



**EXAMINATION REPORT  
OF  
FFVA MUTUAL INSURANCE CO.**

**NAIC Company Code: 10385**

**Maitland, Florida  
as of  
December 31, 2018**

**BY THE  
FLORIDA  
OFFICE OF INSURANCE REGULATION**

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February 11, 2020

David Altmaier  
Commissioner  
Office of Insurance Regulation  
State of Florida  
Tallahassee, Florida 32399-0326

Dear Commissioner:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, Rule 69O-138.005, Florida Administrative Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2018, of the financial condition and corporate affairs of

**FFVA Mutual Insurance Co.**  
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 of January 1, 2015 through December 31, 2018, and commenced with planning at the Florida Office of Insurance Regulation (“the Office”) on July 29, 2019 to August 2, 2019. The fieldwork commenced on July 29, 2019, and concluded as of February 11, 2020. The Company’s last full scope exam by representatives of the Office covered the period of January 1, 2010 through December 31, 2014.

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

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This included assessing significant estimates made by management and evaluating management’s compliance with the NAIC Statements of Statutory Accounting Principles (“SSAP”).

This examination report includes information obtained from the examination of the records, accounts, files and documents of or relative to the Company and other information as permitted by Section 624.319, Florida Statutes. There may be other items identified during the examination that, due to their nature (for example, subjective conclusions or proprietary information), are not included within the examination report but separately communicated to other regulators and/or the Company.

## **SUMMARY OF SIGNIFICANT FINDINGS**

### **Current Examination Findings**

There were no material findings or exceptions noted during the examination as of December 31, 2018.

### **Previous Examination Findings**

The following is an update on other significant regulatory information disclosed in the previous examination:

#### **Corporate Governance Issue**

The Company was not in compliance with Section 628.261, Florida Statutes, which requires the Company to notify the Office in writing of any change of personnel among the directors or principal officers of the insurer within 45 days of such change.

#### **Resolution of Issue**

The Company complied with the previous examination recommendation and with Section 628.261, Florida Statutes, for all changes of personnel among the directors and principal officers during the examination period.

## **COMPANY HISTORY**

### **General**

The Company commenced business on August 21, 1956, 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 converted from a self-insurer's fund to a domestic non-assessable mutual insurance company with a new name, FFVA Mutual Insurance Co. Concurrent with this conversion, on September 1, 1996, the Company began reporting to what was then known as the Florida Department of Insurance.

## Dividends

During the examination period, the Company declared and paid the following dividends to its policyholders:

<u>Year</u>	<u>Amount</u>
2018	\$ 11,406,509
2017	9,518,007
2016	8,163,262
Total	<u>\$ 29,087,778</u>

## Capital Stock and Capital Contributions

The Company converted to a non-assessable mutual insurance company on September 1, 1996 and therefore has not issued any capital stock.

## Surplus Notes

The Company issued a floating rate Surplus Note (“Note”) of \$12 million on May 22, 2003 to INCapS Funding I, Ltd, with Wilmington Trust Company serving as the indentured trustee. The Note gave the Company the right to redeem it, in whole or in part, on any interest payment date on or after May 2008. Payments of principal and interest on the Note require prior approval from the Office, and are subordinate to the settlement of all policyholder claims and senior indebtedness. The Note had a final maturity date of May 23, 2033. Interest paid from inception until December 31, 2018 totaled slightly more than \$10.4 million. The Office approved principal payments of \$3 million in 2018 and \$6 million in 2017. The balance of the surplus note was \$3 million at December 31, 2018.

**Subsequent Event:** On November 25, 2019, the Company paid the remaining \$3 million balance on the Note.

## Acquisitions, Mergers, Disposals, Dissolutions

The Company capitalized and incorporated FFVA Select Insurance Company (“FFVA Select”), a 100% owned subsidiary during 2017. The Company received 15,000 shares of FFVA Select’s stock in exchange for \$1.5 million and additionally provided \$3.6 million of capital funding. The Company was not a party to any other acquisitions, mergers, disposals, or dissolutions during the period of this examination.

