# AMERICAN CAPITAL ASSURANCE CORP.

## INSURANCE CAPITAL BUILD-UP INCENTIVE PROGRAM APPLICATION

ASI UNDERWRITERS

805 Executive Center Dr. W., Suite 300
St. Petersburg, FL 33702
Phone: (866) 274-8765
Fax: (727) 822-8765

www.americanstrategic.com

June 28, 2006

State Board of Administration
c/o Florida Hurricane Catastrophe Fund
1801 Hermitage Blvd.
Tallahassee, FL 32308

Re: Application for Insurance Capital Build-up Incentive Program

Dear Sirs:

We respectfully submit our application for American Capital Assurance Corp. (ACAC) to participate in the Insurance Capital Build-up Incentive Program (the Program). ACAC was formed and licensed in June, 2006 for the purpose of providing much needed capacity in the commercial residential property market through participation in the Program. ACAC is owned by ARX Holding Corp., which owns and operates American Strategic Insurance Corp. (ASI) and ASI Assurance Corp. (ASIA). Both companies have successfully operated and consistently supplied capacity to the Florida residential property insurance market.

A team of insurance professionals with a proven record of successfully managing Florida property insurance will manage ACAC. Combined surplus in ASI and ASIA has grown from $6 million in 1998 to $62.3 million as of May 31, 2006. We now protect over 200,000 homeowners in Florida.

Key aspects of our application and plan are:

ACAC's target market is Commercial Residential exposure (condominium associations and apartments). Since the demise of Southern Family, the commercial residential property insurance market has rapidly deteriorated, and is arguably the market in most dire need of additional capacity. Review of Citizens' monthly exposure reports clearly supports this conclusion. During the last two months for which reports are available, April and May, the exposure in Citizens' Commercial Lines Account (CLA) has grown 32.5%. The CLA growth rate is more than 300% of the PLA (10.3%) and almost 400% of the total growth of all Citizens' exposure (8.25%) during the most recent 60-day period.

Commercial residential risks are much larger and more complex than personal lines risks. Most condominium association policies provide coverage for numerous buildings and common areas including clubhouses, pools, tennis courts, etc. Therefore, they require significantly more time and expertise to underwrite. Reinsurers scrutinize these large and complex exposures very closely. Due to the complexities and time requirements of underwriting commercial risks vs. personal risks, we are reluctant to commit to reaching the 2:1 net written premium to surplus ratio within the 60-days specified in the Program. Attempting to write that much business that quickly would compromise underwriting and result in increased risk to the State and our investors. Our proposal commits to reaching the 2:1 net writings ratio during 2007, and will provide significant market capacity for many Floridians whose current option is limited to Citizens.

Acknowledging the Program's requirements, understanding the intention of the Program, and recognizing the increased complexities of the commercial residential property insurance market, we propose that the Board approve our application with the following stipulation:

- The surplus note funds will not be paid to the company until such time as the 2:1 net writing to surplus is exceeded on the $25 million of surplus contributed by the company. [Perhaps the surplus note funds could be provided in installments as our writings increase, with the result that we are able to achieve the 2:1 writings to surplus within 60 days of each installment.]

ASI is eager to lend its disciplined and tested business model to more Floridians through ACAC. The ASI organization has been profitable each year in the company's history and has earned a reputation amongst independent agents, the international reinsurance community, and regulators as a premier operator. ASI's performance in handling the high volume of hurricane claims was among the best in the industry in both 2004 and 2005. During a six-week period in 2004, ASI incurred more claims than we had during our seven-year history combined. Despite this, we were consistently ahead of the industry in adjusting claims and getting our policyholders' lives back on track. This is evidenced by the OIR reporting that ASI had the lowest complaint ratio of the top 20 homeowners writers in the State.

American Capital Assurance will provide security and the highest level of service to the condominium and apartment market throughout the state. Participation in the Program will allow us to provide this security to both the State and the citizens of Florida. We thank you for consideration of our application.

Sincerely,

John F. Auer
President & CEO
American Capital Assurance Corp.

# American Capital Assurance Corp.

# Insurance Capital Build-Up Incentive Program

## Table of Contents

# Part I: Basic Information

## CONTACT INFORMATION:

**Application Date:** 6/28/2006
**Insurer's* Name ("Applicant"*):** American Capital Assurance Corp.
**NAIC #:** Will receive from NAIC within one week.
**Group Name, if applicable:** ARX Holding Corp. **Group NAIC #:** 1344
**Address of Administrative Office:** 805 Executive Center Dr. W; Ste. 300;
St. Petersburg, FL 33702
**Contact Name and Title:** Greg Stewart, Vice President of Planning and Finance
**Telephone Number:** (727) 821-8765 ext. 211 **Fax Number:** (727) 374-0466
**Email Address:** GStewart@ASICorp.org

## SURPLUS NOTE* REQUESTED:

**Principal Amount of Surplus Note Requested:** $25,000,000

**Date funds are desired:** On or before 8/31/2006. An alternative proposition is available in interrogatory #8.

**Amount of New Capital* contributed:** $25,000,000

**Anticipated date New Capital infused:** $5,000,000 will be infused on 6/30/06, and $20,000,000 when the Surplus Note is approved.

**Will the New Capital be encumbered?** No **If yes, describe:**

**Source of New Capital:** Safe Harbour Holdings, LLC (Parent)

**Address for the source of New Capital:** 805 Executive Center Dr. W; Ste. 300;

St. Petersburg, FL 33702

**Contact Name for the source of New Capital:** Greg Stewart

**Telephone Number for the source of New Capital:** (727) 821-8765 ext. 211

**Fax Number for the source of New Capital:** (727) 374-0466

**Email Address for the Contact for the source of New Capital:**
GStewart@ASICorp.org

**Name of depository for New Capital:** Synovus Bank of Tampa Bay

**Address of depository for New Capital:** 333 3rd Avenue N. St. Petersburg, FL 33701

**Contact Name for the depository and Title:** Laura Stewart, Vice President

**Telephone Number for the depository:** (727) 824-8754

**Fax Number for the depository:** (727) 823-9199

**Email Address for the Contact at the depository:** LStewart@SynovusBankFL.com

FINANCIAL INFORMATION:

**Current Surplus* amount as of latest month end:** $5,000,000 as of 6/30/2006

**Surplus as of most recently filed financial statement with the Office*:** N/A – the applicant is newly formed.

**Annualized Net Written Premium* as of latest month end:** N/A – the applicant is newly formed.

**Annualized Net Written Premium as of most recently filed financial statement with the Office:** N/A – the applicant is newly formed.

**Current ratio of Net Written Premium to Surplus as of latest month end:** N/A – the applicant is newly formed.

**Date Applicant estimates reaching the Minimum Writing Ratio*, if not already obtained:**

The company projects reaching the Minimum Writing Ratio during 2007.

Based on the complexities of underwriting commercial risks (our target market) vs. personal lines risks, we do not consider it feasible or prudent to write business at a pace to achieve the Minimum Writing Ratio in 60 days.

Our application includes a proposal in which the surplus note proceeds be held by the State until we exceed the Minimum Writing Ratio on the $25 million of new capital contributed by our parent. Then the surplus note proceeds could be advanced so that we would achieve Minimum Writing Ratio on total surplus within 60 days of any installment.

# Part II: Business Plan Executive Summary
# and
# Reinsurance Program

# American Capital Assurance Corp.

## THREE YEAR BUSINESS PLAN – Executive Summary

## 6/27/06

## I. Introduction

ARX Holding Corp ("ARX"), a Delaware corporation has created Safe Harbour Holdings, LLC, ("Holding"), which in turn has created American Capital Assurance Corp. ("ACAC" or "the Company") for the purpose of offering residential property and casualty coverage in the State of Florida. ACAC, which will be fully owned by Holding, will write property insurance in the form of Commercial Package Policies for condominium associations and apartment complexes, Homeowners policies, and Dwelling Fire policies. We estimate that 80% of production will be in commercial lines. The Company will write Homeowners and Dwelling Fire policies to supplement its commercial book, with an emphasis on balancing the geographic spread of the Company's book of business. The Company anticipates writing 1,300 commercial residential policies, 12,000 homeowners policies, and 3,000 dwelling fire policies during the first twelve months of operation. During the second twelve months, the Company anticipates writing 1,850, 17,000, and 4,500 commercial residential, homeowners, and dwelling fire policies respectively. During the third twelve months, the Company anticipates 18% policy growth across all lines. We anticipate that at least 95% of the business will be provide Wind coverage.

The Florida Managing General Agent ("MGA") Safe Harbour Underwriters, Inc. ("SHUI") will manage the commercial property program. Its staff has significant experience in the marketplace. SHUI's management group has worked together for the past eight years with a primary focus on condominium association business. The Florida MGA ASI Underwriters, Inc. ("ASIU") and its staff have been managing personal lines programs since 2000. It will manage the homeowners and dwelling fire programs. SHUI and ASIU are wholly-owned subsidiaries of ARX.

The timing of this business plan is also related to the fact that the Company would like to participate in the State's Insurance Capital Build-Up Incentive Program. Production goals are based upon $50,000,000 in initial surplus. The Company's financial projections anticipate profitability and cash flow levels that allow for repayment of the surplus note with interest as laid forth in the Incentive Program rules. Further, the Company has performed scenario analyses that indicate that full, on-schedule repayment can be anticipated in the following situations: two one in 100 year hurricane events in any of the Company's first three years and a 25% deterioration in the Company's anticipated non-catastrophe loss ratio. These scenarios were utilized as examples and it is reasonable to predict that the Company could withstand the adverse effects of dozens of un-modeled adverse scenarios as well.

# II. Management

**American Capital Assurance Corp.**

Directors
Marc Fasteau, Chairman
John Franklin Auer
Gregory Hendrick
Kevin Robert Milkey
Robert Louis Nason

Officers
John Franklin Auer – President, CEO, and Treasurer
Marc Fasteau - Secretary
Kevin R. Milkey – Executive Vice President and Assistant Secretary
Bobby Chastain Dollar – Vice President

# III. The Commercial Operating and Marketing Plan

**Target Market**

Florida is second only to California in the number of residential condominium properties, and the gap is closing on a daily basis with new construction and a rising population. The Company's primary target market is defined as low-to-mid-rise residential condominium complexes of joisted-masonry (JM) or better construction. This market consists of over 22,000 residential condominium associations located throughout Florida and many new projects are underway to accommodate significant population growth. The majority of the individual condominium units are owner occupied – only limited seasonal rentals are acceptable. The associations are professionally managed under specific Florida Statutes. The associations are well maintained, reflecting pride of ownership and the financial strength of their owners.

**Risk Definition**

The typical joisted masonry or masonry non-combustible residential condominium complex consists of multiple buildings in a gated condominium complex. The typical building is two stories in height, has four-to-eight condominium units, and has values ranging from $400,000 to $800,000. The maximum value of any one building generally does not exceed $2.5 million. The total value at any complex is often in the $25-$30 million range with the average condominium association having $10 million in property values. Most associations have recreational facilities that include a clubhouse and at least one swimming pool with a pool house. Others may include shuffleboard, tennis, and golf.

The typical AAA fire-resistive (superior construction) residential condominium association consists of a few buildings and ranges from three stories to thirty stories in height. Many of the high-rise structures are located on Florida's coastline. The values of these buildings are from $2 million to $100 million. American Capital's target is on those buildings with values of $50 million or less.

**Property Coverage**

Condominium associations are written on ISO's basic form with the availability of a "wrap" should they meet ACAC's underwriting requirements. ACAC's current form excludes flood and earthquake as well as mold and mildew. If the risk is located in a flood zone, coverage is available through the National Flood Insurance Program. Contents coverage for residential condominiums generally amount to less than $250,000 – comprised of pool furniture and the contents of the clubhouse. No business-interruption or loss-of-rents coverage is required.

There are several wind deductible options available in the program. Wind and hail deductibles of 2%, 5% and 10% are available. Hurricane deductibles of 2%, 3%, 5% and 10% are available with a 3% hurricane deductible being the standard. Deductibles apply to each of the structures located within the association property.

All other peril deductibles are available from $1,000 to $25,000, with $2,500 being the standard that is offered.

**Casualty Coverage**

All associations must carry general liability, hired and non-owned auto, directors' and officers' liability, worker's compensation, and excess liability or umbrella coverage. Several markets exist to write this coverage and the Company does not intend to offer it.

**Underwriting and Loss Control**

Every insured account is subject to a rigorous inspection which focuses on a number of structural and operational concerns, including but not limited to, the following:

- Construction details (e.g., load-bearing walls, mansards, decorative materials, etc.)
- Roof (age, type, material, type of fastening system, life expectancy, etc.)
- Electrical, heating and air conditioning systems, fire alarms, sprinkler systems
- Maintenance and housekeeping

All accounts are subject to a Marshall Swift Boechk valuation.

Loss control professionals provide services that focus on the loss cost drivers. They make appropriate recommendations (and ensure implementation of same) to help prevent or mitigate future losses.

**Marketing**

All business is generated through independent insurance agents located throughout Florida. These agents are well established in their communities, have highly trained staffs that specialize in commercial residential condominium business.

The Company marketing strategy consists of core competencies that include a focused approach on relationships, service, profitability, underwriting, price discipline, and program stability. This strategy is combined with the right expertise, people and technology, creating an excellent opportunity for success in the condominium association marketplace.

Competition

The vast majority of condominium association policies are currently being written by Citizens Property Insurance Company. In the last two months alone, Citizens' commercial exposure has increased by 32.5%—approximately four times the pace of homeowners exposure growth. There are more companies contracting or exiting the marketplace (Crum & Forster, State Farm, Allstate, Nationwide, Republic Western, Meadowbrook) than expanding or entering the marketplace. Private competition consists of a few admitted and non-admitted (excess and surplus lines) insurance companies with limited property capacity. Excess and Surplus lines programs are generally marketed through wholesalers and MGAs. These non-admitted carriers have some appetite for new business at excessive rate levels, but have limited capacity. Many of the programs have minimum dollar deductibles (i.e. 3% wind/hail deductible subject to a minimum of $100,000 per loss). Typically, these programs are written on a "layered" basis with four to five participants depending upon the required limits. The most active non-admitted participants are primarily property writers such as Empire, Lloyd's of London, Royal Specialty, Pacific, Lexington, Westchester, Essex, Landmark and Mt. Holly. Some of these markets also provide GL, WC and Bonds. On the admitted side, there are only a handful of participants. The most notable is QBE. The Poe Financial Group was a dominant presence in the marketplace before being taken under supervision by the State of Florida. The companies of the Poe Group are currently under liquidation and all of their policies are being rolled into Citizens Property Insurance Corporation ("Citizens"). Other than the companies cited above, there are no new entrants to the competitive scene at this time.

