

**REPORT ON EXAMINATION**  
**OF**  
**AMSTAR INSURANCE COMPANY**  
**MIAMI, FLORIDA**  
**AS OF**  
**DECEMBER 31, 2003**

**BY THE**  
**OFFICE OF INSURANCE REGULATION**

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Tallahassee, Florida

March 30, 2005

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 (FS), 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, 2003, of the financial condition and corporate affairs of:

**AMSTAR INSURANCE COMPANY  
5959 BLUE LAGOON DRIVE  
SUITE 400  
MIAMI, FLORIDA 33126**

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, 2000 through December 31, 2003. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 1999. This examination commenced, with planning at the Office, on December 27, 2004, to December 30, 2004. The fieldwork commenced on January 3, 2005, and was concluded as of March 30, 2005. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

This financial examination was a 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 (FAC), with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

In this examination, emphasis was directed to the quality, value and integrity of the statement assets and the determination of liabilities, as those balances affect the financial solvency of the Company.

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio report, the A.M. Best Report, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) were reviewed and utilized where applicable within the scope of this examination.

We valued and/or verified the amounts of the Company's assets and liabilities as reported by the Company in its annual statement as of December 31, 2003. Transactions subsequent to year-end 2003 were reviewed where relevant and deemed significant to the Company's financial condition.

This report of examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which are deemed to require special explanation or description.

Based on the review of the Company's control environment and the materiality level set for this examination, reliance was placed on work performed by the Company's CPAs, after verifying the statutory requirements for the following accounts:

- Federal income taxes
- Taxes, licenses and fees

### **Status of Adverse Findings from Prior Examination**

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 1999, along with resulting action taken by the Company in connection therewith.

### **Corporate Records**

The Company did not approve investments as required in Section 625.304, Florida Statutes. In addition, the Company did not maintain investment committee minutes as required by Section 625.304, Florida Statutes. **Resolution:** The Company did not maintain investment committee minutes for the years 2000, 2001, 2002 and 2003; however, the board of directors approved investments pursuant to Section 625.304 FS.

### **Conflicts of Interest**

The Company did not approve conflicts of interest for 1999 as required by Section 607.0832(2), FS. **Resolution:** The Company maintained a conflict of interest policy.

The Company did not maintain a conflict of interest statement for Guillermo Garcia Castellon (Director) as required in Section 607.0832(1), FS. **Resolution:** The Company failed to maintain conflict of interest statements for its officers and directors for the years 2000, 2001, 2002, and 2003.

### **Cost Sharing**

The Company did not settle the inter-company balance as instructed in the Company's Cost Sharing Agreement, Section IV, Payment of Expenses. **Resolution:** The Company failed to settle inter-company balances in accordance with their Administrative Services Agreement.

### **Organizational Chart**

The Annual Statement incorrectly reported the holding company system in Schedule Y and the Notes to Financial Statements, in violation of Section 607.1601, FS. **Resolution:** The Company correctly reported the holding company system in Schedule Y of the 2003 annual statement.

### **Accounts and Records**

The Company did not obtain approval to file consolidated audited financial statement as required in Rule 690-137.002 (8)(b), Florida Administrative Code. **Resolution:** The Company filed individual financial statements for the years 2002 and 2003.

### **Custodial Agreement**

The Company maintained securities with Merrill Lynch, who did not meet the definition of a custodian per Rule 690-143.041, FAC. **Resolution:** The Company securities were placed in custody with Merrill Lynch Trust Company, FSB.

### **Bonds and Stocks**

The Company did not adequately report its investment to the Securities Valuation Office (SVO) nor report the correct market and statement values for various securities, in violation of Section 607.1601, FS. **Resolution:** The Company investments were in compliance with SVO valuation.

### **EDP Equipment**

The Company incorrectly calculated the amortized period, accumulated depreciation and amortized cost for EDP Equipment and did not report EDP software as required by Sections 607.1601 (2) and 625.012(11), FS. **Resolution:** The Company did not report any EDP equipment as assets for the years 2002 and 2003.

