

Government of Puerto Rico
OFFICE OF THE COMMISSIONER OF INSURANCE

Examination Report Amended
MAPFRE PRAICO INSURANCE COMPANY
as of December 31, 2009

María I. Pedrosa-Rosa
Examiner

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Examinner Thechnician

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GOVERNMENT OF PUERTO RICO
OFFICE OF THE COMMISSIONER OF INSURANCE

June 30, 2011

Mr. Ramón L. Cruz Colón, CPCU, ARe, AU
Commissioner of Insurance
Office of the Commissioner of Insurance
Guaynabo, Puerto Rico

Dear Commissioner:

Pursuant to the Notification, Order for Investigation and Request Number EX-2010- 231, dated September 28, 2010, and in accordance with the provisions of Article 2.140 of the Puerto Rico Insurance Code, 26 L. P. R. A., Section 214, an examination was performed on the financial operations and condition of the domestic Insurer:

MAPFRE PRAICO Insurance Company

hereinafter referred to as "the Insurer."

SCOPE OF THE EXAMINATION

This examination of the Insurer's financial transactions and operations covered the period between January 1, 2005 and December 31, 2009, including such subsequent transactions that the examiners considered necessary. The operations and transactions of the Insurer were examined, based on different tests and evaluations, including cash transactions and claims, for the purpose of determining whether these were carried out according to the provisions of the Puerto Rico Insurance Code and its Regulations, in compliance with the standards and practices recommended by the National Association of Insurance Commissioners (NAIC). This examination was conducted at the Insurer's

main office located at 297 Tres Monjitas, Industrial Park, Carlos Chardón Avenue, San Juan, Puerto Rico.

HISTORY

The Insurer was incorporated on October 15, 1990, at the Puerto Rico State Department as a for-profit corporation, with registry number 436, under the name MAPFRE Insurance Company of Puerto Rico, which began operations on December 28, 1990. The following were the incorporators:

Mr. Rafael Roca

Mr. Julio R. Hernández

Mr. Rodolfo Criscuolo

Mr. Donald Sánchez

Mr. Walter Chow

The January 8, 1991, the Insurer, amended its Articles of Incorporation to change its name to Puerto Rican-American Insurance Company. The January 13, 2004, the Insurer, amended its Articles of Incorporation to change its name to the actual. The Article V of the Insurer's Articles of Incorporation established \$15,000,000 as authorized capital, which is comprised of 150,000 common stocks with a par value of \$100 per share.

The Insurer was organized under the provisions of the Puerto Rico Insurance Code, with the purpose of issuing property and contingency insurance in Puerto Rico. Its main product is personal and commercial auto insurance.

ADMINISTRATION AND CONTROL

SHAREHOLDERS

As of December 31, 2009, in accordance with the Registry of Shares, the total of paid in and outstanding capital was \$5,000,000. The shareholders were the following:

Shareholder	Number of Shares	Paid in Capital (\$100 per share)	Percentage
MAPFRE PRAICO Corp.	49,994	4,999,400	99.988%
Mr. David E. González	1	100	0.002%
Mr. Federico Sánchez	1	100	0.002%
Mr. Joaquín Castrillo	1	100	0.002%
Mr. Jorge Fernández-Silva	1	100	0.002%
Mr. Manuel Pietrantoni	1	100	0.002%
Mr. Raúl Costilla	1	100	0.002%
Total	50,000	\$5,000,000	100%

The corporate shareholders were:

Shareholder	Owned by:	Percentage
MAPFRE PRAICO Corporation	MAPFRE America S. A.	100%

BOARD OF DIRECTORS

Article II, Section three (3) of the By-laws establishes that the business and affairs of the Insurer shall be managed by a Board of Directors, which is comprised by no less than five (5) and no more than 15 members. They will be elected by majority votes at the Annual Shareholders Meeting. Furthermore, said Article establishes that no less than the majority of the directors shall be residents of Puerto Rico and, in fact, must

reside in Puerto Rico. Three quarters (3/4) of the directors must be citizens of the United States.

Through certification issued on October 7, 2010, Ms. Hilda Surillo-Peña, Esq., Corporate Secretary, informed that, as of December 31, 2009, the affairs and business of the Insurer were administered by a Board of Directors comprised of the following six (6) members:

Name	Position
Mr. Raúl Costilla-Prieto	President
Mr. Joaquín Castrillo-Garratón	Director
Mr. David E. González-Montalvo	Director
Mr. Manuel Pietrantoni	Director
Mr. Jorge Fernández-Silva	Director
Mr. Federico Sánchez	Director

In accordance with the Registry of Shares, the majority of the abovementioned directors resided in Puerto Rico.

