

REPORT ON EXAMINATION

OF

FFVA MUTUAL INSURANCE COMPANY

MAITLAND, FLORIDA

AS OF

DECEMBER 31, 2009

BY THE

OFFICE OF INSURANCE REGULATION

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TALLAHASSEE, FLORIDA

July 15, 2010

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Honorable Alfred W. Gross
Chairman, NAIC Financial Condition (E) Committee
Commissioner, Virginia Bureau of Insurance
State Corporation Commission
PO Box 1157
Richmond, Virginia

Dear Sirs:

Pursuant to your instructions, in compliance with Sections 624.316 and 628.041 of the Florida Statutes, and Rule 69O-138.005 of the Florida Administrative Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2009, of the financial condition and corporate affairs of:

**FFVA MUTUAL INSURANCE COMPANY
800 TRAFALGAR COURT, SUITE 200
MAITLAND, FLORIDA 32751**

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

SCOPE OF EXAMINATION

This examination covered the period from January 01, 2005, through December 31, 2009. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2004. The examination commenced with planning at the Office on April 26, 2010, to April 30, 2010. The fieldwork commenced on May 03, 2010, and concluded as of July 15, 2010.

This financial examination was an association zone statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

The Financial Condition Examiners Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the company were considered in accordance with the risk-focused examination process.

This report of examination is confined to significant adverse findings, a material change in the financial statements or other information of regulatory significance or requiring regulatory action.

The report comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

SUMMARY OF SIGNIFICANT FINDINGS

Current Exam Findings

There were no material financial findings or significant exceptions noted during the examination as of December 31, 2009.

Prior Exam Findings

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2004, along with the resulting action taken by the Company.

Real Estate occupied by the Company

The Company was in violation of Section 625.161(1), Florida Statutes, related to the valuation of the Real Estate it occupied, and a recommendation was made for the Company to report the value of the Real Estate at the lower of depreciated cost or fair market value in future annual and quarterly statements. **Resolution:** The Company sold fifty-percent of the occupied building in 2005 and a subsequent appraisal in 2006 placed the value at \$6,900,000. The Company's reported statement value of \$2,931,887 as of December 31, 2009 was reasonable based upon the ownership percentage.

SUBSEQUENT EVENTS

The Company established an Investment Committee and approved an Investment Policy effective January 31, 2010.

On January 11, 2010, the Company received an A.M. Best Financial Strength Rating of "A" and Issuer Credit Rating of "a".

HISTORY

General

The Company commenced business on August 1, 1958, as a self insurer's fund providing workers' compensation coverage for the agricultural community and association members in Florida with the name Florida Fruit and Vegetable Association Self Insurers Fund. On September 1, 1996, the Company was converted from a self insurer's fund to a domestic non-assessable mutual insurance company with a new name; FFVA Mutual Insurance Company. Concurrent with this conversion, on September 1, 1996, the Company began reporting to the Florida Office of Insurance Regulation.

In accordance with Section 624.401(1), Florida Statutes, the Company was authorized to transact Workers' Compensation insurance coverage in Florida, and the additional states of Georgia, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee and Alabama as of December 31, 2009.

Certificates of Authority were observed for all of the licensed jurisdictions. In compliance with Section 624.430 (1) Florida Statutes, the Company's Exhibit of Premiums Written from the 2009 Annual Statement reflected that business was written in all licensed jurisdictions.

The Articles of Incorporation were approved as of June 06, 1995 and one amendment was made as of June 20, 2005. The Bylaws were approved as of August 09, 2005.

Dividends to Policyholders

In accordance with Section 628.371, Florida Statutes, the Company declared and paid dividends to its policyholders in 2009 and 2008 in the amounts of \$7,433,335 and \$8,559,172 respectively.

Capital Stock and Capital Contributions

The Company is a non-assessable mutual insurance company; therefore, Capital Stock was not issued and control of the company is maintained by its policyholders.

Surplus Debentures

The Company issued a floating rate Surplus Note in the amount of twelve million dollars (\$12,000,000) on May 23, 2003 to INCapS Funding 1, Limited, with Wilmington Trust Company serving as the indentured trustee. The Company may, at its option, redeem the Surplus Note, in whole or in part, on any interest payment date on or after May, 2008.

