

**REPORT ON EXAMINATION**  
**OF**  
**CAPITAL ASSURANCE**  
**COMPANY, INC.**  
**CORAL GABLES, FLORIDA**

**AS OF**  
**DECEMBER 31, 2005**

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

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Tallahassee, Florida

March 16, 2007

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

Dear Sirs and Madam:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination of December 31, 2005, of the financial condition and corporate affairs of:

**CAPITAL ASSURANCE COMPANY, INC.  
2333 PONCE DE LEON BLVD., SUITE 300  
CORAL GABLES, FLORIDA 33134**

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, 2003 through December 31, 2005. This examination commenced, with planning at the Florida Office of Insurance Regulation (Office), on January 16, 2006, to January 19, 2006. The fieldwork commenced on January 22, 2006, and was concluded as of March 16, 2007. 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, 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 balances of the Company's statement assets and the determination of liabilities as of December 31, 2005, 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 and the A.M. Best Report were reviewed and utilized where applicable within the scope of this examination.

Transactions subsequent to year-end 2005 were reviewed where relevant and deemed significant to the Company's financial condition.

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

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

The Company was last examined by representatives of the Office as of December 31, 2002. There were no adverse findings from the previous examination.

## **HISTORY**

### **General**

The Company was incorporated in Florida on August 15, 1978 and commenced business on October 1, 1978 as Federal Assurance Company. The Company was acquired by Ryder Systems, Inc., approximately at the time of its incorporation. The name was subsequently changed on June 23, 1982 to Capital Assurance Company, Inc. It was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code.

Skandia Direct Operations Corporation, a Delaware corporation, took ownership of the Company on January 2, 1990, after purchasing all of shares of the Company's capital stock from Ryder Systems, Inc., pursuant to a stock purchase agreement dated October 6, 1989. The stock was

transferred to Skandia America Corporation (SAC) by means of a dividend paid on the capital shares on May 28, 1996.

All outstanding shares of the Company were sold by SAC to If Skadeforsakring Holding AB (ISHA), a Swedish insurance holding company on December 30, 2005. Closing documents were submitted to the Office on February 20, 2006 in regards to the acquisition of the Company by ISHA which was accepted by Consent Order 84256-05 dated December 21, 2005.

The Company has been operating in a run-off mode since April 4, 1997, pursuant to Consent Order 17461-96-C.

On December 31, 1997, Capital Alliance Insurance Company, Inc., (CAIC), was merged into the Company in accordance with the terms of Consent Order 21545-97-C. CAIC was a wholly owned subsidiary, domiciled in the State of Alabama.

In accordance with Section 624.401(1), Florida Statutes, the Company's Certificate of Authority was active only for the Allied Lines line of business. All other lines of business were withdrawn in June 1990.

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

### **Capital Stock**

As of December 31, 2005, the Company's capitalization was as follows:

Number of authorized common capital shares	23,500
Number of shares issued and outstanding	23,500

Total common capital stock	\$2,350,000
Par value per share	\$100.00

Control of the Company was maintained by its parent, ISHA, a Swedish insurance holding company, who owned 100% of the stock issued by the Company, who in turn, was 100% owned by Sampo Oyj, a Finland company.

### **Profitability of Company**

The following table shows the profitability trend (in dollars) of the Company for the period of examination, as reported in the filed Annual Statement.

	<b>2005</b>	<b>2004</b>	<b>2003</b>
Premiums Earned	0	0	0
Net Underwriting Gain/(Loss)	(140,422)	(7,701,548)	(2,937)
Net Income	(1,027,105)	(4,726,487)	571,618
Total Assets	42,356,230	48,767,942	48,944,436
Total Liabilities	30,686,180	35,477,015	30,016,067
Surplus As Regards Policyholders	11,670,050	13,290,927	18,928,369

### **Dividends to Stockholders**

The Company did not declare or pay dividends to its stockholder in 2003, 2004 and 2005.