## **HISTORY**

### **General**

The Company was incorporated on January 19, 1989, as a stock property and casualty insurer under the laws of the State of Florida and commenced business on September 1, 1990 as Amstar Insurance Company.

In accordance with Section 624.401(1), FS, the Company was authorized to transact the following insurance coverage in Florida on December 31, 2003:

Homeowners Multi Peril  
Private Passenger Auto Liability  
PPA Physical Damage

Ocean Marine  
Commercial Automobile Liability  
Commercial Auto Physical Damage

The Company is in runoff and has not written any insurance coverage since March 2002.

The articles of incorporation and the bylaws were not amended during the period covered by this examination.

### **Capital Stock**

As of December 31, 2003, the Company's capitalization was as follows:

Number of authorized common capital shares	300,000
Number of shares issued and outstanding	100,000
Total common capital stock	\$1,000,000
Par value per share	\$10.00

Control of the Company was maintained by its parent, Mapfre Corporation of Florida, Inc. who owned 100 percent of the stock issued by the Company, who in turn was 100 percent owned by Mapfre USA, a Florida corporation. Mapfre USA was wholly owned by Mapfre America, S.A. a Madrid, Spain company, who in turn, was 84.64% owned by Corporacion Mapfre. Corporacion Mapfre was 51% owned by Mapfre Mutualidad, which was owned by the policyholders.

### **Profitability of Company**

The following table shows the profitability trend (in dollars) of the Company for the period of examination.

	<b>2001</b>	<b>2002</b>	<b>2003</b>
Premiums Earned	22,815,691	11,252,113	126,285
Net Underwriting Gain/(Loss)	(5,282,314)	(3,780,859)	(969,995)

Net Income	(3,804,416	(2,903,705	(327,825)
Total Assets	29,712,095	12,421,220	8,393,963
Total Liabilities	22,301,101	7,457,362	3,718,004
Surplus As Regards Policyholders	7,410,994	4,966,495	4,675,959

### **Dividends to Stockholders**

No dividends were declared or paid to the stockholder during the period covered by this examination.

### **Management**

The annual shareholder meeting for the election of directors was not held in accordance with Sections 607.1601 and 628.231, FS. Directors serving as of December 31, 2003, were:

#### **Directors**

##### **Name and Location**

##### **Principal Occupation**

Gaston de Zarraga Sr.  
Miami, Florida

CEO, GDZ Investments

Jorge A. Fernandez-Silva  
Miami, Florida

Director, Amstar Insurance Company.

Antonio Huertas  
San Juan, Puerto Rico

President, Mapfre PRAICO, Amstar Insurance Company and Mapfre Insurance Company of Florida

Jaime Tamayo  
Miami, Florida

Executive VP & COO, Mapfre Insurance Company of Florida and Amstar Insurance Company

Juan A. Terrassa  
San Juan, Puerto Rico

Chairman, Mapfre PRAICO

The Board of Directors appointed the following senior officers:

### **Senior Officers**

<b>Name</b>	<b>Title</b>
Antonio Huertas	President & CEO
Jaime Tamayo	Executive Vice President
Jose V. Pagan	Treasurer
Pedro A. Freyre, Esq.	Secretary

Officers were reported on the Company's annual statement, however the minutes did not indicate that they were appointed by the Board in 2000 and 2002.

The Company did not maintain an audit committee, as required by Section 624.424(8), FS.

### **Conflict of Interest Procedure**

The Company failed to obtain and maintain conflicts of interest statements from its officers and directors during 2000, 2001, 2002, and 2003, in violation of Section 607.0832, FS.

### **Corporate Records**

The recorded minutes of the shareholder and Board of Directors meetings were reviewed for the period under examination. Except for the following, the recorded minutes of the Board adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, FS, including the authorization of investments as required by Section 625.304, FS.

The minutes of the Company's board of director's meetings for 2002 and 2003 did not reflect the appointment of an audit committee in violation of Section 624.424(8), FS.

The Company failed to maintain minutes of the 2002 and 2003 shareholders meetings the 2003 board of directors meetings, or the 2000 through 2004 audit committee and investment committee meetings in violation of Section 607.1601 FS.

