

**AMENDED REPORT ON EXAMINATION
OF
MAPFRE PRAICO INSURANCE COMPANY**

AS OF

DECEMBER 31, 2010

NAIC CODE 43052

**BY THE
OFFICE OF THE COMMISSIONER OF INSURANCE**

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GOVERNMENT OF PUERTO RICO
OFFICE OF THE INSURANCE COMMISSIONER

February 2, 2012

Mr. Ramón L. Cruz Colón, CPCU, AU, ARe
Commissioner of Insurance
Office of the Commissioner of Insurance
B5 Tabonuco Street - Suite 216
PMB 356
Guaynabo, PR 00968-3029

Dear Commissioner:

In compliance with your instructions and pursuant to the Order Number EX-2011-11 dated September 6, 2011, and the Puerto Rico Insurance Laws and Regulations, a comprehensive risk-focused examination and financial affairs examination was made of the books, records, and financial condition of

MAPFRE PRAICO Insurance Company
Urb. Ind. Tres Monjitas 297 Ave. Chardón
San Juan, Puerto Rico 00918-1410

hereinafter referred to as MAPFRE PRAICO or the Company.

Scope of Examination

The current examination was conducted at the home office of the Company located at Urb. Ind. Tres Monjitas 297 Ave. Chardon, San Juan, Puerto Rico. This examination covers the period of January 1, 2010 through December 31, 2010, including any material relevant transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

This examination was conducted concurrently with the examination of MAPFRE Life Insurance Company.

We conducted our examination in accordance with the *National Association of Insurance Commissioners Financial Condition Examiners Handbook* (Handbook). The 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, management's compliance with Statutory Accounting Principles and Annual Statement instructions, as applicable to the Puerto Rico Insurance Laws and Regulations.

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

Summary of Significant Findings

Current Examination Findings

No material adverse findings, significant non-compliance findings, or material changes in the financial statements were noted during the examination.

Compliance with Prior Examination Findings

The prior examination report covered the period of January 1, 2005 through December 31, 2010, and was sent to the Company on June 30, 2011. A response including an Action Plan was sent to the Office of the Commissioner of Insurance of Puerto Rico (OCI) on July 19, 2011. Based upon testing performed during the current examination period, the Company was in compliance with prior examination findings. The prior examination report was issued and OCI is currently evaluating the objections to the findings presented by the Company.

History

MAPFRE PRAICO was originally incorporated on November 5, 1990, under the provisions of the Insurance Code of Puerto Rico.

The Company has been engaged in the underwriting of personal and commercial lines of property and casualty. Additionally, the Company writes dwelling, commercial multiple peril, earthquake, flood and general liability.

The Company is licensed to write business in Puerto Rico and U.S. Virgin Islands.

The Company is organized under MAPFRE PRAICO Corporation (the Corporation); a holding company wholly owned by MAPFRE America, headquartered in Madrid, Spain. MAPFRE S.A. owns 89% of MAPFRE America.

Capital Stock

As of December 31, 2010, the Company had 150,000 common stock shares authorized and 50,000 issued and outstanding at a par value of \$100 per share. The Corporation owns 100% of outstanding shares of the MAPFRE PRAICO.

A total of six shares were issued to the following directors in compliance with Section 29.150(1) of the Insurance Code of Puerto Rico:

Raúl Costilla
Jorge Fernández Silva
Manuel R. Pietrantoni
Federico Sánchez - Febles
David E. González
Joaquín Castrillo

Dividends to Stockholders

A cash dividend was declared on July 19, 2010, in the amount of \$10,500,000. An additional cash dividend was declared on December 17, 2010, in the amount of \$12,000,000. Total dividends declared and paid as of December 31, 2010, amount to \$22,500,000. There were no further dividends declared and paid during the examination period. The Company was in compliance with the provisions of Section 29.340 of the Insurance Code of Puerto Rico.

