



**EXAMINATION REPORT
OF**

Vault Reciprocal Exchange

NAIC Company Code: 16186

**Miami, Florida
as of
December 31, 2019**

**BY THE
FLORIDA
OFFICE OF INSURANCE REGULATION**

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May 11, 2021

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, 2019, 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, 2019 through December 31, 2019. Fieldwork, which included planning meetings with the Florida Office of Insurance Regulation (“the Office”) commenced on July 21, 2020, and concluded as of April 30, 2021. This is the Company’s second full scope examination by representatives of the Office. The Company’s last full scope exam by representatives of the Office covered the period January 1, 2017 to December 31, 2018.

This examination was performed concurrently with the following groups which are also members of Fairfax Financial Holdings Limited Ltd. (“Fairfax”) or (“Fairfax Group”):

- Allied Group (AWIC) with New Hampshire as the lead for this sub-group (includes Vault Reciprocal Exchange).
- Crum & Forster Group with Delaware as the lead for this sub-group.
- Hudson Group with Delaware as the lead for this sub-group.
- Odyssey Reinsurance Group with Connecticut as the lead for this sub-group.
- Zenith & ZNAT Group with California as the lead for this sub-group.

This was a full scope, 2nd year, multi-state coordinated financial examination of Vault Reciprocal Exchange (“VRE” or “The Company”) conducted by the Florida Office of Insurance Regulation (“the Office”) which covered the period from January 1, 2019 to December 31, 2019. The Office contracted Johnson Lambert LLP (Financial Examiners) to conduct the risk-focused examination in accordance with, but not limited to, the State of Florida General Statutes and with the guidance contained within the 2020 NAIC Financial Condition Examiners Handbook.

The AWIG examination was a comprehensive full scope risk-focused multi-state coordinated examination covering the period from January 1, 2015 to December 31, 2019. The examination is performed under the direction of the Arkansas, Delaware, Florida and New Hampshire Insurance Departments, with New Hampshire acting as the lead state of AWIG. The financial examination comprised eight insurers; three domiciled in Arkansas, two in Delaware, one in Florida, and two with New Hampshire. The companies being examined were as follows:

- Allied World Insurance Company (“AWIC”) (NH) - NAIC Co. Code: 22730

- Allied World National Assurance Company (“AWNAC”) (NH) - NAIC Co. Code: 10690
- Allied World Surplus Lines Insurance Company (“AWSLIC”) (AR) - NAIC Co. Code: 24319
- Vantapro Specialty Insurance Company (“Vantapro”) (AR) - NAIC Co. Code: 44768
- Vault E & S Insurance Company (“VES”) (AR) – NAIC Co. Code: 16237
- Allied World Assurance Company (U.S.) Inc. (“AWAC US”) (DE) - NAIC Co. Code: 19489
- Allied World Specialty Insurance Company (“AWSIC”) (DE) - NAIC Co. Code: 16624
- Vault Reciprocal Exchange (“VRE”) (FL) – NAIC CO. Code 16186

The examination was 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 significant findings as a result of this examination.

Previous Examination Findings

There were no significant findings in the previous exam.

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. On November 16, 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, 2019, the Company wrote business in Connecticut, Florida, Georgia, New Jersey, Pennsylvania, South Carolina, and Texas.

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 enters 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, 2019:

Date Issued	Interest Rate	Par Value (Face Amount)	Note Holders
10/10/17	3 Mo. LIBOR +2.00%	\$27,500,000	AWIC
10/10/17	3 Mo. LIBOR +7.00%	\$5,092,000	HSCM Bermuda Fund, Ltd.*
10/10/17	3 Mo. LIBOR +7.00%	\$7,904,000	HSCM F1 Master Fund, Ltd.*
10/10/17	3 Mo. LIBOR +7.00%	\$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 equal to the applicable three-month U.S. Dollar LIBOR plus 2.00%. 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 2019.

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 rate of 3-month LIBOR plus 7.00-8.00%. 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 fee of .05% of the undrawn amount each December 31. No additional notes were issued.