There was no documentation in the minutes that the Company's directors reviewed the previous examination report.

#### **Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales Through Reinsurance**

There were no acquisitions, mergers, disposals, dissolutions or purchase or sales through reinsurance during the period covered by this examination.

#### **Surplus Debentures**

As of December 31, 2003, there were no outstanding surplus debentures of the Company.

### **AFFILIATED COMPANIES**

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), FAC. The latest holding company registration statement was filed with the State of Florida on August 10, 2004, as required by Section 628.801, FS, and Rule 69O-143.046, FAC.

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

**Tax Allocation Agreement**

The Company, along with its parent and other affiliated companies filed a consolidated federal income tax return. On December 31, 2003, the method of allocation between the Company and its parent was based on a separate tax liability as if the Company had filed a separate tax return.

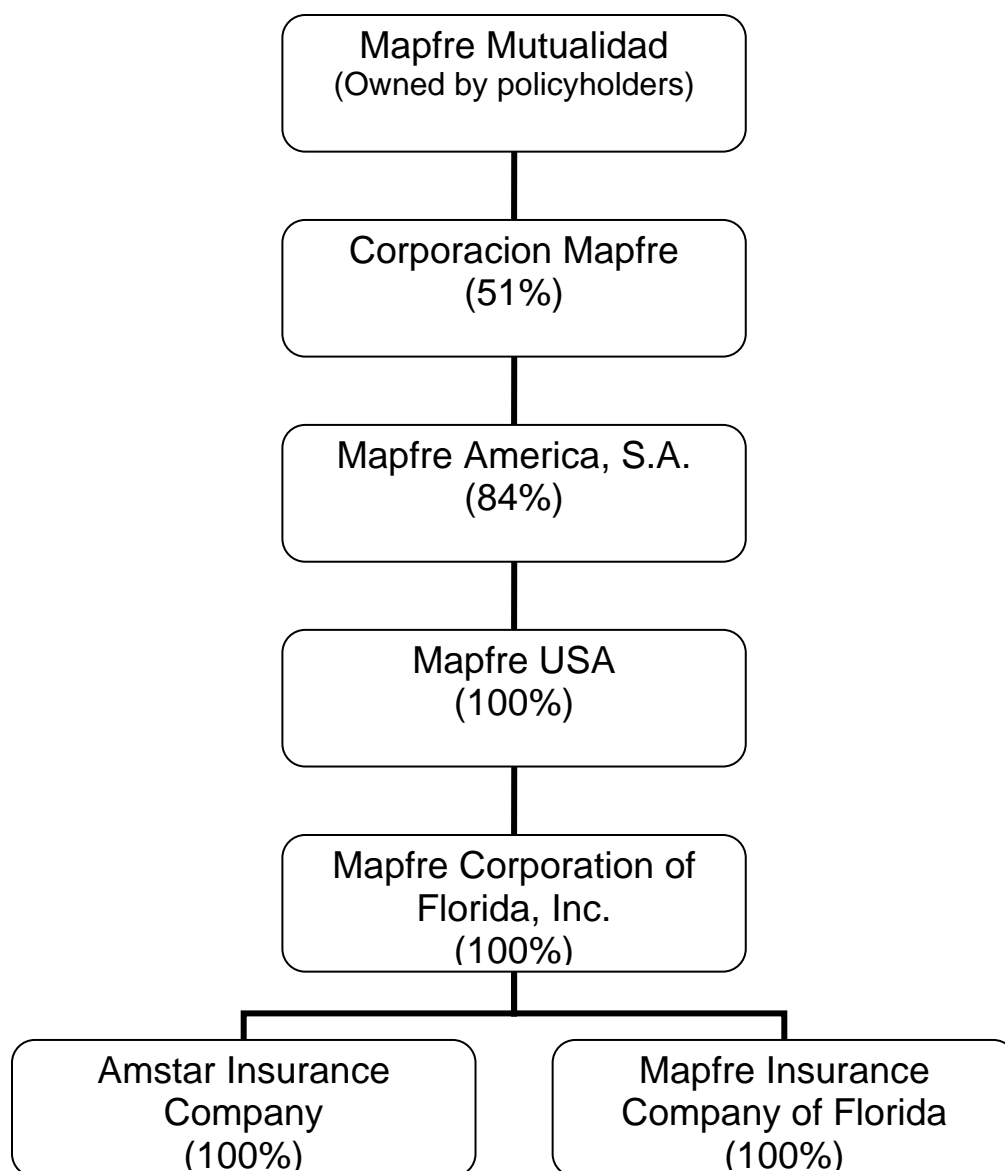
**Administrative Services Agreement**

The Company entered into the agreement effective January 2, 2003, whereby Mapfre Insurance Company of Florida would provide administrative and management services such as accounting and payroll assistance, underwriting, claims and collection, data processing assistance, personnel administration training, and administration of employee benefits.

The Company failed to settle inter-company balances within 30 days as provided in the agreement.

A simplified organizational chart as of December 31, 2003, reflecting the holding company system, is shown below. Schedule Y of the Company's 2003 annual statement provided a list of all related companies of the holding company group.

**AMSTAR INSURANCE COMPANY  
ORGANIZATIONAL CHART  
DECEMBER 31, 2003**



### **FIDELITY BOND AND OTHER INSURANCE**

The Company failed to maintain the suggested minimum amount of fidelity bond coverage as recommended by the NAIC for the years 2001, 2002 and 2003.

### **PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS**

The Company's employees were eligible to participate 401K plans. The Company was responsible for the portion of any matching contributions attributable to its employees.

### **STATUTORY DEPOSITS**

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

State	Description	Par Value	Market Value
FL	CD, 1.9%, 06/19/05	<u>\$500,000</u>	<u>\$ 500,000</u>
	TOTAL FLORIDA DEPOSITS	<u>\$500,000</u>	<u>\$ 500,000</u>
	Total Special Deposits	<u><u>\$500,000</u></u>	<u><u>\$500,000</u></u>

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **Territory**

The Company was authorized to transact insurance only in the state of Florida, in accordance with Section 624.401(2), FS:

### **Treatment of Policyholders**

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