# IV. Personal Lines Operating and Marketing Plan

American Capital Assurance will be uniquely positioned to take advantage of an opportunity in Florida residential personal lines insurance due to the fact that ASI Underwriters, Inc. (ASIU) has a proven track record of managing an insurance organization in the Florida market, including developing distribution sources, policy systems, and product management. ASI Underwriters, Inc. has been a licensed managing agent in Florida since 1999. The Company has instant access to ASIU's entire organization to quickly attain targets for revenue, distribution of exposures, and profitability. The ASIU processing system together with agency relationships will allow the Company to add significant production and processing volume without proportional increases in staff. With agency relationships well established and an experienced marketing team in place, the Company will quickly build its policy base.

The Company will write Homeowners and Dwelling Fire products through approximately 540 independent agencies in the State of Florida. The Company will utilize field marketing representatives currently employed by ASI Underwriters, Corp. Independent agents will be paid a commission commensurate with that currently paid by peer companies in the Florida marketplace.

## Products

Homeowners

The Company will offer the homeowner's policy on an HO3 form. The HO3 covers homes (and their contents) that are occupied by their owners. It protects our insureds' home against most risks such as fire, wind, lightning, etc. This policy covers our insureds' home for its replacement value. Other coverages included in the homeowners policy are other structures, personal property, and loss of use of our insureds' home until it can reasonably be repaired. It also includes personal liability coverage and medical payments to others. There are also several optional coverages available that your agent will discuss depending upon our insureds needs.

Dwelling Fire

The Company will offer a Dwelling Fire Insurance policy on a DP3 form. The policy will protect seasonal, secondary or rental properties. The program can cover one to four family homes and condominium units. In addition, the Dwelling Fire policy may be written on secondary or seasonal owner occupied dwellings. Since many homeowners coverages are not needed on rental properties, the fire policy is not written as a package like the homeowners policy. However, it does allow our insureds to add the same coverage available on the homeowners policy. The modular format of the Dwelling Fire program provides a way to purchase and pay for only the coverage our insureds need, resulting in savings to them.

## Underwriting

The Company will follow a disciplined underwriting approach in personal lines as managed by ASIU. ASIU believes that underwriting begins at the point of sale, which in our case is with our appointed agents. Agents are carefully reviewed before being appointed. Appointed agents are then educated on our products and on the type of business that we seek. Agent production and business quality is monitored continuously. We stress to the agents the importance of knowing the property to be insured. If agents are not familiar with the location or neighborhood of the property, they are to go see the property. We conduct on-site inspections of a significant percentage of our risks. The decision to inspect is based on factors such as the age, value, and location of the property; as well as our comfort level with the producing agency. ASIU will inspect approximately 40-50% of new business. This percentage should decline as the Company gains experience.

## V. Exposure Management / Rates

Exposure management is one of the keys to success in the Florida marketplace. Safe Harbour and ASIU provide arguably the best exposure management team in Florida.

The Company will have access to computer software which produces monthly reports to monitor Total Insured Values (TIV) by county and territory. These reports will be used by management of ASIU to monitor and control the Company's exposure, reinsurance costs and PML. The Company will have access to all of the latest versions of the catastrophe models. They are running both RMS and AIR in house allowing quick and accurate execution of risk selection, pricing and deployment of adjusters in the event of a catastrophe. The Company's MGAs will communicate with appointed agents to restrict/stop the binding of new applications once saturation points have been reached in certain territories. The Company will have a sophisticated pricing structure in place allowing it to gain a risk selection/distribution superior to the industry. There will be two rate algorithms—hurricane and other perils. The hurricane rate structure is based on the average hurricane loss costs by zip code using two commercial hurricane models. The loss cost is loaded with an expense and profit margin and then added to the other peril calculation. The rating structure results in being competitive in zip codes where pricing is adequate.

The Company projects its geographic spread as follows:

| County | % TIV | % Prem |
|---|---|---|
| ALACHUA | 1.4% | 1.4% |
| BREVARD | 3.4% | 4.2% |
| BROWARD | 11.4% | 11.1% |
| CHARLOTTE | 2.8% | 2.9% |
| CLAY | 0.7% | 1.1% |
| COLLIER | 8.8% | 6.2% |
| DADE | 3.9% | 3.2% |
| DUVAL | 7.9% | 8.2% |
| FLAGLER | 1.2% | 1.2% |
| HIGHLANDS | 0.5% | 0.5% |
| HILLSBOROUGH | 9.3% | 9.0% |
| INDIAN RIVER | 2.8% | 2.9% |
| LEE | 9.2% | 12.3% |
| LEON | 0.2% | 0.2% |
| MANATEE | 2.9% | 3.1% |
| MARION | 1.0% | 1.1% |
| MARTIN | 1.8% | 1.9% |
| ORANGE | 0.4% | 0.3% |
| OSCEOLA | 0.2% | 0.2% |

| | | |
|---|---|---|
| PALM BEACH | 10.3% | 10.6% |
| PINELLAS | 6.5% | 6.7% |
| POLK | 0.9% | 0.9% |
| SARASOTA | 6.4% | 6.6% |
| SEMINOLE | 0.4% | 0.3% |
| ST JOHNS | 2.5% | 1.7% |
| ST LUCIE | 1.0% | 0.7% |
| VOLUSIA | 2.2% | 1.5% |

# VI. Reinsurance

ACAC will utilize extensive reinsurance to protect its policyholders, solvency and capital. Private catastrophe excess of loss reinsurance will supplement coverage provided by the Florida Hurricane Catastrophe Fund to protect ACAC's exposure to multiple losses occurring as the result of a single event such as a hurricane, tropical storm, tornado/hail, wild fire, or freeze. Multiple line excess of loss reinsurance will limit ACAC's risk on a single building to $600,000. The use of quota share and/or facultative reinsurance is uncertain at this time.

Catastrophe Reinsurance (Private and FHCF)

All business written by ACAC will be eligible for coverage available from FHCF. ACAC will elect coverage at the 90% level from the FHCF. ACAC will purchase private reinsurance that wraps around the FHCF coverage.

For the June 1, 2006 to May 31, 2007 contract year, ACAC's catastrophe reinsurance protection is included in the treaties purchased by American Strategic Insurance Corp and ASI Assurance Corp. These treaties provide coverage for the combined entities that protect solvency for an event well in excess of the 150-year Probable Maximum Loss (PML). The private treaties provide for 2 full limits up to the 100-year PML, and one limit for losses exceeding the 100-yr event. A Reinstatement Premium Protection (RPP) treaty will pay the reinstatement premiums required to reinstate the limits after a loss.

In future years, ACAC's program may continue to be included with that of its affiliates, or may be purchased in a separate contract. In either event, ACAC's retention under the catastrophe reinsurance program will limit ACAC's loss from a single event to a maximum of 20% of surplus. After ACAC's retention, catastrophe reinsurance will pay 100% of losses incurred up to a total limit associated with a minimum of a 100-year PML. The catastrophe reinsurance program will provide two full limits from the private catastrophe reinsurers. A Reinstatement Premium Protection (RPP) treaty will pay the reinstatement premiums required to reinstate the limits after a loss.

# VII. Claims

The Company's claims will be administered by ASI Underwriters Inc. (ASIU). ASIU has been successfully managing claims since 2000. ASIU is experienced with handling catastrophe claims situations and is proactive in mitigating losses from catastrophe events. ASIU recognizes that superior customer service begins with fast and efficient claims handling and is committed to paying what is owed as quickly as possible.

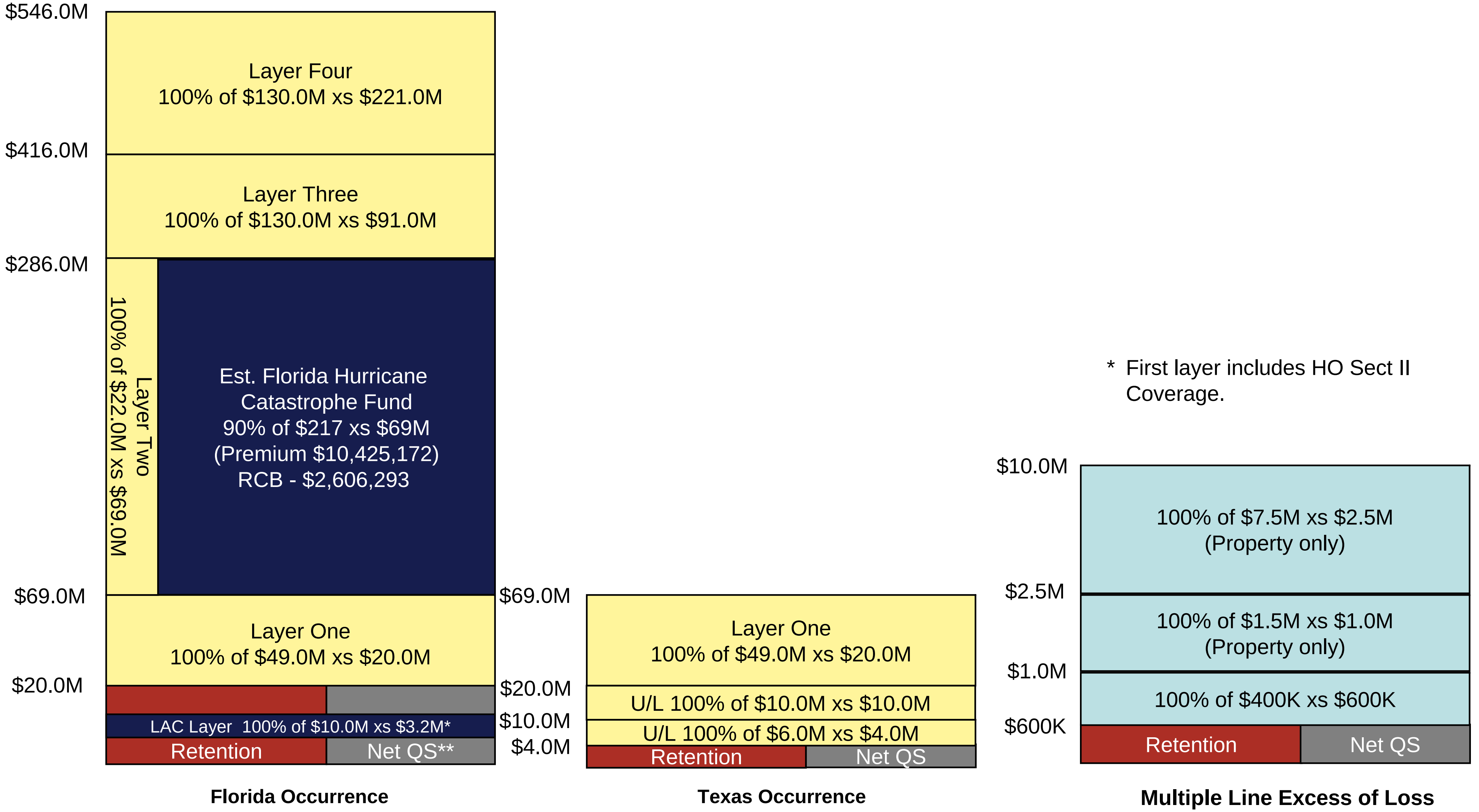
# VIII. Investments

The Company's investment portfolio will be managed by Gen Re New England Asset Management. It will be held in custody by Investors Bank & Trust, and it will be overseen by an Investment Committee on the Board of Directors. The portfolio managers will be guided by an Investment Policy to be approved by the full Board of Directors. The Investment Committee will be composed of three of the Company's directors, including the Chairman. Based upon a strategy of conservatism, the Company will initially invest all of its funds in cash equivalents and investment grade bonds. The Company's investment portfolio will maintain an average duration below 5.0. The Company has no plans to change this investment strategy in the foreseeable future.

# 2006 Reinsurance Program

A descriptive summary of the reinsurance program is available in Section VI (Reinsurance) of the Business Plan Executive Summary. The program remains the same after the capital infusion as this does not affect the reinsurance.

The company's 100-year PML is projected to be about $42 million as of 8/31/2006 based upon an average of RMS RiskLink version 6.0 and AIR Clasic2 version 8.0.




* LAC Layer is for ASI Assurance only. **American Capital Assurance Corp. does not participate in the QS

# Part III: Interrogatories

## Part III: Interrogatories

Responses provided to the interrogatories may be added to the Surplus Note under the section entitled "Supplemental Agreements."

**1. Will the New Capital contribution be in excess of the Minimum Contribution*?** The new capital contribution will be *equal* to the minimum contribution.

**2. Have profits been retained to grow Surplus over the last five years? If yes, how much has been retained or contributed to Surplus each year?** This is not applicable as the applicant is a newly formed company. However, the total surplus of the other three insurance companies in the group has grown from under $6 million on December 31, 1997 to $77.2 million on May 31, 2006. Of that growth, $26 million has come from retained profits.

**3. Will profits be retained to grow Surplus should the Applicant be granted the Surplus Note proceeds associated with this Program?** Yes.

**4. Does the Applicant have a related company or other person or entity that is willing to guarantee the Applicant's Surplus Note under this Program? If yes, provide details.** No.

**5. Although not required, is the Applicant willing to commit collateral for the purpose of securing the state's interest in the proceeds of the Surplus Note?** No.

**6. Although not required, is the Applicant willing to deposit 10% or more of the proceeds derived from the Surplus Note in an account managed by the state?** This would be considered as a possibility if the state managed account were to earn a return that is similar to alternative acceptable investments.

**7. Although not required, is the Applicant willing to prepay interest and principal for one year in advance?** This could be open for discussion. We do not entirely understand the question as principal is not due for the first three years of the note.

**8. Are there any commitments that the Applicant is willing to make as a condition of issuing the Surplus Note that would lessen the risk of default?** We propose that the Board approve our application with the stipulation that the surplus note funds not be paid to the company until such time as the 2:1 net writing to surplus is exceeded on the $25 million of surplus contributed by the company. Perhaps the surplus note funds could be provided in installments as our writings increase, with the result that we are able to achieve the 2:1 writings to surplus within 60 days of each installment. In this way, the Company would have a smaller loan and thus would have lesser risk of default.

**9. Has the Applicant fully placed its 2006 hurricane season reinsurance program?** Yes.

**10. If the 2006 hurricane season reinsurance program has been fully placed, can the Insurer withstand a 1 in 100-year event?** Yes.