Subsequent to the examination period, some material events occurred related to surplus notes and are discussed in the Subsequent Event section of this report.

Acquisitions, Mergers, Disposals, Dissolutions

There were no Acquisitions, Mergers, Disposals or Dissolutions during the Examination period. However, a sale of the Vault companies, including VRM, occurred in 2021 and is discussed in the Subsequent Events section of this report.

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 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, 2019, 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 E. Williamson	Jersey City, New Jersey	Chief Executive Officer
Robert John Larson	Morristown, New Jersey	Treasurer
Karen L. Colonna	Glen Ridge, New Jersey	Secretary
Brandelyn C. Roth	West Chester, Pennsylvania	Actuary
Mary A. 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, 2019.

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, 2019, 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. Subsequent to the examination period, modifications were made to this agreement that are discussed in the Subsequent Event Section of the Report.

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 of 0.30% of the market value of the portfolio, subject to a performance benchmark of 200+ basis points above actual annual S&P 500 performance. If the actual performance is less than this benchmark, the fee is 90% of the base fee. For every 100 basis points in excess of the benchmark, Vault pays HWIC an additional 10 basis points. Subsequent to the examination period, modifications were made to this agreement that are discussed in the Subsequent Event Section of the Report.

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.

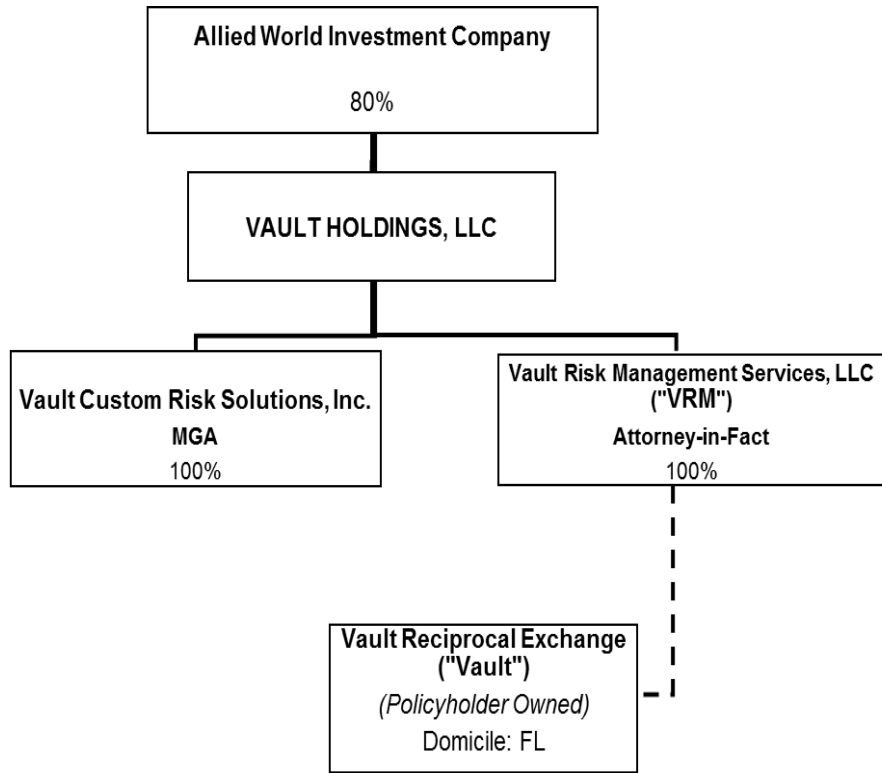
Independent Auditor Agreement

An independent CPA, PricewaterhouseCoopers LLP audited the Company's statutory basis financial statements for the year 2019.

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.

