

REPORT ON LIMITED SCOPE EXAMINATION
OF
SAWGRASS MUTUAL INSURANCE
COMPANY
DAVIE, FLORIDA

As of December 31, 2010

BY THE
FLORIDA OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

February 13, 2012

Kevin M. McCarty
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, Rule 69O-138.005, Florida Administrative Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted a limited scope examination of Corporate Governance, Reinsurance, Information Systems and Losses as of December 31, 2010, of:

**SAWGRASS MUTUAL INSURANCE COMPANY
351 SW 136 AVE., SUITE 205
DAVIE, FLORIDA 33325**

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

SCOPE OF EXAMINATION

This was a limited scope examination of Sawgrass Mutual Insurance Company (Company) to the extent and in the manner directed by the Florida Office of Insurance Regulation (Office). To the extent applicable, the limited scope examination was conducted in accordance with the guidance of the National Association of Insurance Commissioners (NAIC) Financial Condition Examiner's Handbook, the NAIC Accounting Practices and Procedures Manual and the Florida Administrative Code. The limited scope examination differed in many respects from that of a full-scope examination or an audit performed in accordance with generally accepted auditing standards.

The field work commenced on December 12, 2011, and concluded as of February 13, 2012. The limited scope examination included material events occurring subsequent to December 31, 2010, and noted during the course of the examination as they related to the foregoing areas within the limited scope of the examination.

This examination covered Corporate Governance, Reinsurance, Information Systems and Losses as of December 31, 2010, and was conducted by Examination Resources, LLC (ER).

ER conducted a review of Corporate Governance including interviews of senior management and members of the Board of Directors (Board). Considering that the Company is a small, start-up insurer, overall the corporate governance framework sets an appropriate tone from the top. The Board and management support active participation between the Board, its committees and Company management to address current and prospective risks.

ER conducted a review of the Company's reinsurance portfolio including a review of the Company's reinsurance agreements in place as of December 31, 2010. See "Reinsurance" section below for further details.

Ms. Denise Mainquist, CISA, QSA of Examination Resources, LLC, performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

Mr. Brent Sallay, FCAS, MAAA of Taylor-Walker & Associates, Inc., performed a review of the reserves amount of the Company as of December 31, 2010. Additionally, Examiners relied on procedures performed by the independent actuaries of BDO Seidman to verify the accuracy of claims reported.

HISTORY

General

The Company was organized in Florida on May 27, 2007, and commenced business in May of 2009, as Sawgrass Mutual Insurance Company.

The Company was party to Consent Order 103653-09-CO, filed April 7, 2009, with the Office regarding the application for the issuance of a Certificate of Authority. The Company was in compliance with Consent Order 103653-09-CO.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2010:

Fire
Homeowners Multi Peril
Inland Marine

Allied Lines
Commercial Multi Peril
Other Liability

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

CORPORATE RECORDS

The recorded minutes of the Board and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events in compliance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

MANAGEMENT AND CONTROL

Management

Directors were elected at the annual Board meeting in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2010, were:

Directors

Name and Location

Principal Occupation

James Esse
Hollywood, Florida

President/CEO
Sawgrass Mutual Insurance Company

James W. Newman, Jr.
Tallahassee, Florida

Executive VP/Chairman
Sawgrass Mutual Insurance Company

Dan O'Neal
Lighthouse Point, Florida

Guy Marvin III
Jacksonville, Florida

Randy Dumm
Tallahassee, Florida

Professor, Florida State University

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

Senior Officers

Name	Title
James Esse	President/CEO
James W. Newman Jr.	Executive Vice President
Michael Samach	CFO & Treasurer

The Company's Board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following were the principal internal Board committees and their members as of December 31, 2010:

Audit Committee

David Simon¹
John Traver
R.C. Chaffin

Investment Committee

James W. Newman¹
Michael Samach

Underwriting Committee

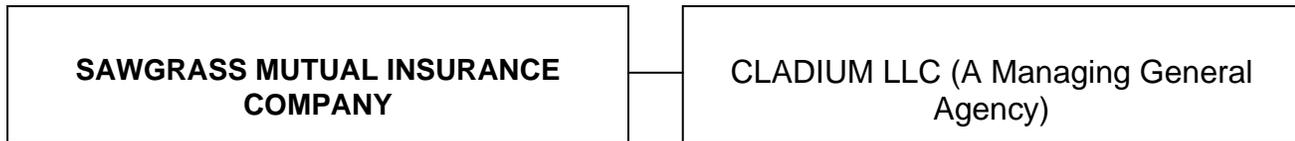
Jay Carbine¹
John Traver

¹ Chairman

An organizational chart as of December 31, 2010, reflecting the holding company system, is shown on the next page.