**11. What is the Applicant's current writing ratio?** Being a newly formed company, the applicant does not have a net writing ratio. The other three insurance companies in the group are currently writing at an annualized net writing ratio of 1.56 : 1.

**12. What was the Applicant's writing ratio for the last five years?** The last five years of the net writing ratio for the group's other three insurance companies are as follows:

| | |
|---|---|
| 2001 | 1.53 to 1 |
| 2002 | 1.78 to 1 |
| 2003 | 1.34 to 1 |
| 2004 | 1.81 to 1 |
| 2005 | 1.37 to 1 |

The last five years of the net writing ratio for the group's Florida insurance companies are as follows:

| | |
|---|---|
| 2001 | 1.78 to 1 |
| 2002 | 1.50 to 1 |
| 2003 | 2 03 to 1 |
| 2004 | 1.40 to 1 |
| 2005 | 1.68 to 1 |

**13. Is the Applicant willing to commit to a writing ratio in excess of the minimum for the duration of the Surplus Note? If so, note any adverse impact upon policyholder security.** Because the company is already committing to at least a 2:1 writing ratio, the company is implicitly committing to a ratio in excess of 2:1. As such, we interpret this question to mean a commitment at or above another level, such as 3:1, 2.5:1, etc. We believe the current minimum writing ratio of 2:1 is aggressive in a catastrophe-prone marketplace. Anything greater than would definitely have an adverse impact of the security of our policyholders.

**14. Does the Applicant have a rating from a rating agency? If so, indicate the agency and the rating, how long the rating has been in effect, and whether or not the Applicant has ever been downgraded by a rating agency and the circumstances.** The applicant is not currently rated, but is seeking a rating from Demotech. Other companies in the group have a B++ (Very Good) rating from A.M. Best and a Demotech rating of A prime (Unsurpassed).

**15. Is the Applicant currently being investigated by any federal or state regulatory authority?** No.

16. **Is the Applicant under any type of regulatory control or order?** No.

# Part IV: Accompanying Documentation

## Part IV: Documents which must be provided with this Application

1. A detailed business plan three year business plan is attached.

2. As the company is newly formed this report is not available. Please see response #8 below.

3. As the company is newly formed this report is not available. Please see response #8 below.

4. Resolution from Board of Directors is attached.

5. A list of all officers and board members is included in the detailed business plan.

6. The biographical information on all officers is included in the detailed business plan.

7. A signed copy of the attestation in Part IX of this application is attached.

8. Copies of the audited financial statements, as well as the most recent annual statement of the National Association of Insurance Commissioners for the applicant are not attached because the applicant is newly formed. These are reports are available for the other three insurance carriers of the group. We would be happy to provide these upon request.

# Part IV: Accompanying Documentation

## Detailed Business Plan

# American Capital Assurance Corp.

## THREE YEAR BUSINESS PLAN

**6/4/06**

# Table of Contents

# I. Introduction

ARX Holding Corp (“ARX”), a Delaware corporation has created Safe Harbour Holdings, LLC, (“Holding”), which in turn has created American Capital Assurance Corp. (“ACAC” or “the Company”) for the purpose of offering residential property and casualty coverage in the State of Florida. ACAC, which will be fully owned by Holding, will write property insurance in the form of Commercial Package Policies for condominium associations and apartment complexes, Homeowners policies, and Dwelling Fire policies. We estimate that 80% of production will be in commercial lines. The Florida commercial condominium insurance market consists of a few admitted and non-admitted (excess and surplus lines) insurance companies with limited property capacity. Due to limited competitors, reduced market capacity, increasing rates, favorable policy terms and conditions, and high wind specific and all-other-peril deductibles, ARX believes that now is an extremely attractive time to enter this market. Similar, but not as extreme, soft market conditions exist for residential property in the personal lines. ACAC will write Homeowners and Dwelling Fire policies to supplement its commercial book, with an emphasis on balancing the geographic spread of the Company’s book of business. The Company anticipates writing 1,300 commercial residential policies, 12,000 homeowners policies, and 3,000 dwelling fire policies during the first twelve months of operation. During the second twelve months, the Company anticipates writing 1,850, 17,000, and 4,500 commercial residential, homeowners, and dwelling fire policies respectively. During the third twelve months, the Company anticipates 18% policy growth across all lines. We anticipate that at least 95% of the business will be provide Wind coverage.

The Florida Managing General Agent (“MGA”) Safe Harbour Underwriters, Inc. (“SHUI”) will manage the commercial property program. Its staff has significant experience in the marketplace. SHUI’s management group has worked together for the past eight years with a primary focus on condominium association business. The Florida MGA ASI Underwriters, Inc. (“ASIU”) and its staff have been managing personal lines programs since 2000. It will manage the homeowners and dwelling fire programs. SHUI and ASIU are wholly-owned subsidiaries of ARX.

The timing of this business plan is also related to the fact that the Company would like to participate in the State’s Insurance Capital Build-Up Incentive Program. Production goals are based upon $50,000,000 in initial surplus. The Company’s financial projections anticipate profitability and cash flow levels that allow for repayment of the surplus note with interest as laid forth in the Incentive Program rules. Further, the Company has performed scenario analyses that indicate that full, on-schedule repayment can be anticipated in the following situations: two one in 100 year hurricane events in any of the Company’s first three years and a 25% deterioration in the Company’s anticipated non-catastrophe loss ratio. These scenarios were utilized as examples and it is reasonable to predict that the Company could withstand the adverse effects of dozens of un-modeled adverse scenarios as well.

# II. Management

**American Capital Assurance Corp.**

<u>Directors</u>
Marc Fasteau, Chairman
John Franklin Auer
Gregory Hendrick
Kevin Robert Milkey
Robert Louis Nason

<u>Officers</u>
John Franklin Auer – President, CEO, and Treasurer
Marc Fasteau - Secretary
Kevin R. Milkey – Executive Vice President and Assistant Secretary
Bobby Chastain Dollar – Vice President

**Safe Harbour Underwriters, Inc. (MGA)**

Bobby Chastain Dollar – President
Randolph Frederick Jones – Senior Vice President, Marketing
Caridad Arlene Luis – Vice President, Underwriting

**American Strategic Insurance Corp (acting on behalf of ARX Holding Corp)**

John Franklin Auer – President
Kevin Robert Milkey – Executive Vice President
Mary Frances Fournet – Vice President, Production Management
Robert Kenneth Munns – Vice President, Marketing
Antonio Scognamiglio – Vice President, Claims
Gregory Edward Stewart – Vice President, Planning & Finance

**Biographies of Key Managers**

**Marc Fasteau**
**Chairman of the Board and Secretary**

Experience

VENTURE CAPITAL/FINANCIAL ADVISORY

| | |
|---|---|
| 1996-present | Fulcrum Partners, founding partner and managing director Development and Management of new insurance ventures and boutique hotels. Financial advisory and fund raising for real estate ventures. |

INVESTMENT BANKING, PUBLIC FINANCE

| | |
|---|---|
| 1989 - 1996 | Dillon, Read & Co. Inc., Managing Director and Partner |
| 1987 - 1988 | Bear, Stearns, Associate Director |
| 1982 - 1986 | Kidder, Peabody & Co. Inc., Vice President and Shareholder |

OTHER

| | |
|---|---|
| 1979-1982 | Staff Director and Counsel, Rockefeller Foundation Study Commission on U.S. Policy toward South Africa chaired by Franklin Thomas (later President of the Ford Foundation) |
| 1969-1970 | Faculty, Public Policy Program, J.F. Kennedy School of Government, Harvard University |
| 1963-1966 | Professional staffs of the House Banking and Currency Committee, the Joint Economic Committee of Congress and U.S. Senate Majority Leader Mike Mansfield |
| EDUCATION | Harvard Law School J.D. magna cum laude 1969<br>Editor, Harvard Law Review. Selected as Clerk to US Supreme Court Justice Abe Fortas. |
| | Georgetown University M.A 1966<br>American History |
| | Harvard College A.B. cum laude 1963<br>Concentration in mathematics and economics |

**John F. Auer**
**President and Treasurer**

John Auer joined American Strategic Insurance Corp. (ASI) in August of 1997 to lead the new insurer in providing a voluntary market for residential property insurance.

Prior to joining ASI, John served as Vice President of Product Management and Corporate Planning at Bankers Insurance Group and as a Division Controller at Crum and Forster Personal Insurance. John began his insurance career in 1976 as an Internal Auditor with State Farm Mutual Insurance Company.

Since Hurricane Andrew, John has played a key role in working with regulators and legislators to seek solutions to Florida's property insurance crisis. John currently serves as Chair of the Florida Hurricane Catastrophe Fund Advisory Council. John has served on the Board of Directors of the Florida Windstorm Underwriting Association and the Insurance Institute for Property Loss Reduction. He has spearheaded several initiatives to restore a competitive property insurance market in Florida, and was featured as the personality of the month of Reinsurance Trends, a reinsurance publication, for his role in coordinating the first FRPCJUA takeout proposal through Bankers Security Insurance Company.

John received his undergraduate degree in Accounting from Ohio State University in 1976 and an MBA from the University of Texas in 1984. John received his CPCU designation in 1989.

**Kevin R. Milkey**
**Executive Vice President and Assistant Secretary**

Kevin joined ASI in January 1998. Kevin's primary roles with the company are in the areas of Pricing, Product Development, Product Management, and State Filings. Prior to coming to ASI, Kevin was employed with Bankers Insurance Group for six years. As Assistant Vice President of Product Management, Kevin managed the Private Passenger Auto Product Management and Underwriting Departments. His responsibilities included establishing rates and underwriting rules, agency management, new market research, and product development. Prior to accepting responsibility for auto, Kevin was responsible for Corporate Planning. Kevin has extensive experience in financial analysis and planning. Kevin earned his Bachelor of Science degree in Business Administration at the University of Vermont, graduating cum laude in 1986. Kevin received his Chartered Property Casualty Underwriter (CPCU) designation in 1994.

**Bobby C. Dollar**
**Vice President, American Capital Assurance, Corp.; President, Safe Harbour Underwriters, Inc.**

Bob Dollar has extensive experience in insurance marketing, underwriting and general management with several of the top 40 insurance companies. He most recently was President and COO of Southern Family Insurance Company, a property and casualty insurance company headquartered in Tampa, Florida. He holds a Masters degree in Insurance (MI) from Georgia State University College, Atlanta, Georgia. In addition, Bob has attended many professional insurance schools, seminars, and educational forums, and has served on several industry boards and bureaus.

**Randolph F. Jones**
**Senior Vice President, Safe Harbour Underwriters, Inc.**

Randy Jones has over 20 years of sales and marketing experience which includes having provided risk management and insurance services to a variety of national property and casualty clients. Randy relocated to Florida from Toronto, Canada in 1997. He has worked with group funded deductible programs, reciprocal and captive insurance transfers with a global insurance and risk management firm where he was an Assistant Vice President. His most recent experience was to serve as the commercial marketing officer for Southern Family Insurance Company. Randy holds a Florida 2-20 property and casualty license, majored in business communications with a specialization in insurance. Randy is responsible for all marketing activities and agency management for Safe Harbour.

**C. Arlene Luis**

**Vice President, Safe Harbour Underwriters, Inc.**

Arlene Luis has in excess of 20 years experience on the company and agency side of the business. Arlene has technical, management, and claims experience with an emphasis on commercial insurance. She has a BA degree from Hillsborough Community College, Tampa, Florida, CIC designation, and holds a Florida 2-20 agency license. Arlene was most recently the commercial underwriting officer of Southern Family Insurance Company.

**Mary Frances Fournet**
**Vice President of Production Management, ASI Underwriters, Inc.**

Production Management encompasses the Underwriting, Marketing, Risk Management and Customer Service areas of ASI. Mary Frances' primary role is managing the successful combination of Marketing and Underwriting functions in each state. Prior to coming inside, Mary Frances was an outside Director of Marketing responsible for managing the Central Florida territory. A variety of opportunities led Mary Frances to ASI, including Law Firm Administrator, small business consultant, and various sales and sales management positions.

Mary Frances has a BS degree in Quantitative Analysis from Louisiana State University.

**Antonio Scognamiglio**
**Vice President of Claims, ASI Underwriters, Inc.**

Tony joined ASI in September, 2000 to found ASI's Claims Department. Prior to joining ASI, Tony served the Allstate Insurance Company for 11 years. He was most recently their Administrative Manager for the Central Property Claim Service Area, which encompasses 14 states. In this position, Tony worked exclusively in the homeowners market managing communication between upper management and 620 claim employees, and maintaining a balanced staff with a $63 million unallocated budget. In addition, he was coordinator for Catastrophe and Spike claim handling and the liaison between the property/homeowner CSA and Home Office. Prior to this role, he was a unit manager and assisted in the creation of the Allstate Floridian Property Claims Office. He was involved in the management and implementation of Allstate's first 24 hr. call centers. He was responsible for implementing the separation of Allstate's Tampa Bay "Auto, Casualty, and Property" organization into specializations and developed the unit's original Auto theft and Fraud Team. During Tony's first three years at Allstate, he was a multi-line claims adjuster working auto-comparable negligence, casualty, homeowners, and catastrophe events.

Tony is multilingual. He graduated from the University of South Florida with a Bachelors degree in Social Sciences specializing in Political Theory and has an equivalency in Business Finance.

**Gregory E. Stewart**
**Vice President of Planning and Finance, ASI Underwriters, Inc.**

Greg Stewart joined the company in October, 2000. His areas of oversight are accounting, planning, analysis, and corporate finance. Prior to joining ASI, Greg spent two years at the New York-based asset manager Neuberger Berman, Inc., with approximately one year as an Equity Analyst in Property and Casualty Insurance, and a second year as a Small Cap Generalist on the NB Genesis Mutual Fund. At these positions, Greg had direct exposure to many of the best minds in the insurance business, and gained significant knowledge of smaller, growing companies as well as a broad knowledge of the capital markets. Previous to this position, Greg spent over three years as a Financial Analyst in the Corporate Planning Department at Bankers Insurance Group. Upon leaving Bankers, Greg developed a strategic plan for the just reorganized Seibels Bruce Group. He spent one half of a year as a consultant at the South Carolina-based insurer.

Greg earned his Bachelor of Science in Business Administration from the University of Florida in 1993. He specialized in Finance and graduated with Honors.