**Vault Reciprocal Exchange
Simplified Organizational Chart
12/31/19**



TERRITORY AND PLAN OF OPERATIONS

As of the date of examination, the Company is actively writing in Connecticut, Florida, Georgia, New Jersey, Pennsylvania, South Carolina and Texas. However, the Company is authorized to transact insurance in the following states:

Alaska	Arizona	Arkansas
Colorado	Connecticut	Delaware
District of Columbia	Florida	Georgia
Hawaii	Illinois	Indiana
Iowa	Louisiana	Maine
Maryland	Massachusetts	Michigan
Missouri	Mississippi	Montana
Nebraska	Nevada	New Hampshire
New Jersey	New Mexico	North Carolina
North Dakota	Ohio	Oklahoma
Pennsylvania	Rhode Island	South Carolina
Tennessee	Texas	Utah
Vermont	Virginia	Washington
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, 2019:

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 reinsured risks with third party reinsurers and affiliates and maintained 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 engaged Guy Carpenter and Aon as reinsurance intermediaries to place the reinsurance coverage.

The Company uses a combination of excess of loss, quota share, and for its property exposures in Florida, mandatory protection from the Florida Hurricane Catastrophe Fund. Reinsurers consist of both unaffiliated reinsurers, members of Lloyd's syndicates, and with Allied World Insurance Company (an affiliate of Allied World Assurance Holdings).

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, 2019. 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, 2019. (Note: Failure of the columns to add to the totals reflected in this Report is due to rounding.)

Vault Reciprocal Exchange

Assets

December 31, 2019

	Per Company
Bonds	\$11,906,214
Cash and Short-Term Investments	\$44,612,419
Agents' Balances: Uncollected premium	\$8,027,961
Reinsurance recoverable	\$7,236,104
Investment income due & accrued	\$447,129
Receivables from parents, subsidiaries and affiliates	\$3,958,589
Aggregate write-in for other than invested assets	\$443,985
Totals	\$76,662,401

Vault Reciprocal Exchange
Liabilities, Surplus and Other Funds
December 31, 2019

	Per Reciprocal
Losses	\$2,104,621
Loss adjustment expenses	\$434,613
Commissions payable, contingent commissions and other similar charges	\$1,354,977
Other expenses	\$40,810
Taxes, licenses and fees	\$701,286
Unearned premiums	\$7,507,062
Ceded reinsurance premiums payable	\$14,472,317
Provision or Reinsurance	\$24,642
Payable to parent, subsidiaries and affiliates	\$1,191,869
Aggregate write-in for liabilities	\$2,085,561
Total liabilities	\$29,917,758
Aggregate write-in for other than special surplus funds	\$3,358,404
Surplus notes	\$50,000,000
Unassigned funds (surplus)	(\$6,613,764)
Surplus as regards policyholders	\$46,744,640
Total liabilities, surplus and other funds	\$76,662,398

Vault Reciprocal Exchange
Statement of Income
December 31, 2019

	Per Reciprocal
Underwriting Income	
Premiums earned	\$9,852,952
Deductions	
Losses incurred	\$6,322,757
Loss adjustment expenses incurred	\$1,518,543
Other underwriting expenses incurred	\$6,628,054
Total underwriting deductions	\$14,469,354
Net underwriting gain (loss)	(\$4,616,402)
Investment Income	
Net investment income earned	\$771,888
Net realized capital gains (losses)	(\$1,460)
Net investment gain (loss)	\$770,428
Other Income	
Net gain or (loss) from agents' or premium changed of	\$0
Finance and service charges not including premiums	\$0
Total other income	\$0
Net income before dividends to policyholders and before federal & foreign income taxes	(\$3,845,974)
Federal and foreign income taxes	(\$388)
Net income (loss)	(\$3,846,362)
Capital and Surplus	
Surplus as regards policyholders, December 31 prior year	\$47,886,364
Net income (loss)	(\$3,846,362)
Change in non-admitted assets	(\$810,309)
Change in net deferred income taxes	\$807,685
Change in provision for reinsurance	(\$24,642)
Aggregate write-ins for gains and losses in surplus	\$2,731,905
Change in surplus as regards policyholders for the year	(\$1,141,723)
Surplus as regards policyholders, December 31, current year	\$46,744,641

**Vault Reciprocal Exchange
Reconciliation of Capital and Surplus
December 31, 2019**

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

Capital/Surplus Change during Examination Period		
Surplus at December 31, 2018, per Reciprocal		\$48,299,220
	Increase	Decrease
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	
Aggregate write-ins for gains and losses in surplus	\$623,915	
Net increase (or decrease)		(\$412,856)
Surplus at December 31, 2019, per Reciprocal		\$47,886,364