## **REINSURANCE**

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

### **Assumed**

The Company did not assume any insurance business during the period covered by this examination.

### **Ceded**

The Company was in runoff and has not written any insurance business since March 2002 and as such, did not cede any insurance.

## **ACCOUNTS AND RECORDS**

An independent CPA audited the Company's statutory basis financial statements annually for the years 2000, 2001, 2002, and 2003, in accordance with Section 624.424(8), FS. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, FAC.

The Company's accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office, with the exception of adjustments to line items as noted within this report.

The Company failed to maintain complete records of its assets, transactions, and affairs, in violation of Section 628.271, FS.

The Company inadvertently misstated the par value of its capital stock as \$100 rather than \$10 in the general interrogatories.

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

The Company and non-affiliates had the following agreements:

### **Custodial Agreement**

The Company utilized the investment and custodial services of Merrill Lynch Trust Company, FSB. The safekeeping agreement contained the proper safeguards and controls as provided by Rule 69O-143.042, FAC, indemnifying the Company for any loss of securities occasioned by the

negligence or dishonesty of the broker's officers or employees, or burglary, robbery, holdup, theft, or mysterious disappearance, including loss by damage or destruction.

### **Independent Auditor Agreement**

The Company engaged Ernst & Young, LLP for the purpose of annually auditing and reporting on the statutory basis financial statements at year-end.

### **Risk-Based Capital**

The Company reported its risk-based capital at an adequate level.

## **INFORMATION TECHNOLOGY REQUIREMENTS**

Dixon Hughes PLLC, under the direction of the Office, conducted an evaluation of the Company's information systems requirements to determine if the Company was in compliance with information technology (IT) standards. The Company's primary information systems and support were provided by Mapfre Corporation USA based in Puerto Rico, who maintained, operated, controlled and updated programs and software. The following is a summary of principal findings and recommendations:

### **Logical and Physical Security**

There was no periodic user access review on the primary applications such as Tronador. The Company has undergone significant organizational changes in the past 12 months. With these changes came the increased risk of users having functional access that was incompatible with current job duties. It is the responsibility of Information Systems (IS) to provide security access reports for user management review and sign off. This review will provide clear accountability

between IS and user management and minimizes the risk of users having access to incompatible functions.