# III. The Commercial Operating and Marketing Plan

## Target Market

Florida is second only to California in the number of residential condominium properties, and the gap is closing on a daily basis with new construction and a rising population. The Company's primary target market is defined as low-to-mid-rise residential condominium complexes of joisted-masonry (JM) or better construction. This market consists of over 22,000 residential condominium associations located throughout Florida and many new projects are underway to accommodate significant population growth.

The majority of the individual condominium units are owner occupied – only limited seasonal rentals are acceptable. The associations are professionally managed under specific Florida Statutes. The associations are well maintained, reflecting pride of ownership and the financial strength of their owners.

Recent legislation clearly delineates the insurance purchasing responsibilities of the unit owner and the condominium association. The association is responsible for purchasing insurance covering the residential buildings from the interior walls out, the common elements, clubhouse, amenities, and personal property provided for the use of all residents. The unit owner must secure a homeowner's policy (HO 6) to cover all personal property, kitchen and bathroom cabinets, appliances, floor and wall coverings, electrical, and air conditioning/heating units if designed to service only their specific unit.

## Risk Definition

The typical joisted masonry or masonry non-combustible residential condominium complex consists of multiple buildings in a gated condominium complex. The typical building is two stories in height, has four-to-eight condominium units, and has values ranging from $400,000 to $800,000. The maximum value of any one building generally does not exceed $2.5 million. The total value at any complex is often in the $25-$30 million range with the average condominium association having $10 million in property values. Most associations have recreational facilities that include a clubhouse and at least one swimming pool with a pool house. Others may include shuffleboard, tennis, and golf.

The typical AAA fire-resistive (superior construction) residential condominium association consists of a few buildings and ranges from three stories to thirty stories in height. Many of the high-rise structures are located on Florida's coastline. The values of these buildings are from $2 million to $100 million. American Capital's target is on those buildings with values of $50 million or less.

## Property Coverage

Condominium associations are written on ISO's basic form with the availability of a "wrap" should they meet ACAC's underwriting requirements. ACAC's current form excludes flood and earthquake as well as mold and mildew. If the risk is located in a flood zone, coverage is available through the National Flood Insurance Program. Contents coverage for residential condominiums generally amount to less than $250,000 – comprised of pool furniture and the contents of the clubhouse. No business-interruption or loss-of-rents coverage is required.

There are several wind deductible options available in the program. Wind and hail deductibles of 2%, 5% and 10% are available. Hurricane deductibles of 2%, 3%, 5% and 10% are available with a 3% hurricane deductible being the standard. Deductibles apply to each of the structures located within the association property.

All other peril deductibles are available from $1,000 to $25,000, with $2,500 being the standard that is offered.

**Casualty Coverage**

All associations must carry general liability, hired and non-owned auto, directors' and officers' liability, worker's compensation, and excess liability or umbrella coverage. Several markets exist to write this coverage and the Company does not intend to offer it.

**Underwriting and Loss Control**

Every insured account is subject to a rigorous inspection which focuses on a number of structural and operational concerns, including but not limited to, the following:

- Construction details (e.g., load-bearing walls, mansards, decorative materials, etc.)
- Roof (age, type, material, type of fastening system, life expectancy, etc.)
- Electrical, heating and air conditioning systems, fire alarms, sprinkler systems
- Maintenance and housekeeping

All accounts are subject to a Marshall Swift Boechk valuation.

Loss control professionals provide services that focus on the loss cost drivers. They make appropriate recommendations (and ensure implementation of same) to help prevent or mitigate future losses.

**Marketing**

All business is generated through independent insurance agents located throughout Florida. These agents are well established in their communities, have highly trained staffs that specialize in commercial residential condominium business.

Safe Harbour's marketing strategy focuses on:

- Superior Customer Service
- Qualified, Dedicated and Committed Associates

- Profitability and long-term stability
- Limited number of agency partners (creating a “valued franchise perception”)
- Safe Harbour’s Value Added Services
- Disciplined Underwriting
- Exposure Management
- Controlled Growth (quality v. quantity)
- Rate Adequacy
- Company partners that are aligned with the strategic goals and beliefs in Safe Harbour’s key/critical success factors

Safe Harbour’s marketing strategy consists of core competencies that include a focused approach on relationships, service, profitability, underwriting, price discipline, and program stability. This strategy is combined with the right expertise, people and technology, creating an excellent opportunity for success in the condominium association marketplace.

Given the market conditions and limited number of companies pursuing the condominium class of business, Safe Harbour thinks the market is going to continue to allow for meaningful profit. Safe Harbour’s success is tied to known and proven agency performers in this line of business. Safe Harbour’s plan insures their agency partners clearly understand the goals and strategic objectives of the program and adhere to them.

Safe Harbour is single-minded in their daily pursuit of providing the best possible service, gaining market share and improving margins. This, of course, leads to higher levels of customer satisfaction, loyalty and enhance relationships with all of their program partners.

Other coverages necessary to fully complete the insurance needs of this market segment include:

- General Liability
- Excess Liability (umbrella)
- Directors and Officers
- Automobile (hired and non-owned)
- Fidelity Bonds
- Excess Flood

In addition to property coverage, Safe Harbour is seeking partners that can bring to bear these other coverage needs to complete the entire program.

Competition

The vast majority of condominium association policies are currently being written by Citizens Property Insurance Company. In the last two months alone, Citizens’ commercial exposure has increased by 32.5%—approximately four times the pace of homeowners exposure growth. There are more companies contracting or exiting the marketplace (Crum & Forster, State Farm, Allstate, Nationwide, Republic Western, Meadowbrook) than expanding or entering the marketplace. Private competition consists of a few admitted and non-admitted (excess and surplus lines) insurance companies with limited property capacity. Excess and Surplus lines programs are generally marketed through wholesalers and MGAs. These non-admitted carriers have some appetite for new business at excessive rate levels, but have limited capacity. Many of the programs have minimum dollar deductibles (i.e. 3% wind/hail deductible subject to a minimum of $100,000 per loss). Typically, these programs are written on a "layered" basis with four to five participants depending upon the required limits. The most active non-admitted participants are primarily property writers such as Empire, Lloyd's of London, Royal Specialty, Pacific, Lexington, Westchester, Essex, Landmark and Mt. Holly. Some of these markets also provide GL, WC and Bonds. On the admitted side, there are only a handful of participants. The most notable is QBE. The Poe Financial Group was a dominant presence in the marketplace before being taken under supervision by the State of Florida. The companies of the Poe Group are currently under liquidation and all of their policies are being rolled into Citizens Property Insurance Corporation ("Citizens"). Other than the companies cited above, there are no new entrants to the competitive scene at this time.

Currently, Citizens is the number one market for condominium business. Citizens was formed as the market of last resort to fill the void in the voluntary insurance market and agents prefer not to place business with Citizens. In the standard admitted market, there is less competition, more restrictive policy terms and conditions, and a firming of property pricing.

Agency Appointments

Safe Harbour targets agents that are knowledgeable, skillful and take a consultative approach to the condominium association marketplace differentiating themselves outside of the commodity environment. These agents are not solely dependent on the carriers for price in order to obtain a client's business. They develop their business through identification of issues and the development and implementation of solutions to prospect/customer problems. They have dedicated significant resources to becoming "an expert" in the condominium marketplace. They understand the regulatory environment and market conditions impacting condominiums in Florida. Their producers, client service personnel and support staff are committed to quality service. The successful agency is able to greatly increase its closing ratio and control significant premium volume (as much as $50 million in some agencies).

**Key Success Initiatives/Competitive Advantage**

Service

Safe Harbour stakes its reputation and success on the ability to deliver the very best customer service. They want every communication with their organization to be a great experience and they achieve this by creating a working atmosphere that keeps its employees happy. Experience has taught them – if you take care of your employees – they will take care of your business. Safe Harbour has a culture of integrity, and customer focus.

They have achieved their strategic goals in a "can-do" environment embracing their corporate values for success by compensating their associates well and providing ongoing training, and career development opportunities.

Technology

The use of technology plays an integral role in Safe Harbour's program administration. Safe Harbour has a proprietary system that lets them quote, prepare proposals, underwrite, issue policies, and service their clients in real-time. They have set service "benchmarks" and standards for delivering new business, renewals and endorsement documentation to their agency partners. In addition, they track the success of the program through the automated real-time reports available on demand.

Relationships

Management has worked extremely hard over the past eight years to build and cultivate strong bonds with most of the largest condominium producers in the state of Florida. They have established solid contacts and relationships with the principals of those agencies. Agencies have enjoyed a tremendous amount of success with them over the years and do not hesitate to give them a fair shot to compete for their business.

Agency Training

Safe Harbour works with their agents to enhance their skills and help them optimize their effectiveness, and increase their revenue stream. This is accomplished through effective training and marketing workshops on Safe Harbour's program.

Agency Production / Goal Setting

Safe Harbour develops a new business goal with each of the agencies and solicits their input and buy-in. Safe Harbour asks each agent to sign a "new business agreement" stating they understand the goal and agree to doing everything they can to meet that goal.

Development of Acceptable Agency Attrition Rate

Safe Harbour works with each of their agents to retain profitable business. Safe Harbour establishes practices, procedures and protocols combined with account "benchmarking" to ascertain what the appropriate steps are necessary to retain accounts. Account retention with the existing book-of-business is in the 90% quartile.

Marketing Material

Safe Harbour develops program brochures and PowerPoint presentations to assist in the sales and marketing of their program.

Sales Presentation Assistance

On business designated/identified as “High-Touch Accounts,” Safe Harbour offers agents their “Sales Call Program” to assist them in their presentation to the client/prospect.

# IV. Personal Lines Operating and Marketing Plan

American Capital Assurance will be uniquely positioned to take advantage of an opportunity in Florida residential personal lines insurance due to the fact that ASI Underwriters, Inc. (ASIU) has a proven track record of managing an insurance organization in the Florida market, including developing distribution sources, policy systems, and product management. ASI Underwriters, Inc. has been a licensed managing agent in Florida since 1999. The Company has instant access to ASIU’s entire organization to quickly attain targets for revenue, distribution of exposures, and profitability. The ASIU processing system together with agency relationships will allow the Company to add significant production and processing volume without proportional increases in staff. With agency relationships well established and an experienced marketing team in place, the Company will quickly build its policy base.

The Company will write Homeowners and Dwelling Fire products through approximately 540 independent agencies in the State of Florida. The Company will utilize field marketing representatives currently employed by ASI Underwriters, Corp. Independent agents will be paid a commission commensurate with that currently paid by peer companies in the Florida marketplace.

**Products**

Homeowners

The Company will offer the homeowner’s policy on an HO3 form. The HO3 covers homes (and their contents) that are occupied by their owners. It protects our insureds’ home against most risks such as fire, wind, lightning, etc. This policy covers our insureds’ home for its replacement value. Other coverages included in the homeowners policy are other structures, personal property, and loss of use of our insureds’ home until it can reasonably be repaired. It also includes personal liability coverage and medical payments to others. There are also several optional coverages available that your agent will discuss depending upon our insureds needs.

Dwelling Fire

The Company will offer a Dwelling Fire Insurance policy on a DP3 form. The policy will protect seasonal, secondary or rental properties. The program can cover one to four family homes and condominium units. In addition, the Dwelling Fire policy may be written on secondary or seasonal owner occupied dwellings. Since many homeowners coverages are not needed on rental properties, the fire policy is not written as a package like the homeowners policy. However, it does allow our insureds to add the same coverage available on the homeowners policy. The modular format of the Dwelling Fire program provides a way to purchase and pay for only the coverage our insureds need, resulting in savings to them.

**Underwriting**

The Company will follow a disciplined underwriting approach in personal lines as managed by ASIU. ASIU believes that underwriting begins at the point of sale, which in our case is with our appointed agents. Agents are carefully reviewed before being appointed. Appointed agents are then educated on our products and on the type of business that we seek. Agent production and business quality is monitored continuously. We stress to the agents the importance of knowing the property to be insured. If agents are not familiar with the location or neighborhood of the property, they are to go see the property. We conduct on-site inspections of a significant percentage of our risks. The decision to inspect is based on factors such as the age, value, and location of the property; as well as our comfort level with the producing agency. ASIU will inspect approximately 40-50% of new business. This percentage should decline as the Company gains experience.

We adhere to strict underwriting guidelines. In addition to most guidelines found in preferred homeowners programs, we impose the following:

- No roomers or boarders are permitted in the homeowners program.
- All risks (HO and DF) must have central heat and smoke detectors.
- No business pursuits or incidental occupancies are permitted in our homeowners program.
- We provide animal liability only by endorsement and will not accept risks with vicious breeds of dogs.

# V. Exposure Management / Rates

Exposure management is one of the keys to success in the Florida marketplace. Safe Harbour and ASIU provide arguably the best exposure management team in Florida.

The Company will have access to computer software which produces monthly reports to monitor Total Insured Values (TIV) by county and territory. These reports will be used by management of ASIU to monitor and control the Company's exposure, reinsurance costs and PML. The Company's MGAs will communicate with appointed agents to restrict/stop the binding of new applications once saturation points have been reached in certain territories. The Company will have a sophisticated pricing structure in place allowing it to gain a risk selection/distribution superior to the industry. There will be two rate algorithms—hurricane and other perils. The hurricane rate structure is based on the average hurricane loss costs by zip code using two commercial hurricane models. The loss cost is loaded with an expense and profit margin and then added to the other peril calculation. The rating structure results in being competitive in zip codes where pricing is adequate.

The Company will have access to all of the latest versions of the catastrophe models. They are running both RMS and AIR in house allowing quick and accurate execution of risk selection, pricing and deployment of adjusters in the event of a catastrophe. In addition to the catastrophe models, the Company will have “Real Time” policy tracking, a detailed inspection program, loss control specialists and a proven Catastrophe Adjustment Plan to mitigate exposure to loss.

Kevin Milkey, CPCU, and Executive Vice President will handle ratemaking and rate filings. The process will include the rate level indication, expense provisions, loss development, trend factors, impacts, current rate level calculations, base rate analysis and relativity factor analysis. Kevin currently performs the ratemaking analysis and prepares the rate filings for the Homeowners and Dwelling Fire and Commercial Package programs at American Strategic Insurance Corp. and has done so since 1998. Prior to that, Kevin was a Product Manager at Bankers Insurance, where he handled the rate filings for the Private Passenger Auto program.