### **Management**

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2005, were:

## Directors

### Name and Location

### Principal Occupation

Jorma Poyhonen  
Helsinki, Finland

Director, Executive Vice President,  
Capital Assurance Company, Inc.

John Douglas Marshall  
Plantation, Florida

Director, President,  
Capital Assurance Company, Inc.

Nancy Pomeroy Gordon  
Miami, Florida

Attorney  
Capital Assurance Company, Inc.

Ricard Wennerklint  
Bromma, Sweden

Director  
Capital Assurance Company, Inc.

Martha Rodriguez  
Miami, Florida

Sr.Vice President, Treasurer, Secretary  
Capital Assurance Company, Inc.

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

## Senior Officers

### Name

### Title

John Douglas Marshall  
Martha Rodriguez  
Mercedes Lopez  
Jorma Poyhonen

President  
Sr. Vice President, Treasurer, Secretary  
Assistant Secretary  
Executive Vice President

The Company did not establish an audit committee in accordance with Section 624.424(8)(c), Florida Statutes. The Company was exempt from establishing an audit committee pursuant to Section 624.424(8)(b), Florida Statutes.

### **Conflict of Interest Procedure**

The Company adopted a policy statement requiring annual disclosure of conflicts of interest, in accordance with the NAIC Financial Condition Examiners Handbook. No exceptions were noted during this examination period.

### **Corporate Records**

The recorded minutes of the shareholder and Board of Directors adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

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

The Company had no acquisitions, mergers, disposals, dissolutions, and purchases or sales through reinsurance during the period of this examination; other than those described in the History section of this report.

### **Surplus Debentures**

The Company had no surplus debentures as of December 31, 2005.

## **AFFILIATED COMPANIES**

The latest holding company registration statement was filed with the State of Florida on March 1, 2007, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

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

### **Investment Management Agreement**

The Company had an investment management agreement with Skandia Investment Management, Inc., now known as DnB Asset Management (US), Inc., and no longer an affiliate of the Company, dated December 30, 1991. The agreement called for DnB to provide investment advisory and investment management services with respect to an investment portfolio account held by Citicorp Trust, N.A.

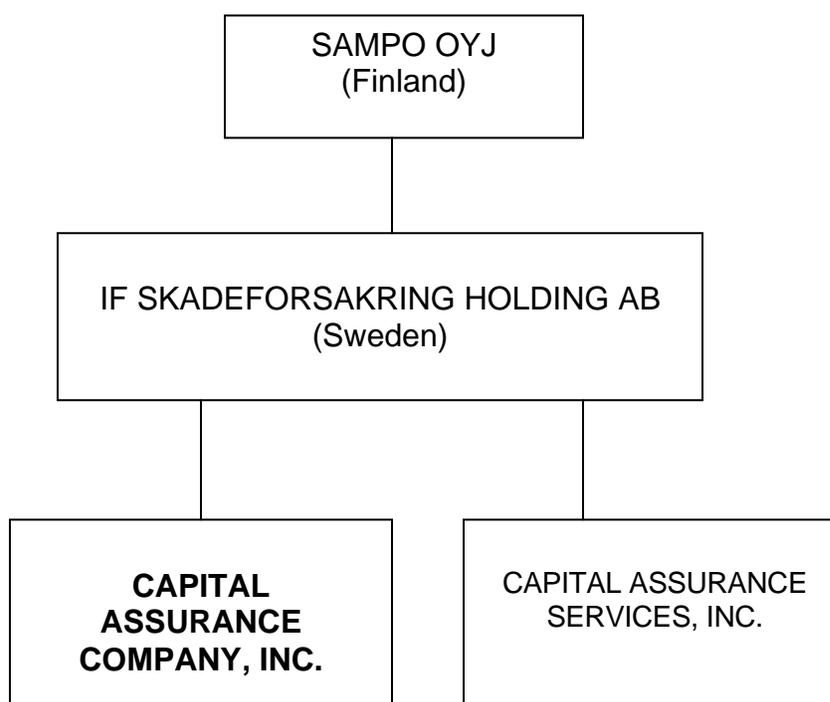
### **Facilities and Services Agreement**

The Company entered into an agreement with Capital Assurance Services, Inc. (CASI), a Florida corporation, to provide claims, accounting, financial, legal, human resources, data processing, and supervisory services as necessary, and also to provide office space and equipment.

