact, as mentioned in Section 624.319, Florida Statutes and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

Current Examination Findings

The following is a summary of material adverse findings, significant non-compliance findings or material changes in the financial statements.

Capital Stock

The Company's reported par value or per share of common capital stock was not in compliance with Section 628.081 (3)(d), Florida Statutes.

Designation of Independent Certified Public Accountant

The Company did not file the Independent Certified Public Accountant issued "Awareness Letter" with Office in compliance with Rule 69O-137.002(6)(a)(b), Florida Administrative Code.

Prior Examination Findings

There were no findings, exceptions, or corrective action to be taken by the Company for the examination as of December 31, 2010.

COMPANY HISTORY

General

The Company is a Florida domiciled property-casualty insurer writing insurance policies through its Managing General Agent (MGA), Ark Royal Underwriters (ARU). ARU, in turn, contracts with a vendor, ASI Underwriters Corp. (ASIU), to issue insurance policies through a network of independent agents. Through a claims management services agreement, the Company contracts with ASIU to handle claims adjustment and claims payment services for the Company.

The Company was incorporated in Florida on November 9, 2007, and commenced business on March 17, 2008.

The Company was authorized to transact insurance coverage in Florida on November 9, 2007 and is currently authorized for the following coverages as of December 31, 2015:

Fire
Allied Lines
Homeowners Multi-Peril

Inland Marine
Other Liability

Dividends

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

Capital Stock and Capital Contributions

As of December 31, 2015, 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	\$2,500,000
Par value per share	\$250

On February 6, 2013, the Company's Board of Directors approved an increase in the par value of the Company's common capital stock to \$250 per share from \$1 per share. The Company was not in compliance with Section 628.081 (3) (d), Florida Statutes; the par value cannot be less than \$1 or exceed \$100.

Surplus Notes

The Company had no 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, dissolutions or purchase or sales through reinsurance during the period of this examination.

CORPORATE RECORDS

The recorded minutes of the Shareholder(s), Board of Directors (Board) and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board documented its meetings and approval of Company transactions and events, in compliance with the 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 periodic disclosure of conflicts of interest in accordance with the 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, 2015 are shown below.

Directors

Name	City, State	Principal Occupation, Company Name
Robert H. Willis Jr.	St. Petersburg, Florida	President, Ark Royal Insurance Company
Dennis G. Ruppel	Clearwater, Florida	Chief Executive Officer and Secretary, Ark Royal Insurance Company
Craig H. Sher	Seminole, Florida	President and Chief Executive Officer, The Sembler Company

Ann R. Worthington	St. Petersburg, Florida	Former Chief Financial Officer, Ark Royal Insurance Company
Gilbert C. Rhode, Jr.	Woodbury, Minnesota	Director and Chairman, Equitable Life & Casualty Insurance Company

In accordance with the Company's bylaws, the Board appointed the following senior officers:

Senior Officers

Name	City, State	Title
Robert H. Willis Jr.	St. Petersburg, Florida	President
Dennis G. Ruppel	Clearwater, Florida	Chief Executive Officer and Secretary
Christopher H. Kard	St. Petersburg, Florida	Treasurer

The Company's Board appointed three (3) internal committees. The following were the principal internal board committees and their members as of December 31, 2015:

Audit Committee

Name	City, State	Principal Occupation
Craig H. Sher ¹	Seminole, Florida	President and Chief Executive Officer The Sembler Company
Ann R. Worthington	St. Petersburg, Florida	Former Chief Financial Officer Ark Royal Insurance Company
Gilbert C. Rhode, Jr.	Woodbury, Minnesota	Director and Chairman Equitable Life & Casualty Insurance Company

¹ Chairperson

The Company maintained an audit committee, as required by Section 624.424(8)(c), Florida Statutes.

