

**REPORT ON EXAMINATION**  
**OF**  
**MAPFRE INSURANCE COMPANY OF**  
**FLORIDA**  
**MIAMI, FLORIDA**

**AS OF**  
**DECEMBER 31, 2008**

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

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Tallahassee, Florida

July 15, 2009

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, 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, 2008, of the financial condition and corporate affairs of:

**MAPFRE INSURANCE COMPANY OF FLORIDA  
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, 2004, through December 31, 2008. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2003. This examination commenced with planning at the Office on April 13, 2009, to April 16, 2009. The fieldwork commenced on April 20, 2009, and concluded as of July 15, 2009.

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.

The Financial Condition Examiners Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

Risk-focused examinations consist of a seven-phase process that can be used to identify and assess risk, assess the adequacy and effectiveness of strategies/controls used to mitigate risk and assist in determining the extent and nature of procedures and testing to be utilized in order to

complete the review of that activity. The process should generally include a determination of the quality and reliability of the corporate governance structure and risk management programs. In addition, it can be used for verification of specific portions of the financial statements or other limited-scope reviews, increased focus on, and can result in increased substantive testing of, accounts identified as being at high risk of misstatement. Conversely, the risk assessment process should result in decreased focus on, and fewer substantive tests on the accounts identified as being at low risk of misstatement. The risk-focused surveillance process can be used to assist examiners in targeting areas of high-risk.

In this examination, emphasis was directed to the quality, value and integrity of the statement of assets and the determination of liabilities, as those balances affect the financial solvency of the Company as of December 31, 2008. Transactions subsequent to year-end, 2008, were reviewed where relevant and deemed significant to the Company's financial condition.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

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 reports, 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) and other reports as considered necessary were reviewed and utilized where applicable within the scope of this examination.

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

### **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, 2003, along with resulting action taken by the Company in connection therewith.

#### **Management**

The Company did not maintain an audit committee. **Resolution:** The Board has established an Audit Committee for all years under review.

#### **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, Florida Statutes. **Resolution:** Based on a review of conflict of interest questionnaires during the period 2004 through 2008, the Company was in compliance with the prior examination report finding.

#### **Corporate Records**

The Company failed to maintain minutes of the 2002 and 2003 shareholders meetings, the 2003 board of directors meetings, and the audit committee and investment committee meetings from 2000 through 2004, in violation of Section 607.1601 Florida Statutes. **Resolution:** Although there were no Investment or Audit Committee minutes for all of 2004, beginning in 2005, regular

meetings of the Board of Directors, investment Committee and Audit Committee were held, and minutes maintained.

There was no documentation in the minutes reviewed that the Company's directors reviewed the previous examination report. **Resolution:** During the September 7, 2005, Board of Directors meeting, the Board reviewed, approved and ratified the Office's December 31, 2003 examination report.

### **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 in compliance with Rule 69O-142.011(11)(b)16 Florida Administrative Code and NAIC pronouncements. **Resolution:** The Company had proper fidelity bond coverage in compliance with Rule 69O-142.011(11)(b)16 Florida Administrative Code and NAIC requirements during the current examination period.

### **Bonds**

Discrepancies were found in the amortization of several bonds using the scientific interest method. **Resolution:** Review of the Company's bond amortization during the current examination period indicated that the Company was properly reporting its bond amortization and accrued interest with minor differences.

### **Cash**

The Company did not maintain an escheat payable account and had not filed a report of abandoned property with the Department of Financial Services for year-end 2003 in violation of Section 717.117 Florida Statutes. **Resolution:** The Company has established an escheats



payable account, and has filed its reports of abandoned property for all prior periods up through December 31, 2008.

### **Reinsurance Recoverable**

The Company erroneously reported all reinsurance recoverable on paid loss and loss adjustment expenses as current in violation of NAIC Annual Statement Instructions. **Resolution:** Based on a review of documentation supporting the Company's reported reinsurance recoverable balances as of December 31, 2008, the Company was in compliance with the prior exam report finding.

### **EDP Equipment**

The Company failed to include all the disclosures required by SSAP 16 in the 2003 annual statement. **Resolution:** As required by SSAP 16, the disclosures were included in the annual audited statutory financial report for all years under review.

### **Capital Stock**

The Company incorrectly recorded the amount of capital stock after the merger with Mapfre Insurance Company. **Resolution:** A review of the Company's reported capital stock in subsequent periods properly reflects the reporting of its own capital stock after the merger with Mapfre Insurance Company. The Company reclassified \$512,000 from its gross paid-in to common capital stock as of December 31, 2004.

### **Loss and Loss Adjustment Expenses**

The Company recorded each calendar year payment to the corresponding accident year, and improperly reported the payments for Adjusting and Other expenses. **Resolution:** Based on work

performed by the Consulting Actuary, it was determined that the Company was in compliance NAIC statutory accounting procedures, and has complied with the prior exam report finding.

