



OFFICE OF INSURANCE REGULATION

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COMMISSIONER

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COMMISSION**

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CHIEF FINANCIAL OFFICER

ASHLEY MOODY
ATTORNEY GENERAL

NICOLE "NIKKI" FRIED
COMMISSIONER OF
AGRICULTURE

VIA ELECTRONIC MAIL: Charles.williamson@vault.insurance

June 30, 2020

Mr. Charles Williamson
Chief Executive Office
Vault Risk Management Services, LLC, as the Attorney-in-Fact
Vault Reciprocal Exchange ("the Company")
199 Water Street
New York, NY 10038

Dear Mr. Williamson:

Enclosed is a copy of the Report of Examination ("Report") of the Company for the period ending December 31, 2018. Pursuant to the provisions of Chapter 624.319(1), Florida Statutes, the Company is entitled to a hearing prior to the filing of the Report by the Office of Insurance Regulation ("Office"), provided such hearing is requested in writing within thirty (30) days of the receipt of this letter.

Should the Company take exception to the findings of this Report, a statement in writing pursuant to Rule 69N-121.066, Florida Administrative Code, outlining the specific objections and the mitigating circumstances must accompany the request for hearing referenced above. At the hearing, the Office will consider the written objections and mitigating circumstances only, it being understood and agreed that all other portions of the Report are accepted as being accurate reflections of the facts appearing in the books and records of the Company.

It is further understood and agreed that the Company will comply with the recommendations and will correct the areas of criticisms set forth in this Report. Should this present difficulties, the Company should immediately respond in writing and set forth a plan for timely compliance.

• • •

DANIEL W. APPLGARTH • CHIEF FINANCIAL EXAMINER • PROPERTY & CASUALTY FINANCIAL OVERSIGHT
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EXAMINATION TRANSMITTAL LETTER

Vault Reciprocal Exchange

June 30, 2020

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If the Office has not received written objections to this Report which conform to the requirements of Rule 69N-121.066, Florida Administrative Code, within thirty (30) days after receipt by the Company of this Report, the Office will consider the Company to have forfeited its right to a hearing and will file the Report as a public document.

Sincerely,



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

Enclosure

CC Virginia Christy, Director, Office, virginia.christy@flor.com
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**EXAMINATION REPORT
OF**

Vault Reciprocal Exchange

NAIC Company Code: 16186

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

**BY THE
FLORIDA
OFFICE OF INSURANCE REGULATION**

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June 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 690-138.005, 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

Vault Reciprocal Exchange

800 Brickell Avenue
Miami, Florida 33131

hereinafter referred to as "Vault" or "the Company." Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2017 through December 31, 2018. Fieldwork, which included planning meetings held at the Florida Office of Insurance Regulation (“the Office”) commenced on August 19, 2019, and concluded as of May 1, 2020. This is the Company’s first full scope exam by representatives of the Office.

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

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with 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, exceptions or corrective action to be taken by the Company resulting from this examination as of December 31, 2018.

Previous Examination Findings

As this was the first-year examination of the Company, there were no findings, exceptions or corrective action to be taken by the Company resulting from a prior examination.

COMPANY HISTORY

General

The Company was organized in Florida on June 9, 2017, and a Certificate of Authority was issued by the Office to Vault Risk Management Services, LLC (“VRM”) in the name of the Company to write Homeowners Multi-Peril, Inland Marine, Other Liability, Private Passenger Auto Liability, and PPA Physical Damage. The Company commenced business in Florida as a subscriber-owned reciprocal company on November 1, 2017. In 2018, the Office approved the addition of the following lines of business to Vault’s Certificate of Authority: Allied Lines, Earthquake, Boiler & Machinery, and Ocean Marine.

As of December 31, 2018, the Company wrote business in Florida and South Carolina.