A simplified organizational chart as of December 31, 2005, reflecting the holding company system is shown below. Schedule Y of the Company's 2005 annual statement provided a list of all related companies of the holding company group.

**CAPITAL ASSURANCE COMPANY, INC.  
ORGANIZATIONAL CHART**

**DECEMBER 31, 2005**



## **FIDELITY BOND AND OTHER INSURANCE**

The Company was not a named insured on the fidelity bond coverage maintained by its parent company. The fidelity bond policy maintained by the parent company covered the parent company as the named insured as well as its subsidiaries.

Subsequent Event: The Company was sold to ISHA on December 31, 2005. On August 1, 2006 a fidelity bond policy for \$250,000 was acquired in the name of the Company. This amount of fidelity bond coverage adequately covered the suggested minimum amount as recommended by the NAIC.

The Company had a worker's compensation policy that covered up to \$1,000,000 per employee. Other insurance coverage for property and equipment was considered adequate.

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

The Company had no pension, stock ownership, or insurance plans.

## **STATUTORY DEPOSITS**

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes:

STATE	DESCRIPTION	RATE	MATURITY DATE	PAR VALUE	MARKET VALUE
FL	USTNS	6.125%	08/15/07	\$ 785,000	\$ 790,103
FL	USTNS	6.125%	08/15/07	500,000	503,250
FL	USTNS	4.250%	08/15/15	250,000	242,000
TOTAL FL DEPOSITS				\$ 1,535,000	\$ 1,535,353
AL	BOND	7.850%	11/15/29	\$100,000	\$112,348
GA	USTNS	6.125%	08/05/07	\$40,000	\$41,059
TOTAL OTHER DEPOSITS				\$140,000	\$153,407
TOTAL DEPOSITS				\$ 1,675,000	\$ 1,688,760

## INSURANCE PRODUCTS AND RELATED PRACTICES

### Territory

The Company has been in run off since 1997 and has not written insurance coverage or renewed any business.

### Treatment of Policyholders

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

The Company maintained a claims procedure manual that included detailed procedures for each type of claim in accordance with Section 626.954(1)(i)3,a, Florida Statutes.

## **REINSURANCE**

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

The above mentioned contracts complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

### **Assumed**

The Company assumed no reinsurance during the period of this examination. Prior to June 30, 1997, the Company assumed risk on an excess of loss and quota share basis from several non-affiliated insurers. The amount of assumed business varied depending on the treaty and the year business was written. All treaties have been in run-off since June 30, 1997.

### **Ceded**

The Company has not entered into any reinsurance contracts during the period of this examination. Prior to June 30, 1997, the Company was a party to numerous reinsurance contracts with various retention limits based on the treaty and year written. The Company ceded risk on the basis of quota share, excess of loss, and excess catastrophe, with various authorized and unauthorized reinsurers. All treaties have been in run-off since June 30, 1997.

## **ACCOUNTS AND RECORDS**

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.

The Company maintained its principal operational office in Coral Gables, Florida, where this examination was conducted.

The Company was exempt from a CPA audit in accordance with Section 624.424(8)(b), Florida Statutes.

The Company and non-affiliates had the following agreements:

### **Custodial Agreement**

The Company had a custodial agreement with Citicorp Trust, N.A. The agreement was in accordance with Rule 69O-143.042, Florida Administrative Code.

### **Risk-Based Capital**

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

## **FINANCIAL STATEMENTS PER EXAMINATION**

The following pages contain financial statements showing the Company's financial position as of December 31, 2005, 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."