### **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.

**Resolution:** Based on a desk audit of the Company's information technology operations, the Company has complied with this prior exam report finding.

## **HISTORY**

### **General**

The Company was incorporated on November 17, 1988, as a stock property and casualty insurer under the applicable provisions of the State of Florida as Consolidated Property and Casualty Insurance Company and commenced business on August 1, 1989. Mapfre Corporation of Florida Inc. received approval from the Office to purchase the Company on June 6, 2002, and the name was subsequently changed to Mapfre Insurance Company of Florida effective October 1, 2002. Mapfre Insurance Company of Florida (f.k.a. Consolidated Property & Casualty Insurance Company) merged with Mapfre Insurance Company of America on March 25, 2003. As of December 31, 2008, the Company was 100 percent owned by Mapfre U.S.A. Corp. (f.k.a. Mapfre Corporation of Florida Inc.) a wholly owned subsidiary of MAPFRE Internacional, S.A., which, in turn, was owned 87.5 percent by MAPFRE S.A. and 12.5 percent by Caja de Ahorros Y Monte de Piedad de Madrid (Caja Madrid), a savings bank organized under the Laws of Spain. MAPFRE S.A., in turn, was owned 62 percent by Fundacion Mapfre, a non-profit charitable foundation, 15 percent by Caja Madrid, and 23 percent by other public shareholders, none of whom own more than 2.59 percent or more interest in MAPFRE S.A.

**Subsequent event:** On March 29, 2009, the Office granted approval of Consent Order 102696-09-CO, which allowed for the indirect acquisition of the Company by Caja Madrid.

In accordance with Section 624.401(1), Florida Statutes, the Company was authorized to transact the following insurance coverage in Florida on December 31, 2008:

Fire	Allied Lines
Commercial Multi Peril	Inland Marine
Other Liability	Private Passenger Auto Liability
Commercial Automobile Liability	PPA Physical Damage
Commercial Auto Physical Damage	Surety
Glass	Burglary and Theft

The Articles of Incorporation were last amended on July 16, 2002, to reflect the name change from Consolidated P&C Insurance Company to Mapfre Insurance Company of Florida. The bylaws were not amended during the period covered by this examination.

## **Capital Stock**

As of December 31, 2008, the Company's capitalization was as follows:

Number of authorized common capital shares	30,000
Number of shares issued and outstanding	20,000
Total common capital stock	\$2,000,000
Par value per share	\$100.00

Control of the Company was maintained by its parent, Mapfre U.S.A. Corp. which owned 100 percent of the stock issued by the Company, which in turn was 100 percent owned by Mapfre Internacional, S.A., a Madrid Spain company. Mapfre Internacional, S.A. was owned 87.5 percent by MAPFRE S.A. and 12.5 percent by Caja Madrid, a savings bank organized under the Laws of Spain. MAPFRE S.A., in turn, was owned 62 percent by Fundacion Mapfre, a non-profit charitable foundation, 15 percent by Caja Madrid, and 23 percent by other public shareholders, none of which own more than 2.59 percent or more interest in MAPFRE S.A.

## Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of operations, as reported in the filed annual statements.

	2008	2007	2006	2005	2004
Premiums Earned	13,600,021	11,657,321	12,440,985	13,544,380	11,913,509
Net Underwriting Gain/(Loss)	(259,629)	(410,007)	76,578	(2,404,097)	(1,567,119)
Net Income	1,010,177	1,009,291	1,392,743	(976,365)	(252,549)
Total Assets	44,217,354	42,958,568	41,147,949	32,674,584	29,547,592
Total Liabilities	22,271,248	22,385,070	21,117,797	23,759,750	19,295,838
Surplus As Regards Policyholders	21,946,106	20,573,498	20,030,152	8,914,833	10,251,755

## 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 held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2008, were:

### Directors

#### Name and Location

Jaime Tamayo  
Weston, Massachusetts

Jorge Antonio Fernandez-Silva  
Miami, Florida

#### Principal Occupation

Chairman, President & CEO Mapfre  
Insurance Company of Florida, Amstar  
Insurance Company

Consultant

Dennis McNair Fantis Pinecrest, Florida	President - Road America Motor Club
Andres Jimenez Madrid, Spain	Chairman & CEO Mapfre Internacional, S.A.
Javier Jose Fernandez-Cid Majadahonda, Spain	Managing Director Mapfre Internacional, S.A.
Jeremy Richard Wallis Basking Ridge, New Jersey	Consultant
Robert Elwin Giddings Santa Rosa, California	Retired
Marc Mitchell Tract Brookville, New York	Attorney

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

#### **Senior Officers**

<b>Name</b>	<b>Title</b>
Jaime Tamayo	President & CEO
John Joseph Lynch	Sr. Vice President, CFO and Treasurer
Pedro Armando Freyre (a)	Secretary
Maria del Carmen Fenton (b)	Assistant Secretary, VP Administration & HR
Oscar Bosque, Jr.	Sr. Vice President Underwriting
Thomas Stefan Jensen	Executive Vice President

(a) Daniel Patrick Olohan replaced Pedro Armando Freyre as Secretary on February 13, 2009.