## MANAGEMENT AND CONTROL

### Corporate Governance

The Company's Board of Directors ("Board") serving as of December 31, 2018, are shown below:

<b>Directors</b>			
<b>Name</b>	<b>City</b>	<b>State</b>	<b>Principal Occupation, Company Name</b>
Leslie Woodrow Dunson III <sup>(1)</sup>	Winter Haven	Florida	President, Dunson Harvesting, Inc.
Robert Charles Barrett	Orlando	Florida	Attorney, Rissman, Barrett, Hurt, Donahur & McLain, PA
Peter Stuart Harlee, Jr.	Palmetto	Florida	President, Harlee Farms, Inc.
Craig Menzl <sup>(a)</sup>	Longwood	Florida	President & CEO, FFVA Mutual Insurance Company
Charles Thomas Ranson	Vero Beach	Florida	Retired
Morgan Henderson Roe	Winter Haven	Florida	Business Consultant
Glenn Roy Rogers	Mount Dora	Florida	President, Zellwin Farm Company
Michael Joseph Stuart	Longwood	Florida	President, Florida Fruit & Vegetable Association
James Walter Warmus	Windermere	Florida	Owner, Caribbean Resort Management Company, Inc.
<sup>(1)</sup> Chairman			
<sup>(a)</sup> Resigned as Director and was replaced by Alan Hair, effective January 10, 2020.			



Senior Officers elected and serving the Company as of December 31, 2018 are shown below:

<b>Senior Officers</b>			
<b>Name</b>	<b>City</b>	<b>State</b>	<b>Title</b>
Craig Menzl <sup>(a)</sup>	Longwood	Florida	President & CEO, FFVA Mutual Insurance Co.
Alan Ernest Hair <sup>(b)</sup>	Orlando	Florida	Secretary/Treasurer & CFO Financial Officer
<p><sup>(a)</sup> Resigned on January 10, 2020, and was replaced by Alan Hair as President on January 10, 2020.</p> <p><sup>(b)</sup> Mr. Hair was appointed as President on January 10, 2020, and was replaced by Bruce Clement as Treasurer and Halston Fernandez as Secretary on January 10, 2020.</p>			

The Company maintained an audit committee during the period of examination. The following were members of the audit committee as of December 31, 2018:

<b>Audit Committee</b>			
<b>Name</b>	<b>City</b>	<b>State</b>	<b>Principal Occupation, Company Name</b>
Leslie Woodrow Dunson III <sup>(1)</sup>	Winter Haven	Florida	President, Dunson Harvesting, Inc.
Robert Charles Barrett	Orlando	Florida	Attorney, Rissman, Barrett, Hurt, Donahur & McLain, PA
Peter Stuart Harlee, Jr.	Palmetto	Florida	President, Harlee Farms, Inc.
Craig Menzl <sup>(a)</sup>	Longwood	Florida	President & CEO, FFVA Mutual Insurance Co.
Charles Thomas Ranson	Vero Beach	Florida	Retired
Morgan Henderson Roe	Winter Haven	Florida	Business Consultant
Glenn Roy Rogers	Mount Dora	Florida	President, Zellwin Farm Company
Michael Joseph Stuart	Longwood	Florida	President, Florida Fruit & Vegetable Association
James Walter Warmus	Windermere	Florida	Owner, Caribbean Resort Management Company, Inc.
<sup>(1)</sup> Chair			
<sup>(a)</sup> Resigned and was replaced by Alan Hair, effective January 10, 2020.			

## **Holding Company System**

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

## **Management Contract Agreement**

The Company is party to a Management Agreement with FFVA-AIM, Inc. ("AIM"), effective January 1, 1996. As detailed in the agreement, AIM is solely responsible for managing and administering the affairs of the Company. This includes, but is not limited to, marketing, underwriting, billing, collection, claims administration, termination and reinstatement of members, safety and loss prevention, excess insurance, the issuance of evidence of coverage, accounting, regulatory reporting, investments, auditing, budgeting, and general administration. The Company is under common control with AIM as defined in Section 624.10, Florida Statutes, and AIM is classified as an affiliate of the Company.

Annual base management costs incurred under the contract are calculated in the following manner: If the standard earned premium is less than or equal to \$60 million, the cost incurred by the Company is 13% of that premium. If the standard earned premium is greater than \$60 million, the cost incurred is a combination of 13% of that premium plus a flat rate of \$7.8 million. Costs incurred under this agreement during 2018 were approximately \$15 million.