By maintaining a Board of Directors whose directors are shareholders of the Insurer, the majority of which reside in Puerto Rico as of December 31, 2009, the Insurer complies with Articles 29.150(1) (a) and (2) of the Puerto Rico Insurance Code, as amended. Furthermore, the Insurer complied with Article II, Section three (3) of its By-laws.

OFFICERS

As of December 31, 2009, the officers of the Insurer were the following:

Name	Position
Mr. Raúl Costilla-Prieto	President and Chief Executive Officer
Mr. Joaquín Castrillo-Garratón	Executive Vice President - Operations
Mr. David E. González-Montalvo	Senior Vice President, Chief Financial Officer and Treasurer
Hilda M. Surillo-Peña, Esq.	General Legal Consultant and Corporate Secretary
Mr. Diego Maldonado	Senior Vice President- Information Systems
Mr. Alexis Sánchez	Senior Vice President- Underwriting and Coinsurance
Mr. José of the Mata	Senior Vice President- Human Resources and Administrative Services
Mr. Orlando Ríos	Vice President and Comptroller
Mr. Rafael Suárez	Vice President - Sales and Marketing
Mrs. Iraida Meléndez	Vice President -Corporate Social Responsibility and Quality of Service
Mr. Jaime Berríos	Vice President - Underwriting
Mr. Antonio Cecilio	Vice President - Non Auto Claims
Mr. José A. Barreiro	Vice President - Auto Claims
Mr. Alex Negrón	Vice President - Branches
Gloria Medina, Esq.	Compliance Officer and Assistant Secretary

ORGANIZATIONAL CHART

The Insurer is 100% owned by MAPFRE PRAICO Corporation., which, in turn, is 100% owned by MAPFRE America S.A. that is 100% owned by MAPFRE S.A. as shown below:

Company	Percentage	Domicile
MAPFRE S. A.	88.8621%	Spain
↓	↓	
MAPFRE America S. A.	100%	Spain
↓	↓	
MAPFRE PRAICO Corporation	100%	Spain
↓	↓	

Company	Percentage	Domicile
MAPFRE PRAICO Insurance Co.	100%	Puerto Rico
↓	↓	
MAPFRE PREFERRED RISK Insurance Co.		Puerto Rico

TERRITORY AND OPERATIONS PLAN

The Insurer is authorized to do business in Puerto Rico and the United States Virgin Islands. The Insurer provides coverage for property, marine and transportation, disability, casualty, title, agricultural and surety lines. Even though, during the period of the examination, the Insurer was authorized to do title insurance business. During the period under examination the Insurer did not underwrite any such insurance.

CONFLICTS OF INTEREST

For the period of the examination the Insurer had a certain conflict of interest questionnaires called, "Statement of Senior Representative and Director Candidates," the purpose of which is to ensure that all directors and officers of the Insurer perform their business duties in a manner in which the best interests of the Insurer are not affected or compromised by personal interests. To ensure these questionnaires are completed, the Insurer has established that the directors and officers should make a disclosure of Conflict of Interest at the time they are recruited or promoted.

CORPORATE BOOKS

MINUTES

Articles I and II and Section one (1) of the By-laws, establish that the Insurer shall hold an Annual Shareholders meeting before July 31 of each year, in a place in the City of San Juan, Puerto Rico to be designated by the Board of Directors. The directors will

be elected at this meeting. According to the minutes of the shareholders meetings submitted for examination, the Insurer, for the period of the examination held the shareholders meetings as provided in said Articles I and II of the By-laws. The Insurer complied with the provisions of Articles 29.140(1) and 29.160(1) of the Puerto Rico Insurance Code, as amended.

Article III, Section one (1) of the By-laws, establishes that the Board of Directors may elect the Officers of the Insurer, which shall be at least a President, one Vice President, a Treasurer, and a Secretary. According to the minutes of the Board of Directors submitted for examination, the Insurer elected its officers according to said Section III of the By-laws. The Insurer complied with the provisions of Article 29.210(1) of the Puerto Rico Insurance Code, as amended.

ARTICLES OF INCORPORATION AND BYLAWS

According to the information submitted for this examination, neither the Articles of Incorporation, nor the By-laws of the Insurer were amended during the period of the examination. The Insurers records on file at this Office do not show that the Insurer has file any amendment to the Articles of Incorporation or By-laws, as of the examination period.