(b) Michael Steven Sher replaced Maria del Carmen Fenton as Assistant Secretary on February 13, 2009.

The Company's board of directors (Board) appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following are the principal internal board committees and their members as of December 31, 2008:

**Executive Committee<sup>1</sup>**

Jaime Tamayo<sup>2</sup>  
Andres Jimenez  
Javier Jose Fernandez-Cid  
John Lynch<sup>3</sup>

**Audit Committee**

Jaime Tamayo<sup>2, 4</sup>  
Javier Jose Fernandez-Cid  
Jorge Fernandez-Silva  
Jeremy Richard Wallis  
John Lynch<sup>3</sup>

**Investment Committee**

Jaime Tamayo<sup>2</sup>  
Dennis McNair Fantis  
Jorge Fernandez-Silva  
John Lynch<sup>3</sup>

<sup>1</sup> Not a formal committee of the Board of Directors

<sup>2</sup> Chairman

<sup>3</sup> Permanent Consultant

<sup>4</sup> Resigned from Audit Committee on June 29, 2009

It is noted that the permanent consultant to the audit committee was also a member of Company management. Additionally, the Audit Committee Chairman is also the President and CEO of the Company. Based on the aforementioned, the Audit Committee was not in compliance with Section 624.424(8)(c), Florida Statutes, which requires that the Audit Committee be comprised solely of members who are free from any relationship that would interfere with the exercise of independent judgment as a committee member.

**Subsequent event:** On June 29, 2009, Mr. Tamayo resigned from the Audit Committee of the Company.

**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.

**Corporate Records**

The recorded minutes of the shareholder, Board, and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events 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**

No acquisitions, mergers, disposals, dissolutions or purchases or sales through reinsurance were implemented by the Company during the examination period.

### **Surplus Debentures**

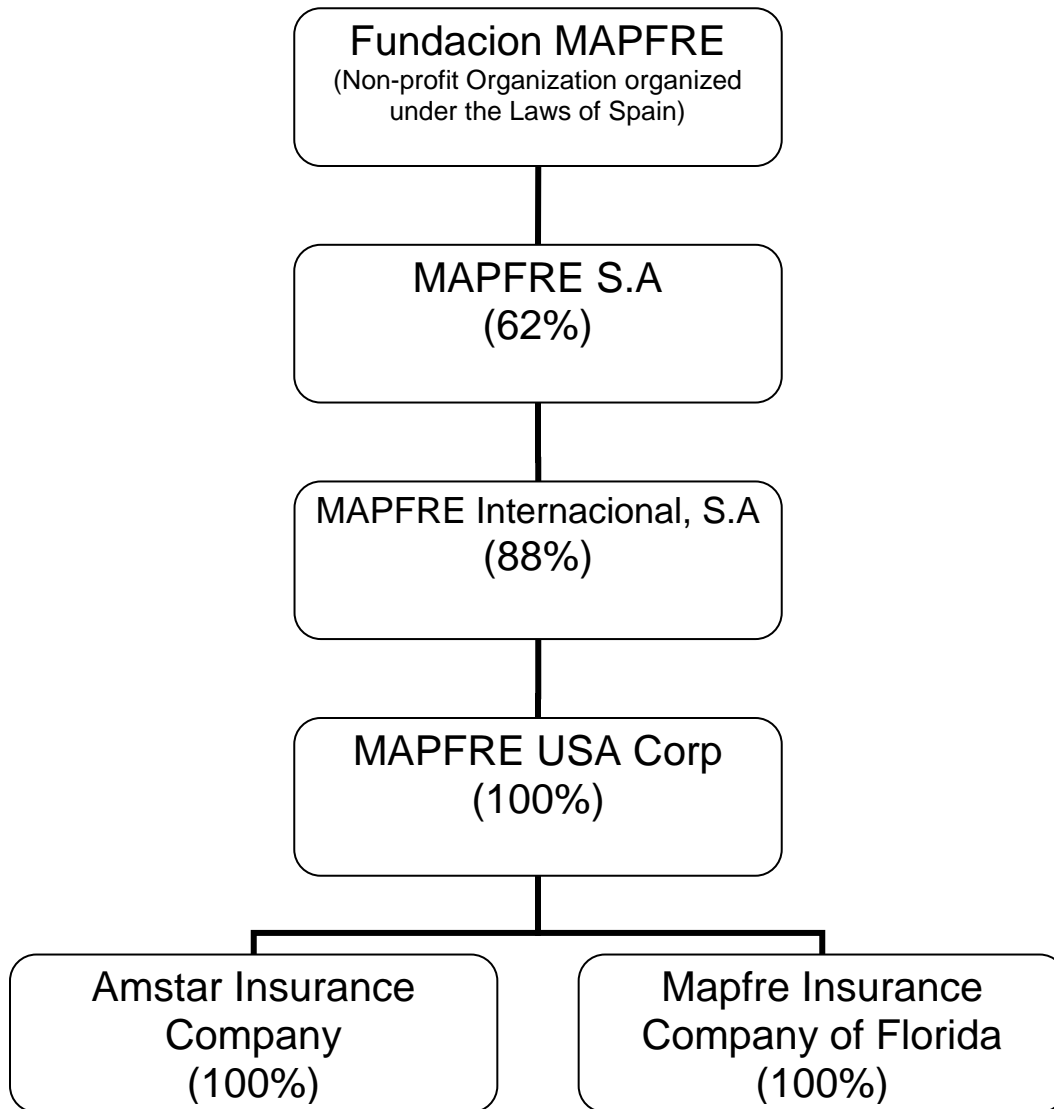
As of December 31, 2008, there were no outstanding surplus debentures of the Company.