Capital/Surplus Change during Examination Period		
Surplus at December 31, 2019, per Reciprocal		\$47,886,364
	Increase	Decrease
Net income (loss)		(\$3,846,362)
Change in net deferred income tax	\$807,685	
Change in non-admitted assets		(\$810,309)
Change in provision for reinsurance		(\$24,642)
Member surplus earned	\$2,731,905	
Net increase (or decrease)		(\$1,141,723)
Surplus at December 31, 2019, per Reciprocal		\$46,744,641

COMMENTS ON FINANCIAL STATEMENT ITEMS

Liabilities

Losses and Loss Adjustment Expenses Max Chiao, FCAS, MAAA, the North American Reserving Actuary of Allied World Assurance Company, appointed by the Board, in cooperation with Brandelyn C. Roth, FCAS, MAAA, Chief Actuary of Vault, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2019, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The firm of INS Services, LLC (“INS Services”) was engaged by the Lead State to review the reasonableness of the loss and LAE reserves of the Company as of December 31, 2019. The review found that the carried gross and net loss and LAE reserves as of December 31, 2019 were reasonable.

Capital and Surplus

The amount of capital and surplus reported by the Company of \$46,744,640 exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

SUBSEQUENT EVENTS

On October 27, 2020, Vault Holdings, LLC (“Sellers”) entered into a Master Transaction Agreement with Plutus Co-Invest LLC (“Buyer”), a Delaware limited liability company, Allied World Investment Company and Allied World Insurance Company. Under the terms of this agreement and through a series of transactions, the Buyer purchased from Sellers certain issued and outstanding membership interests of Vault Holdings, LLC, and thereby the control of the Company. Immediately following the contributions and sale the ownership of the Company shall be as follows:

	Percentage Ownership Following the Contributions and Sale *
Allied World	10.0%
Buyer	80.7%
Hudson	4.8%
Management	4.5%

*Contemporaneously with the transactions, the buyer contributed additional capital to Vault Holdings, LLC thereby diluting Allied World’s Ownership to 3.3%

This transaction was reviewed and approved by the Office on February 28, 2021 and closed on March 1, 2021.

As a part of the transaction, the subordinated surplus note issued by Vault Reciprocal Exchange in the principal amount of \$27,500,000 was transferred to Vault Holdings, LLC. The transferred subordinated surplus note was subsequently consolidated with other surplus notes transferred to Vault Holdings, LLC as part of the sale and an amended and restated surplus note was issued to Vault Holdings, LLC in the principal amount of \$50,000,000, which replaced all previously issued surplus notes. This transaction was approved by the OIR and was effective March 1, 2021

AWIC and VRE entered into an amendment to terminate the reinsurance agreement between AWIC and VRE effective on May 31, 2021.

VRMS entered into an Amended and Restated Administrative Services Agreement, pursuant to which AWAC Services will continue to perform certain administrative services of the Acquired Companies through December 31, 2021.

VRE entered into a Pooling Arrangement with its affiliate, Vault E&S Insurance Company, with an attachment date of March 1, 2021.

In addition, as a result of the sale, the AWIC Commitment Letter was terminated, and the AWIC investment management agreement was terminated.

The COVID-19 pandemic has continued to develop throughout 2020, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. At the time of releasing this report, the Office's review of the Company noted that there has not been a significant impact to the Company. The Office has been in communication with the Company regarding the impact of COVID-19 on its business operations and financial position. The Office continues to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

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, 2019, consistent with the insurance laws of the State of Florida.

In addition to the undersigned, Richard J. Nelson, CFE, Examiner In-Charge, Joanne Smith, CFE, MCM, Supervising Examiner, Charlie Kreske, CFE and Joel Tapsoba, CFE, Participating Examiners of Johnson Lambert LLP, also participated in the examination. Members of the Office who participated in the examination include Jeff Rockwell, MBA, Examination Manager.

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