Management and Control

The bylaws state that the Board of Directors shall have no less than 5 members or no more than 15 members who shall be elected at the annual meeting of the stockholders. The Company was in compliance with its own corporate bylaws concerning membership.

Section 29.150 of the Insurance Code of Puerto Rico states that not less than the majority of directors of an insurer shall be residents of, and actually reside in, Puerto Rico. The Company was in compliance with Section 29.150 of the Insurance Code of Puerto Rico.

Section 29.220(1) of the Insurance Code of Puerto Rico states that the Board of Directors is to authorize any salary, compensation or emoluments to any director, officer or employee which in the aggregate exceeds twelve thousand dollars (\$12,000) in any one year. The Company was in compliance with Section 29.220(1) of the Insurance Code of Puerto Rico.

Section 29.140(1) of the Insurance Code of Puerto Rico states “the regular annual meeting of the stockholders or members of an insurer shall be held in any city or town of Puerto Rico, as stated in the bylaws of the insurer.” The Company was in compliance with Section 29.140(1) of the Insurance Code of Puerto Rico.

Section 29.140(4) of the Insurance Code of Puerto Rico states “special meetings of stockholders or members may be called upon not less than ten (10) days' notice, as provided in the bylaws.” The Company was in compliance with Section 29.140(4) of the Insurance Code of Puerto Rico.

As of the examination date, the directors of the Company were as follows:

<u>Directors</u>	<u>Principal Occupation</u>	<u>Resident</u>
Raúl Costilla	President & CEO, MAPFRE PRAICO	San Juan, Puerto Rico
Jorge Fernández Silva	Retired	Miami, Florida
Manuel R. Pietrantoni	Attorney	San Juan, Puerto Rico
David E. González	Senior Vice President, Chief Financial Officer and Treasurer	San Juan, Puerto Rico
Joaquin Castrillo	Executive Vice President MAPFRE Affiliates	San Juan, Puerto Rico
Federico Sánchez - Febles	Former President of Interlink Group	San Juan, Puerto Rico

The officers of the Company were the following:

Raúl Costilla	President and CEO
Joaquín Castrillo	Executive Vice President
Diego Maldonado	Senior Vice President, Information Technology

David E. González	Senior Vice President, Chief Financial Officer and Treasurer
José Barreiro	Senior Vice President of Automobile Division
José de la Mata	Senior Vice President of Human Resources and Administration
Hilda Surillo	Senior Vice President, General Counsel and Corporate Secretary
Alexis Sánchez	Senior Vice President of Reinsurance and Non- Auto P& C Division
Jaime Berríos	Vice President of General Underwriting/Property and Casualty
Alex Negrón	Vice President of Sales and Marketing
Orlando Ríos	Vice President and Controller
Luis Negrón	Vice President General Other Claims Management
Gloria Medina	Vice President of Compliance and Privacy Officer
Iraida Meléndez	Vice President of Social Corporate Responsibility and Quality Affairs

Investment Plan

Section 6.040 of the Insurance Code of Puerto Rico provides, among other things, that the Board of Directors of the insurer shall adopt a written plan to acquire and maintain investments, and to outline investment practices. The Company adopted an investment plan, which was approved by the Company's Board of Directors.

The Company's investment plan established the professional qualifications of the persons who will make routine decisions to ensure investment competence and ethical conduct in compliance with the provisions of Section 6.040 of the Insurance Code of Puerto Rico.

Corporate Governance

The Board of Directors is responsible for providing general oversight over corporate governance matters, including the development and implementation of the appropriate governance policies and procedures.

The Company is not a publicly traded corporation and, therefore, is not subject to the Sarbanes-Oxley Act of 2002.

Conflict of Interest

The Company requires its directors, officers, and key employees to sign conflict of interest questionnaires concerning items that could have an impact on the way the Company conducts business in accordance with Section 29.230 of the Insurance Code of Puerto Rico. A review of the conflict of interest questionnaires revealed that the Company was in compliance with Section 29.230 of the Insurance Code of Puerto Rico.