## **AFFILIATED COMPANIES**

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on July 15, 2008, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2008, reflecting the holding company system, is shown below. Schedule Y of the Company's 2008 annual statement provided a list of all related companies of the holding company group.

**MAPFRE INSURANCE COMPANY OF FLORIDA  
ORGANIZATIONAL CHART  
DECEMBER 31, 2008**





## **Tax Allocation Agreement**

The Company, along with its parent and other affiliated companies filed a consolidated federal income tax return. On December 31, 2008, the method of allocation between the Company and its parent was based on separate tax liability as if the Company had filed a separate tax return.

**Subsequent event:** Effective with the approval of the Form A filed with the Office on April 15, 2009, and applicable to the consolidated tax year ending December 31, 2009, the Company will become party to a Second Amended and Restated Tax Allocation Agreement, replacing the above agreement. Refer to the Subsequent Events section of this Report for details of this agreement.

## **Administrative Services Agreement**

The Company entered into the agreement with its affiliate, Amstar Insurance Company (Amstar) effective October 25, 2006, 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 to Amstar. This agreement replaced the previous Administrative Services Agreement that was effective January 2, 2003.

**Subsequent event:** Effective January 1, 2009, the Company became party to a Second Amended and Restated Management Cost Allocation Agreement with The Commerce Insurance Company and its affiliates, replacing the above agreement. Refer to the Subsequent Events section of this Report for details of this agreement.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company maintained a fidelity bond with single loss limit liability coverage of up to \$450,000 with a deductible of \$5,000, and an aggregate limit of \$450,000, which adequately covered the suggested minimum amount for the Company as recommended by the NAIC.

The Company also maintained a Commercial Auto business policy with limits of \$1,000,000 each accident; Workers Compensation insurance with an Employers Liability for Bodily Injury (BI) by Accident of \$500,000 each accident, BI by disease of \$500,000 per limit and BI by disease of \$500,000 per employee; an Umbrella policy with a limit of \$5,000,000; and E&O, D&O, Financial Lines, Pension Trusts coverage with an aggregate limit for claims made in each policy year of \$1,000,000 with a retention of \$10,000, and an aggregate limit for profession services claims made in each policy year of \$5,000,000 with a retention of \$50,000. In addition, the Company was covered under Mapfre U.S.A. Corp.'s Commercial Package Policy which includes both commercial property and commercial liability.

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

The Company's employees were eligible to participate in Mapholding Company Retirement (401K) plan and the Company was responsible for the portion of any matching contributions attributable to its employees not to exceed 6 percent. In addition, the Company provided health, dental, life, AD&D and Disability.

## **STATUTORY DEPOSITS**

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

State	Description	Par Value	Market Value
FL	Cash	\$900,000	\$900,000
	TOTAL FLORIDA DEPOSITS	\$900,000	\$900,000
	Total Special Deposits	<u>\$900,000</u>	<u>\$900,000</u>

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **Territory and Plan of Operation**

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

### **Treatment of Policyholders**

The Company had 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 handling each type of claim in accordance with Section 626.9541(1) (i) 3a, Florida Statutes.

## **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 had per risk excess-of-loss treaties and catastrophic-loss reinsurance treaties with both authorized and unauthorized reinsurers, under which all written premiums were subject. In addition, facultative reinsurance was obtained by the Company as needed to cover certain risk exposures in excess of maximum policy limits. As of December 31, 2008, the primary reinsurer was Mapfre Re Compania De Reaseguros S.A., an authorized affiliated reinsurer.

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

**ACCOUNTS AND RECORDS**

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

An independent CPA audited the Company's statutory basis financial statements annually for the years 2004, 2005, 2006, 2007 and 2008, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

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 and non-affiliates had the following agreements:

### **Custodial Agreement**

Effective June 2, 2002, the Company entered into a custodial agreement with Merrill Lynch Trust Company, FSB for the purpose of holding the Company's invested assets as custodian. Review of the agreement noted that it was in compliance with Rule 69O-143.042, Florida Administrative Code.