Compensation Committee

Name	City, State	Principal Occupation
Gilbert C. Rhode, Jr. ¹	Woodbury, Minnesota	Director and Chairman, Equitable Life & Casualty Insurance Company
Robert H. Willis Jr.	St. Petersburg, Florida	President, Ark Royal Insurance Company
Craig H. Sher	Seminole, Florida	President and Chief Executive Officer, The Sembler Company

¹ Chairperson

Investment Committee

Name	City, State	Principal Occupation
Ann R. Worthington ¹	St. Petersburg, Florida	Former Chief Financial Officer Ark Royal Insurance Company
Dennis G. Ruppel	Clearwater, Florida	Chief Executive Officer and Secretary Ark Royal Insurance Company
Gilbert C. Rhode, Jr.	Woodbury, Minnesota	Director and Chairman, Equitable Life & Casualty Insurance Company
Robert H. Willis Jr.	St. Petersburg, Florida	President, Ark Royal Insurance Company

¹ Chairperson

Control

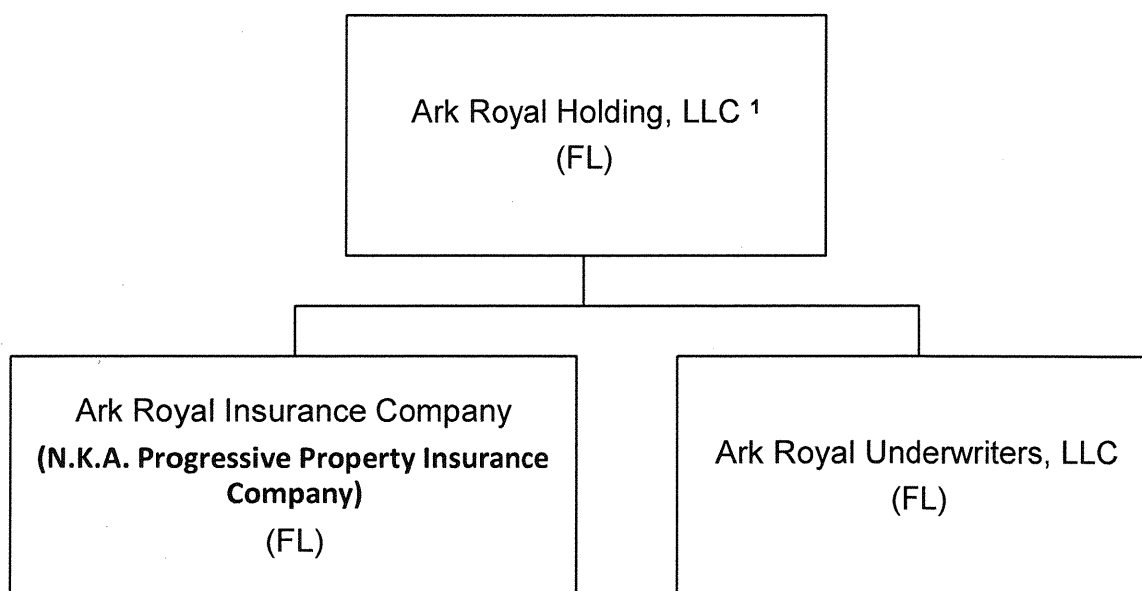
Control of the Company was maintained by its parent, Ark Royal Holding, LLC, which owned one hundred percent (100%) of the stock issued by the Company, which in turn was one hundred percent (100%) owned by AR-DGR, LLC twenty-five & ninety-six hundredths percent (25.96%), Two-By-Two Holding, LLC twenty-five & ninety-six hundredths percent (25.96%), AR-CHS, LLC twenty-four & seventy-five hundredths percent (24.75%), House Base, LLC ten & forty-two hundredths percent (10.42%) and other individuals and entities – none of which own more than ten percent (10%).

Affiliated Companies

The most recent Holding Company Registration Statement was filed with the Office on March 31, 2017, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2015, reflecting the holding company system, is shown on the following page. Schedule Y of the Company's 2015 annual statement provided a list of all related companies of the holding company group.

Ark Royal Insurance Company
(N.K.A. Progressive Property Insurance Company)
Simplified Organizational Chart
December 31, 2015



¹Ark Royal Holding, LLC investors are as follows: AR-DGR, LLC twenty-five & ninety-six hundredths percent (25.96%), Two-By-Two Holding, LLC twenty-five & ninety-six hundredths percent (25.96%), AR-CHS, LLC twenty-four & seventy-five hundredths percent (24.75%), House Base, LLC ten & forty-two hundredths percent (10.42%) and other individuals and entities – none of which own more than ten percent (10%).