The Surplus Note had subordination terms such that payments of principal, premium and interest were subordinate to the prior payment in full of all policy claims and senior indebtedness of the Company. The Office approved the issuance of the Surplus Note and must also approve any

payments of interest and principal. During 2009 and 2008, interest expense amounted to \$553,711 and \$881,252, respectively and was included in investment expenses. The Principal amount is to be paid in full on May 23, 2033, subject to approval by the Office.

CORPORATE RECORDS

The recorded minutes of the Board of Directors (Board), and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

Conflict of Interest

The Company adopted a policy statement requiring the annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook, as adopted by Rule 69O-138.001, Florida Administrative Code.

MANAGEMENT AND CONTROL

Management

The annual Policyholders Meeting notice and proxies for the election of Directors is held in May of each year. The meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. The Board of Directors is composed of nine members who serve for staggered three-year periods. Directors serving as of December 31, 2009, were:

Directors

Name and Location	Principal Occupation
Morgan H. Roe Baja, California	Missionary Mission to the World
Charles Thomas Ranson Vero Beach, Florida	Retired Graves Brothers Company
Peter Stuart Harlee, Jr. Palmetto, Florida	President Harlee Farms, Inc.
Leslie W. Dunson, III Winter Haven, Florida	President Dunson Harvesting, Inc.
Frank C. Johns, Jr. Hastings, Florida	Self Employed and Owner Tater Farms, LLC
Robert C. Barrett Orlando, Florida	Attorney and Partner Rissman, Barrett, Hurt, etc, P. A.
Glen R. Rogers Mount Dora, Florida	President Zellwin Farms Company
Michael J. Stuart Sanford, Florida	Chief Executive Officer Florida Fruit & Vegetable Association
Craig Menzl Orlando, Florida	CEO & President FFVA-AIM, Inc.

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

Senior Officers

Name	Title
Craig Menzl	CEO & President
Alan E. Hair	Secretary/Treasurer, CFO

Committees

The Company's Board appointed internal committees in accordance with Section 607.0825, Florida Statutes. The required Audit Committee was established pursuant to Section 624.424(8)(c), Florida Statutes. All of the Directors noted above were also members of the Audit Committee as of December 31, 2009.

Affiliated Companies

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the state of Florida on February 24, 2010 for the year ending December 31, 2009, as required by Section 628.801, Florida Statutes, and Rule 69O-143-.046, Florida Administrative Code.

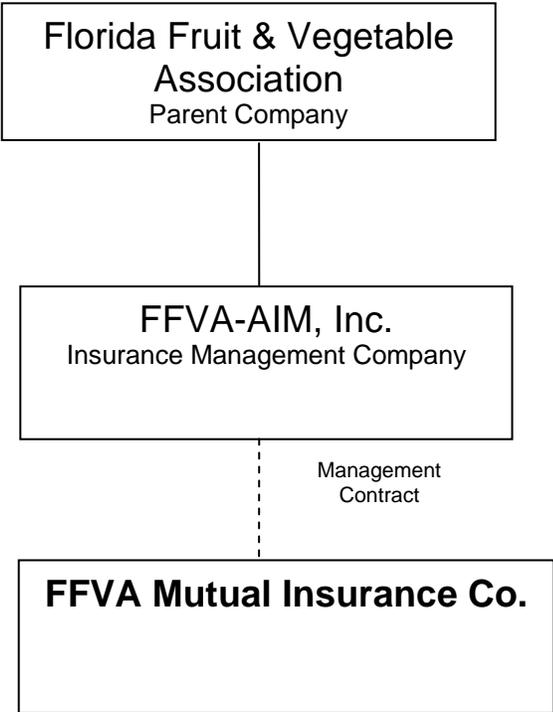
The Company was organized as a mutual insurance company and thus had no parent company or subsidiaries. However, it is affiliated with FFVA-AIM, Inc., through a management contract. FFVA-AIM, Inc. is a wholly owned subsidiary of the Florida Fruit and Vegetable Association (FFVA).

A simplified organizational chart as of December 31, 2009, reflecting the holding company system is shown below.