**Subsequent event:** Effective January 2, 2009, the Company entered into a custodial account with BONY-Mellon for the purpose of holding the Company's invested assets as custodian. A review of this agreement noted that it was not in compliance with Rule 69O-143.042 (2), Florida Administrative Code as it omitted the following clauses: (a), (c), (d), (g), (h), (i), (j), (k), (l), (n) and (o). On July 1, 2009, the Company amended the January 2, 2009 custodial agreement with BONY-Mellon to incorporate language required under Rule 69O-143.042 (2), Florida Administrative Code.

### **Corporation General Resolution**

Effective March 26, 2004, the Company entered into a General Corporate Resolution to establish various bank accounts with Citibank. The resolution contained authorized signers at the time of establishment.

### **Investment Advisory Agreement**

From 1994 until December 31, 2008, the Company utilized the services of Gaston de Zarraga for investment advisory services.

**Subsequent event:** Effective January 1, 2009, investment advisory services were performed by The Commerce Insurance Company in accordance with a Second Amended and Restated Management Cost Allocation Agreement. Refer to the Subsequent Events section of this Report for details of this agreement.

### **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.

### **Actuarial Services Agreement**

The Company engaged KPMG, LLP to conduct the 2008 reviews of loss and loss adjustment expense reserves and to issue the Statement of Actuarial Opinion and the confidential Actuarial Opinion Summary for the Company and its affiliate Amstar. This one year agreement was similar to prior years' agreements wherein KPMG will assist in conducting actuarial evaluations of the loss and LAE reserves as of June 30, 2008, September 30, 2008, and December 31, 2008 for each company.

**Subsequent event:** Effective January 1, 2009, actuarial services were performed by The Commerce Insurance Company in accordance with a Second Amended and Restated Management Cost Allocation Agreement. Refer to the Subsequent Events section of this Report for details of this agreement.

### **Master Consulting Services Agreement**

Effective March 28, 2005, the Company entered into an agreement with Office Equipment Solutions, Inc. to perform professional and technical services to recruit, design, implement, manage, and support advanced business consulting solutions.

### **Verbal Consultant Agreement**

In 1993, the Company entered into a verbal agreement with William Godwin that can be terminated at any time, under which Mr. Godwin provided regulatory consultation.

### **Corporate Legal Services Agreement**

Effective November 1, 2002, the Company entered into a contract with Ackerman, Senterfitt & Eidson, P.A. for the purpose of providing corporate legal services.

### **Consulting services Agreement**

The Company entered into various consulting services contracts with Towers Perrin during 2007 and 2008 for the implementation and development of products to be introduced into new markets during 2007 and 2008.

### **Information Technology Report**

INS Services, Inc. performed a computer systems evaluation on the Company. Results of the evaluation were noted in the Information Technology (IT) report provided to the Company.

## **FINANCIAL STATEMENTS PER EXAMINATION**

The following pages contain financial statements showing the Company's financial position as of December 31, 2008, 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."



**MAPFRE INSURANCE COMPANY OF FLORIDA**  
**Assets**

**DECEMBER 31, 2008**

	Per Company	Examination Adjustments	Per Examination
Bonds	\$30,251,273		\$30,251,273
Stocks:			
Preferred	656,960		656,960
Cash:	9,220,370		9,220,370
Investment income due and accrued	258,506		258,506
Agents' Balances:			
Uncollected premium	2,141,758		2,141,758
Reinsurance recoverable	55,860		55,860
Net deferred tax asset	1,072,763		1,072,763
EDP Equipment	40,595		40,595
Receivable from parents, subsidiaries and affiliates	64,889		64,889
Aggregate write-in for other than invested assets	454,380		454,380
	<hr/>		
Totals	\$44,217,354	\$0	\$44,217,354
	<hr/> <hr/>		

**MAPFRE INSURANCE COMPANY OF FLORIDA**  
**Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2008**

	Per Company	Examination Adjustments	Per Examination
Losses	\$10,097,237	\$570,000	\$10,667,237
Loss adjustment expenses	1,547,744		1,547,744
Other expenses	448,839		448,839
Taxes, licenses and fees	112,218		112,218
Current federal and foreign income taxes	474,943		474,943
Unearned premium	9,590,267		9,590,267
<b>Total Liabilities</b>	<b>\$22,271,248</b>		<b>\$22,841,248</b>
Common capital stock	\$2,000,000		\$2,000,000
Gross paid in and contributed surplus	27,424,220		27,424,220
Unassigned funds (surplus)	(7,478,114)	(570,000)	(8,048,114)
Surplus as regards policyholders	\$21,946,106		\$21,376,106
<b>Total liabilities, surplus and other funds</b>	<b>\$44,217,354</b>		<b>\$44,217,354</b>

**MAPFRE INSURANCE COMPANY OF FLORIDA**  
**Statement of Income**

**DECEMBER 31, 2008**

**Underwriting Income**

Premiums earned		\$13,600,021
	<b>Deductions:</b>	
Losses incurred		3,856,231
Loss expenses incurred		2,994,509
Other underwriting expenses incurred		7,008,910
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$13,859,650
Net underwriting gain or (loss)		(\$259,629)