CAPITAL, STATUTORY DEPOSIT AND INVESTMENT IN PUERTO RICO SECURITIES

Public Law No. 303, enacted on December 16, 2003, amended Articles 3.090, 3.151 and 3.160 of the Puerto Rico Insurance Code, to increase the minimum that insurers were required to maintain in paid-in capital, statutory deposits, and investments in

Puerto Rico securities. The Law further provided that for the classes of insurance underwritten by the Insurer, minimum required funds would be as follows:

	Funds	
	Required	Maintained
Minimum Paid-In Capital	\$2,800,000	\$5,000,000
Statutory Deposit	\$1,400,000	\$1,500,000
Investments in Puerto Rico Securities	\$1,400,000	\$2,919,294

The Insurer complied with the Law by maintaining the minimum funds required by said Law, as of December 31, 2009.

DIVIDENDS POLICY AND PLAN

On April 25, 2006, the Insurer, in a resolution of the Board of Directors, approved a Dividend Policy and Plan, which established, among other things, to annually declare a dividend of no more than 50% of the net statutory income of the Insurer. Pursuant to this Policy, for the period of the examination, the Insurer paid the following cash dividends:

Year	Net Income (NI)	50% of NI	Dividend Paid
2005	\$19,156,942	\$9,578,471	\$7,100,000
2006	\$18,863,917	\$9,431,958	\$- 0 -
2007	\$16,432,545	\$8,216,272	\$- 0 -
2008	\$28,630,718	\$14,315,359	\$11,000,000
2009	\$27,166,770	\$13,583,385	\$7,875,000

In this examination we noted that the Insurer paid these dividends according to Article 29.340(1) of the Puerto Rico Insurance Code, as amended and in accordance with the aforementioned Dividend Policy.

TAX-EXEMPT PREMIUMS

For the period of the examination, the Insurer filed applications for tax-exempt premiums with this Office. Further to an evaluation of these applications, under the provisions of Article 7.021 of the Puerto Rico Insurance Code, and Rule No. 66 of the Regulations of the Insurance Code, the Insurer's tax-exempt premiums were approved, subject to the next intervention of this Office with the Insurer.

During this examination, it was verified that for the period of the examination the Insurer managed its investments from Puerto Rico; that the accounting functions, the verification of actuarial reserves, and the processing of the adjustment and payment of claims were done from the main offices of the Insurer, thereby complying with the provisions of Article 7.021 of the Puerto Rico Insurance Code, and Rule No. 66 of the Regulations of the Insurance Code.

REINSURANCE CONTRACTS

The Insurer submitted for examination several reinsurance contracts that were in effect as of December 31, 2009. These were the treaties called Automobile Physical Damage Excess of Loss Reinsurance Contract, Casualty Excess of Loss Reinsurance Contract, and "Commercial Catastrophe Excess of Loss Reinsurance Contract", entered into with the reinsurer, Mapfre Re Compañía de Reaseguro, S.A., and the treaty for Boiler & Machinery entered into with the reinsurer, The Hartford Steam Boiler Inspection and Insurance Company. These contracts complied with the insolvency and intermediary clauses required under SSAP 62 of the NAIC Accounting Practices and Procedures Manual. The Insurer also complied with the provisions of Section 4.120(3)

of the Puerto Rico Insurance Code, as amended, by not ceding to reinsurers more than 75% of its risk for any of its classes of insurance.

The 2009 Annual Statement shows that the Insurer assigned premiums to unauthorized reinsurers as follows:

UNAUTHORIZED REINSURER

Reliance Insurance Company
 X/L Insurance Company, Limited Bermuda
 Zurich Reinsurance
 Ecclesiastical Insurance
 New India Assurance Company

During this examination, by memorandum number 10 dated of February 3, 2011, the Insurer was requested to produce the documents requesting authorization from this Office to cede or assign risk to unauthorized reinsurers, during the period of the examination. These documents were not submitted for examination.

The Insurer failed to comply with the provisions of Articles 4.120 (1)(a) and (b) of the Puerto Rico Insurance Code, and Ruling Letter N-AF-4-63-2005, dated April 11, 2005, by ceding risk as reinsurance to reinsurers who were not authorized by this Office to do business in Puerto Rico.