## **Medical Management and Cost Containment Agreement**

The Company is party to a Medical Management and Cost Containment Agreement ("MMCCA") with AIM under AIM's doing business as ("dba") name of Innovative Risk Consulting ("IRC") effective June 21, 2017. According to the MMCCA, IRC provides for the management of medical costs through the provision of precertification, utilization review, bill review, and other cost containment services as defined in the MMCCA. IRC provides managerial expertise and other specified administrative functions, including the negotiation of a preferred provider network contract. Expenses incurred for the Company under the MMCCA during 2018 amounted to approximately \$1 million.

## **Cost Sharing Agreement**

The Company entered into a Cost Sharing Agreement ("CSA") with its subsidiary, FFVA Select, effective August 25, 2017. Each company performs certain services on behalf of the other, and each Company shares office facilities, personnel, furniture, equipment, computer hardware and software, and other property and assets. The CSA allows for the allocation of expenses paid by one entity on behalf of the other. Fees receivable from FFVA Select under this agreement during 2018 amounted to approximately \$47 thousand.

## **ACCOUNTS AND RECORDS**

The Company maintained its principal operational offices in Maitland, Florida.

The Company and non-affiliates had the following agreements:

### **Custodial Agreement**

The Company maintained a custodial agreement with The Bank of New York, executed on July 9, 2004.

The Company maintained a custodial agreement with SunTrust Bank, executed on September 13, 2017. The Office approved this agreement on October 2, 2017.

### **Line of Credit**

The Company had an agreement with SunTrust Bank to provide it with an unsecured revolving line of credit ("LOC") during the years under examination. The maximum amount available was \$2 million.

Under the terms of the LOC, any draws would accrue interest at 250 basis points above the London InterBank Offered Rate ("LIBOR"). Interest was payable monthly on the first day of the month, and any principal was payable on demand. No draws were made during the period under examination.

### **Investment Advisory Agreement**

Effective February 1, 2008, the Company entered into an investment advisory agreement with Burgess Chambers and Associates, Inc. ("Burgess"), whereas Burgess provides investment advisory and consulting services.

### **Independent Auditor Agreement**

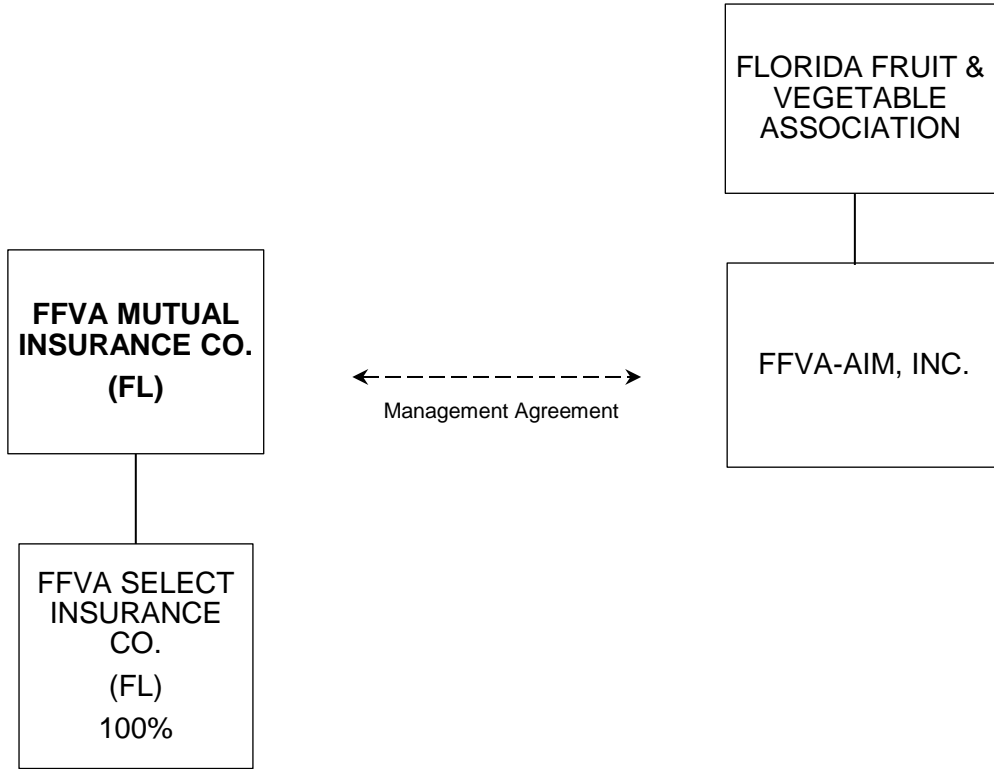
An independent CPA, Withum Smith & Brown, PA, audited the Company's statutory basis financial statements annually for the years 2015, 2016, 2017, and 2018.