**Investment Income**

Net investment income earned		\$1,449,110
Net realized capital gains or (losses)		164,901
Net investment gain or (loss)		\$1,614,011

**Other Income**

Net gain or (loss) from agents' or premium balances charged off		\$0
Finance and service charges not included in premiums		10,514
Aggregate write-ins for miscellaneous income		27,893
Total other income		\$38,407

Net income before dividends to policyholders and before federal & foreign income taxes		\$1,392,789
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$1,392,789
Federal & foreign income taxes		382,612
Net Income		\$1,010,177

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year		\$20,573,498
Net Income		\$1,010,177
Net unrealized capital gains or losses		(67,610)
Change in net deferred income tax		(41,531)
Change in non-admitted assets		494,411
Aggregate write-ins for gains and losses in surplus		(22,839)
Examination Adjustment		(570,000)
Change in surplus as regards policyholders for the year		\$802,608
Surplus as regards policyholders, December 31 current year		\$21,376,106

## COMMENTS ON FINANCIAL STATEMENTS

### Assets

#### Reinsurance Recoverables

\$55,860

The above amount was the same as reported by the Company. However, a review of the Company's reinsurance recoverables at December 31, 2008, noted that the Company was netting its reinsurance recoverables with its ceded reinsurance payables, which was not in accordance with NAIC Annual Statement Instructions and Rule 69O-137.001(4)(a), Florida Administrative Code.

#### Receivable from Parent, Subsidiaries and Affiliates

\$64,889

The above amount was the same as reported by the Company. However, a review of the Company's intercompany receivables noted that the Company was providing services to affiliates other than Amstar, which were not party to the Administrative Services Agreement effective October 25, 2006. Inquiry with the Company noted that there was no formal/written related party policy as of December 31, 2008, or for prior periods with regards to other related parties or related party transactions. Accordingly, the Company was not in compliance with Rule 69O-143.046(2)(c)(5), Florida Administrative Code.

### Liabilities

#### Losses and Loss Adjustment Expenses

\$12,214,981

The above amount was \$570,000 more than the amount reported by the Company as of December 31, 2008.

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, 2008, made a reasonable provision for

all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements. The Office consulting actuary reviewed work papers provided by the Company and identified a deficiency in the reserves reported at year-end.

### **Capital and Surplus**

The amount reported by the Company of \$21,946,106, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

**MAPFRE INSURANCE COMPANY OF FLORIDA  
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

**DECEMBER 31, 2008**

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 December 31, 2008, per Annual Statement	\$21,946,106
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
<b>ASSETS:</b>			
No adjustments			
<b>LIABILITIES:</b>			
Loss and Loss Adjustment Expenses	\$11,644,981	\$12,214,981	(\$570,000)
 Net Change in Surplus:			<u>(570,000)</u>
 Surplus as Regards Policyholders December 31, 2008, Per Examination			<u>\$21,376,106</u>

## SUMMARY OF FINDINGS

### **Compliance with previous directives**

The Company has taken the necessary actions to comply with all comments made in the 2003 examination report issued by the Office.

### **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, 2008.

### **Reinsurance Recoverables**

A review of the Company's reinsurance recoverables at December 31, 2008, noted that the Company was netting its reinsurance recoverables with its ceded reinsurance payables, which was not in accordance with NAIC Annual Statement Instructions and Rule 69O-137.001(4)(a), Florida Administrative Code. **We recommend that the Company report its reinsurance recoverables separately from its reinsurance payables in accordance with NAIC Annual Statement Instructions and Rule 69O-137.001(4)(a), Florida Administrative Code.**

### **Receivable from Parent, Subsidiaries and Affiliates**

A review of the Company's intercompany receivables noted that the Company was providing services to affiliates other than Amstar, which were not party to the Administrative Services Agreement effective October 25, 2006. Inquiry with the Company noted that there was no formal/written related party policy as of December 31, 2008, or for prior periods with regards to other related parties or related party transactions. Accordingly, the Company was in non-compliance with Rule 69O-143.046(2)(c)(5), Florida Administrative Code. **We recommend that**

**the Company formalize all related party transactions in accordance with Rule 690-143.046(2)(c)(5), Florida Administrative Code.**

The consulting actuary for the Office identified a loss reserve deficiency at year end in the amount of \$\$570,000. We recommend that the Company correct its loss reserve deficiency to comply with Section 625.101, Florida Statutes.



## **SUBSEQUENT EVENTS**

On October 30, 2007, MAPFRE S.A. began the process to acquire 100 percent of The Commerce Group, Inc., a U.S. holding company domiciled in the State of Massachusetts. Final closing of this acquisition occurred on June 4, 2008. Subsequent to December 31, 2008, MAPFRE S.A. implemented an integration and consolidation (“reorganization”) of its two U.S. holding companies, Mapfre U.S.A. Corp. and The Commerce Group, Inc.