RECORDS AND ACCOUNTING SYSTEM

The Insurers accounts were kept on a combined cash and accrual basis for the purposes of preparing financial statements and the Annual Statement. The accounting records include the following:

- General Ledger
- General Journal
- Disbursement Subsidiary

- Accounts Payable Subsidiary

For the period of the examination, the financial statements of the Insurer were audited by the Certified Public Accountants firm Ernst & Young, LLP.

FINANCIAL STATEMENTS

To continuation it presents the Insurer Situation Financial, according to the Annual Statements:

- Comparative Balance Sheet 2009 and 2008
- Comparative Statement of Revenue and Expenses 2009 and 2008
- Adjusted Balance Sheet as of December 31, 2009, according to this Examination
- Unassigned Surplus Reconciliation, according to this Examination

MAPFRE PRAICO Insurance Company
COMPARATIVE BALANCE SHEET
As of December 31

Assets	2009	2008
Bonds	\$ 293,390,187	\$ 294,062,850
Common Stocks	32,719,340	34,144,710
Real Estate	38,255,213	36,860,552
Cash	33,725,499	49,208,518
Investment Income Due and Accrued	2,911,872	3,284,074
Premiums Receivable	16,187,140	21,002,416
Reinsurance Receivable	660,776	2,596,729
Income Tax Recoverable	2,255,953	780,250
Net Deferred Tax Asset	6,555,407	5,127,783
Electronic Data Processing Equipment	167,707	182,268
Receivables from Parent, Subsidiaries and Affiliates	1,832,278	2,111,930
Total Assets	<u>\$ 428,661,372</u>	<u>\$ 449,362,080</u>
Liabilities		
Losses	\$ 87,354,784	\$ 85,965,732
Reinsurance Payable	4,418,834	3,754,037
Loss Adjusted Expenses	13,436,122	13,492,448
Commissions Payable	5,171,625	5,219,912
Other Expenses	1,747,083	1,846,528
Tax, Licenses and Fees	1,358,965	1,467,861
Unearned Premiums	100,695,354	125,735,169
Advance Premiums	10,756,568	16,227,062
Ceded Reinsurance Premiums Payable	2,626,922	7,790,658
Amounts Withheld	822,452	747,096
Provision for Reinsurance	9,933	-
Payable to Parent, Subsidiaries and Affiliates	27,247	652,123
Aggregate for Liabilities	9,683,576	8,587,262
Total Liabilities	<u>\$ 238,109,465</u>	<u>\$ 271,485,888</u>
Capital and Surplus		
Special Surplus	21,680,974	20,621,275
Common Stocks- Capital	5,000,000	5,000,000
Gross Paid in and Contributed Surplus	65,000,000	65,000,000
Unassigned Funds	98,870,933	87,254,917
Total Capital and Surplus	190,551,907	177,876,192
Total Liabilities and Surplus	<u>\$ 428,661,372</u>	<u>\$ 449,362,080</u>

MAPFRE PRAICO Insurance Company
COMPARATIVE INCOME AND EXPENSES STATEMENT
as of December 31, 2009

	<u>2009</u>	<u>2008</u>
Underwriting Income		
Premiums Earned	\$ 150,126,805	\$ 168,282,461
Deductions		
Losses Incurred	77,841,078	83,412,842
Loss Adjustment Expenses	18,764,201	19,151,806
Other Underwriting Expenses	<u>52,404,092</u>	<u>61,292,928</u>
Total Underwriting Deductions	\$ 149,009,371	\$ 163,857,576
Net Underwriting Gain	1,117,434	\$ 4,424,875
Investment Income		
Net Investment Income Earned	\$ 19,737,364	\$ 24,231,187
Net Realized Capital Gains	<u>4,317,182</u>	<u>1,458,261</u>
Net Investment Gain	\$24,054,546.0	\$25,689,448.00
Other Income		
Loss	\$ (186,348)	\$ (46,286)
Financial and Services Charges	50,624	45,718
Miscellaneous Income	<u>110,870</u>	<u>56,532</u>
Total Other Income	\$ (24,854)	\$ 55,964
Net Income, before income taxes	\$ 25,147,126	\$ 30,170,287
Income tax incurred	<u>(2,019,644)</u>	<u>1,539,569</u>
Net Income	<u>\$ 27,166,770</u>	<u>\$ 28,630,718</u>