Corporate Records

The Articles of Incorporation, bylaws and all amendments thereto were reviewed for the period under examination. There were no amendments to the Articles of Incorporation and bylaws during the examination period.

Board of Directors and Committee Minutes

The recorded minutes of the meetings of the shareholders, Board of Directors, and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board of Directors adequately documented meetings and approval of Company transactions and events in accordance with Chapter 29 of the Insurance Code of Puerto Rico.

The Company has an established Investment Committee that reports to the Board of Directors. The Board of Directors approved the purchases of securities for the examination period. The purchases of the securities were acquired in compliance with the provisions of the Sections 6.080 and 6.090 of the Insurance Code of Puerto Rico.

The Company's overall investment procedures were in compliance with Section 6.040(2) of the Insurance Code of Puerto Rico.

Fidelity Bonds and Other Insurance

The Company maintained coverage in the form of a Crime Policy for Employee Dishonesty with limits of \$500,000 to serve in lieu of a Fidelity Bond.

The Company is a named insured on various other policies providing Commercial Property & Liability, Fire Legal Liability Earthquake, EDP Equipment, Valuable Papers, Employers Liability, Auto Liability, Professional Liability and Workers Compensation.

Pension and Insurance Plans

The Company offers a defined contribution pension plan sponsored by the Corporation. Costs are shared between the Company and the Corporation as agreed upon and identified in a cost sharing agreement between the parties.

The defined contribution pension plan is offered to all full-time MAPFRE PRAICO employees excluding those whom are compensated exclusively by a commission and/or fee basis, as well as those employed outside of Puerto Rico who do not maintain a Puerto Rico residency.

Intercompany Agreements

The Company has the following written agreement with affiliates:

- Effective January 1, 2009, the Company entered into a cost sharing agreement with MAPFRE Life Insurance Company for professional services, electronic data processing equipment and software, office material and equipment, and telephones.

The transactions with affiliates were in conformity with the Statement of Statutory Accounting Principles No. 25 of the *NAIC Accounting Practices and Procedures Manual*.

Growth of the Company

The following data was obtained from the Annual Statements filed with the OCI:

Year	Admitted Assets	Liabilities	Company Capital Stock	Gross Paid Contributed Surplus	Unassigned Surplus	Catastrophe Reserve
2010	\$439,041,429	\$244,525,760	\$5,000,000	\$65,000,000	\$95,958,962	\$28,556,707
2009	428,661,372	238,109,465	5,000,000	65,000,000	98,870,933	21,680,974
2008	449,362,080	271,485,888	5,000,000	65,000,000	87,254,917	20,621,275
2007	439,139,956	267,024,886	5,000,000	65,000,000	80,464,584	21,650,486

Insurance Products and Related Practices

The Company is authorized to write all kinds of property and casualty insurance in conformity with Chapter 4 of the Insurance Code of Puerto Rico. For the period covered by this examination, the significant lines of insurance and gross premiums written were as follows:

	2007	2008	2009	2010
Commercial Multiperil	\$61,344,101	\$63,117,726	\$58,576,520	\$60,525,432
Allied Lines	29,623,353	36,295,620	37,927,754	41,300,148
Earthquake	13,070,144	27,966,736	17,612,767	21,513,126
Auto Physical	42,992,815	34,640,009	24,368,216	20,586,028

