

REPORT ON EXAMINATION
OF
GRANADA INSURANCE COMPANY
MIAMI, FLORIDA

AS OF
DECEMBER 31, 2004

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

February 10, 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, 2004, of the financial condition and corporate affairs of:

**GRANADA INSURANCE COMPANY
4075 SW 83RD AVE
MIAMI, FLORIDA 33155**

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, 2002 through December 31, 2004. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2001. This examination commenced, with planning at the Office, on October 24, 2005, through October 28, 2005. The fieldwork commenced on November 14, 2005, and was concluded as of February 10, 2006. 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, 2004. Transactions subsequent to year-end 2004 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:

- Agents Balances and Uncollected Premiums
- Unearned Premiums
- Losses and LAE
- Ceded Reinsurance Premiums Payable
- Cash on Hand and on Deposit
- Real Estate and Mortgage Loans
- Net Deferred Tax Asset
- Current Federal and Foreign Income Tax Receivable
- Related Party Transactions

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, 2001, along with resulting action taken by the Company in connection therewith.

Management

The Company did not have an Audit committee.

Resolution: The Company established an Audit Committee to comply with Section 624.424(8)(c), FS.

HISTORY

General

The Company was incorporated in Florida on August 27, 1986 and commenced business on May 20, 1987 as Granada 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, 2004:

- Homeowners Multi Peril
- Commercial Multi Peril
- PPA Physical Damage
- Other Liability
- Private Passenger Auto Liability
- Commercial Automobile Liability
- Commercial Auto Physical Damage
- Glass
- Inland Marine
- Allied Lines
- Fire

The articles of incorporation and the bylaws were amended during the period covered by this examination, for its holding company, Hattbert Holding Company, which purchased 100 percent of Company's stock.

Capital Stock

As of December 31, 2004, the Company's capitalization was as follows:

Number of authorized common capital shares	1,955,800
Number of shares issued and outstanding	1,955,800
Total common capital stock	\$1,955,800
Par value per share	\$1.00

Control of the Company was maintained by its parent, Hattbert Holding Company, who owned 100 percent of the stock issued by the Company, who in turn was 100 percent owned by Juan Diaz-Padron, Emilia Diaz-Padron and Carmen Diaz-Padron. Hattbert Holding Company acquired the stock in September 2003.

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 statements of the Company.

	2004	2003	2002
Premiums Earned	12,597,486	8,358,910	14,332,011
Net Underwriting Gain/(Loss)	(1,210,355)	(472,412)	(1,709,124)
Net Income	(823,826)	290,808	42,726
Total Assets	27,532,444	21,727,291	22,162,520
Total Liabilities	19,471,429	14,727,246	15,358,666
Surplus As Regards Policyholders	8,060,915	7,000,045	6,804,139

Dividends to Stockholders

The Company did not declare and pay dividends to its stockholders during the period under examination.

Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, FS. Directors serving as of December 31, 2004, were:

Directors

Name and Location	Principal Occupation
Juan Diaz-Padron Miami, Florida	President / CEO Granada Insurance Company
Carmen Diaz-Padron Miami, Florida	VP / Secretary / CFO Granada Insurance Company
Jose E. Hazim Santa Domingo, Dominican Republic	Senator Dominican Republic
Richard Friedberg Spartanburg, South Carolina	Retired VP Granada Insurance Company
Ramon Arias Miami, Florida	Board Member Granada Insurance Company

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

Senior Officers

Name	Title
Juan Diaz-Padron	President
Carmen Diaz-Padron	VP/Treasurer/Secretary
Delfin Campana	VP Claims
Celia Acosta-Galvin	VP Underwriting

The Company's board appointed several internal committees in accordance with Section 607.0825, FS. Following are the principal internal board committees and their members as of December 31, 2004:

Audit Committee

Juan Diaz-Padron¹
Carmen Diaz-Padron
Richard Friedberg
Ramon Arias

¹ Chairman

The Company maintained an audit committee, as required by Section 624.424(8), FS.

Conflict of Interest Procedure

The Company adopted a policy statement requiring annual disclosure of conflicts of interest, in accordance with Section 607.0832, FS. No exceptions were noted during this examination period.

Corporate Records

The recorded minutes of the shareholder, Board of Directors, and certain internal committee were reviewed for the period under examination. 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.

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

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

The Company had no acquisitions, mergers, disposals, dissolutions and purchase or sales through reinsurance during the period under examination.

Surplus Debentures

The Company had no surplus debentures as of December 31, 2004.