MAPFRE PRAICO Insurance Company
 ADJUSTED BALANCE SHEET
 as of December 31, 2009

Assets	Annual report	Adjustments and Reclassifications	Examination
Bonds	\$ 293,390,187		\$ 293,390,187
Common Stocks	32,719,340		32,719,340
Real Estate	38,255,213		38,255,213
Cash	33,725,499	1,812,293	35,537,792
Investment Income Due and Accrued	2,911,872		2,911,872
Premiums Receivable	16,187,140		16,187,140
Reinsurance Receivable	660,776		660,776
Income Tax Recoverable	2,255,953		2,255,953
Net Deferred Tax Asset	6,555,407		6,555,407
Electronic Data Processing Equipment	167,707		167,707
Receivables from Parent, Subsidiaries and Affiliates	1,832,278		1,832,278
Total Assets	\$ 428,661,372	1,812,293	\$ 430,473,665
Liabilities			
Losses	\$ 87,354,784		\$ 87,354,784
Reinsurance Payable	4,418,834		4,418,834
Loss Adjusted Expenses	13,436,122		13,436,122
Commissions Payable	5,171,625		5,171,625
Other Expenses	1,747,083		1,747,083
Tax, Licenses and Fees	1,358,965		1,358,965
Unearned Premiums	100,695,354		100,695,354
Advance Premiums	10,756,568		10,756,568
Ceded Reinsurance Premiums Payable	2,626,922		2,626,922
Amounts Withheld	822,452		822,452
Provision for Reinsurance	9,933		9,933
Payable to Parent, Subsidiaries and Affiliates	27,247		27,247
Aggregate for Liabilities	9,683,576		9,683,576
Total Liabilities	\$ 238,109,465		\$ 238,109,465
Capital and Surplus			
Special Surplus	21,680,974		21,680,974
Common Stocks- Capital	5,000,000		5,000,000
Gross Paid in and Contributed Surplus	65,000,000		65,000,000
Unassigned Funds	98,870,933	1,812,293	100,683,226
Total Capital and Surplus	\$ 190,551,907		\$ 190,551,907
Total Liabilities and Surplus	\$ 428,661,372	\$1,812,293	\$ 430,473,665

MAPFRE PRAICO Insurance Company
UNASSIGNED SURPLUS RECONCILIATION
as of December 31, 2009

	<u>Adjustment</u>	<u>Balance</u>
Unassigned surplus, according to 2009 Annual Statement		\$98,870,933.00
Cash	1,812,293.23	
Total Examination Adjustments		<u>\$1,812,293.23</u>
Unassigned Surplus, According to Examination		<u>\$100,683,226.23</u>

NOTES TO THE ACCOUNTS PRESENTED IN THE 2009 ANNUAL STATEMENT

To continuation are the findings and comments to several of the accounts includes in the Annual Statement of the Insurer, at December 31, 2009:

BONDS **\$ 293,390,187**

At December 31, 2009, the balance presented in the Annual Statement for the account of Bonds, rise to amount of \$293,390,187. This balance represented 68% of total admitted assets of the Insurer. It was composed of the following investments:

<u>Description</u>	<u>Amortized Value</u>
Federal Farm Credit Bank	\$ 71,103,200
Federal Home Loan Bank	181,278,674
GNMA Pool	304,297
U S Treasury Notes	21,517,171
NYC Taxable Series D-1	1,500,000
PR Commonwealth Government	2,907,285
First Union Capital	4,250,568
Fleet Capital Trust 11 Cap	3,619,201
Household Finance Corp	2,447,656
Merrill Lynch & Co., Inc.	4,462,135
	<u>\$ 293,390,187</u>

The above securities, as was verified in this examination, comply with Article 6.080(1) of the Puerto Rico Insurance Code, as amended. The investments are rated by the securities rating firm Standard & Poor's ranging from AAA, AA-, BBB, BB to BBB-. In addition, these instruments are obligations that are insured by the United States or Puerto Rico or a Public Corporation of Puerto Rico or the United States. As of

December 31, 2009, the existence and value of these investments were confirmed through statements of the entities that hold them in custody, The Mellon Bank of New York, located in the State of New York and the Banco Popular de Puerto Rico- Trust Division. In a certification dated February 7, 2011, Mrs. Sheila A. Quiñones-González, Assistant Vice President for Treasury and Investments of the Insurer, reported that the securities held in custody by The Mellon Bank of New York were not physical securities, but rather Book Entry securities. This is in compliance with Rule No. 66 of the Regulations of the Puerto Rico Insurance Code.