### **Corporate Records Review**

The recorded minutes of the Shareholder, Board of Directors (Board), and Audit Committee were reviewed for the period under examination. The recorded minutes of the Board documented its meetings and approval of Company transactions and events.

A simplified organizational chart as of December 31, 2018, reflecting the holding company system, is shown on the following page. Schedule Y of the Company's 2018 annual statement provided a list of all related companies of the holding company group.

**FFVA Mutual Insurance Co.**  
**Organizational Chart**  
**December 31, 2018**



## TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance in the following states as of December 31, 2018:

Alabama	Florida	Georgia
Indiana	Kentucky	Mississippi
North Carolina	South Carolina	Tennessee
Virginia		

The Company was authorized to write workers' compensation as of December 31, 2018.

## REINSURANCE

The reinsurance agreements reviewed complied with NAIC standards concerning the standard insolvency clause, arbitration clause, intermediary clause, transfer of risk, reporting, and settlement information deadlines. The Company had an agreement with Willis Re to serve as its reinsurance broker throughout the examination period. Willis Re negotiated all in-force reinsurance treaties on behalf of the Company.

### Reinsurance Assumed

The Company was party to a 100% quota share agreement with its subsidiary FFVA Select. Under the terms of the agreement, the Company assumed 100% of premiums and all claims and claim adjustment expenses from FFVA Select.

### Reinsurance Ceded

The Company was party to two individual excess of loss ("XOL") reinsurance treaties.

### First Treaty

The Company was party to a workers' compensation XOL reinsurance treaty ("Treaty One") with Hannover Ruck Se, Maiden Reinsurance North America, Partner Reinsurance Company, Safety National Casualty Corporation, and Technology Insurance Company. Each reinsurer had different levels of participation.

Treaty One was effective January 1, 2018, through January 1, 2019. Under the terms of Treaty One, the Company retained \$1 million XOL and also kept an aggregate deductible of \$500,000. The reinsurers' liability for the first XOL layer started at \$4 million and was not to exceed \$24 million during the term of the agreement.

The Company's retention on the second XOL layer was \$5 million. But this was covered by the first layer. The reinsurers' liability for the second XOL started at \$5 million and was not to exceed more than \$10 million during the term of the agreement.

A summary of this agreement is shown below:

Layer	Company's Retention	Reinsurer's Limit of Liability	
		Ultimate Net Loss Each Occurrence	Ultimate Net Loss in Respect of all Loss
First Layer	\$1,000,000	\$4,000,000	\$24,000,000
Second	\$5,000,000	\$5,000,000	\$10,000,000

## **Second Treaty**

The Company was a party to a workers' compensation catastrophic XOL reinsurance treaty ("Treaty Two") with ACE Property & Casualty Insurance Company, Maiden Reinsurance North America, Partner Reinsurance Company, Safety National Casualty Corporation, Tokio Millennium Re, XL Reinsurance America, and several Lloyds of London syndicates. Each reinsurer had different levels of participation.

Treaty Two was effective January 1, 2018, to January 1, 2019, and the Company's retention per the agreement was \$10 million. The reinsurers' liability for the first catastrophe XOL layer for each accident was \$5 million and was not to exceed \$10 million for all accidents during the term of the agreement. The Company's retention on the second XOL layer was \$15 million (which was covered by the first layer) and the reinsurers' liability for the second XOL was \$15 million for each accident and was not to exceed more than \$30 million for all accidents during the term of the agreement.