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 November 18, 2005, 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:

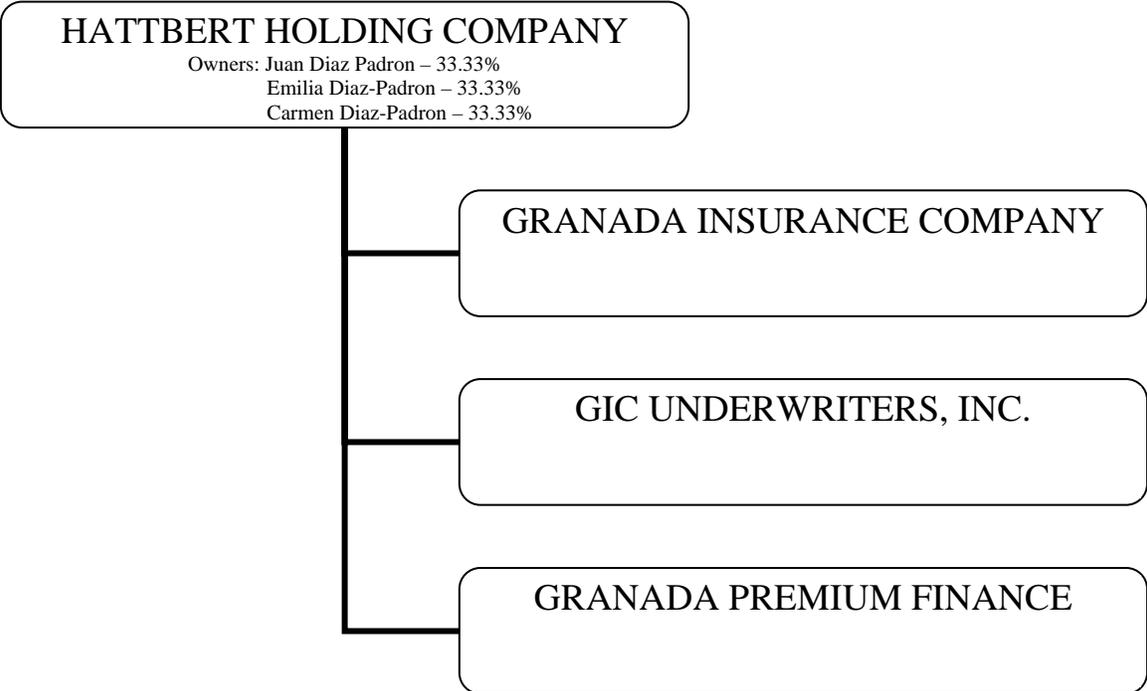
Managing General Agency (MGA) Agreement

On June 2 1997, the Company entered into an agreement with GIC Underwriters, Inc., to produce and service all lines of insurance authorized by the Company. This agreement met the required contract provisions in accordance with Section 626.7451, FS.

A simplified organizational chart as of December 31, 2004, reflecting the holding company system, is shown below. Schedule Y of the Company's 2004 annual statement provided a list of all related companies of the holding company group.

**GRANADA INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2004



FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$300,000 with a deductible of \$10,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company provided a 401K plan, health insurance and long-term disability insurance to all eligible 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	Certificate of Deposit	\$ 100,000	\$ 100,000
FL	Cash Deposit	<u>200,000</u>	<u>200,000</u>
TOTAL FLORIDA DEPOSITS		\$ 300,000	\$ 300,000
GA	Cash Deposit	<u>\$ 25,000</u>	<u>\$ 25,000</u>
TOTAL OTHER DEPOSITS		<u>\$ 25,000</u>	<u>\$ 25,000</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 325,000</u>	<u>\$ 325,000</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory

The Company was authorized to transact insurance in the following states:

Florida
Georgia

Treatment of Policyholders

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

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim.

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 have any assumed risk

Ceded

The Company ceded approximately 89% of risk on a quota share, excess of loss, aggregate catastrophe and facultative basis to General Reinsurance Corporation. The Company also ceded risk on an aggregate excess of loss, aggregate catastrophe and quota share to other reinsurers.

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

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory basis financial statements annually for the years 2002, 2003 and 2004, 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.

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 Oppenheimer Trust Company. The safekeeping agreement between the Company and Oppenheimer Trust Company provided the proper safeguards and controls indemnifying the Company as provided by Rule 69O-143.042, FAC.

Software License and Service Agreement

The Company entered into a software license and service agreement with Insurance Data Processing (IDP). The agreement authorized the Company to utilize IDP software to facilitate in its daily operations relating to written premiums.