**SAWGRASS MUTUAL INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2010



REINSURANCE

Ceded

The Company purchased catastrophe reinsurance from private reinsurers and the Florida Hurricane Catastrophe Fund. Additionally, for the treaty period of June 1, 2010, to May 31, 2011, the Company entered into a quota share reinsurance contract with Greenlight Reinsurance Limited, an affiliate of its surplus note holder, Verdant Holding Company, LTD. Beginning on June 1, 2010, the Company proceeded to cede 75% of its direct written premiums as well as 75% of its catastrophic reinsurance premium. In addition, the Company purchased a reinstatement premium protection policy with respect to the Company's catastrophic excess of loss contracts as described above.

For the same period, the Company purchased second and third event coverage of \$1,000,000 excess of \$1,000,000. When used in conjunction with the Company's quota share agreement above, the net retention on a second and third event is \$250,000 per event.

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.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2010, 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."

SAWGRASS MUTUAL INSURANCE COMPANY
Assets

DECEMBER 31, 2010

	Per Company	Examination Adjustments	Per Examination
Bonds	\$4,894,087		\$4,894,087
Cash and Short-Term Investments	3,373,608		\$3,373,608
Investment income due and accrued	39,627		39,627
Agents' Balances:			
Uncollected premium	202,805		202,805
Deferred premium	688,915		688,915
Reinsurance recoverable	830,048		830,048
Net deferred tax asset	918,444		918,444
Aggregate write-in for other than invested assets	31,970		31,970
	<hr/>		
Totals	\$10,979,504	\$0	\$10,979,504
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SAWGRASS MUTUAL INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2010

	Per Company	Examination Adjustments	Per Examination
Losses	\$725,287		\$725,287
Loss adjustment expenses	139,726		139,726
Commissions payable, contingent commissions	132,635		132,635
Other expenses	551,982		551,982
Taxes, licenses and fees	233,693		233,693
Unearned premium	(1,910,255)		(1,910,255)
Advance premium	536,470		536,470
Ceded reinsurance premiums payable	3,951,823		3,951,823
Funds held by company under reinsurance treaties	28,006		28,006
Total Liabilities	\$4,389,367	\$0	\$4,389,367
Aggregate write-ins for other than special surplus	\$903,153		\$903,153
Surplus notes	11,000,000		11,000,000
Unassigned funds (surplus)	(5,312,988)		(5,312,988)
Surplus as regards policyholders	\$6,590,165	\$0	\$6,590,165
Total liabilities, surplus and other funds	<u>\$10,979,532</u>	<u>\$0</u>	<u>\$10,979,532</u>

SAWGRASS MUTUAL INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2010

Underwriting Income

Premiums earned		\$2,995,004
	Deductions:	
Losses incurred		1,628,403
Loss expenses incurred		318,590
Other underwriting expenses incurred		3,746,052
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$5,693,045
Net underwriting gain or (loss)		(\$2,698,041)

Investment Income

Net investment income earned		\$78,535
Net realized capital gains or (losses)		7,370
Net investment gain or (loss)		\$85,905

Other Income

Net gain or (loss) from agents' or premium balances charged off		(\$1,783)
Finance and service charges not included in premiums		1,907,848
Total other income		\$1,906,065
Net income before dividends to policyholders and before federal & foreign income taxes		(\$706,071)
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		(\$706,071)
Federal & foreign income taxes		0
Net Income		(\$706,071)

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$7,488,554
Net Income		(\$706,071)
Change in net deferred income tax		238,637
Change in non-admitted assets		(430,986)
Change in surplus as regards policyholders for the year		(\$898,420)
Surplus as regards policyholders, December 31 current year		\$6,590,134

A comparative analysis of changes in surplus is shown below.

**SAWGRASS MUTUAL INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2010

The following is a reconciliation of Surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders December 31, 2010, per Annual Statement	\$6,590,165
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No Adjustment			
LIABILITIES:			
No Adjustment			
Net Change in Surplus:			<u>0</u>
Surplus as Regards Policyholders December 31, 2010, Per Examination			<u><u>\$6,590,165</u></u>

SUMMARY OF FINDINGS

Current examination comments and corrective action

There were no exceptions or findings in the limited scope examination as of December 31, 2010.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Sawgrass Mutual Insurance Company** as of December 31, 2010, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$6,590,165, which exceeded the minimum of \$5,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned Gary Farmer, CFE, CPA, AES, Financial Examiner/Analyst Supervisor of the Office, Rachelle Gowins, CFE and Stanley Kaplan, CFE, CPA, Financial Examiners and Denise Mainquist, CISA, QSA of Examination Resources participated in this examination. We also recognize Brent Sallay, FCAS, MAAA, examination actuary of Taylor-Walker and Associates, Inc. for their participation in the examination.

Respectfully submitted,

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