The Company projects its geographic spread as follows:

| County | % TIV | % Prem |
|---|---|---|
| ALACHUA | 1.4% | 1.4% |
| BREVARD | 3.4% | 4.2% |
| BROWARD | 11.4% | 11.1% |
| CHARLOTTE | 2.8% | 2.9% |
| CLAY | 0.7% | 1.1% |
| COLLIER | 8.8% | 6.2% |
| DADE | 3.9% | 3.2% |
| DUVAL | 7.9% | 8.2% |
| FLAGLER | 1.2% | 1.2% |
| HIGHLANDS | 0.5% | 0.5% |
| HILLSBOROUGH | 9.3% | 9.0% |
| INDIAN RIVER | 2.8% | 2.9% |
| LEE | 9.2% | 12.3% |
| LEON | 0.2% | 0.2% |
| MANATEE | 2.9% | 3.1% |
| MARION | 1.0% | 1.1% |
| MARTIN | 1.8% | 1.9% |
| ORANGE | 0.4% | 0.3% |
| OSCEOLA | 0.2% | 0.2% |
| PALM BEACH | 10.3% | 10.6% |
| PINELLAS | 6.5% | 6.7% |
| POLK | 0.9% | 0.9% |
| SARASOTA | 6.4% | 6.6% |
| SEMINOLE | 0.4% | 0.3% |
| ST JOHNS | 2.5% | 1.7% |
| ST LUCIE | 1.0% | 0.7% |
| VOLUSIA | 2.2% | 1.5% |

# VI. Reinsurance

ACAC will utilize extensive reinsurance to protect its policyholders, solvency and capital. Private catastrophe excess of loss reinsurance will supplement coverage provided by the Florida Hurricane Catastrophe Fund to protect ACAC's exposure to multiple losses occurring as the result of a single event such as a hurricane, tropical storm, tornado/hail, wild fire, or freeze. Multiple line excess of loss reinsurance will limit ACAC's risk on a single building to $600,000. The use of quota share and/or facultative reinsurance is uncertain at this time.

<u>Catastrophe Reinsurance (Private and FHCF)</u>

All business written by ACAC will be eligible for coverage available from FHCF. ACAC will elect coverage at the 90% level from the FHCF. ACAC will purchase private reinsurance that wraps around the FHCF coverage.

For the June 1, 2006 to May 31, 2007 contract year, ACAC's catastrophe reinsurance protection is included in the treaties purchased by American Strategic Insurance Corp and ASI Assurance Corp. These treaties provide coverage for the combined entities that protect solvency for an event well in excess of the 150-year Probable Maximum Loss (PML). The private treaties provide for 2 full limits up to the 100-year PML, and one limit for losses exceeding the 100-yr event. A Reinstatement Premium Protection (RPP) treaty will pay the reinstatement premiums required to reinstate the limits after a loss.

In future years, ACAC's program may continue to be included with that of its affiliates, or may be purchased in a separate contract. In either event, ACAC's retention under the catastrophe reinsurance program will limit ACAC's loss from a single event to a maximum of 20% of surplus. After ACAC's retention, catastrophe reinsurance will pay 100% of losses incurred up to a total limit associated with a minimum of a 100-year PML. The catastrophe reinsurance program will provide two full limits from the private catastrophe reinsurers. A Reinstatement Premium Protection (RPP) treaty will pay the reinstatement premiums required to reinstate the limits after a loss.

<u>Multiple Line Excess of Loss Reinsurance</u>

ACAC will also limit its exposure on a single risk to $600,000 under a multiple line excess of loss treaty. The treaty includes three layers that provide aggregate coverage of $9,400,000 in excess of $600,000. The first layer of $400,000 xs $600,000 covers both property and casualty exposure. The second layer of $1.5 million xs $1 million and third layer of $7.5 million xs $2.5 million cover property only.

<u>Facultative</u>

It is anticipated that the $10,000,000 per risk coverage provided under the multiple line excess of loss treaty will be adequate to cover most risks targeted by ACAC. We do not currently anticipate insuring buildings with insured values in excess of $10 million; however, Company principals possess underwriting expertise and experience insuring higher valued condominium structures. Should the Company ever underwrite risks with values exceeding $10 million, facultative reinsurance would be procured to cover the limit exceeding $10 million.

Quota Share

We do not currently plan to utilize quota share reinsurance. This is primarily the result of the fact that the Florida Surplus Note program indirectly limits our utilization of reinsurance by requiring that we maintain net written premium of at least 200% of surplus. Based on our gross premium projections, and desire to procure catastrophe reinsurance that will result in substantial cessions to catastrophe reinsurers, we don't anticipate utilizing quota share reinsurance. If market conditions in our target markets enable us to write more business than projected, and/or catastrophe reinsurance rates soften in future years from current record high levels, we may utilize quota share reinsurance to enable us to provide coverage to more Florida property owners.

# VII. Claims

The Company's claims will be administered by ASI Underwriters Inc. (ASIU). ASIU has been successfully managing claims since 2000. ASIU is experienced with handling catastrophe claims situations and is proactive in mitigating losses from catastrophe events. ASIU recognizes that superior customer service begins with fast and efficient claims handling and is committed to paying what is owed as quickly as possible.

ASIU recognizes that superior customer service begins with fast and efficient claims handling. ASIU works with agents and insureds throughout the entire claims process – servicing to settle claim needs. That's why ASIU acts quickly to process and validate each claim. ASIU is committed to paying the claim as quickly as possible. What separates ASIU from the rest is:

- **Convenience.** 24 hour toll-free Emergency Claims Service.
- **Availability.** Think about what's important to you. ASIU provides a phone staff of Claims Representatives and the strength of many local agents. They are available when you need them most and meeting their customer's expectations.
- **Service.** Superior customer service that understands your needs and provides you with knowledgeable representatives trained to answer your coverage questions while responding quickly and effectively.
- **Knowledge.** ASIU's adjusters average over 20 years of experience in the property claim handling arena, including inside processing, investigative, litigation management, fraud and estimating, giving them a strategic advantage in conflict resolution.
- **Commitment.** ASIU wants their customers to have the insurance protection that's right for them. ASIU is a company with a strong reputation with high standards and the financial stability to back it. Paying what is owed as quickly as possible as mandated by the insurance policy provided.

- **Network.** Not only does ASIU have a Claims Department and knowledgeable Field Unit, but they have an extensive network of Independent Adjusters and service providers.
- **Vendors.** ASIU works directly with licensed vendors to ensure expediency in claim resolution during a customers' time of need. Innovation and a proactive approach separates ASIU from its competitors during periods of high demand by encompassing the following unique process:

    1. ASIU has built relationships with **select qualified vendors** to ensure strong and lasting commitments with commercial customers.
    2. These vendors in turn **establish relationships** ahead of time with the owners, officers and maintenance personnel of the commercial accounts.
    3. Loss **training and education** are taught by ASIU employees and select vendors on how to handle claims, with emphasis on fire and water damage which is imperative in controlling severity dollars.
    4. Being **proactive**, ASIU records the information necessary to allow faster response time and speed in beginning the mitigation process. ASIU gathers personal information, contact personnel, contact numbers, etc. to ensure responsiveness.
    5. ASIU's customers receive an **emergency preparedness guide** to ensure they are ready before the loss occurs.
    6. ASIU gathers **resident profiles** on all buildings to allow them faster access to their units when needed.
    7. Throughout the year these vendors **help and assist** with regular claim needs to ensure a vibrant relationship, understanding of the requirements and ongoing training.

# VIII. Investments

The Company's investment portfolio will be managed by Gen Re New England Asset Management. It will be held in custody by Investors Bank & Trust, and it will be overseen by an Investment Committee on the Board of Directors. The portfolio managers will be guided by an Investment Policy to be approved by the full Board of Directors. The Investment Committee will be composed of three of the Company's directors, including the Chairman. Based upon a strategy of conservatism, the Company will initially invest all of its funds in cash equivalents and investment grade bonds. The Company's investment portfolio will maintain an average duration below 5.0. The Company has no plans to change this investment strategy in the foreseeable future.

**Company Name: American Capital Assurance Corp.**
**(Property & Casualty Insurance Company)**
**Pro Forma Statutory Balance Sheet**
**(In Thousands)**

| | 2006 | 2007 | 2008 |
|---|---|---|---|
| **Admitted Assets** | | | |
| ------------------- | | | |
| 1. Invested Assets(non-affiliated) | 76,247 | 132,776 | 171,525 |
| 2. Investments in Subs and Affiliates | - | - | - |
| 3. All assets other than investments | 16,891 | 26,103 | 33,064 |
| 4. Total Admitted Assets(1+2+3) | 93,137 | 158,879 | 204,589 |
| **Liabilities** | | | |
| ------------------- | | | |
| 5. Losses (Case & IBNR) | 835 | 5,686 | 11,614 |
| 6. Loss Adjustment Expenses | 148 | 1,004 | 2,050 |
| 7. Unearned Premiums | 42,641 | 81,816 | 98,004 |
| 8. Ceded Reinsurance Payable | 2,374 | 19,882 | 34,027 |
| 9. Payable to Parents, Subsidiaries & Affiliates | 424 | 1,049 | 1,351 |
| 10. All Other Liabilities | 1,934 | 4,560 | 6,127 |
| 11. Total Liabilities(5+6+7+8+9+10) | 48,355 | 113,997 | 153,173 |
| **Capital and Surplus** | | | |
| ------------------- | | | |
| 12. Common Stock | 1 | 1 | 1 |
| 13. Preferred Stock | | - | - |
| 14. Gross Paid In and Contributed Surplus | 24,999 | 24,999 | 24,999 |
| 15. Surplus Notes | 25,000 | 25,000 | 25,000 |
| 16. Unassigned Surplus | (5,218) | (5,118) | 1,417 |
| 17. Other Items(elaborate) | - | - | - |
| 18. Total Capital and Surplus(12+13+14+15+16+17) | 44,782 | 44,882 | 51,417 |
| 19. Total Liabilities, Capital and Surplus(11+18) | 93,137 | 158,879 | 204,589 |

**Risk-Based Capital Analysis**

| | 2006 | 2007 | 2008 |
|---|---|---|---|
| 20. Total Adjusted Capital | 44,782 | 44,882 | 51,417 |
| 21. Authorized Control Level Risk-Based Capital | 9,191 | 12,440 | 16,490 |
| 22. Calculated Risk-Based Capital (20/21) | 487% | 361% | 312% |

**Company Name American Capital Assurance Corp.**
**(Property & Casualty Insurance Company)**
**Pro Forma Statutory Profit & Loss Statement**
**(In Thousands)**

| | 2006 | 2007 | 2008 |
|---|---|---|---|
| 1. Net Premiums Earned | 9,114 | 60,906 | 95,931 |
| 2. Net Losses Incurred (Case & IBNR) | 3,340 | 24,259 | 39,516 |
| 3. Net Loss Adjustment Expenses Incurred | 590 | 4,281 | 6,974 |
| 4. Direct Commissions & Brokerage | 5,650 | 13,985 | 18,017 |
| 5. Reinsurance Ceding Commissions | - | - | - |
| 6. Net Commissions Incurred (4-5) | 5,650 | 13,985 | 18,017 |
| 7. Other Contractual Agreements* | 4,520 | 11,188 | 14,414 |
| 8. Other Underwriting Expenses Incurred | 3,514 | 8,041 | 10,360 |
| 9. Underwriting Gain (Loss) (1-(2+3+6+7+8)) | (8,500) | (848) | 6,651 |
| 10. Net Investment Income | 1,420 | 5,579 | 7,302 |
| 11. Other Income | (648) | (1,297) | (1,297) |
| 12. Net Operating Income (Loss) Before Taxes (9+10+11) | (7,728) | 3,434 | 12,656 |
| 13. Income Taxes Incurred | 697 | 4,605 | 6,131 |
| 14. Net Operating Income (Loss) After Taxes (12-13) | (8,425) | (1,171) | 6,525 |
| 15. Stockholder Dividends | - | - | - |
| **Operating Percentages** | | | |
| Net Premiums Earned | 100.00% | 100 00% | 100.00% |
| 16. Net Losses Incurred to Net Premiums Earned(2/1) | 36.65% | 39 83% | 41.19% |
| 17. Net Loss Adjustment Expenses Incurred to Net Premiums Earned(3/1) | 6.47% | 7 03% | 7.27% |
| 18. Other Underwriting Expenses to Net Premiums Earned ((6+7+8)/1) | 150.14% | 54 53% | 44.61% |
| 19. Net Underwriting Gain Or (Loss) (9/1) | -93.26% | -1 39% | 6.93% |
| **Other Percentages** | | | |
| 20. Other Underwriting Expenses to Net Premiums Written ((6+7+8)/Total Net Premiums Written)) | 26.44% | 33.19% | 38.17% |
| 21. Net Loss and Loss Adjustment Expenses Incurred to Net Premiums Earned ((2+3)/1) | 43.12% | 46 86% | 48.46% |

*ie... MGA(excluding amounts included above as agents commissions), service contracts, claims payment contracts

**Company Name American Capital Assurance Corp.**
**(Property & Casualty Insurance Company)**
**Pro Forma Statutory Cash Flow Statement**
**(In Thousands)**

| | 2006 | 2007 | 2008 |
|---|---|---|---|
| **Cash From Operations** | | | |
| 1. Premiums Collected Net of Reinsurance | 51,754 | 100,081 | 110,877 |
| 2. Loss and Loss Adjustments Expenses Paid (Net of S&S) | 2,948 | 22,832 | 39,516 |
| 3. Underwriting Expenses Paid | 13,684 | 33,214 | 42,791 |
| 4. Other Underwriting Income(expenses) | - | - | - |
| 5. Total Cash From Underwriting(1-2-3+4) | 35,123 | 44,035 | 28,570 |
| 6. Net Investment Income | 1,420 | 5,579 | 7,302 |
| 7. Other Income | | | |
| 8. Dividends to Policyholders | | | |
| 9. Federal and Foreign Income Taxes (Paid) Recovered | | | |
| 10. Net Cash From Operations(5+6+7-8+9) | 36,543 | 49,614 | 35,872 |
| **Cash From Investments** | | | |
| 11. Net Cash from Investments | (72,000) | (44,000) | (27,000) |
| **Cash From Financing and Misc Sources** | | | |
| 12. Total Other Cash Provided | 50,000 | | |
| 13. Total Other Cash applied | | | |
| 14. Net Cash from Financing and Misc Sources(12-13) | 50,000 | - | - |
| 15. Net Change in Cash, Cash Equivalents and Short-Term Investments(10+11+14) | 14,543 | 5,614 | 8,872 |