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, 2004, 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."

GRANADA INSURANCE COMPANY
Assets

DECEMBER 31, 2004

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	\$17,047,580		\$17,047,580
Stocks:			
Common	1,921,505		1,921,505
Mortgage loans:			
First liens	217,000		217,000
Real estate:			
Properties occupied by Company	766,048		766,048
Cash:			
On hand	4,638,109		4,638,109
Investment income due and accrued	209,528		209,528
Agents' Balances:			
Uncollected premium	1,338,196		1,338,196
Current Federal and foreign income tax	567,342		567,342
Net deferred tax asset	628,998		628,998
Electronic data processing equipment	19,568		19,568
Receivable from PSA	178,570		178,570
Totals	\$27,532,444	\$0	\$27,532,444

GRANADA INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2004

Liabilities	Per Company	Examination Adjustments	Per Examination
Losses	\$8,557,983		\$8,557,983
Loss adjustment expenses	2,302,377		2,302,377
Other expenses	90,811		90,811
Taxes, licenses and fees	37,631		37,631
Current federal and foreign income taxes	80,450		80,450
Unearned premium	6,698,177		6,698,177
Ceded reinsurance premiums payable	<u>1,704,000</u>		<u>1,704,000</u>
Total Liabilities	\$19,471,429		\$19,471,429
Common capital stock	\$1,955,800		\$1,955,800
Gross paid in and contributed surplus	2,945,816		2,945,816
Unassigned funds (surplus)	<u>3,159,299</u>		<u>3,159,299</u>
Surplus as regards policyholders	<u>\$8,060,915</u>		<u>\$8,060,915</u>
Total liabilities, capital and surplus	<u>\$27,532,344</u>	<u>\$0</u>	<u>\$27,532,344</u>

GRANADA INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2004

Underwriting Income

Premiums earned	\$12,597,486
DEDUCTIONS:	
Losses incurred	4,436,072
Loss expenses incurred	2,782,703
Other underwriting expenses incurred	6,589,066
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$13,807,841</u>
Net underwriting gain or (loss)	(\$1,210,355)

Investment Income

Net investment income earned	\$888,011
Net realized capital gains or (losses)	<u>(351,884)</u>
Net investment gain or (loss)	\$536,127

Other Income

Net gain or (loss) from agents' or premium balances charged off	(\$65,820)
Total other income	(\$65,820)
Net income before dividends to policyholders and before federal & foreign income taxes	(\$740,048)
Dividends to policyholders	<u>0</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes	(\$740,048)
Federal & foreign income taxes	<u>83,778</u>
Net Income	(\$823,826)

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$7,000,045
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Gains and (Losses) in Surplus

Net Income	(\$823,826)
Net unrealized capital gains or losses	594,714
Change in non-admitted assets	507,982
Surplus adjustments: Paid in	782,000
Aggregate write-ins for gains and losses in surplus	0
Examination Adjustment	<u>0</u>
Change in surplus as regards policyholders for the year	<u>\$1,060,870</u>
Surplus as regards policyholders, December 31 current year	<u>\$8,060,915</u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$11,711,360

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, 2004, 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 not in concurrence with this opinion. According to the Office actuary, the Company's Losses and Loss adjustment expense reserves were deficient by \$851,000 which was in violation of Section 625.101.

Subsequent event: Documentation was provided to the Office actuary to verify that the reserve deficiency of \$851,000 was corrected as recommended and in accordance with Section 625.101, FS. The loss and LAE reserves were within an acceptable range of the best estimate of the Company's consulting actuary as of December 31, 2005.

**GRANADA INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2004

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, 2004, Annual Statement	\$8,060,915
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No Adjustment			\$0
LIABILITIES:			
No adjustment			
 Net Change in Surplus:			
Surplus as Regards Policyholders December 31, 2004, Per Examination			\$8,060,915

SUMMARY OF FINDINGS

Compliance with previous directives

The Company has taken the necessary actions to comply with the comments made in the 2001 examination report issued by the Office.

Current examination comments and corrective action

There were no items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2004.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Granada Insurance Company** as of December 31, 2004, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$8,060,915 which was in compliance with Section 624.408, FS.

In addition to the undersigned, John Berry, Financial Examiner/Analyst Supervisor, and Joe Boor, FCAS, Office Actuary, participated in the examination.

Respectfully submitted,

Owen A. Anderson
Financial Examiner/Analyst II
Florida Office of Insurance Regulation