FFVA MUTUAL INSURANCE COMPANY

Organizational Chart

DECEMBER 31, 2009



The following agreement was in effect between the Company and its affiliates

Management Company Contract

The Company has a Management Company Contract with FFVA-AIM, Incorporated. FFVA-AIM is a wholly owned subsidiary of the Florida Fruit & Vegetable Association (FFVA). The contract was effective January 01, 1996 and required FFVA-AIM to be solely responsible for specified management and administrative functions; including all computer services, marketing, loss control, underwriting, billing, and claims handling activities. The Contract also allowed for accounting, finance and personnel functions to be handled by FFVA. The initial contract was for five-years (5) with continuous five-year (5) renewal terms unless terminated. Also, the Company was required to pay a twelve percent (12%) management fee based upon normal premiums earned.

An addendum was added to the contract on January 24, 2006, which changed the management fee calculation to thirteen percent (13%) of normal premiums earned up to \$60,000,000 and below, and eleven and a quarter percent (11.25%) of the amount over \$60,000,000 plus \$7,800,000. In 2009 and 2008, management fees totaled \$14,105,917 and \$13,936,252 respectively.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained financial institutions bond coverage in the amount of \$2,000,000 with a deductible of \$25,000, which reached the minimum recommended by the NAIC and Section 628.171, Florida Statutes.

The Company also maintained Directors and Officers (D&O) liability insurance with limits of \$1,000,000 and retention of \$25,000. In addition, the Company had a comprehensive commercial liability policy in place which provided general liability, building, owned autos, EDP equipment and umbrella coverage.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees; therefore, no pension, stock ownership or other insurance plans were in place as of December 31, 2009.

TERRITORY AND PLAN OF OPERATIONS

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

Florida	Mississippi	Alabama	Kentucky
Georgia	North Carolina	Tennessee	South Carolina

Treatment of Policyholders

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

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1) (i) 3a, Florida Statutes.

COMPANY GROWTH

The Company only insured workers' compensation coverage in authorized jurisdictions. The underwriting manager advised the underwriting philosophy is conservative, with the Company accepting only a small percentage of the business submitted by its agents. The Company's president advised that conservative growth will be pursued and limited to the southeast quadrant of the United States.

The Company's Policyholders Surplus has increased in four of the previous five years and it received an A.M. Best Financial Strength Rating of "A" and Issuer Credit Rating of "a".

Profitability of Company

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

	2009	2008	2007	2006	2005
Premiums Earned	101,669,247	104,330,417	97,302,580	92,301,263	86,688,441
Net Underwriting Gain/(Loss)	4,917,240	16,953,773	16,353,233	15,899,007	16,245,625
Net Income	6,950,960	4,036,789	14,475,014	14,429,017	11,695,581
Total Assets	278,433,098	260,903,019	254,555,431	233,951,805	201,672,837
Total Liabilities	162,054,600	154,612,484	141,804,850	133,635,015	117,487,191
Policyholders Surplus	116,378,498	106,290,535	112,750,581	100,316,790	84,185,646

LOSS EXPERIENCE

The Company's Losses and Loss Adjustment Expenses incurred to Premiums Earned ranged from 51 percent to 57 percent during the period from 2005 to 2008. In 2009, these incurred expenses were 69 percent, representing an increase of approximately 12 percent from the prior year. The Company advised that several factors had contributed to the increase, including decreased premium rates mandated by the State of Florida, more expedited claims closures than in previous years, higher medical costs and longer delays in claimants returning to work due to economic conditions.

The Company had no unusual Losses or Loss Adjustment Expenses in 2009.

REINSURANCE

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines. The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

The Company had an agreement with Guy Carpenter & Company to serve as its reinsurance intermediary. This broker negotiated all reinsurance contracts on behalf of the Company and ascertains compliance with Florida Statutes and NAIC reinsurance standards.

Assumed

The Company assumed an immaterial amount of reinsurance from the National Workers Compensation Reinsurance Pool (NCCI).

Ceded

The Company had a Workers' Compensation Excess of Loss reinsurance treaty with the Midwest Employers Casualty Company (Reinsurer). This reinsurance treaty was effective January 01, 2008, to December 31, 2009. Policies exceeding \$750,000 in losses up to a maximum loss of \$9,250,000 were ceded to the reinsurer. Premiums paid were calculated at a rate of 5.5% of gross net earned premium income for each contract year.