Nationwide

**Company Name:** **American Capital Assurance Corp.**
**(Property & Casualty Insurance Company)**
**Premiums Written to Surplus Ratios**
**Amounts in Whole Dollars**

| Year | Direct Premiums Written | Assumed Premiums Written | Gross Premiums Written | Ceded Premiums Written | Net Premiums Written | Gross Written Premiums to Surplus | Net Written Premiums to Surplus |
|---|---|---|---|---|---|---|---|
| | --------- | --------- | --------- | --------- | --------- | --------- | --------- |
| **2006** | 56,502,000 | - | 56,502,000 | 4,747,000 | 51,755,000 | 126.2% | 115.6% |
| **2007** | 139,845,000 | - | 139,845,000 | 39,764,000 | 100,081,000 | 311.6% | 223.0% |
| **2008** | 180,172,000 | - | 180,172,000 | 68,053,000 | 112,119,000 | 350.4% | 218.1% |

**No data entry is required on this page.**

**Nationwide**

**Year 1** **2006**

**Company Name:** **American Capital Assurance Corp.**

**(Property & Casualty Insurance Company)**

**Planned Premium Volume By Line of Business**

**Amounts in Whole Dollars**

| Annual Statement Line | Description | Direct Premiums Written | Assumed Premiums Written | Ceded Premiums Written | Net Premiums Written | Direct Premiums Earned | Assumed Premiums Earned | Ceded Premiums Earned | Net Premiums Earned |
|---|---|---|---|---|---|---|---|---|---|
| 1.0 | Fire | 1,130,040 | | 79,750 | 1,050,290 | 277,220 | | 79,750 | 197,470 |
| 2.1 | Allied Lines | 2,825,100 | | 199,374 | 2,625,726 | 693,050 | | 199,374 | 493,676 |
| 2.2 | Multiple Peril Crop | | | | - | | | | - |
| 2.3 | Federal Flood | | | | - | | | | - |
| 3.0 | Farmowners Multiple Peril | | | | - | | | | - |
| 4.0 | Homeowners Multiple Peril | 6,497,730 | | 458,560 | 6,039,170 | 1,594,015 | | 458,560 | 1,135,455 |
| 5.1 | Commercial Multiple Peril (Non-Liability Portion) | 45,201,600 | | 3,989,379 | 41,212,221 | 11,088,800 | | 3,989,379 | 7,099,421 |
| 5.2 | Commercial Multiple Peril (Liability Portion) | | | | - | | | | - |
| 6.0 | Mortgage Guaranty | | | | - | | | | - |
| 8.0 | Ocean Marine | | | | - | | | | - |
| 9.0 | Inland Marine | 282,510 | | 19,937 | 262,573 | 69,305 | | 19,937 | 49,368 |
| 10.0 | Financial Guaranty | | | | - | | | | - |
| 11.1 | Medical Malpractice - Occurrence | | | | - | | | | - |
| 11.2 | Medical Malpractice - Claims Made | | | | - | | | | - |
| 12.0 | Earthquake | | | | - | | | | - |
| 13.0 | Group A&H | | | | - | | | | - |
| 14.0 | Credit A&H (Group & Individual) | | | | - | | | | - |
| 15.1 | Collectively Renewable A&H | | | | - | | | | - |
| 15.2 | Non-Cancellable A&H | | | | - | | | | - |
| 15.3 | Guaranteed Renewable A&H | | | | - | | | | - |
| 15.4 | Non-Renew-Stated Reasons Only A&H | | | | - | | | | - |
| 15.5 | Other Accident Only | | | | - | | | | - |
| 15.6 | All Other A&H | | | | - | | | | - |
| 15.7 | Federal Employees Health Benefits Program | | | | - | | | | - |
| 16.0 | Workers' Compensation | | | | - | | | | - |
| 17.1 | Other Liability - Occurrence | 565,020 | | | 565,020 | 138,610 | | | 138,610 |
| 17.2 | Other Liability - Claims Made | | | | - | | | | - |
| 18.1 | Products Liability - Occurrence | | | | - | | | | - |
| 18.2 | Products Liability - Claims Made | | | | - | | | | - |
| 19.1 | Private Passenger Auto No-Fault (P P) | | | | - | | | | - |
| 19.2 | Other Private Passenger Auto Liability | | | | - | | | | - |
| 19.3 | Commercial Auto No-Fault (P P) | | | | - | | | | - |
| 19.4 | Other Commercial Auto Liability | | | | - | | | | - |
| 21.1 | Private Passenger Auto Phys Damage | | | | - | | | | - |
| 21.2 | Commercial Auto Physical Damage | | | | - | | | | - |
| 22.0 | Aircraft (All Perils) | | | | - | | | | - |
| 23.0 | Fidelity | | | | - | | | | - |
| 24.0 | Surety | | | | - | | | | - |
| 26.0 | Burglary and Theft | | | | - | | | | - |
| 27.0 | Boiler and Machinery | | | | - | | | | - |
| 28.0 | Credit | | | | - | | | | - |
| 28.0 | Credit Disability | | | | - | | | | - |
| 31.0 | Auto Warranties | | | | - | | | | - |
| 31.0 | Prepaid Legal | | | | - | | | | - |
| 31.0 | Bail Bonds | | | | - | | | | - |
| 31.0 | Glass | | | | - | | | | - |
| 31.0 | Title | | | | - | | | | - |
| 31.0 | Livestock | | | | - | | | | - |
| 31.0 | Industrial Extended Coverage | | | | - | | | | - |
| 31.0 | Mobile Home Multiple Peril | | | | - | | | | - |
| 31.0 | Mobile Home Physical Damage | | | | - | | | | - |
| 31.0 | Home Warranties | | | | - | | | | - |
| 31.0 | Service Warranties | | | | - | | | | - |
| 31.0 | Reinsurance | | | | - | | | | - |
| 31.0 | Other - Property | | | | - | | | | - |
| 31.0 | Other - Casualty | | | | - | | | | - |
| 31.0 | Other | | | | - | | | | - |
| | Total | 56,502,000 | - | 4,747,000 | 51,755,000 | 13,861,000 | - | 4,747,000 | 9,114,000 |

**Nationwide** **Company Name:** **American Capital Assurance Corp.**

**Year 2** **2007** **(Property & Casualty Insurance Company)**

**Planned Premium Volume By Line of Business**

**Amounts in Whole Dollars**

| Annual Statement Line | Description | Direct Premiums Written | Assumed Premiums Written | Ceded Premiums Written | Net Premiums Written | Direct Premiums Earned | Assumed Premiums Earned | Ceded Premiums Earned | Net Premiums Earned |
|---|---|---|---|---|---|---|---|---|---|
| --------- | ---------------------------------- | --------- | --------- | --------- | --------- | --------- | --------- | --------- | --------- |
| 1.0 | Fire | 2,796,900 | | 668,035 | 2,128,865 | 2,013,400 | | 668,035 | 1,345,365 |
| 2.1 | Allied Lines | 6,992,250 | | 1,670,088 | 5,322,162 | 5,033,500 | | 1,670,088 | 3,363,412 |
| 2.2 | Multiple Peril Crop | | | | - | | | | - |
| 2.3 | Federal Flood | | | | - | | | | - |
| 3.0 | Farmowners Multiple Peril | | | | - | | | | - |
| 4.0 | Homeowners Multiple Peril | 16,082,175 | | 3,841,202 | 12,240,973 | 11,577,050 | | 3,841,202 | 7,735,848 |
| 5.1 | Commercial Multiple Peril (Non-Liability Portion) | 111,876,000 | | 33,417,666 | 78,458,334 | 80,536,000 | | 33,417,666 | 47,118,334 |
| 5.2 | Commercial Multiple Peril (Liability Portion) | | | | - | | | | - |
| 6.0 | Mortgage Guaranty | | | | - | | | | - |
| 8.0 | Ocean Marine | | | | - | | | | - |
| 9.0 | Inland Marine | 699,225 | | 167,009 | 532,216 | 503,350 | | 167,009 | 336,341 |
| 10.0 | Financial Guaranty | | | | - | | | | - |
| 11.1 | Medical Malpractice - Occurrence | | | | - | | | | - |
| 11.2 | Medical Malpractice - Claims Made | | | | - | | | | - |
| 12.0 | Earthquake | | | | - | | | | - |
| 13.0 | Group A&H | | | | - | | | | - |
| 14.0 | Credit A&H (Group & Individual) | | | | - | | | | - |
| 15.1 | Collectively Renewable A&H | | | | - | | | | - |
| 15.2 | Non-Cancellable A&H | | | | - | | | | - |
| 15.3 | Guaranteed Renewable A&H | | | | - | | | | - |
| 15.4 | Non-Renew-Stated Reasons Only A&H | | | | - | | | | - |
| 15.5 | Other Accident Only | | | | - | | | | - |
| 15.6 | All Other A&H | | | | - | | | | - |
| 15.7 | Federal Employees Health Benefits Program | | | | - | | | | - |
| 16.0 | Workers' Compensation | | | | - | | | | - |
| 17.1 | Other Liability - Occurrence | 1,398,450 | | | 1,398,450 | 1,006,700 | | | 1,006,700 |
| 17.2 | Other Liability - Claims Made | | | | - | | | | - |
| 18.1 | Products Liability - Occurrence | | | | - | | | | - |
| 18.2 | Products Liability - Claims Made | | | | - | | | | - |
| 19.1 | Private Passenger Auto No-Fault (P P) | | | | - | | | | - |
| 19.2 | Other Private Passenger Auto Liability | | | | - | | | | - |
| 19.3 | Commercial Auto No-Fault (P P) | | | | - | | | | - |
| 19.4 | Other Commercial Auto Liability | | | | - | | | | - |
| 21.1 | Private Passenger Auto Phys Damage | | | | - | | | | - |
| 21.2 | Commercial Auto Physical Damage | | | | - | | | | - |
| 22.0 | Aircraft (All Perils) | | | | - | | | | - |
| 23.0 | Fidelity | | | | - | | | | - |
| 24.0 | Surety | | | | - | | | | - |
| 26.0 | Burglary and Theft | | | | - | | | | - |
| 27.0 | Boiler and Machinery | | | | - | | | | - |
| 28.0 | Credit | | | | - | | | | - |
| 28.0 | Credit Disability | | | | - | | | | - |
| 31.0 | Auto Warranties | | | | - | | | | - |
| 31.0 | Prepaid Legal | | | | - | | | | - |
| 31.0 | Bail Bonds | | | | - | | | | - |
| 31.0 | Glass | | | | - | | | | - |
| 31.0 | Title | | | | - | | | | - |
| 31.0 | Livestock | | | | - | | | | - |
| 31.0 | Industrial Extended Coverage | | | | - | | | | - |
| 31.0 | Mobile Home Multiple Peril | | | | - | | | | - |
| 31.0 | Mobile Home Physical Damage | | | | - | | | | - |
| 31.0 | Home Warranties | | | | - | | | | - |
| 31.0 | Service Warranties | | | | - | | | | - |
| 31.0 | Reinsurance | | | | - | | | | - |
| 31.0 | Other - Property | | | | - | | | | - |
| 31.0 | Other - Casualty | | | | - | | | | - |
| 31.0 | Other | | | | - | | | | - |
| | Total | 139,845,000 | - | 39,764,000 | 100,081,000 | 100,670,000 | - | 39,764,000 | 60,906,000 |
| | | ========== | ========== | ========== | ========== | ========== | ========== | ========== | ========== |

**Nationwide** **Company Name: American Capital Assurance Corp.**

**Year 3 2008** **(Property & Casualty Insurance Company)**

**Planned Premium Volume By Line of Business**

**Amounts in Whole Dollars**

| Annual Statement Line | Description | Direct Premiums Written | Assumed Premiums Written | Ceded Premiums Written | Net Premiums Written | Direct Premiums Earned | Assumed Premiums Earned | Ceded Premiums Earned | Net Premiums Earned |
|---|---|---|---|---|---|---|---|---|---|
| 1.0 | Fire | 3,603,440 | | 1,143,290 | 2,460,150 | 3,279,680 | | 1,143,290 | 2,136,390 |
| 2.1 | Allied Lines | 9,008,600 | | 2,858,226 | 6,150,374 | 8,199,200 | | 2,858,226 | 5,340,974 |
| 2.2 | Multiple Peril Crop | | | | - | | | | - |
| 2.3 | Federal Flood | | | | - | | | | - |
| 3.0 | Farmowners Multiple Peril | | | | - | | | | - |
| 4.0 | Homeowners Multiple Peril | 20,719,780 | | 6,573,920 | 14,145,860 | 18,858,160 | | 6,573,920 | 12,284,240 |
| 5.1 | Commercial Multiple Peril (Non-Liability Portion) | 144,137,600 | | 57,191,741 | 86,945,859 | 131,187,200 | | 57,191,741 | 73,995,459 |
| 5.2 | Commercial Multiple Peril (Liability Portion) | | | | - | | | | - |
| 6.0 | Mortgage Guaranty | | | | - | | | | - |
| 8.0 | Ocean Marine | | | | - | | | | - |
| 9.0 | Inland Marine | 900,860 | | 285,823 | 615,037 | 819,920 | | 285,823 | 534,097 |
| 10.0 | Financial Guaranty | | | | - | | | | - |
| 11.1 | Medical Malpractice - Occurrence | | | | - | | | | - |
| 11.2 | Medical Malpractice - Claims Made | | | | - | | | | - |
| 12.0 | Earthquake | | | | - | | | | - |
| 13.0 | Group A&H | | | | - | | | | - |
| 14.0 | Credit A&H (Group & Individual) | | | | - | | | | - |
| 15.1 | Collectively Renewable A&H | | | | - | | | | - |
| 15.2 | Non-Cancellable A&H | | | | - | | | | - |
| 15.3 | Guaranteed Renewable A&H | | | | - | | | | - |
| 15.4 | Non-Renew-Stated Reasons Only A&H | | | | - | | | | - |
| 15.5 | Other Accident Only | | | | - | | | | - |
| 15.6 | All Other A&H | | | | - | | | | - |
| 15.7 | Federal Employees Health Benefits Program | | | | - | | | | - |
| 16.0 | Workers' Compensation | | | | - | | | | - |
| 17.1 | Other Liability - Occurrence | 1,801,720 | | | 1,801,720 | 1,639,840 | | | 1,639,840 |
| 17.2 | Other Liability - Claims Made | | | | - | | | | - |
| 18.1 | Products Liability - Occurrence | | | | - | | | | - |
| 18.2 | Products Liability - Claims Made | | | | - | | | | - |
| 19.1 | Private Passenger Auto No-Fault (P P) | | | | - | | | | - |
| 19.2 | Other Private Passenger Auto Liability | | | | - | | | | - |
| 19.3 | Commercial Auto No-Fault (P P) | | | | - | | | | - |
| 19.4 | Other Commercial Auto Liability | | | | - | | | | - |
| 21.1 | Private Passenger Auto Phys Damage | | | | - | | | | - |
| 21.2 | Commercial Auto Physical Damage | | | | - | | | | - |
| 22.0 | Aircraft (All Perils) | | | | - | | | | - |
| 23.0 | Fidelity | | | | - | | | | - |
| 24.0 | Surety | | | | - | | | | - |
| 26.0 | Burglary and Theft | | | | - | | | | - |
| 27.0 | Boiler and Machinery | | | | - | | | | - |
| 28.0 | Credit | | | | - | | | | - |
| 28.0 | Credit Disability | | | | - | | | | - |
| 31.0 | Auto Warranties | | | | - | | | | - |
| 31.0 | Prepaid Legal | | | | - | | | | - |
| 31.0 | Bail Bonds | | | | - | | | | - |
| 31.0 | Glass | | | | - | | | | - |
| 31.0 | Title | | | | - | | | | - |
| 31.0 | Livestock | | | | - | | | | - |
| 31.0 | Industrial Extended Coverage | | | | - | | | | - |
| 31.0 | Mobile Home Multiple Peril | | | | - | | | | - |
| 31.0 | Mobile Home Physical Damage | | | | - | | | | - |
| 31.0 | Home Warranties | | | | - | | | | - |
| 31.0 | Service Warranties | | | | - | | | | - |
| 31.0 | Reinsurance | | | | - | | | | - |
| 31.0 | Other - Property | | | | - | | | | - |
| 31.0 | Other - Casualty | | | | - | | | | - |
| 31.0 | Other | | | | - | | | | - |
| | Total | 180,172,000 | - | 68,053,000 | 112,119,000 | 163,984,000 | - | 68,053,000 | 95,931,000 |