The Insurer has an Investment Policy, as provided in Article 6.040 of the Puerto Rico Insurance Code, as amended. The investment policy did not establish that the institutions The Mellon Bank of New York and Banco Popular de Puerto Rico- Trust Division were the entities that hold the Insurer's investments in custody. Nevertheless, under the custody agreements, the Insurer agreed with these institutions, effective August 26, 2008 and November 23, 1994, respectively, the Insurer retained the responsibility, authority, management, and distribution of the investments. For this examination, the Insurer submitted a list of securities brokers that were used to manage its investments, and these were found to be qualified employees of the Insurer and brokers whose offices are located in Puerto Rico.

The Investment Policy further provides that at least quarterly, the Board of Directors of the Insurer should review the activities and practices of the investment portfolio. A review of the minutes of the Insurer's Investments Committee corroborated that for the period of the examination, the Insurer complied with its Investment Policy, by reviewing

the investment portfolio at least quarterly and that Mr. David González, a member of the Board of Directors, participated in that review.

The Insurer complied with these provisions of Chapter 6 of the Puerto Rico Insurance Code, as amended. The balance shown for the Bonds account in the 2009 Annual Statement was found to be in order.

COMMON STOCK \$ 32,719,340

The balance shown in the Annual Statement as of December 31, 2009 for the Common Stock account was \$32,719,340. The balance was comprised of the following:

Description	Valor
MAPFRE Preferred Risk Insurance Company	\$ 28,626,734
Equity Stocks	4,092,606
Total	<u>\$ 32,719,340</u>

The Equity Stock shown above was acquired by the Insurer through the Banco Santander de Puerto Rico, and through the acquisition of the affiliate company, MAPFRE Preferred Risk Insurance Company, an insurer that is authorized by the Puerto Rico Commissioner's Office to transact insurance businesses in Puerto Rico. The existence and value of this stock was confirmed in the 2009 Annual Statement of said affiliate; and the entity holding in custody the stock as of December 31, 2009 was The Mellon Bank of New York. The Insurer complied with SSAP Number 46 of the NAIC Manual. The balance shown for the common stock account in the 2009 Annual Statement was found to be in order.

REAL ESTATE**\$ 38,255,213**

At December 31, 2009, the balance presented in the Annual Statement for the Real Estate, net of depreciation, rise to amount of \$38,255,213. The same was composed of Real Estate used by the Insurer, for normal operations of your business, such as buildings and grounds, located in different areas of Puerto Rico.

Paragraph 7 of NAIC SSAP number 40 establishes that the Real Estate value shown in accounts will include acquisition costs and such structural capital improvements that are done to the building. In order to verify Insurer's compliance with SSAP 40, we took a sample of capital improvements done in 2009 to the structure of the building located at Carlos Chardón Avenue in San Juan, Puerto Rico, where the main offices of the Insurer are located, and it was found that the Insurer complied with SSAP Number 40. The balance shown for the Real Estate account in the 2009 Annual Statement was found to be in order.

CASH**\$ 35,537,792**

At December 31, 2009, the balance presented in the Annual Statement for the Cash rise to amount of \$33,725,499. The same was composed of cash deposited in 15 bank accounts and short-term investments, held by the Insurer in various banking institutions located in Puerto Rico.

After verifying the balance of the bank account statements, the bank reconciliations, and the bank confirmations, as of December 31, 2009, the balance shown in the 2009 Annual Statement for the bank accounts was different from the one we

found during this examination, as shown below:

Description	Annual Rep. Balance	Adjustment	Examination Balance
Short-term Investments	\$ 32,167,016.14		\$ 32,167,016.14
Bank Accounts	1,397,424.35	\$ 1,812,293.23	3,209,717.58
Cash Equivalents	157,384.37		157,384.37
Petty Cash	3,675.00		3,675.00
Total Cash	<u>\$ 33,725,499.86</u>	<u>\$ 1,812,293.23</u>	<u>\$ 35,537,793.09</u>

In the review of the bank accounts, the balance shown in the Annual Statement for these accounts was \$1,397,424.35, although it should have been \$3,209,717.58. As was verified in this examination, the difference was due to the fact that the balance shown in the Annual Statement for these bank accounts had not been reconciled as of December 31, 2009. This finding has an effect of increasing the cash by \$1,812,293.23.

Article 3.300 of the Puerto Rico Insurance Code, as amended, provides, among other things, that all insurers must keep complete and accurate accounts, as well as books showing assets, obligations, transactions, and business transactions, with proper separation in terms of the different kinds of insurance that is transacted, according to generally accepted accounting practices or approved by the Commissioner. The Insurer shall correct this situation so that in the future the balance shown for the cash account in the Annual Statement will be accurate.