The Company is organized under a reciprocal organizational structure. The Company is organized by individuals, known as subscribers, who participate in an interexchange of reciprocal agreements of indemnity. Each subscriber is both an insurer and an insured as each enter into a subscriber agreement where they separately underwrite losses and are issued a policy of insurance. The Company is governed by a Subscribers’ Advisory Committee (“SAC”) and managed by the Vault Risk Management Services, LLC (“VRM”) Board of Directors as the Attorney-in-Fact (“AIF”). The powers of the SAC and the AIF are derived from subscribers and are to be exercised for the benefit of subscribers.

Dividends

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

Capital Stock and Capital Contributions

The Company did not have any capital stock or receive any capital contributions during the period under examination.

Surplus Notes

The Company had the following Surplus Notes at December 31, 2018:

Date Issued	Par Value (Face Amount)	Note Holders
10/10/17	\$27,500,000	AWIC
10/10/17	\$5,092,000	HSCM Bermuda Fund, Ltd.*
10/10/17	\$7,904,000	HSCM F1 Master Fund, Ltd.*
10/10/17	\$9,504,000	Ensign Peak Advisors, Inc.*
Total	<u>\$50,000,000</u>	

*Senior Surplus Notes

On October 10, 2017, the Company issued a Subordinated Surplus Note in the amount of \$27,500,000 to Allied World Insurance Company (“AWIC”). The surplus note has a perpetual maturity, and the interest rate is a floating semi-annual rate. Payment of interest and principal may be made only with the prior approval of the Office and must be paid out of unassigned surplus. There was no interest accrued or paid on the Subordinated Notes in 2018 or 2017.

The Senior Surplus Notes listed in the table above for \$5,092,000, \$7,904,000 and \$9,504,000 (“Senior Notes”) were issued to HSCM Bermuda Fund Ltd., HSCM F1 Master Fund Ltd., and Ensign Peak Advisors, Inc. non-affiliated investors, in exchange for cash. Payment of interest and principal may be made only with the prior approval of the Office.

In addition to the Surplus Notes, the Company obtained a Commitment Letter from AWIC for the purchase of an additional \$50,000,000 in surplus notes when and if requested by the Company.

The interest rate on the Additional Surplus Notes will be a floating coupon. The Additional Surplus Notes will have a higher priority of payment than the Subordinated Surplus Notes, but lower than the Senior Surplus Notes issued to unaffiliated investors. As consideration for the commitment, the Company pays AWIC a commitment equal to a percentage of the undrawn amount each December 31. No additional notes have been accrued or paid on the Surplus notes in 2018 and 2017.

Acquisitions, Mergers, Disposals, Dissolutions

The Company had no acquisitions, mergers, disposals or dissolutions during the period of this examination.

MANAGEMENT AND CONTROL

Corporate Governance

The Company is governed by a Subscribers' Advisory Committee ("SAC") whose responsibilities include:

- (a) Supervise the finances of the insurer;
- (b) Supervise the insurer's operations to such extent to assure conformity with the subscribers' agreement and power of attorney;
- (c) Procure the audit of the accounts and records of the insurer and the attorney at the expense of the insurer; and
- (d) Have such additional powers and functions as may be conferred by the subscribers' agreement.

As provided in the Vault Subscribers' Agreement and the Vault Power of Attorney, the SAC is an elected committee, with not less than one member elected by VRM. The SAC Governance Rules require that an election for members of the SAC be held annually.

The day to day affairs of Vault are managed by the VRM as the AIF for Vault. As defined in Section 629.061, Florida Statutes, the AIF may be an individual, corporation or other person. The VRM AIF Directors serving as of December 31, 2018, are shown below:

VRM Board of Directors*

Name	City, State	Principal Occupation, Company Name
Scott Andrew Carmilani	Gulf Stream, Florida	Chief Executive Officer of Allied World Assurance Company Holdings
Worth Gordon Knight	Miami Beach, Florida	Retired
Wesley David Dupont	New York, New York	Chief Executive Officer of Global Legal & Strategy at Allied World Assurance Company Holdings
Charles Edward Williamson ⁽¹⁾	Jersey City, New Jersey	Chief Executive Officer VRM and VRE

¹ Chairman

*The individuals listed are directors of VRM which acts as AIF for Vault.