**Nationwide**

**Year 1 2006**

**Company Name:** **American Capital Assurance Corp.**

**(Property & Casualty Insurance Company)**

**Incurred Loss Summary By Line of Business**

**Amounts in Whole Dollars**

| Annual Statement Line | Description | Direct Losses Incurred* | Assumed Losses Incurred* | Ceded Losses Incurred* | Net Losses Incurred* |
|---|---|---|---|---|---|
| --------- | ---------------------------------- | --------- | --------- | --------- | --------- |
| 1 0 | Fire | 122,223 | | | 122,223 |
| 2 0 | Allied Lines | 305,558 | | | 305,558 |
| 2 2 | Multiple Peril Crop | | | | - |
| 2 3 | Federal Flood | | | | - |
| 3 0 | Farmowners Multiple Peril | | | | - |
| 4 0 | Homeowners Multiple Peril | 702,763 | | | 702,763 |
| 5.1 | Commercial Multiple Peril (Non-Liability Portion) | 2,677,234 | | | 2,677,234 |
| 5 2 | Commercial Multiple Peril (Liability Portion) | | | | - |
| 6 0 | Mortgage Guaranty | | | | - |
| 8 0 | Ocean Marine | | | | - |
| 9 0 | Inland Marine | 30,536 | | | 30,536 |
| 10.0 | Financial Guaranty | | | | - |
| 11.1 | Medical Malpractice - Occurrence | | | | - |
| 11.2 | Medical Malpractice - Claims Made | | | | - |
| 12.0 | Earthquake | | | | - |
| 13.0 | Group A&H | | | | - |
| 14.0 | Credit A&H (Group & Individual) | | | | - |
| 15.1 | Collectively Renewable A&H | | | | - |
| 15.2 | Non-Cancellable A&H | | | | - |
| 15.3 | Guaranteed Renewable A&H | | | | - |
| 15.4 | Non-Renew - Stated Reasons Only A&H | | | | - |
| 15.5 | Other Accident Only | | | | - |
| 15.6 | All Other A&H | | | | - |
| 15.7 | Federal Employees Health Benefits Program | | | | - |
| 16.0 | Workers' Compensation | | | | - |
| 17.1 | Other Liability - Occurrence | 91,648 | | | 91,648 |
| 17.2 | Other Liability - Claims Made | | | | - |
| 18.1 | Products Liability - Occurrence | | | | - |
| 18.2 | Products Liability - Claims Made | | | | - |
| 19.1 | Private Passenger Auto No-Fault (PIP) | | | | - |
| 19.2 | Other Private Passenger Auto Liability | | | | - |
| 19.3 | Commercial Auto No-Fault (PIP) | | | | - |
| 19.4 | Other Commercial Auto Liability | | | | - |
| 21.1 | Private Passenger Auto Phys Damage | | | | - |
| 21.2 | Commercial Auto Physical Damage | | | | - |
| 22.0 | Aircraft (All Perils) | | | | - |
| 23.0 | Fidelity | | | | - |
| 24.0 | Surety | | | | - |
| 26.0 | Burglary and Theft | | | | - |
| 27.0 | Boiler and Machinery | | | | - |
| 28.0 | Credit | | | | - |
| 28.0 | Credit Disability | | | | - |
| 31.0 | Auto Warranties | | | | - |
| 31.0 | Prepaid Legal | | | | - |
| 31.0 | Bail Bonds | | | | - |
| 31.0 | Glass | | | | - |
| 31.0 | Title | | | | - |
| 31.0 | Livestock | | | | - |
| 31.0 | Industrial Extended Coverage | | | | - |
| 31.0 | Mobile Home Multiple Peril | | | | - |
| 31.0 | Mobile Home Physical Damage | | | | - |
| 31.0 | Home Warranties | | | | - |
| 31.0 | Service Warranties | | | | - |
| 31.0 | Reinsurance | | | | - |
| 31.0 | Other | | | | - |
| 31.0 | Other | | | | - |
| 31.0 | Other | | | | - |
| | Total | 3,929,961 | - | - | 3,929,961 |
| | Verification from P & L | ========= | ========= | ========= | 3,930,000 |

* Include loss adjustment expenses.

**Nationwide**
**Year 2 2007**

**Company Name: American Capital Assurance Corp.**
**(Property & Casualty Insurance Company)**
**Incurred Loss Summary By Line of Business**
**Amounts in Whole Dollars**

| Annual Statement Line | Description | Direct Losses Incurred* | Assumed Losses Incurred* | Ceded Losses Incurred* | Net Losses Incurred* |
|---|---|---|---|---|---|
| --------- | ---------------------------------- | --------- | --------- | --------- | --------- |
| 1 0 | Fire | 887,594 | | | 887,594 |
| 2 0 | Allied Lines | 2,218,985 | | | 2,218,985 |
| 2 2 | Multiple Peril Crop | | | | - |
| 2 3 | Federal Flood | | | | - |
| 3 0 | Farmowners Multiple Peril | | | | - |
| 4 0 | Homeowners Multiple Peril | 5,103,523 | | | 5,103,523 |
| 5.1 | Commercial Multiple Peril (Non-Liability Portion) | 19,442,304 | | | 19,442,304 |
| 5 2 | Commercial Multiple Peril (Liability Portion) | | | | - |
| 6 0 | Mortgage Guaranty | | | | - |
| 8 0 | Ocean Marine | | | | - |
| 9 0 | Inland Marine | 221,756 | | | 221,756 |
| 10.0 | Financial Guaranty | | | | - |
| 11.1 | Medical Malpractice - Occurrence | | | | - |
| 11.2 | Medical Malpractice - Claims Made | | | | - |
| 12.0 | Earthquake | | | | - |
| 13.0 | Group A&H | | | | - |
| 14.0 | Credit A&H (Group & Individual) | | | | - |
| 15.1 | Collectively Renewable A&H | | | | - |
| 15.2 | Non-Cancellable A&H | | | | - |
| 15.3 | Guaranteed Renewable A&H | | | | - |
| 15.4 | Non-Renew - Stated Reasons Only A&H | | | | - |
| 15.5 | Other Accident Only | | | | - |
| 15.6 | All Other A&H | | | | - |
| 15.7 | Federal Employees Health Benefits Program | | | | - |
| 16.0 | Workers' Compensation | | | | - |
| 17.1 | Other Liability - Occurrence | 665,553 | | | 665,553 |
| 17.2 | Other Liability - Claims Made | | | | - |
| 18.1 | Products Liability - Occurrence | | | | - |
| 18.2 | Products Liability - Claims Made | | | | - |
| 19.1 | Private Passenger Auto No-Fault (PIP) | | | | - |
| 19.2 | Other Private Passenger Auto Liability | | | | - |
| 19.3 | Commercial Auto No-Fault (PIP) | | | | - |
| 19.4 | Other Commercial Auto Liability | | | | - |
| 21.1 | Private Passenger Auto Phys Damage | | | | - |
| 21.2 | Commercial Auto Physical Damage | | | | - |
| 22.0 | Aircraft (All Perils) | | | | - |
| 23.0 | Fidelity | | | | - |
| 24.0 | Surety | | | | - |
| 26.0 | Burglary and Theft | | | | - |
| 27.0 | Boiler and Machinery | | | | - |
| 28.0 | Credit | | | | - |
| 28.0 | Credit Disability | | | | - |
| 31.0 | Auto Warranties | | | | - |
| 31.0 | Prepaid Legal | | | | - |
| 31.0 | Bail Bonds | | | | - |
| 31.0 | Glass | | | | - |
| 31.0 | Title | | | | - |
| 31.0 | Livestock | | | | - |
| 31.0 | Industrial Extended Coverage | | | | - |
| 31.0 | Mobile Home Multiple Peril | | | | - |
| 31.0 | Mobile Home Physical Damage | | | | - |
| 31.0 | Home Warranties | | | | - |
| 31.0 | Service Warranties | | | | - |
| 31.0 | Reinsurance | | | | - |
| 31.0 | Other | | | | - |
| 31.0 | Other | | | | - |
| 31.0 | Other | | | | - |
| | Total | 28,539,715 | - | - | 28,539,715 |
| | Verification from P & L | ========= | ========= | ========= | 28,540,000 |

* Include loss adjustment expenses.

**Nationwide**
**Year 3 2008**

**Company Name: American Capital Assurance Corp.**
**(Property & Casualty Insurance Company)**
**Incurred Loss Summary By Line of Business**
**Amounts in Whole Dollars**

| Annual Statement Line | Description | Direct Losses Incurred* | Assumed Losses Incurred* | Ceded Losses Incurred* | Net Losses Incurred* |
|---|---|---|---|---|---|
| --------- | ---------------------------------- | --------- | --------- | --------- | --------- |
| 1 0 | Fire | 1,445,839 | | | 1,445,839 |
| 2 0 | Allied Lines | 3,614,598 | | | 3,614,598 |
| 2 2 | Multiple Peril Crop | | | | - |
| 2 3 | Federal Flood | | | | - |
| 3 0 | Farmowners Multiple Peril | | | | - |
| 4 0 | Homeowners Multiple Peril | 8,313,342 | | | 8,313,342 |
| 5.1 | Commercial Multiple Peril (Non-Liability Portion) | 31,670,383 | | | 31,670,383 |
| 5 2 | Commercial Multiple Peril (Liability Portion) | | | | - |
| 6 0 | Mortgage Guaranty | | | | - |
| 8 0 | Ocean Marine | | | | - |
| 9 0 | Inland Marine | 361,227 | | | 361,227 |
| 10.0 | Financial Guaranty | | | | - |
| 11.1 | Medical Malpractice - Occurrence | | | | - |
| 11.2 | Medical Malpractice - Claims Made | | | | - |
| 12.0 | Earthquake | | | | - |
| 13.0 | Group A&H | | | | - |
| 14.0 | Credit A&H (Group & Individual) | | | | - |
| 15.1 | Collectively Renewable A&H | | | | - |
| 15.2 | Non-Cancellable A&H | | | | - |
| 15.3 | Guaranteed Renewable A&H | | | | - |
| 15.4 | Non-Renew - Stated Reasons Only A&H | | | | - |
| 15.5 | Other Accident Only | | | | - |
| 15.6 | All Other A&H | | | | - |
| 15.7 | Federal Employees Health Benefits Program | | | | - |
| 16.0 | Workers' Compensation | | | | - |
| 17.1 | Other Liability - Occurrence | 1,084,147 | | | 1,084,147 |
| 17.2 | Other Liability - Claims Made | | | | - |
| 18.1 | Products Liability - Occurrence | | | | - |
| 18.2 | Products Liability - Claims Made | | | | - |
| 19.1 | Private Passenger Auto No-Fault (PIP) | | | | - |
| 19.2 | Other Private Passenger Auto Liability | | | | - |
| 19.3 | Commercial Auto No-Fault (PIP) | | | | - |
| 19.4 | Other Commercial Auto Liability | | | | - |
| 21.1 | Private Passenger Auto Phys Damage | | | | - |
| 21.2 | Commercial Auto Physical Damage | | | | - |
| 22.0 | Aircraft (All Perils) | | | | - |
| 23.0 | Fidelity | | | | - |
| 24.0 | Surety | | | | - |
| 26.0 | Burglary and Theft | | | | - |
| 27.0 | Boiler and Machinery | | | | - |
| 28.0 | Credit | | | | - |
| 28.0 | Credit Disability | | | | - |
| 31.0 | Auto Warranties | | | | - |
| 31.0 | Prepaid Legal | | | | - |
| 31.0 | Bail Bonds | | | | - |
| 31.0 | Glass | | | | - |
| 31.0 | Title | | | | - |
| 31.0 | Livestock | | | | - |
| 31.0 | Industrial Extended Coverage | | | | - |
| 31.0 | Mobile Home Multiple Peril | | | | - |
| 31.0 | Mobile Home Physical Damage | | | | - |
| 31.0 | Home Warranties | | | | - |
| 31.0 | Service Warranties | | | | - |
| 31.0 | Reinsurance | | | | - |
| 31.0 | Other | | | | - |
| 31.0 | Other | | | | - |
| 31.0 | Other | | | | - |
| | Total | 46,489,535 | - | - | 46,489,535 |
| | Verification from P & L | ========= | ========= | ========= | 46,489,500 |

* Include loss adjustment expenses.