A summary of this agreement is shown below:

Layer	Company's Retention	Reinsurer's Limit of Liability	
	Ultimate Net Loss each Occurrence	Ultimate Net Loss each Occurrence	Ultimate Net Loss in respect of all Loss
First Layer	\$10,000,000	\$5,000,000	\$10,000,000
Second Layer	\$15,000,000	\$15,000,000	\$30,000,000

### INFORMATION TECHNOLOGY REPORT

Joanna Latham, CISA, and Jenny Jeffers, CISA, of Jennan Enterprises, and Lindsey Pittman, CISA, AES, of Lewis & Ellis, Inc., evaluated the information technology and computer systems of the Company. The results of the evaluation are in the Information Technology Report provided to the Company.

### STATUTORY DEPOSITS

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

State	Description	Par Value	Market Value
FL	BONDS	5,810,000	5,445,737
TOTAL FLORIDA DEPOSITS		<u>\$ 5,810,000</u>	<u>\$ 5,445,737</u>
GA	USTNTS 2.25%	\$ 100,000	\$ 96,777
NC	USTNTS 2.25%	200,000	218,743
VA	USTBDS 2.85%	250,000	250,425
TOTAL OTHER DEPOSITS		<u>\$ 550,000</u>	<u>\$ 565,945</u>
TOTAL STATUTORY DEPOSITS		<u><u>\$ 6,360,000</u></u>	<u><u>\$ 6,011,682</u></u>

## **FINANCIAL STATEMENTS**

The following includes the Company's statutory Statement of Assets, Liabilities, Surplus and Other Funds; the statutory Statement of Income; the statutory Statement of Cash Flow; and the statutory Analysis of Changes in Surplus for the year ended December 31, 2018. The financial statements are based on the statutory financial statements filed by the Company with the Florida Office of Insurance Regulation and present the financial condition of the Company for the period ending December 31, 2018.

**FFVA Mutual Insurance Co.**  
**Assets**  
**December 31, 2018**

	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Bonds	\$199,463,286		\$199,463,286
Stocks:			
Common	16,117,524		16,117,524
Preferred	43,632,729		43,632,729
Cash and Short-Term Investments	12,940,825		12,940,825
Investment income due and accrued	1,412,450		1,412,450
Agents' Balances:			
Uncollected premium	3,649,637		3,649,637
Deferred premium	32,015,987		32,015,987
Accrued retrospective premiums	1,237,270		1,237,270
Reinsurance recoverable	636,360		636,360
Current federal and foreign income tax	266,286		266,286
Net deferred tax asset	4,373,763		4,373,763
Receivable from parents, subsidiaries and affiliates	47,393		47,393
Aggregate write-in for other than invested assets	<u>8,541,420</u>		<u>8,541,420</u>
Totals	<u><u>\$324,334,930</u></u>	<u><u>\$ -</u></u>	<u><u>\$324,334,930</u></u>

**FFVA Mutual Insurance Co.  
Liabilities, Surplus and Other Funds  
December 31, 2018**

	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Losses	\$ 99,806,295		\$ 99,806,295
Loss adjustment expenses	17,555,249		17,555,249
Commissions payable	5,138,723		5,138,723
Other expenses	753,537		753,537
Taxes, licenses and fees	670,231		670,231
Unearned premium	35,555,648		35,555,648
Advance premium	1,100,130		1,100,130
Dividends declared and unpaid:			
Policyholders	514,691		514,691
Ceded reinsurance premiums payable	(167,695)		(167,695)
Amounts withheld	1,128,475		1,128,475
Provision for reinsurance	131,400		131,400
Payable for securities	<u>313,010</u>	<u>                    </u>	<u>313,010</u>
Total Liabilities	<u>\$ 162,499,694</u>	<u>\$ -</u>	<u>\$ 162,499,694</u>
Surplus notes	\$ 3,000,000		\$ 3,000,000
Unassigned funds (surplus)	<u>158,835,236</u>	<u>                    </u>	<u>158,835,236</u>
Surplus as regards policyholders	<u>\$ 161,835,236</u>	<u>\$ -</u>	<u>\$ 161,835,236</u>
Total liabilities, surplus and other funds	<u><u>\$ 324,334,930</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 324,334,930</u></u>