The Company had Catastrophic Loss reinsurance agreements in effect with four participating reinsurers. The reinsurance agreements were effective January 01, 2009, to December 31, 2009, and included Tokio Millennium Reinsurance Limited, Ace Property & Casualty Insurance Company, Renaissance Reinsurance Limited, and Swiss Reinsurance America Corporation. Policies exceeding \$10,000,000 in losses were ceded up to a maximum of \$20,000,000. Each reinsurer's share of the loss was stipulated in the individual Interest and Liabilities Agreement.

The Company had several other prior reinsurance agreements in place which are in run-off. Business transacted under these agreements was reported in Schedule F of the 2009 Annual Statement.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Maitland, Florida, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2005, 2006, 2007, 2008 and 2009, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

The Company's accounting records were maintained on a computerized system and several subsystems and software applications were utilized. The major systems and software applications were the Tropics Policy Administration System, Great Plains Dynamics for financial transactions and reporting, Booke Seminar software for preparation of the annual statement and SunGard Systems EPS for investment accounting and reporting.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company had investment managers, brokers and custodians as follows: Bank of New York Mellon; SunTrust Investment Services; and US Bank. The Custodial Agreements were in compliance Rule 69O-143.042, Florida Administrative Code.

Investment brokerage firms included Morgan Keegan, FTN Financial, Wells Fargo BMO Capital and SunTrust Capital Markets.

In 2001, the Board approved the use of equity securities in the Company's investment portfolio. Dana Investment Advisors, Inc., Aletheia Research and Management and Advent Capital Management had authority to make investments on behalf of the Company. Investment transactions placed by managers and brokers were in compliance with Section 625.302, Florida Statutes, related to both the eligibility and limitations requirements on investments.

Independent Auditor Agreement

The Company appointed Cohen Florida, an affiliate of Cohen and Company, as their independent auditor for 2009. This appointment was in compliance with Rule 69O-137.002(7)(c), Florida Administrative Code and is to be reviewed on an annual basis during the annual Board of Directors meeting.

Information Technology Report

Tracy Gates, CISA of Highland Clark, LLC, performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes, and with various state officials as required or permitted by law:

State	Description	Par Value	Market Value
FL	State Dept. of Trans	\$ 975,000	\$ 1,047,462
FL	State Board of Ed, SER C	1,200,000	1,232,688
FL	State Board of Ed, SER C	1,705,000	1,726,824
FL	Miami Dade County	1,100,000	1,089,770
TOTAL FLORIDA DEPOSITS		\$ 4,980,000	\$ 5,096,744
NC	Evergreen Inst Treas	\$ 10,000	\$ 10,000
NC	Pearland, Texas	90,000	91,059
NC	First Amer Treas Oblig	200,000	200,034
TOTAL OTHER DEPOSITS		\$ 300,000	\$ 301,093
TOTAL SPECIAL DEPOSITS		\$ 5,280,000	\$ 5,397,837

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2009, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

FFVA MUTUAL INSURANCE COMPANY
Assets

DECEMBER 31, 2009

	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 169,957,226		\$ 169,957,226
Stocks:			
Preferred	12,760,039		12,760,039
Common	32,739,415		32,739,415
Real Estate:			
Occupied by Company	2,931,887		2,931,887
Cash	9,978,039		9,978,039
Investment Income due and accrued	2,171,270		2,171,270
Premiums and considerations:			
Uncollected premiums	2,369,221		2,369,221
Deferred premiums	32,872,074		32,872,074
accrued retrospective premiums	4,319,505		4,319,505
Reinsurance Recoverable	673,013		673,013
Taxes:			
Federal income tax recoverable	3,195,961		3,195,961
Net deferred tax asset	4,072,904		4,072,904
Aggregate write-in for other than inveted assets	392,544		392,544
	<hr/>		
Total	\$ 278,433,098	\$ -	\$ 278,433,098
	<hr/>		