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

Allocation of Costs Agreement

Effective November 9, 2007, the Company entered into an agreement with related parties through common ownership with Ark Royal Holding, LLC, 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

Effective March 1, 2008, the Company entered into an agreement with related parties through common ownership with Ark Royal 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

Effective September 4, 2007, the Company entered into a Managing General Agency (MGA) Agreement with its affiliate, Ark Royal Underwriters, LLC (ARU), 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 a commission on written premium of twenty-one percent (21%), plus a new business and renewal business fee per policy of \$25. Commission cost incurred under this agreement for 2011; 2012; 2013; 2014 and 2015 amounted to \$10,729,544; \$17,190,003; \$20,420,971; \$25,163,251 and \$24,747,179, respectively and MGA fees incurred under this agreement for 2011; 2012; 2013; 2014 and 2015 amounted to \$1,511,350; \$1,912,250; \$2,272,300; \$2,515,700 and \$2,575,325, respectively. The agreement complied with Section 626.7451, Florida Statute.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance in the following states:

Florida

Louisiana

Texas

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1)(i)3a, 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)(j), Florida Statutes.

REINSURANCE

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

Reinsurance Assumed

The Company did not assume any reinsurance during the period of this examination.

Reinsurance Ceded

The Company ceded risk on a quota share and excess of loss basis to several non-affiliated reinsurers. The Company's reinsurance program consisted of multiple layers of excess catastrophe coverage, multi-line excess per risk coverage and excess catastrophe coverage through participation in the Florida Hurricane Catastrophe Fund.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in St. Petersburg, Florida.

The Company and non-affiliates had the following agreements:

Reliance Trust Company Custodial Agreement

The Company maintained a custodial agreement with Reliance Trust Company (Reliance Trust) for its debt security portfolio. The agreement was executed on September 22, 2014. The agreement complied with Rule 69O-143.042, Florida Administrative Code.

Sabal Trust Company Custodial Agreement

The Company maintained a custodial agreement with Sabal Trust Company (Sabal) for its equity portfolio. The agreement was executed on December 2, 2014, and complied with Rule 69O-143.042, Florida Administrative Code.

Sabal Trust Company Investment Management Agreement

Effective December 2, 2014, the Company entered into an Investment Management Services Agreement with Sabal Trust Company (Sabal) to manage its equity portfolio. Sabal shall supervise equity investments and the Company has authorized Sabal to make such investments, subject to the Company's investment guidelines.

J.P. Morgan Investment Management Agreement

Effective August 26, 2014, the Company entered into an Investment Management Services Agreement with J.P. Morgan Investment Management Inc. (JP Morgan) to manage its debt security portfolio. The Company appointed JP Morgan as its investment manager with full investment authority, subject to the Company's investment guidelines.

Claims Management Services Agreement

Effective October 3, 2007, the Company entered into a Claims Management Services Agreement with ASI Underwriters Corp. (ASIU). 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. Claims processing cost incurred under this agreement for 2011; 2012; 2013; 2014; and 2015 amounted to \$678,987; \$886,552; \$1,019,295; \$1,181,867 and \$1,402,339, respectively.

Reinsurance Intermediary Agreement

Effective January 23, 2008, the Company entered into Reinsurance Intermediary Authorization Agreement with Willis Re Inc. (Willis Re). The agreement provides that Willis Re will provide reinsurance brokering services to the Company and comply with supplemental authorization agreement provisions as required by specific state code. Willis Re is to render periodic accounts to the Company detailing all material transactions, including information necessary to support all commissions, charges, and other fees received by or owing to Willis Re. Willis Re is also to remit all funds due to the Company within thirty (30) days of receipt. The agreement was found to be in compliance with Section 626.7492, Florida Statutes.

Independent Auditor Agreement

An independent CPA, BDO, LLP, audited the Company's statutory basis financial statements annually for the years 2011, 2012, 2013, 2014 and 2015, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 690-137.002, Florida Administrative Code.

Designation of Independent Certified Public Accountant

The Company did not file the Independent Certified Public Accountant issued "Awareness Letter" with Office in 2014 and 2015. The Company is required to issue such letter by December 31 of the year subject to audit.