In accordance with the Company's Amended and Restated Operating Agreement and Section 629.081, Florida Statutes, the VRM Board appointed the following Senior Officers:

VRM Senior Officers*

Name	City, State	Title
Charles Edward Williamson	Jersey City, New Jersey	Chief Executive Officer
Robert John Larson	Morristown, New Jersey	Treasurer
Karen Leshowitz Colonna	Glen Ridge, New Jersey	Secretary
Brandelyn Chadwell Roth	West Chester, Pennsylvania	Actuary
Mary Ann Qualls	Jersey City, New Jersey	Chief Underwriting Officer

*The individuals listed are officers of VRM which acts as AIF for Vault.

The AIF appointed one member of the initial Subscribers' Advisory Committee ("SAC"), which serves as an internal governing and advisory committee. The remaining members of the advisory committee are elected annually by the Vault subscribers. The following were the SAC members as of December 31, 2018.

SAC Committee

Name	City, State	Title, Company Name
Charles Edward Williamson ⁽¹⁾	Jersey City, New Jersey	Director & CEO of VRM - Insurance Executive of Vault
Richard Lydecker	Miami Beach, Florida	Managing Partner of Lydecker-Diaz
Oscar Seikaly	Miami, Florida	CEO/Founder of NSI Insurance Group

¹ Chairman

Holding Company System

Control of the Company is maintained by the AIF, VRM, a limited liability company organized under the laws of Florida. VRM's sole member is Vault Holdings, LLC, a Florida limited liability company which is owned approximately 80% by Allied World Investment Company, a Delaware corporation, and 20% by other persons. Allied World Assurance Company Holdings, AG, ("Allied World") a Swiss-domiciled holding corporation, served as the holding company and ultimate parent for the Allied World subsidiaries until it was acquired by Fairfax Financial Holdings Limited ("Fairfax"), a Canadian corporation, on July 6, 2017. As of December 31, 2018, Fairfax is the ultimate controlling person of VRM.

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

Attorney-in-Fact Agreement

The Company entered into an Attorney-in-Fact Agreement ("AIF Agreement") with VRM, on September 1, 2017, to provide certain management services. The AIF Agreement continues in force for a term of five (5) years and is automatically renewed for one-year terms at the end of the 5 years.

Affiliated Services Agreement

Effective September 1, 2017, VRM entered into a service agreement with AWAC Services Company ("AWAC Services"), an Allied World affiliated company. Under the agreement, AWAC Services or one or more of its affiliates will provide administrative services including but not limited to policy services, reinsurance services, accounting services, asset management, human resources, external auditors, and information technology.

Investment Management Services

The Company entered into an agreement with Hamblin Watsa Investment Counsel, Ltd (“HWIC”), a subsidiary of Fairfax on April 1, 2018. HWIC provides investment management services to Vault which includes investment portfolio management and investment administration services. Vault pays HWIC a fee equal to a percentage of the market value of the portfolio, subject to a performance benchmark of above actual annual S&P 500 performance. If the actual performance is less than this benchmark, the fee is a percentage 90% of the base fee. For every 100 basis points in excess of the benchmark, Vault pays HWIC an additional fee basis points.

Cost Sharing Agreements

The Company entered into a Master Administrative and Cross Services Agreement with VRM on September 1, 2017. The Company incurred net expenses of \$21,690 in 2018 and \$0 in 2017 under this agreement.

ACCOUNTS AND RECORDS

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

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with Bank of New York Mellon executed on August 2, 2017. The agreement is in compliance with Rule 69O-143.042, Florida Administrative Code.

Independent Auditor Agreement

An independent CPA, PricewaterhouseCoopers LLP audited the Company’s statutory basis financial statements for the year 2018, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA firm as required by Rule 69O-137.002, Florida Administrative Code.