**FFVA Mutual Insurance Co.  
Statement of Income  
December 31, 2018**

**Underwriting Income**

Premiums earned	\$ 103,694,616
<b>Deductions:</b>	
Losses incurred	\$ 51,555,116
Loss expenses incurred	12,894,191
Other underwriting expenses incurred	28,740,810
Aggregate write-ins for underwriting deductions	-
Total underwriting deductions	<u>\$ 93,190,117</u>
Net underwriting gain or (loss)	<u>\$ 10,504,499</u>

**Investment Income**

Net investment income earned	\$ 6,612,645
Net realized capital gains or (losses)	5,535,541
Net investment gain or (loss)	<u>\$ 12,148,186</u>

**Other Income**

Net gain or (loss) from agents' or premium balances charged off	\$ (80,636)
Finance and service charges not included in premiums	-
Aggregate write-ins for miscellaneous income	(357,496)
Total other income	<u>\$ (438,132)</u>
Net income before dividends to policyholders and before federal & foreign income taxes	\$ 22,214,553
Dividends to policyholders	11,406,509
Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$ 10,808,044
Federal & foreign income taxes	722,349
Net Income	<u><u>\$ 10,085,695</u></u>

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year	\$ 164,262,975
Net Income	\$ 10,085,695
Net unrealized capital gains or losses	(8,708,282)
Change in net deferred income tax	31,088
Change in non-admitted assets	(875,317)
Change in provision for reinsurance	39,077
Change in surplus notes	(3,000,000)
Surplus adjustments: Paid in	-
Aggregate write-ins for gains and losses in surplus	-
Examination Adjustment	-
Change in surplus as regards policyholders for the year	<u>\$ (2,427,739)</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$ 161,835,236</u></u>

**FFVA Mutual Insurance Co.  
Reconciliation of Capital and Surplus  
December 31, 2018**

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

**Capital & Surplus Change during Examination Period**

Surplus as regards policyholders December 31, 2014 per Examination		<u>\$ 138,003,759</u>
	<u>Increase</u>	<u>Decrease</u>
Net Income (loss)	\$ 46,356,939	
Change in net unrealized capital gain (loss)		\$ 6,076,931
Change in net deferred income tax		5,889,115
Change in non-admitted assets		1,778,652
Change in provision for reinsurance	219,236	
Change in surplus notes		9,000,000
Net Increase/(Decrease) in surplus as regards policyholders		<u>23,831,477</u>
Surplus as regards policyholders December 31, 2018 per Examination		<u><u>\$ 161,835,236</u></u>

## **COMMENTS ON FINANCIAL STATEMENT ITEMS**

### **Liabilities**

#### **Losses and Loss Adjustment Expenses**

Simon Wong, FCAS, FSA, MAA, of Milliman, appointed by the Board, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2018, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office consulting actuary, Katie Koch, FCAS, MAAA, of Lewis & Ellis, Inc., reviewed the loss and loss adjustment expense work papers provided by the Company and she was in concurrence with this opinion.

#### **Capital and Surplus**

The amount of capital and surplus reported by the Company of \$161,835,236, exceeded the minimum of \$15,414,872 required by Section 624.408, Florida Statutes.

## **SUBSEQUENT EVENTS**

The Company did not have any other material subsequent events other than items described above within the examination report.



## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **FFVA Mutual Insurance Co.** as of December 31, 2018, consistent with the insurance laws of the State of Florida.

In addition to the undersigned, the following also participated in the examination:

Marie Stuhlmuller	Examination Manager	Office
David Palmer, CFE	Participating Examiner	Lewis & Ellis, Inc.
Novalene Forbes, CFE	Participating Examiner	Lewis & Ellis, Inc.
Jessica Lynch, AFE	Participating Examiner	Lewis & Ellis, Inc.
Mario Ascic	Participating Examiner	Lewis & Ellis, Inc.
Jenny Jeffers, AES, CISA, CFE (Fraud)	IT Specialist	Jennan Enterprises, LLC
Joanna Latham, AES, CISA, CPA, CRISC, CFE	IT Specialist	Jennan Enterprises, LLC
Katie Koch, FCAS, MAAA	Actuary	Lewis & Ellis, Inc.

Respectfully submitted,



Ryne Davison, CFE  
Examiner-in-Charge  
Lewis & Ellis



Daniel W. Applegarth, CFE, CPA, PIR  
Chief Financial Examiner  
Property & Casualty Financial Oversight  
Florida Office of Insurance Regulation