	2007	2008	2009	2010
Commercial Auto Liability	26,298,048	26,823,354	17,094,753	15,582,978
Homeowners Multiperil	11,921,310	12,992,847	13,177,317	14,369,656
Other Liability Occurrence	12,599,367	11,237,719	11,046,579	13,265,470
Fire	3,915,222	6,305,317	5,131,073	6,413,514
Surety	8,579,636	6,678,324	4,771,261	5,614,348
Inland Marine	7,584,622	7,629,250	4,375,899	4,203,566
Private Passenger Auto Liability	2,618,079	2,491,448	2,227,670	2,042,852
Ocean Marine	3,358,956	3,061,855	1,975,914	1,733,196
Boiler and Machinery	315,722	795,542	514,576	614,648
Workers Compensation	93,253	86,000	95,013	434,085
Group Accident and Health	121,576	101,387	104,504	82,950
Fidelity	25,695	20,536	17,703	29,820
All Other	882,776	1,070,281	1,037,525	878,249
TOTAL	\$225,344,675	\$241,313,951	\$200,055,044	\$209,190,066

Territory and Plan of Operations

For the period covered under examination, the Company was licensed to transact insurance business in the following territories with the corresponding written premiums:

	2007	2008	2009	2010
Puerto Rico	\$223,867,739	\$239,696,480	\$198,815,480	\$206,132,185
US Virgin Islands	1,476,936	1,617,471	1,239,564	3,057,881
TOTAL	\$225,344,675	\$241,313,951	\$200,055,044	\$209,190,066

Statutory Deposits

As of December 31, 2010, the Company maintained the following statutory deposits with the OCI in compliance with Section 3.151 of the Insurance Code of Puerto Rico:

Description	Maturity Date	Par Value	Amortized Value
CD BBVA 656141	10/19/2011	\$1,500,000	\$1,500,000
TOTAL		\$1,500,000	\$1,500,000

Section 3.151 of the Insurance Code of Puerto Rico requires that a domestic insurer shall not be authorized to transact insurance in Puerto Rico, unless it deposits and maintains on deposit assets with a value not less than fifty percent (50%) of the amount of the paid-in capital. The deposit is held to protect the Puerto Rico insurance policyholders and creditors. The Company was in compliance with Section 3.151 of the Insurance Code of Puerto Rico.

Section 3.090 of the Insurance Code of Puerto Rico requires the Company to maintain minimum paid-in capital of \$3,000,000 and a statutory deposit of not less than \$1,500,000 of amortized value. The Company was in compliance with Section 3.090 of the Insurance Code of Puerto Rico as of December 31, 2010.

Section 3.160 of the Insurance Code of Puerto Rico requires that fifty percent (50%) of the minimum paid in capital be in Puerto Rico securities. The Company maintained

investments in Puerto Rico securities by the amount of \$1,500,000 at amortized cost. The Company was in compliance with Section 3.160 of the Insurance Code of Puerto Rico as of December 31, 2010.

Statutory deposits maintained by the Company at December 31, 2010, with other governmental agencies are as follows:

U.S. Virgin Islands:

Description	Maturity Date	Par Value	Amortized Value
CD BPPR USVI #85737	3/26/2011	\$500,000	\$500,000
TOTAL		\$500,000	\$500,000

Unclaimed Funds

The Company complied with Section 26.040 (1) of the Insurance Code of Puerto Rico by reporting unclaimed funds to the OCI, on or before May 1 for the years under examination.

The Company submitted to the OCI the notice of unclaimed funds and the payment of the unclaimed funds and was in compliance with Sections 26.050 and 26.060 of the Insurance Code of Puerto Rico.

Reinsurance

Reinsurance Assumed

The Company assumes 71.50% of premiums and losses in a Quota Share Reinsurance Agreement with MAPFRE Preferred Risk Insurance Company and MAPFRE Pan American Insurance Company covering all business written.

Reinsurance Ceded

As of December 31, 2010, the Company maintained several reinsurance contracts with the participation of reinsurers authorized by the OCI in accordance with the provisions of Section 4.120(b) of the Puerto Rico Insurance Code and Ruling Letter N -AF-4-63-2005 dated April 11, 2005.

The reinsurance contracts reviewed complied with NAIC guidelines with respect to the arbitration clause, transfer of risk, reporting, insolvency clause and settlement information deadlines as stated in Statement of Statutory Accounting Principles No. 62 of the *NAIC Accounting Practices and Procedures Manual*.