INFORMATION TECHNOLOGY REPORT

Phillip McMurray, CISSP, CISA, AES, IT Specialist and Stephen Skenyon, CPA, CISA, IT Specialist, of Risk and Regulatory Consulting, LLC, performed a review and 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	Cash	\$ <u>300,000</u>	\$ <u>300,000</u>
TOTAL FLORIDA DEPOSITS		\$ <u>300,000</u>	\$ <u>300,000</u>
LA	Cash	\$ <u>100,000</u>	\$ <u>100,000</u>
TOTAL OTHER DEPOSITS		\$ <u>100,000</u>	\$ <u>100,000</u>
TOTAL SPECIAL DEPOSITS		\$ <u>400,000</u>	\$ <u>400,000</u>

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. If an adjustment is identified during the course of the examination, the impact of such adjustment will be documented separately following the Company's financial statements. Financial statements, as reported and filed by the Company with the Office, are reflected on the following pages.

Ark Royal Insurance Company
(N.K.A. Progressive Property Insurance Company)

Assets

December 31, 2015

	Per Company	Examination Adjustments	Per Examination
Bonds	\$54,472,166		\$54,472,166
Common stock	\$7,674,141		\$7,674,141
Mortgage loans on real estate first-lein	4,272,461		\$4,272,461
Cash and Short-Term Investments	20,048,961		20,048,961
Other invested assets	949,193		\$949,193
Investment income due or accrued	442,088		442,088
Agents' Balances:			
Uncollected premium	629,437		629,437
Deferred premium	3,169,495		3,169,495
Reinsurance recoverable	4,754,138		4,754,138
Other reinsurance receivables	960,780		960,780
Net deferred tax asset	356,664		356,664
Guaranty fund receivables	181,824		181,824
Aggregate write-in for other than invested assets	12,821		12,821
	<hr/>		
Totals	\$97,924,169	\$0	\$97,924,169
	<hr/>		

Ark Royal Insurance Company
(N.K.A. Progressive Property Insurance Company)
Liabilities, Surplus and Other Funds
December 31, 2015

	Per Company	Examination Adjustments	Per Examination
Losses	\$10,401,160		\$10,401,160
Loss adjustment expenses	1,147,685		1,147,685
Other expenses	213,440		213,440
Taxes, licenses and fees	307,006		307,006
Current federal income taxes	395,603		395,603
Unearned premium	25,058,351		25,058,351
Advance premium	3,474,235		3,474,235
Ceded reinsurance premiums payable	11,118,471		11,118,471
Funds held under reinsurance treaties	21,500		21,500
Payable to parent, subsidiaries and affiliates	2,798,349		2,798,349
	<hr/>		
Total Liabilities	\$54,935,800	\$0	\$54,935,800
Common capital stock	\$2,500,000		\$2,500,000
Gross paid in and contributed surplus	7,650,000		7,650,000
Unassigned funds (surplus)	32,838,369		32,838,369
	<hr/>		
Surplus as regards policyholders	\$42,988,369	\$0	\$42,988,369
	<hr/>		
Total liabilities, surplus and other funds	\$97,924,169	\$0	\$97,924,169
	<hr/>		

Ark Royal Insurance Company
(N.K.A. Progressive Property Insurance Company)
Statement of Income and Capital and Surplus Account
December 31, 2015

Underwriting Income

Premiums earned	\$47,251,464
Deductions:	
Losses incurred	\$16,554,334
Loss expenses incurred	2,107,768
Other underwriting expenses incurred	16,942,480
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$35,604,582</u>
Net underwriting gain or (loss)	\$11,646,882

Investment Income

Net investment income earned	\$1,551,109
Net realized capital gains or (losses)	<u>(812,043)</u>
Net investment gain or (loss)	\$739,066

Other Income

Net gain or (loss) from agents' or premium balances charged off	
Finance and service charges not included in premiums	\$283,312
Aggregate write-ins for miscellaneous income	
Total other income	<u>\$283,312</u>
Net income before dividends to policyholders and before federal & foreign income taxes	\$12,669,259
Dividends to policyholders	<u>0</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$12,669,259
Federal & foreign income taxes	<u>4,179,212</u>
Net Income	<u><u>\$8,490,047</u></u>

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$34,455,876
Net Income	\$8,490,047
Change in net unrealized capital gains or losses	(179,967)
Change in net deferred income tax	218,516
Change in non-admitted assets	3,896
Change in surplus as regards policyholders for the year	<u>\$8,532,493</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$42,988,369</u></u>

Ark Royal Insurance Company
(N.K.A. Progressive Property Insurance Company)
Reconciliation of Capital and Surplus
December 31, 2015

No adjustments were made to surplus as a result of this examination.