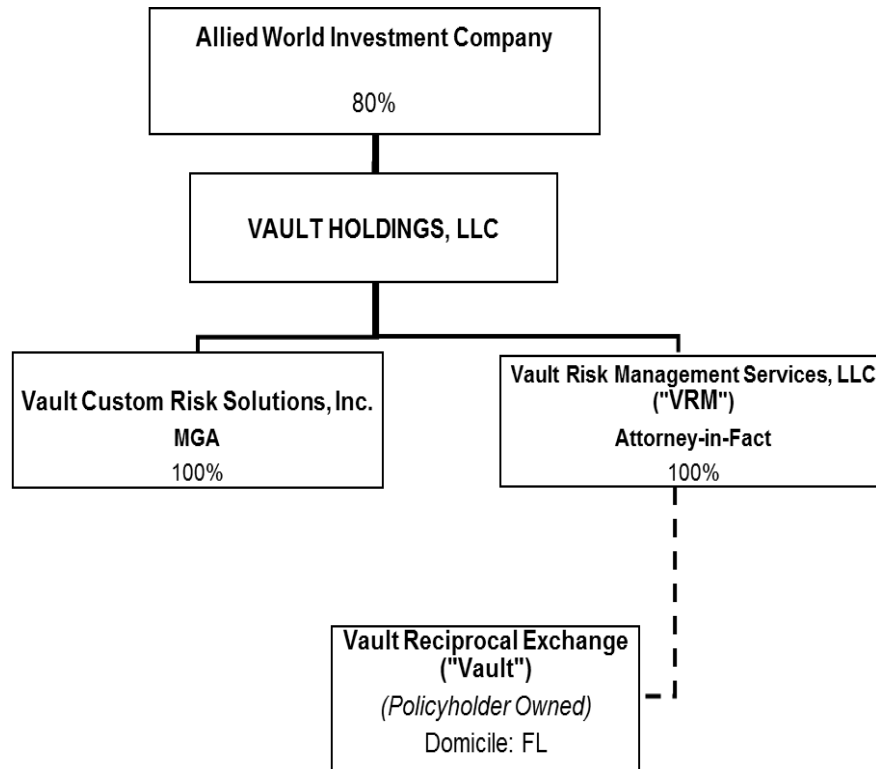
Corporate Records Review

The recorded minutes of the Subscribers Advisory Committee, VRM (AIF) Board of Directors and certain internal committees were reviewed for the period under examination. The recorded minutes of the VRM Board and SAC Committee documented its meetings and approval of Company transactions and authorization of investments, as required by Section 625.304, Florida Statutes.

Organizational Chart

A simplified organizational chart as of December 31, 2018, reflecting the holding company system, is shown below. Schedule Y of the Company's 2018 annual statement provided a list of all related companies of the holding company group. As of December 31, 2018, Fairfax is the ultimate controlling person of VRM.

Vault Reciprocal Exchange Organizational Chart December 31, 2018



TERRITORY AND PLAN OF OPERATIONS

As of the date of examination, the Company is actively writing in Florida and South Carolina. However, the Company was authorized to transact insurance in the following states:

Alaska	Arizona	Arkansas
Colorado	Connecticut	Delaware
Florida	Georgia	Indiana
Louisiana	Maryland	Michigan
Mississippi	Montana	New Hampshire
New Mexico	North Carolina	North Dakota
Oklahoma	Pennsylvania	South Carolina
Texas	Utah	Vermont
Virginia	West Virginia	

The Company was authorized to transact insurance in Florida on June 9, 2017, and is currently authorized for the following lines of business as of December 31, 2018:

Other Liability – occurrence	Allied Lines
Homeowners Multiple Peril	Earthquake
Inland marine	Boiler & Machinery
Private Passenger Auto Physical Damage	Ocean Marine
Private Passenger Auto Liability	

REINSURANCE

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

Reinsurance Assumed

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

Reinsurance Ceded

The Company reinsures risks with third party reinsurers and affiliates and maintains a reinsurance program backed by highly-rated reinsurers to manage net exposures. The reinsurance program provides consideration for managing per-risk exposures as many of the exposures covered by the Company, due to the nature of the high net-worth market, are expected to be of higher-than-normal value. VRM has engaged Guy Carpenter and Aon as reinsurance intermediaries to place the reinsurance coverage.