**Nationwide**

**Company Name:** **American Capital Assurance Corp.**
**(Property & Casualty Insurance Company)**
**Net Premium and Loss Developments By Line of Business**
**Amounts in Whole Dollars**

| Annual Statement Line | Description | 2006 Premiums Earned | 2006 Losses Incurred* | 2006 Loss Ratio | 2007 Premiums Earned | 2007 Losses Incurred* | 2007 Loss Ratio | 2008 Premiums Earned | 2008 Losses Incurred* | 2008 Loss Ratio |
|---|---|---|---|---|---|---|---|---|---|---|
| --------- | ---------------------------------- | --------- | --------- | --------- | --------- | --------- | --------- | --------- | --------- | --------- |
| 1 0 | Fire | 197,470 | 122,223 | 62% | 1,345,365 | 887,594 | 66% | 2,136,390 | 1,445,839 | 68% |
| 2.1 | Allied Lines | 493,676 | 305,558 | 62% | 3,363,412 | 2,218,985 | 66% | 5,340,974 | 3,614,598 | 68% |
| 2 2 | Multiple Peril Crop | - | - | - | - | - | - | - | - | - |
| 2 3 | Federal Flood | - | - | - | - | - | - | - | - | - |
| 3 0 | Farmowners Multiple Peril | - | - | - | - | - | - | - | - | - |
| 4 0 | Homeowners Multiple Peril | 1,135,455 | 702,763 | 62% | 7,735,848 | 5,103,523 | 66% | 12,284,240 | 8,313,342 | 68% |
| 5.1 | Commercial Multiple Peril (Non-Liability Portion) | 7,099,421 | 2,677,234 | 38% | 47,118,334 | 19,442,304 | 41% | 73,995,459 | 31,670,383 | 43% |
| 5 2 | Commercial Mutiple Peril (Liability Portion) | - | - | - | - | - | - | - | - | - |
| 6 0 | Mortgage Guaranty | - | - | - | - | - | - | - | - | - |
| 8 0 | Ocean Marine | - | - | - | - | - | - | - | - | - |
| 9 0 | Inland Marine | 49,368 | 30,536 | 62% | 336,341 | 221,756 | 66% | 534,097 | 361,227 | 68% |
| 10 0 | Financial Guaranty | - | - | - | - | - | - | - | - | - |
| 11.1 | Medical Malpractice - Occurrence | - | - | - | - | - | - | - | - | - |
| 11 2 | Medical Malpractice - Claims Made | - | - | - | - | - | - | - | - | - |
| 12 0 | Earthquake | - | - | - | - | - | - | - | - | - |
| 13 0 | Group A&H | - | - | - | - | - | - | - | - | - |
| 14 0 | Credit A&H (Group & Individual) | - | - | - | - | - | - | - | - | - |
| 15.1 | Collectively Renewable A&H | - | - | - | - | - | - | - | - | - |
| 15 2 | Non-Cancellable A&H | - | - | - | - | - | - | - | - | - |
| 15 3 | Guaranteed Renewable A&H | - | - | - | - | - | - | - | - | - |
| 15.4 | Non-Renew-Stated Reasons Only A&H | - | - | - | - | - | - | - | - | - |
| 15 5 | Other Accident Only | - | - | - | - | - | - | - | - | - |
| 15 6 | All Other A&H | - | - | - | - | - | - | - | - | - |
| 15.7 | Federal Employees Health Benefits Program | - | - | - | - | - | - | - | - | - |
| 16 0 | Workers' Compensation | - | - | - | - | - | - | - | - | - |
| 17.1 | Other Liability - Occurrence | 138,610 | 91,648 | 66% | 1,006,700 | 665,553 | 66% | 1,639,840 | 1,084,147 | 66% |
| 17 2 | Other Liability - Claims Made | - | - | - | - | - | - | - | - | - |
| 18.1 | Products Liability - Occurrence | - | - | - | - | - | - | - | - | - |
| 18 2 | Products Liability - Claims Made | - | - | - | - | - | - | - | - | - |
| 19.1 | Private Passenger Auto No-Fault (PIP) | - | - | - | - | - | - | - | - | - |
| 19 2 | Other Private Passenger Auto Liability | - | - | - | - | - | - | - | - | - |
| 19 3 | Commercial Auto No-Fault (PIP) | - | - | - | - | - | - | - | - | - |
| 19.4 | Other Commercial Auto Liability | - | - | - | - | - | - | - | - | - |
| 21.1 | Private Passenger Auto Phys Damage | - | - | - | - | - | - | - | - | - |
| 21 2 | Commercial Auto Physical Damage | - | - | - | - | - | - | - | - | - |
| 22 0 | Aircraft (All Perils) | - | - | - | - | - | - | - | - | - |
| 23 0 | Fidelity | - | - | - | - | - | - | - | - | - |
| 24 0 | Surety | - | - | - | - | - | - | - | - | - |
| 26 0 | Burglary and Theft | - | - | - | - | - | - | - | - | - |
| 27 0 | Boiler and Machinery | - | - | - | - | - | - | - | - | - |
| 28 0 | Credit | - | - | - | - | - | - | - | - | - |
| 28 0 | Credit Disability | - | - | - | - | - | - | - | - | - |
| 31 0 | Auto Warranties | - | - | - | - | - | - | - | - | - |
| 31 0 | Prepaid Legal | - | - | - | - | - | - | - | - | - |
| 31 0 | Bail Bonds | - | - | - | - | - | - | - | - | - |
| 31 0 | Glass | - | - | - | - | - | - | - | - | - |
| 31 0 | Title | - | - | - | - | - | - | - | - | - |
| 31 0 | Livestock | - | - | - | - | - | - | - | - | - |
| 31 0 | Industrial Extended Coverage | - | - | - | - | - | - | - | - | - |
| 31 0 | Mobile Home Multiple Peril | - | - | - | - | - | - | - | - | - |
| 31 0 | Mobile Home Physical Damage | - | - | - | - | - | - | - | - | - |
| 31 0 | Home Warranties | - | - | - | - | - | - | - | - | - |
| 31 0 | Service Warranties | - | - | - | - | - | - | - | - | - |
| 31 0 | Reinsurance | - | - | - | - | - | - | - | - | - |
| 31 0 | Other | - | - | - | - | - | - | - | - | - |
| 31 0 | Other | - | - | - | - | - | - | - | - | - |
| 31 0 | Other | - | - | - | - | - | - | - | - | - |
| | Total | 9,114,000 | 3,929,961 | 43% | 60,906,000 | 28,539,715 | 47% | 95,931,000 | 46,489,535 | 48% |
| | Verification from P & L - should equal line above. | 9,114,000 | 3,930,000 | | 60,906,000 | 28,540,000 | | 95,931,000 | 46,489,500 | |
| | | ============= | ============= | ======== | ============ | ============ | ======= | ============ | ============ | ======= |

* Include loss adjustment expenses.

# UCAA Proforma Financial Statements
# Assumptions

**List all of the relevant assumptions used to create the proformas.**
**Note, assumptions enclosed within the Plan of Operation need not be disclosed again here.**

$25 million surplus note from the State of Florida at 5.186% interest rate.
Cat reinsurance costs approximately 40% of premium except first year because of limited exposure during hurricane season
Cat reinsurance protects solvency beyond the 100 year storm with one reinstatement.
No large cat events.  A cat event would have an adverse impact on projected profitability.
100% of policies are "With Wind"
80/20 Commercial/Personal Lines split
82% renewal rate
7% of policies flat cancelled for non-pay or underwriting reasons
27% direct loss ratio
LAE/Incurred ratio of approximately 15%
37.63% Income Tax Rate (Federal + State)
Premium tax 1.8% of written premiums
5.5% tax-equivalent investment return
8% of Direct Written + 5% of Incurred Losses to MGA as commission
Average agent commission of 10% of Base written

# Part IV: Accompanying Documentation

## Board of Directors' Resolutions

**American Capital Assurance, Corp**

Action of the Board of Directors
By Unanimous Written Consent

June 27, 2006

The undersigned, constituting all the Directors of American Capital Assurance, Corp, a Florida corporation ("ACAC" or "The Company"), hereby take the following actions by unanimous written consent without a meeting:

**WHEREAS,** the State of Florida, under the supervision of the State Board of Administration, has enacted the Insurance Capital Build-Up Incentive Program through which State funds will be loaned to selected insurance carriers in the form of surplus notes; and

**WHEREAS**, the Board of Directors of ACAC has reviewed the terms of the Surplus Note included with this consent,

In consideration of these premises, it is hereby

**RESOLVED**, that American Capital Assurance, Corp, with the exception of the 60 day deadline of 2:1 net written premiums to surplus ratio (the "writing ratio requirement"), agrees to and intends to meet the requirements of the surplus note, including the requirement that capital be unencumbered; and

**ADDITIONALLY RESOLVED**, that the Company intends to meet the writing ratio requirement as soon as feasible and to maintain such a writing ratio for as long as a surplus note from the State of Florida is outstanding, if such surplus note is awarded.

John F. Auer    Marc Fasteau    Greg Hendrick

Kevin R. Milkey    Robert Nason

**American Capital Assurance, Corp**

Action of the Board of Directors
By Unanimous Written Consent

June 27, 2006

The undersigned, constituting all the Directors of American Capital Assurance, Corp, a Florida corporation ("ACAC" or "The Company"), hereby take the following actions by unanimous written consent without a meeting:

**WHEREAS**, the State of Florida, under the supervision of the State Board of Administration, has enacted the Insurance Capital Build-Up Incentive Program through which State funds will be loaned to selected insurance carriers in the form of surplus notes; and

**WHEREAS**, the Board of Directors of ACAC has reviewed the terms of the Surplus Note included with this consent,

In consideration of these premises, it is hereby

**RESOLVED**, that American Capital Assurance, Corp, with the exception of the 60 day deadline of 2:1 net written premiums to surplus ratio (the "writing ratio requirement"), agrees to and intends to meet the requirements of the surplus note, including the requirement that capital be unencumbered; and

**ADDITIONALLY RESOLVED**, that the Company intends to meet the writing ratio requirement as soon as feasible and to maintain such a writing ratio for as long as a surplus note from the State of Florida is outstanding, if such surplus note is awarded.

| | | |
|---|---|---|
| John F. Auer | Marc Fasteau | Greg Hendrick |
| Kevin R. Milkey | Robert Nason | |

**American Capital Assurance, Corp**

Action of the Board of Directors
By Unanimous Written Consent

June 27, 2006

The undersigned, constituting all the Directors of American Capital Assurance, Corp, a Florida corporation ("ACAC" or "The Company"), hereby take the following actions by unanimous written consent without a meeting:

**WHEREAS,** the State of Florida, under the supervision of the State Board of Administration, has enacted the Insurance Capital Build-Up Incentive Program through which State funds will be loaned to selected insurance carriers in the form of surplus notes; and

**WHEREAS**, the Board of Directors of ACAC has reviewed the terms of the Surplus Note included with this consent,

In consideration of these premises, it is hereby

**RESOLVED**, that American Capital Assurance, Corp, with the exception of the 60 day deadline of 2:1 net written premiums to surplus ratio (the "writing ratio requirement"), agrees to and intends to meet the requirements of the surplus note, including the requirement that capital be unencumbered; and

**ADDITIONALLY RESOLVED**, that the Company intends to meet the writing ratio requirement as soon as feasible and to maintain such a writing ratio for as long as a surplus note from the State of Florida is outstanding, if such surplus note is awarded.

| | | |
|---|---|---|
| __________ John F. Auer | __________ Marc Fasteau | __________ Greg Hendrick |
| __________ Kevin R. Milkey | __________ Robert Nason | |

**American Capital Assurance, Corp**

Action of the Board of Directors
By Unanimous Written Consent

June 27, 2006

The undersigned, constituting all the Directors of American Capital Assurance, Corp, a Florida corporation ("ACAC" or "The Company"), hereby take the following actions by unanimous written consent without a meeting:

**WHEREAS,** the State of Florida, under the supervision of the State Board of Administration, has enacted the Insurance Capital Build-Up Incentive Program through which State funds will be loaned to selected insurance carriers in the form of surplus notes; and

**WHEREAS**, the Board of Directors of ACAC has reviewed the terms of the Surplus Note included with this consent,

In consideration of these premises, it is hereby

**RESOLVED**, that American Capital Assurance, Corp, with the exception of the 60 day deadline of 2:1 net written premiums to surplus ratio (the "writing ratio requirement"), agrees to and intends to meet the requirements of the surplus note, including the requirement that capital be unencumbered; and

**ADDITIONALLY RESOLVED**, that the Company intends to meet the writing ratio requirement as soon as feasible and to maintain such a writing ratio for as long as a surplus note from the State of Florida is outstanding, if such surplus note is awarded.

John F. Auer

Marc Fasteau

Greg Hendrick

Kevin R. Milkey

Robert Nason

# Part IV: Accompanying Documentation

## Attestation

**STATE BOARD OF ADMINISTRATION OF FLORIDA**
**INSURANCE CAPITAL BUILD-UP INCENTIVE PROGRAM ("PROGRAM")**
**APPLICATION**

State Board of Administration of Florida
c/o The Florida Hurricane Catastrophe Fund
P.O. Box 13300
Tallahassee, FL 32317-3300

## Part IX: Attestation

To be eligible and to be considered for participation in the Program, Applicants must meet each of the statutory requirements listed below. To certify that the Applicant meets each requirement, check each of the boxes which follow the list of requirements.

1. The Surplus Note amount sought by the Applicant, or if the Applicant is part of a group, the amount sought by all group members when added together, does not exceed $50 million.
2. An Applicant filing an application prior to July 1, 2006, must be able, prior to the execution of the Surplus Note, to show that the New Capital contributed equals the amount of the approved Surplus Note. The New Capital contributed must be in the form of Cash* or Cash Equivalents* as defined in Rule 19ER06-3, F.A.C.
3. An Applicant filing applications after July 1, 2006, must be able, prior to the execution of the Surplus Note, to show that the New Capital contributed is twice the amount of the approved Surplus Note. The New Capital must be in the form of Cash or Cash Equivalents.
4. Applicant's Surplus, New Capital contributions, and the Surplus Note must total at least $50 million.

Applicant must be willing to commit to meeting a Minimum Writing Ratio of Net Written Premium to Surplus of 2:1 for the 20-year term of the Surplus Note.

☐ Affirms Applicant meets minimum qualifications.

☑ Affirms Surplus Note, Form SBA 15-2, has been reviewed and terms and conditions contained therein can be met by Applicant.

☑ Acknowledges and accepts all terms and conditions of Surplus Note.

We are each, respectively, executive officers of the Insurer making this application, acting within our authority in making the declarations listed in this application.

| | |
|---|---|
| **BY:** [signature] | **BY:** [signature] |
| **TYPED NAME:** John Franklin Auer | **TYPED NAME:** Kevin Robert Milkey |
| **TITLE:** President and CEO | **TITLE:** Executive Vice President |
| **DATE:** 6-27-06 | **DATE:** 6/27/06 |