Surplus as regards policyholders December 31, 2010 per Examination			\$11,055,089
	<u>Gain in</u>	<u>Loss in Surplus</u>	
Net Income (loss)	\$31,011,200		
Change in net unrealized capital gain (loss)	\$1,047,223		
Change in net deferred income tax		\$281,332	
Change in non-admitted assets	\$156,189		
Change in paid in capital	\$2,490,000		
Change in paid in surplus		\$2,490,000	
Total Gains and Losses	<u>\$34,704,612</u>	<u>\$2,771,332</u>	
Net Increase/(Decrease) in surplus as regards policyholders			<u>\$31,933,280</u>
Surplus as regards policyholders December 31, 2015 per Examination			<u><u>\$42,988,369</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$11,548,845

Robert P. Daniel, ACAS, MAAA of Merlino & Associates, Inc., appointed by the Board, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2015, 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 actuaries, Lisa Chanzit, FCAS, MAAA, Actuarial Specialist and Andrew Chandler, ACAS, MAAA, Actuarial Specialist, of Risk and Regulatory Consulting, LLC, reviewed the loss and loss adjustment expense work papers provided by the Company and they were in concurrence with this opinion.

Capital and Surplus

The amount of capital and surplus reported by the Company of \$42,988,369, exceeded the minimum of \$5,000,000 required by Section 624.408, Florida Statutes.

SUBSEQUENT EVENTS

On June 1, 2016, ARX Holding Corp. entered into a securities exchange agreement with Ark Royal Holding, LLC, parent holding company of the Company, whereby, ARX Holding Corp. exchanged American Capital Assurance Corp. and Safe Harbour Underwriters, LLC for the Company and ARK Royal Underwriters, LLC. As a result of the aforementioned transaction and the Company's Board of Directors and Senior Officers changed to reflect the change in ownership and management. The Company also entered into new affiliated and third party agreements as a result of ARX Holding Corp. acquiring the Company.

Effective June 1, 2016, the Company entered into a custodial agreement with Citibank, N.A. as a result of ARX Holding Corp. acquiring the Company. The agreement complied with Rule 690-143.042, Florida Administrative Code.

Effective June 1, 2016, the Company entered into an investment management agreement with Progressive Capital Management Corporation as a result of ARX Holding Corp. acquiring the Company.

On April 1, 2017, the Company was authorized to change its name from Ark Royal Insurance Company to Progressive Property Insurance Company.

SUMMARY OF RECOMMENDATIONS

Capital Stock

We recommend that the Company's reported par value be valued in compliance with Section 628.081(d), Florida Statutes.

Designation of Independent Certified Public Accountant

We recommend that the Company file the "Awareness Letter" with the Office by December 31 of the year subject to audit in compliance with Rule 69O-137.002(6)(a)(b), Florida Administrative Code.

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** (N.K.A Progressive Property Insurance Company) as of December 31, 2015, consistent with the insurance laws of the State of Florida.

Per examination annual financial statements, the Company's surplus as regards policyholders was \$42,988,369, which exceeded the minimum of \$5,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Joshua J. Johnson, CFE, Examiner-in-Charge, Shawn Hernandez, CFE, Participating Examiner and Emma Bebee, CPA, Participating Examiner, of Risk and Regulatory Consulting, LLC, also participated in the examination. Members of the Office who participated in the examination include Jeffrey Rockwell, MBA, Financial Examiner/Analyst Supervisor, Examination Manager and Paula Bowyer, APIR, Financial Examiner/Analyst II, Participating Examiner. Additionally, Lisa Chanzit, FCAS, MAAA, Actuarial Specialist, Andrew Chandler, ACAS, MAAA, Actuarial Specialist, Phillip McMurray, CISSP, CISA, AES, IT Specialist, and Stephen Skenyon, CPA, CISA, IT Specialist of Risk and Regulatory Consulting, LLC and Dave Palmer, CFE, Examination Manager, of Lewis and Ellis, LLC, are recognized for participation in the examination.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Bm Sewell".

Brian Sewell, CFE, MCM
Chief Financial Examiner
Florida Office of Insurance Regulation