A summary of the reinsurance in place as of December 31, 2018 is as follows:

- Two property per risk excess of loss (“XOL”) layers adding up to \$15 million excess of \$5 million. The participants are highly rated reinsurers along with several Lloyd’s syndicates.
- A private collections (inland marine coverage of fine arts and collections) 50% quota share program up to \$25 million with an authorized highly rated reinsurer and two Lloyd’s syndicates.
- An excess liability 80% quota share program up to \$25 million.
- Three Cascading catastrophe XOL layers adding up to \$90 million excess of \$10 million.
- Three optional catastrophe layers of \$10 million each (contingent upon exposure growth).
- A multiple line 50% quota share reinsurance contract with Allied World Insurance Company; an Allied World Assurance Holdings affiliate, whereby the Company cedes 50% of gross liabilities to AWIC.

In addition to the above, the Company carries mandatory reinsurance protection for its property exposures in Florida from the Florida Hurricane Catastrophe Fund, at the 45% coverage option.

During the examination period, the Company was party to a multiline quota share agreement with Allied World Assurance Company, LTD. (Bermuda), (“AWAC Bermuda”), an affiliate of Allied World. Under this agreement the Company ceded 50% of all direct and assumed policy liabilities net of cessions to external reinsurers to AWAC Bermuda. The contract was terminated effective December 31, 2017.

INFORMATION TECHNOLOGY REPORT

Uso Sayers, CISA, IT Specialist of Johnson Lambert LLP, 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	USTBDS, 1%	\$ 2,500,000	\$ 2,472,831
TOTAL FLORIDA DEPOSITS		<u>\$ 2,500,000</u>	<u>\$ 2,472,831</u>
NM	USTBDS, %	320,000	317,825
NC	USTBDS, 1.750%	420,000	417,145
SC	USTBDS, 1%	520,000	514,349
VA	USTBDS, 1.76%	520,000	516,465
DC	USTBDS, 1.75%	1,020,000	1,013,066
TOTAL SPECIAL DEPOSITS		<u>\$ 2,800,000</u>	<u>\$ 2,778,850</u>
TOTAL STATUTORY DEPOSITS		<u><u>\$ 5,300,000</u></u>	<u><u>\$ 5,251,681</u></u>

FINANCIAL STATEMENTS

The following includes the Company's statutory Statement of Assets, Liabilities, Surplus and Other Funds; the statutory Statement of Operations; 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. (Note: Failure of the columns to add to the totals reflected in this Report is due to rounding.)

**Vault Reciprocal Exchange
Assets
December 31, 2018**

	Per Company	Examination Adjustments	Per Examination
Bonds	\$48,485,027	\$ -	\$ 48,485,027
Cash and Short-Term Investments	1,983,142		1,983,142
Agents' Balances:			
Uncollected premium	4,424,920		4,424,920
Reinsurance recoverable	813,706		813,706
Investment income due & accrued	77,057		77,057
Receivable from parents, subsidiaries and affiliates	7,875,990		7,875,990
Aggregate write-in for other than invested assets	<u>126,244</u>	<u>-</u>	<u>126,244</u>
Totals	<u>\$63,786,086</u>	<u>\$ -</u>	<u>\$ 63,786,086</u>

**Vault Reciprocal Exchange
Liabilities, Surplus and Other Funds
December 31, 2018**

	Per Company	Examination Adjustments	Per Examination
Losses	\$ 605,834	\$ -	\$ 605,834
Loss adjustment expenses	132,758		132,758
Commissions payable, contingent commissions and other similar charges	758,301		758,301
Other expenses	65,000		65,000
Taxes, licenses and fees	444,994		444,994
Unearned premium	3,760,369		3,760,369
Ceded reinsurance premiums payable	4,458,927		4,458,927
Payable to parent, subsidiaries and affiliates	4,711,387		4,711,387
Aggregate write-ins for liabilities	<u>962,154</u>	<u>-</u>	<u>962,154</u>
Total Liabilities	<u>\$ 15,899,724</u>	<u>\$ -</u>	<u>\$ 15,899,724</u>
Aggregate write-ins for other than special surplus funds	\$ 626,499		\$ 626,499
Surplus Notes	50,000,000		50,000,000
Unassigned funds (surplus)	<u>(2,740,134)</u>	<u>-</u>	<u>(2,740,134)</u>
Surplus as regards policyholders	<u>\$ 47,886,365</u>	<u>\$ -</u>	<u>\$ 47,886,365</u>
Total liabilities, surplus and other funds	<u><u>\$ 63,786,089</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 63,786,089</u></u>