**CAPITAL ASSURANCE COMPANY, INC.**  
**Assets**

**DECEMBER 31, 2005**

	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 11,611,026		\$11,611,026
Cash and short-term investments	29,940,711		29,940,711
Receivables for securities	250,000		250,000
Interest and dividend income due & accrued	436,942		436,942
Reinsurance:			
Funds held by or deposited with reinsured companies	98,774		98,774
Aggregate write-ins for other than invested assets	18,777		18,777
Totals	\$ 42,356,230	\$ -	\$42,356,230

**CAPITAL ASSURANCE COMPANY, INC.**  
**Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2005**

	Per Company	Examination Adjustments	Per Examination
Losses	\$20,105,234		\$20,105,234
Reinsurance payables	118,541		118,541
Loss adjustment expenses	8,273,359		8,273,359
Provision for reinsurance	823,000		823,000
Payable to parent, subsidiaries and affiliates	1,222,290		1,222,290
Aggregate write-ins for liabilities	<u>143,756</u>		<u>143,756</u>
Total Liabilities	\$30,686,180		\$30,686,180
Common capital stock	\$2,350,000		\$2,350,000
Gross paid in and contributed surplus	15,563,835		15,563,835
Unassigned funds (surplus)	<u>(6,243,785)</u>		<u>(6,243,785)</u>
Surplus as regards policyholders	<u>\$11,670,050</u>		<u>\$11,670,050</u>
Total liabilities, capital and surplus	<u><u>\$42,356,230</u></u>	<u>\$0</u>	<u><u>\$42,356,230</u></u>

**CAPITAL ASSURANCE COMPANY, INC.**  
**Statement of Income**

**DECEMBER 31, 2005**

<b>Underwriting Income</b>	
Premiums earned	\$0
DEDUCTIONS:	
Losses incurred	433,577
Loss expenses incurred	(406,081)
Other underwriting expenses incurred	112,926
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$140,422</u>
Net underwriting gain or (loss)	(\$140,422)
<b>Investment Income</b>	
Net investment income earned	\$1,221,943
Net realized capital gains or (losses)	0
Net investment gain or (loss)	<u>\$1,221,943</u>
<b>Other Income</b>	
Aggregate write-ins for miscellaneous income	\$2
Total other income	<u>\$2</u>
Net income before dividends to policyholders and before federal & foreign income taxes	\$1,081,523
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	<u>\$1,081,523</u>
Federal & foreign income taxes	<u>2,108,628</u>
Net Income	(\$2,108,628)
<b>Capital and Surplus Account</b>	
Surplus as regards policyholders, December 31 prior year	\$13,290,927
<b>Gains and (Losses) in Surplus</b>	
Net Income	(\$1,027,105)
Net unrealized capital gains or losses	0
Change in net deferred income taxes	1,816,294
Change in non-admitted assets	(2,181,066)
Change in provision for reinsurance	(229,000)
Examination Adjustment	0
Change in surplus as regards policyholders for the year	<u>(\$1,620,877)</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$11,670,050</u></u>

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

**Losses and Loss Adjustment Expenses** \$28,378,593

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, 2005, 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.

### Capital and Surplus

The Company met the surplus requirement. A comparative analysis of changes in surplus is shown below.

**CAPITAL ASSURANCE COMPANY, INC.  
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

**DECEMBER 31, 2005**

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, 2005, Annual Statement	\$ 11,670,050
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustment			
LIABILITIES:			
No adjustment			
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2005, Per Examination			\$ 11,670,050

## **SUMMARY OF FINDINGS**

### **Compliance with previous directives**

There were no adverse findings from the previous examination as of December 31, 2002.

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

There were no items of interest or corrective action to be taken by the Company regarding findings in the examination as of December 31, 2005.

## CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Capital Assurance Company, Inc.** as of December 31, 2005, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$11,670,050, which was in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Michael F. Hampton, CPA, CFE, DABFA, CFE, CPM, Financial Examiner/Analyst Supervisor, Joseph Boor, FCAS, Office Actuary, participated in the examination.

Respectfully submitted,

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Jerry T. Golden  
Examiner in Charge  
Financial Examiner/Analyst II  
Florida Office of Insurance Regulation