FFVA MUTUAL INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2009

	Per Company	Examination Adjustments	Per Examination
Losses	\$ 89,922,903		\$ 89,922,903
Loss adjustment expenses	16,460,139		16,460,139
Commissions payable	3,119,443		3,119,443
Other expenses	87,869		87,869
Taxes, licenses and fees	849,716		849,716
Unearned premiums	42,895,595		42,895,595
Advance premiums	2,527,010		2,527,010
Dividends for policyholders	3,897,527		3,897,527
Ceded reinsurance premiums payable	368,576		368,576
Amounts withheld for others	1,850,622		1,850,622
Provision for reinsurance	75,200		75,200
	<hr/>		
Total liabilities	\$ 162,054,600		\$ 162,054,600
Surplus notes	\$ 12,000,000		\$ 12,000,000
Unassigned funds (surplus)	104,378,498		104,378,498
	<hr/>		
Suplus as regards policyholders	\$ 116,378,498		\$ 116,378,498
	<hr/>		
Totals	\$ 278,433,098	\$ -	\$ 278,433,098
	<hr/> <hr/>		

FFVA MUTUAL INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2009

UNDERWRITING INCOME

Premiums earned	\$	101,669,247
DEDUCTIONS		
Losses incurred		57,537,336
Loss adjustment expenses incurred		12,366,426
Other underwriting expenses incurred		26,848,245
Total underwriting deductions	\$	<u>96,752,007</u>
 Net underwriting gain (loss)	 \$	 4,917,240

INVESTMENT INCOME

Net investment income earned	\$	7,635,747
Net realized capital gains		2,605,506
Total investment income (loss)	\$	<u>10,241,253</u>

OTHER INCOME

Net gain (loss) from agents' or premium balances charged off	\$	(472,334)
Aggregate write-ins for miscellaneous income		(1,619)
Total other income (loss)	\$	<u>(473,953)</u>
 Net income before dividends to policyholders	 \$	 14,684,540
Dividends to policyholders		7,433,335
Net income after dividends to policyholders	\$	<u>7,251,205</u>
Federal and foreign income taxes incurred		300,245
Net income	\$	<u><u>6,950,960</u></u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders December 31 prior year	\$	106,290,535
 Net income	 \$	 6,950,960
Change in unrealized capital gains or (losses)		4,092,081
Change in deferred income tax		85,683
Change in non-admitted assets		(1,267,561)
Change in provisionn for reinsurance		226,800
Change in Surplus as regards policyholders	\$	<u>10,087,963</u>
 Surplus as regards policyholders December 31 current year	 \$	 <u><u>116,378,498</u></u>

A comparative analysis of changes in surplus is shown below.

FFVA MUTUAL INSURANCE COMPANY
Comparative Analysis of Changes In Surplus

DECEMBER 31, 2009

Surplus as regards policyholders
December 31, 2009 per Annual Statement

\$ 116,378,498

PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS
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ASSETS:

No Adjustment

LIABILITIES:

No Adjustment

Net Change in Surplus:

\$ -

Surplus as regards policyholders
December 31, 2009 per Examination

\$ 116,378,498

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses

\$ 106,383,042

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2009, met the requirements of the insurance laws of Florida, were consistent with reserves computed in accordance with accepted actuarial standards and principals, and made a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its policies and agreements.

The Office engaged an independent examination actuary, Dennis R. Henry, FCAS, MAAA of the Actuarial Advantage Incorporated, to review the Statutory Loss and Loss Adjustment Expense Reserve carried in the Company's balance sheet as of December 31, 2009, and he concurred with the opining actuary's opinion.

Capital and Surplus

The surplus reported by the Company of \$116,378,498 exceeded the requirement of \$15,224,942 Section in compliance with 624.408, Florida Statutes.

SUMMARY OF RECOMMENDATIONS

The Company had no examination report recommendations.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **FFVA Mutual Insurance Company** as of December 31, 2009, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$116,378,498, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, James M. Pafford, Jr, and Vetrecia Smith of the Office; John Coleman, CFE and Brad Hazelwood participated in the examination of Highland Clark LLC. We also recognize Tracy Gates, CPA, CISA, of Highland Clark LLC, and Dennis R. Henry, FCAS, MAAA, of Actuarial Advantage Inc. participation in the examination.

Respectfully submitted,

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