On April 15, 2009, a Form A filing was submitted to the Office regarding the integration and consolidation of the Mapfre U.S.A. holding company structure with The Commerce Group, Inc. (CGI). CGI is a \$1.4 billion entity that operates through five separate insurance companies. The intention is to eliminate Mapfre U.S.A. Corp., by transferring ownership of the entities owned by Mapfre U.S.A. Corp. to CGI and dissolving Mapfre U.S.A. Corp., while at the same time merging Amstar with and into the Company, with the Company being the surviving entity. The Form A filing with the Office was approved on July 1, 2009. These transactions were immediately consummated. As a consequence of this reorganization, the Company will become a wholly owned subsidiary of CGI upon the dissolution of Mapfre U.S.A. Corp., and CGI will become a wholly owned subsidiary of MAPFRE Internacional. Upon the transfer of ownership to CGI, CGI will be renamed Mapfre U.S.A. Corp. and the following services will be centralized into the group in

Webster, MA:

Legal

Regulatory Oversight

HR

Reinsurance

Investment Management

Actuarial

Accounting & Administration

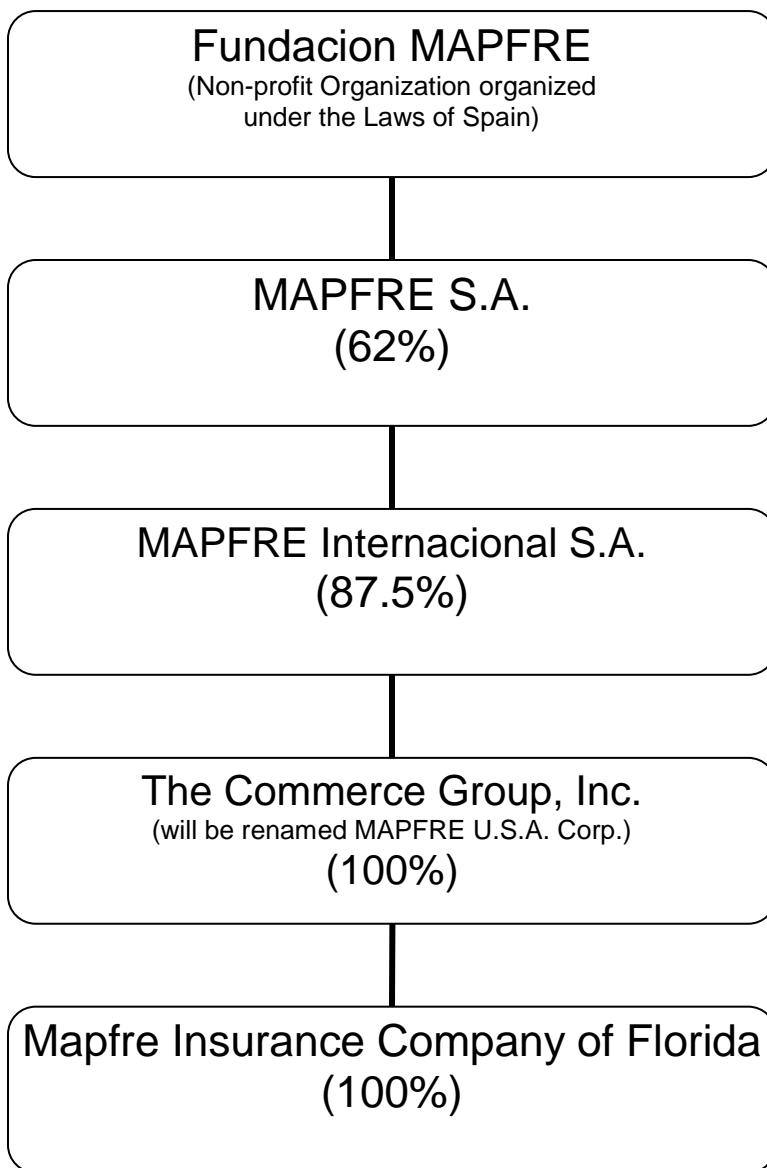
Internal Audit

IT (relocating operations and data servers sometime in August/September 2009)

Underwriting and Claims handling will be maintained at the local operations level, i.e., remain in Miami for the Company. The intention is to maintain a local presence wherever MAPFRE S.A. has operations in the U.S. It is MAPFRE S.A.'s intention to organize its operations into three regions, i.e., Eastern, Western, and Midwestern. There is no intention to redomesticate the Company upon the reorganization.

The purpose of the aforementioned reorganization are to: (i) streamline the Mapfre Group's holding company structure by eliminating one of Mapfre Group's two intermediate U.S. holding Companies; (ii) provide the Company with the greater resources and more sophisticated management systems that will become available to it from becoming an integral part of the Commerce Group; and, (iii) reflect the change in senior management of the Commerce Group insurers pursuant to which Jaime Tamayo, the President and CEO of Amstar, Mapfre Insurance Company (NJ affiliate) and the Company, has also become the President and CEO of American Commerce Insurance Company, Citation Insurance Company, Commerce Insurance Company, Commerce West Insurance Company and State-Wide Insurance Company.