Section 4.120(3) of the Insurance Code of Puerto Rico requires that domestic insurers shall only reinsure seventy-five percent (75%) or more of all its direct risks in any kind of insurance if prior authorization is obtained from the Office of the Commissioner of Insurance of Puerto Rico. The Company is in compliance with Section 4.120 (3) of the Insurance Code of Puerto Rico.

Accounts and Records

The Company maintained its principal operational offices in San Juan, Puerto Rico where this examination was conducted.

An independent CPA firm audited the Company's statutory basis financial statements for the year 2010 in compliance with Rule 14-A of the Regulations of the Insurance Code of Puerto Rico. Supporting work papers were prepared by the CPA as required by Rule 14-A of the Regulations of the Insurance Code of Puerto Rico.

The actuarial study and opinion for the period under examination was prepared by Scott P. Weinstein, FCAS, MAAA, of KPMG, LLP.

Financial Statements

Below are the financial statements of the Company:

- Assets
- Liabilities, Surplus and Other Funds
- Statement of Income
- Capital and Surplus Account

MAPFRE PRAICO Insurance Company
Assets

As of December 31, 2010

	Annual Statement	Examination Adjustments	Examination Balance
Bonds	\$306,712,237		\$306,712,237
Common stocks	31,839,747		31,839,747
Properties occupied by the company	37,415,297		37,415,297
Cash and short-term investments	30,067,210		30,067,210
Investment income due and accrued	2,986,884		2,986,884
Uncollected premiums and agents' balances in the course of collection	18,666,810		18,666,810
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	576,652		576,652
Net deferred tax asset	8,481,493		8,481,493
Electronic data processing equipment and software	140,499		140,499
Receivable from parent, subsidiaries and affiliates	2,154,600		2,154,600
Total Assets	<u>\$ 439,041,429</u>		<u>\$ 439,041,429</u>

MAPFRE PRAICO Insurance Company
Liabilities, Surplus and Other Funds

As of December 31, 2010

	Annual Statement	Examination Adjustments	Examination Balance
Losses	\$80,332,605		\$80,332,605
Reinsurance payable on paid losses and loss adjustment expenses	4,024,237		4,024,237
Loss adjustment expenses	12,496,633		12,496,633
Commissions payable, contingent commissions and other similar changes	4,698,746		4,698,746
Other expenses	1,700,523		1,700,523
Taxes, licenses and fees	1,597,044		1,597,044
Current federal and foreign income taxes	3,047,855		3,047,855
Unearned premiums	105,781,686		105,781,686
Advance premiums	7,783,152		7,783,152
Ceded reinsurance premiums payable	4,932,778		4,932,778
Amounts withheld or retained by the company for account of others	936,549		936,549
Provision for reinsurance	21,485		21,485
Payable to parent, subsidiaries and affiliates	68,836		68,836
Aggregate write-ins for liabilities	17,103,631		17,103,631
Total Liabilities	\$ 244,525,760		\$244,525,760
Aggregate write-ins for special surplus funds	\$28,556,707		\$28,556,707
Common capital stock	5,000,000		5,000,000
Gross paid in and contributed surplus	65,000,000		65,000,000
Unassigned funds (surplus)	95,958,962		95,958,962
Total Surplus	\$ 194,515,669		\$194,515,669
Total Liabilities, Capital and Surplus	\$ 439,041,429		\$439,041,429