The short-term investment balance included as part of the Cash account in the Annual Statement was found to be in order. See Appendix.

PREMIUMS RECEIVABLE**\$ 16,187,140**

At December 31, 2009, the balance presented in the Annual Statement for the Premium Receivable rise to amount of \$16,187,140. This balance was composed of outstanding premiums of 90days or less.

In this examination, in order to verify Insurer's compliance with Article 5.010 of the Puerto Rico Insurance Code and SSAP #6 of the NAIC, a sample was taken of the uncollected premiums and it was found that the premiums included in the sample were in fact premiums that had been due less than ninety days. It was also found that the Insurer had collected these premiums between January and April 2010. The Insurer complied with the Article of the Law and SSAP Number 6, as mentioned above.

INCOME TAX RECOVERABLE**\$2,255,953**

At December 31, 2009, the balance presented in the Annual Statement for the Income Tax Recoverable, rise to amount of \$2,255,953. This balance was for current contributions, overpaid as a result of payment of assessed contributions during 2009. In this examination it found that the referred balance was according with SSAP No. 10 of the NAIC Manual.

RECEIVABLES FROM AFFILIATES**\$1,832,278**

In the Annual Statement as of December 31, 2009, the Insurer showed Accounts Receivable from Affiliates in the amount of \$1,832,278. This balance was comprised of the following:

<u>Affiliate</u>	<u>Balance</u>
Premiums Rec. from Financing Co.	\$1,188,144
Intercompany Accrual	<u>644,134</u>
Total	<u>\$1,832,278</u>

The Insurer has an Expense-Sharing Agreement-Collaboration under which the Insurer and its affiliates agreed to share certain administrative and overhead expenses which were common to them, such as accounting, finance, and management functions. The distribution of the costs would be on a percentage monthly basis for each company, according to the share of net underwritten premiums for each company with regard to the total net underwritten premiums of the group.

In order to verify Insurer's compliance with Paragraph 6 of NAIC SSAP #25 during this examination, as of December 31, 2009, subsequent collections made by the Insurer from its affiliates under the Agreement were verified. As of January 2010, the Insurer had collected from its affiliates the balance shown in the 2009 Annual Statement.

RESERVE FOR LOSSES AND LOSS ADJUSTMENT EXPENSES \$100,790,906

At December 31, 2009, the balance presented in the Annual Statement for the Reserves for Losses, rise to amount of \$87,354,784, net of reinsurance and Loss Adjustment Expenses, rise to amount of \$13,436,122.

In order to verify the reasonability of the loss reserve established by the Insurer as of December 31, 2009 for the payment of claims, with a loss date of 2009 or earlier, the development of payments that had been made of the claims as of December 31, 2010, was reviewed for the month of January, and it was found that the Insurer had

made payments for such claims in the amount \$29,102,507 and had unpaid pending losses for 2009 or earlier in the amount of \$44,333,173.

As was verified, the Insurer still showed an available reserve for the payment of losses in 2009 or earlier, in the amount of \$27,355,226, as shown below:

Claims Paid as of 12/31/09	\$29,102,507
Claims Pending as of 12/31/09	<u>44,333,173</u>
Total Claims as of 12/31/09	\$73,435,680
Loss Reserve as of 12/31/09 (Annual Statement)	<u>(100,790,906)</u>
Available Reserve as of 12/31/2010	<u>\$27,355,226</u>

Based on this table, it was determined that the loss reserve established by the Insurer was adequate, as of December 31, 2009.

OTHER EXPENSES PAYABLE **\$1,747,083**

At December 31, 2009, the balance presented in the Annual Statement for the Other Expenses Payable, rise to amount of \$1,747,083. This balance was composed of Withholding Wages Payable, Professional Services Expenses, Contributions Expenses and Other Accrued Expenses.

We verified invoices and the subsequent payments made by the Insurer. The accrued balance as of December 31, 2009 for Other Expense Account appears to be reasonable.

REINSURANCE PAYABLE **\$4,418,834**

At December 31, 2009, the balance presented in the Annual Statement for the Reinsurance Payable, rise to amount of \$4,418,834.

In our analysis it was determined that the losses paid to reinsurers were for claims incurred and paid by the Insurer in 2008 and 2009. The subsequent amounts

recovered were reviewed from January to March 2010, and the reinsurance payable as shown by the Insurer in the Annual Statement appears to be reasonable.