A simplified organizational chart resulting from the aforementioned integration and consolidation is shown below.



As a result of the aforementioned integration and consolidation, the following agreements were entered into:

**Agreement and Plan of Merger**

Subsequent to December 31, 2008, and as part of the consolidation and integration of the Company and Amstar into the Commerce Group, the Company entered into an Agreement and

Plan of Merger effective April 19, 2009, with Amstar. Under terms of the agreement, Amstar will be merged with and into the Company, with the Company the surviving entity. All property of Amstar shall become the property of the Company. The merger shall be effective upon the filing of the Articles of Merger with the Secretary of State of the State of Florida, provided that such Articles of Merger shall not be filed with the Secretary of State of the State of Florida until five (5) business days after approval for the merger is obtained from the Office.

### **Second Amended and Restated Management Cost Allocation Agreement**

Effective January 1, 2009, the Company entered into an agreement with The Commerce Insurance Company, Citation Insurance Company, American Commerce Insurance Company, Commerce West Insurance Company, State-Wide Insurance Company, and Amstar (all together known as the "Companies"). Under terms of the agreement, the Companies from time to time may provide to the other parties the personnel, property, and services reasonably necessary to perform certain management services, support, assistance, and functions. Services provided under terms of the agreement include: performance analysis, preparation of short-term and long-term plans, tax support, legal and regulatory support, insurance consulting, contract review, public document filing, oversight and assistance relating to company direction and governance, and operational services including reinsurance coordination, finance services, information technology, human resource assistance, marketing and advertising, actuarial support, underwriting support, property management and maintenance, and claims support. Settlement of fees incurred shall be within 30 days of the end of each regular calendar quarter. The agreement may be terminated at any time, by any party with respect to another party, provided that 90 days written notice is given to the other party, or at any time by all parties by mutual agreement. This agreement replaces the Administrative Services Agreement between MICF and AIC effective October 25, 2006.

## **Second Amended and Restated Tax Allocation Agreement**

Upon approval of the Form A filing filed with the Office on April 15, 2009, and effective with the consolidated tax year ending December 31, 2009, the Company will become party to a tax agreement between MAPFRE U.S.A., Corp., The Commerce Insurance Company, ACIC Holding Co., Inc., Citation Insurance Company, American Commerce Insurance Company, Commerce West Insurance Company, State-Wide Insurance Company, BFC Holding Corp., Mapfre Insurance Company, and Mapfre Intermediaries, Inc. (all together known as the "Affiliates") for the purpose of filing a consolidated Federal tax return with its Parent and affiliated companies. The method of allocation between the Company and its Parent will be based on a separate tax liability as if the Company had filed a separate return. This agreement replaces the Tax Allocation Agreement between the Company, MAPFRE U.S.A. Corp., Amstar and Mapfre Intermediaries effective January 1, 2003.

## **Intercompany Reinsurance Pooling Agreement**

Upon approval of the Form A filing filed with the Office on April 15, 2009, the Company will become party to an Intercompany Reinsurance Pooling Agreement proposed to be effective July 1, 2009. The pooling agreement is between The Commerce Insurance Company, Citation Insurance Company, American Commerce Insurance Company, Commerce West Insurance Company, State-Wide Insurance Company and Mapfre Insurance Company of Florida (all together known as the "Parties"). Under terms of the agreement, the Parties propose to pool the results of their insurance underwriting operations. The parties will accomplish the pooling by ceding 100% of their "net liability" to Commerce and, in turn, assume from Commerce quota share percentages, in relation to each company's policyholders' surplus, of the pooled net liabilities of the Parties. Under the reinsurance pooling agreement, the Company will assume a quota share of two percent (2%). All outside ceded reinsurance placed by or on behalf of each company shall be considered as

inuring reinsurance of, and shall reduce to the extent thereof, all intercompany cessions as assumptions.

In July, 2009, Amstar Insurance Company was merged into Mapfre Insurance Company of Florida. Mapfre Insurance Company of Florida is the surviving entity.

## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Mapfre Insurance Company of Florida** as of December 31, 2008, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$21,376,106, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Patricia Casey-Davis, CFE, INSRIS Supervising Insurance Examiner, Keith Misenheimer, CFE, ALMI, Maria Chrysikos, CFE, INSRIS Financial Examiner, Oswaldo Herrera, OIR Financial Examiner/Analyst Supervisor and Michael Morrow, ACAS, MAAA, INS Consultants, Inc, participated in the examination. We also recognize INS Services, Inc.'s participation in the examination.

Respectfully submitted,

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James M. Pafford, Jr.  
Financial Examiner/Analyst Supervisor  
Florida Office of Insurance Regulation