MAPFRE PRAICO Insurance Company
Statement of Income

As of December 31, 2010

Underwriting Income	
Premiums earned	\$148,841,701
Deductions:	
Losses incurred	60,804,475
Loss adjustment expenses incurred	17,514,003
Other underwriting expenses incurred	55,860,805
Total underwriting deductions	<u>134,179,283</u>
Net underwriting gain or (loss)	\$14,662,418
Investment Income	
Net investment income earned	\$18,699,695
Net realized capital gains (losses) less capital gains or (losses)	1,257,448
Net investment gain or (loss)	<u>\$19,957,143</u>
Other Income	
Net gain from agents' or premium balances charged off	(\$32,228)
Finance and service charges not included in premiums	48,538
Aggregate write-ins for miscellaneous income	291,670
Total other income	<u>\$307,980</u>
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	\$34,927,541
Federal and foreign income taxes incurred	5,175,846
Net Income	<u><u>\$ 29,751,695</u></u>

MAPFRE PRAICO Insurance Company
Capital and Surplus Account

As of December 31, 2010

Capital and surplus, December 31, prior year	<u>\$190,551,907</u>
Net (Loss)/Income	\$29,751,695
Change in unrealized capital gains (losses)	(3,998,353)
Change in net deferred income tax	1,939,717
Change in non admitted assets	(5,763,038)
Change in provision for reinsurance	(11,552)
Dividends to stockholders	(22,500,000)
Aggregate write-ins for gains and losses in surplus	<u>4,545,293</u>
Net change in capital and surplus for the year	<u>\$3,963,762</u>
Capital and surplus, December 31, current year	<u>\$194,515,669</u>

MAPFRE PRAICO Insurance Company
RECONCILIATION OF CAPITAL and SURPLUS ACCOUNT

As of December 31, 2010

The following is a reconciliation of Surplus as regards policyholders between that reported by the Company and as determined by the examination.

Capital and Surplus Account			
December 31, 2010, per Annual Statement			\$194,515,669
	<u>PER</u>	<u>PER</u>	<u>INCREASE</u>
	<u>COMPANY</u>	<u>EXAM</u>	<u>(DECREASE)</u>
			<u>IN SURPLUS</u>
ASSETS:			
No Adjustment			
LIABILITIES:			
No Adjustment			
Net Change in Surplus:			<u>0</u>
Capital and Surplus Account			
December 31, 2010, Per Examination			<u>\$194,515,669</u>

Comments on the Financial Statements

There were no comments on the balance sheet items.

Subsequent Events

The July 2011 Board of Director Meeting minutes reported the resignation of Federico Sánchez - Febles as director and the appointment via Board of Director resolution of Federico Sánchez - Ortiz, President of Interlink Group.

The July 2011 Board of Director Meeting minutes reported changes in composition of the Audit Committee. Prior to July 2011, the Audit Committee had a majority of non-independent members with Mr. Costilla serving as Chairman of the Audit Committee. The previous composition resulted in a non-independent Audit Committee composition with the Internal Audit Director reporting directly to the President. Effective July 2011, Mr. Costilla no longer serves on the Audit Committee. Presently, two of the three Audit Committee members are independent and Mr. González serves as the Audit Committee Chairman.

Summary of Examination Recommendations

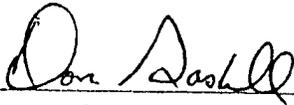
Current Examination Findings

No material adverse findings, significant non-compliance findings, or material changes in the financial statements were noted during the examination.

Conclusion

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of MAPFRE PRAICO Insurance Company as of December 31, 2010, consistent with the insurance laws of Puerto Rico.

In addition to the undersigned, Charles McMorrow, CFE, CPCU, CIA, CPA, Staff Examiner; Natalie Davis, AFE, Staff Examiner; and Patricia Casey Davis, CPA, CFE, Manager, all of INSRIS-PR, LLC; Paul Berkebile, CFSA, CISA, Senior Manager and David Gordon, MBA, CIA, CISA, CFE, IT Specialist, both of INS Services, Inc.; James Neidermyer, FCAS, MAAA, Actuary, INS Consultants, Inc.; and Carmelo Hernández Alicea, Supervisor Examiner, Office of the Commissioner of Insurance, participated in the examination.



Don Gaskill, CFE
Examiner-in-Charge