The Company did not have a documented information security policy. While physical security standards seem to be adequately deployed, the IT examiner noted inconsistency with logical security, administrative documentation, a lack of security monitoring procedures, and lack of periodic user access reviews by management. Information security requires corporate-wide responsibility, and not having a clearly defined and supported information security policy places inordinate responsibility on the IS area.

### **FINANCIAL STATEMENTS PER EXAMINATION**

The following pages contain financial statements showing the Company's financial position as of December 31, 2003, 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."

**AMSTAR INSURANCE COMPANY**  
**Assets**

**DECEMBER 31, 2003**

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	\$7,687,984		\$7,687,984
Cash:			
On deposit	534,865		534,865
Agents' Balances:			
Uncollected premium	41,899		41,899
Interest and dividend income due & accrued	101,327		101,327
Receivable from PSA	27,888		27,888
	<hr/>		
Totals	\$8,393,963	\$0	\$8,393,963
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**AMSTAR INSURANCE COMPANY**  
**Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2003**

<b>Liabilities</b>	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Losses	\$2,990,040		\$2,990,040
Loss adjustment expenses	422,891		422,891
Other expenses	267,717		267,717
Taxes, licenses and fees	37,356		37,356
Total Liabilities	<u>\$3,718,004</u>		<u>\$3,718,004</u>
Common capital stock	\$1,000,000		\$1,000,000
Gross paid in and contributed surplus	16,950,000		16,950,000
Unassigned funds (surplus)	<u>(13,274,041)</u>		<u>(13,274,041)</u>
Surplus as regards policyholders	<u>\$4,675,959</u>		<u>\$4,675,959</u>
Total liabilities, capital and surplus	<u>\$8,393,963</u>	<u>\$0</u>	<u>\$8,393,963</u>

**AMSTAR INSURANCE COMPANY**  
**Statement of Income**

**DECEMBER 31, 2003**

**Underwriting Income**

Premiums earned	\$126,285
DEDUCTIONS:	
Losses incurred	251,910
Loss expenses incurred	764,882
Other underwriting expenses incurred	79,488
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$1,096,280</u>
Net underwriting gain or (loss)	(\$969,995)

**Investment Income**

Net investment income earned	\$522,412
Net realized capital gains or (losses)	158,517
Net investment gain or (loss)	<u>\$680,929</u>

**Other Income**

Net gain or (loss) from agents' or premium balances charged off	\$0
Finance and service charges not included in premiums	0
Aggregate write-ins for miscellaneous income	(38,759)
Total other income	<u>(\$38,759)</u>
Net income before dividends to policyholders and before federal & foreign income taxes	(\$327,825)
Dividends to policyholders	<u>0</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes	(\$327,825)
Federal & foreign income taxes	<u>0</u>
Net Income	(\$327,825)

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year	\$4,966,495
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**Gains and (Losses) in Surplus**

Net Income	(\$327,825)
Net unrealized capital gains or losses	49,470
Change in non-admitted assets	(12,181)
Examination Adjustment	0
Change in surplus as regards policyholders for the year	<u>(\$290,536)</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$4,675,959</u></u>

## COMMENTS ON FINANCIAL STATEMENTS

### Assets

#### Bonds \$7,687,984

The above amount is the same as that reported by the Company. The Company used the Sungard System Software to amortize their bonds using the scientific interest method as required by SSAP 26, paragraph 6. Several discrepancies were found by this examination; however, no adjustment was made for the immaterial amount.

#### Agents Balances \$41,899

The above amount is the same as that reported by the Company. The Company failed to non-admit all agents balances over 90 days past due in violation of Rule 69O-138.024(4), FAC, which provides that any agent's balances in excess of 90 days past due shall be non-admitted. Since the amount was immaterial, no examination adjustment was made.

### Liabilities

#### Losses and Loss Adjustment Expenses \$3,412,931

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, 2003, make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office actuary reviewed work papers provided by the Company and was in concurrence with this opinion.