**Vault Reciprocal Exchange
Statement of Income
December 31, 2018**

Underwriting Income

Premium earned		\$ 2,308,724
	Deductions	
Loss Incurred		852,305
Loss expenses incurred		527,720
Other underwriting expenses incurred		<u>2,727,383</u>
Total underwriting deductions		<u>4,107,408</u>
Net underwriting gain or (loss)		<u>(1,798,684)</u>

Investment Income

Net investment income earned		772,687
Net realized capital gain or (losses)		<u>(420)</u>
Net investment gain or (loss)		<u>772,267</u>
Net Income before dividend to policyholders and before federal & foreign income taxes		<u>(1,026,417)</u>
Net Income		<u>\$ (1,026,417)</u>

Capital and Surplus

Surplus as regards policyholders, December 31 prior year		\$ 48,299,220
Net Income		(1,026,417)
Change in net deferred income tax		230,046
Change in non-admitted assets		(299,400)
Change in provision for reinsurance		59,000
Aggregate write-ins for gains and losses in surplus		<u>623,915</u>
Change in surplus as regards policyholders for the year		<u>412,856</u>
Surplus as regards policyholders, December 31 current year		<u>\$ 47,886,364</u>

**Vault Reciprocal Exchange
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 at January 1, 2017, per Examination	<u>Increase</u>	<u>Decrease</u>	\$	-
Net income (loss)		\$ (1,644,364)		
Change in net deferred income tax	\$ 345,316			
Change in non-admitted assets		(345,316)		
Change in provision for reinsurance	(59,000)			
Changes in surplus notes	50,000,000			
Aggregate write-ins for gains and losses in surplus	2,584			
Net increase (or decrease)			<u>48,299,220</u>	
Surplus at December 31, 2017, per Examination			<u>48,299,220</u>	
Net income (loss)		(1,026,417)		
Change in net deferred income tax	230,046			
Change in non-admitted assets		(299,400)		
Change in provision for reinsurance	59,000			
Member surplus earned	623,915			
Net increase (or decrease)			<u>(412,856)</u>	
Surplus at December 31, 2018, per Examination			<u><u>\$ 47,886,364</u></u>	

COMMENTS ON FINANCIAL STATEMENT ITEMS

Liabilities

Losses and Loss Adjustment Expenses David B. Gelinne, FCAS, MAAA, the then Chief Actuary of the Allied World Group of Companies, 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 Examining Actuary, Brent Sallay, FCAS, MAAA, of Taylor-Walker Consulting LLC, reviewed the loss and loss adjustment expense work papers provided by the Company and he was in concurrence with this opinion.

Capital and Surplus

The amount of capital and surplus reported by the Company of \$47,886,364 exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

SUBSEQUENT EVENTS

No significant subsequent events specific to the Company were identified.

CONCLUSION

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

In addition to the undersigned, the following participated in the examination: Joanne Smith, CFE, MCM, Supervising Examiner, Joel Tapsoba, CFE, APIR, Participating Examiner, Megan Hubbuch, CPA, AFE, CPCU, AIAF, Participating Examiner, and Uso Sayers, CISA, IT Specialist, of Johnson Lambert LLP; Brent Sallay, FCAS, MAAA, of Taylor-Walker Consulting, LLC; and Jeff Rockwell, Examination Manager, Florida Office of Insurance Regulation.

Respectfully submitted,



Richard J. Nelson, CFE, CIE
Examiner-in-Charge
Johnson Lambert LLP
Representing the Florida Office of Insurance
Regulation



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