**AMSTAR INSURANCE COMPANY**  
**Comparative Analysis of Changes in Surplus**

**DECEMBER 31, 2003**

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 per December 31, 2003, Annual Statement	\$4,675,959
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	<u>PER</u> <u>COMPANY</u>	<u>PER</u> <u>EXAM</u>	INCREASE (DECREASE) <u>IN SURPLUS</u>
ASSETS:			
No adjustment needed.			
LIABILITIES:			
No adjustment needed.			
Net Change in Surplus:			<u>0</u>
Surplus as Regards Policyholders December 31, 2003, Per Examination			<u><u>\$4,675,959</u></u>

## **SUMMARY OF FINDINGS**

### **Compliance with previous directives**

The Company has taken the necessary actions to comply with the comments made in the 1999 examination report issued by the Office except for the findings regarding investment committee minutes, conflicts of interest and inter-company balances.

### **Current examination comments and corrective action**

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2003.

### **Management**

The Company did not maintain an audit committee. **It is recommended that the Company comply with Section 624.424(8)(c), FS, which requires the Board to establish an audit committee of three or more directors of the insurer or an affiliated company. The Company should provide documentation of compliance to the Office within 90 days after the report is issued.**

### **Conflicts of Interest**

The Company failed to obtain conflicts of interest statements from its officers and directors during 2000, 2001, 2002, and 2003, in violation of Section 607.0832, FS. **It is recommended that the Company comply with Section 607.0832, FS. The Company should provide documentation of compliance to the Office within 90 days after the report is issued.**

### **Corporate Records**

The Company failed to maintain minutes of the 2002 and 2003 shareholders meetings, the 2003 board of directors meetings, and the 2000 through 2004 audit committee and investment committee meetings in violation of Section 607.1601, FS. **It is recommended that the Company comply with Section 607.1601, FS, and provide documentation of compliance to the Office within 90 days after this report is issued.**

There was no documentation in the minutes that the Company's directors reviewed the previous examination report. **It is recommended that the Board of directors review all Office reports in the future.**

### **Administrative Service Agreement**

The Company failed to settle inter-company balances within 30 days as provided in the agreement. **It is recommended that the Company comply with its administrative service agreement and provide evidence to the Office within 90 days after this report is issued.**

### **Fidelity Bond**

The Company failed to maintain the suggested minimum amount of fidelity bond coverage as recommended by the NAIC for the years 2000, 2001, 2002 and 2003. **It is recommended that the Company comply with Rule 69O-142.011(11)(b)16, FAC and NAIC pronouncements, and provide documentation of compliance to the Office for the current year within 90 days after this report is issued.**

## **Bonds**

Discrepancies were found in the amortization of several bonds using the scientific interest method.

**It is recommended that the Company insure the amortization is correct when reporting amortization in the future.**

## **Agents' Balance**

The Company failed to non-admit all agents balances over 90 days past due in violation of Rule 69O-138.024(4) FAC. **It is recommended that the Company comply with Rule 69O-138.024(4), FAC in the future.**

## **Logical and Physical Security**

The Company did not periodically review computer access for compatibility with employee's changing job duties. The Company also did not have a documented information security policy. **It is recommended that the Company provide the Office with documentation of compliance within 90 days after this report in issued.**

## **SUBSEQUENT EVENTS**

Jaime Tamayo became President of the Company in 2005.

## CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Amstar Insurance Company** as of December 31, 2003, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$4,675,959, which was in compliance with Section 624.408, FS.

In addition to the undersigned, Maurice Fuller, Financial Examiner/Analyst II; David Schleit, CPA, CA, FCIP, CFP, Financial Examiner/Analyst II; Jay Ambler, Financial Examiner/Analyst I; Michael F. Hampton, CPA, CFE, DABFA, CFE, CPM, Financial Examiner/Analyst Supervisor, Joseph Boor, Actuary, and Tracy Gates, CPA, CISA of Dixon-Hughes participated in the examination.

Respectfully submitted,

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Kethessa Carpenter  
Financial Specialist  
Florida Office of Insurance Regulation