COMMISSIONS PAYABLE **\$5,171,625**

At December 31, 2009, the balance presented in the Annual Statement for the Commissions Payable, rise to amount of \$5,171,625. In this examination, it found that the accumulated balance was in order.

In order to verify commission payments made by the Insurer to authorized persons by this Office, according to the provisions of Article 9.060 of the Puerto Rico Insurance Code, as amended, a sample of 55 authorized representatives appointed by the Insurer from 2008 to 2009 was taken and it was found that these held a license issued by this Office in that period. We examined 10 commissions paid to authorized representatives and they were in order.

UNEARNED PREMIUMS **\$ 100,695,354**

At December 31, 2009, the balance presented in the Annual Statement for the Unearned Premiums, rise to amount of \$100,695,354.

SSAP 53 of the NAIC Accounting Practices and Procedures Manual establishes among other things, that insurers will choose a daily or monthly method for calculating the reserve. During the examination, the Insurer reported that the daily method had been used. In order to verify the accrual shown by the Insurer in the 2009 Annual Statement, a sample was taken which included premiums for Private Passenger and Commercial Auto Physical Damage and Allied Lines, and it was found that the reserve was reasonable as provided in SSAP 53.

In addition, to verify the validity of the premiums shown by the Insurer as part of the unearned premiums reserve, a sample of 32 policy files was taken, and no exceptions were found.

ADVANCED PREMIUMS **\$10,756,568**

As of December 31, 2009, the balance shown by the Insurer in the 2009 Annual Statement for advanced premiums was \$10,756,568. In this examination, the accrued balance in this account appears to be reasonable.

AGGREGATE LIABILITIES **\$9,683,576**

As of December 31, 2009, the balance shown by the Insurer in the 2009 Annual Statement for Aggregate Liabilities was \$9,683,576. This balance was consisted of the following:

General Ledger	Description	Balance
95441115	Catastrophe reserve	\$4,545,293
Various	Other Liabilities	1,826,535
44301120	Unclaimed funds	3,311,747
Total		<u>\$9,683,576</u>

Articles 25.030(6) and (7) of the Puerto Rico Insurance Code, as amended, establishes the following:

“(6) The reserve for catastrophic insurance losses shall be part of the liabilities of the domestic insurer up to a total amount of at least two percent (2%) of its catastrophic risk for hurricanes. The remaining portion of the reserve shall be part of the surplus of the insurer and shall not be considered as the reserve required.... The Commissioner, through either regulation, order or administrative determination to such effects, shall establish the mechanism to be used by the insurer to show the amount of the liabilities required by this chapter in the annual financial statement.

(7) At the time of the purchase of reinsurance for catastrophic insurance, every insurer shall be bound to establish a minimum withholding of at least two percent (2%) of its catastrophic risk for hurricanes. The Commissioner, through either regulation, order or administrative ruling to such effects, shall establish the procedure to be followed by the insurer to comply with this obligation."

Article 8 of Rule No. 72 of the Regulations of the Puerto Rico Insurance Code, as amended, provides that in order to grant the benefit of phased in compliance with the rule to show the two (2%) percent of probable maximum loss as a liability, all insurers during the following four (4) years shall in a phased-in manner show the minimum retention required in Article 25.030(7) as a liability on the Annual Statement, in one of the following two ways:

- By reclassifying the item on the Annual Statement called Aggregate Write-ins for special surplus funds or
- By making additional contributions to the Reserve.

Also provided, that may be recognized, at least 20% of the minimum retention of the Insurer, at the last date to close the accounting books.

By Ruling Letter No. 2008-89-AP of the May 14, 2008, this Office, established that all insurer, not later than March 31 of each year, shall present to the Commissioner a copy of the study of the Possible Maximum Loss (PML), which must contained all the information on the policies in force, at 31 December each year, which to secure catastrophic risks.

The Insurer, performed with submitted, at March 30, 2010, on this Office, a copy of PML study, for the policies in effect at December 31, 2009, doing by the firm RMS Risk Link v9 OEP. According to the referred study of the PML, the Insurer would be exposed to catastrophic risks existing at December 31, 2009, rise to amounts of

\$432,746,506. So the Minimum Retention Required, the Insurer must present as part of the Aggregate Write Ins, rise to amount of \$8,654,930, that is, 2%. However, given that the said Rule LXXII, supra, to admit the benefit of insurers to provide this 2% in at rate of 20% to 2%; the Insurer performed with the Minimum Retention Required for 2009, a present the amount of \$4,545,293, which is in excess of 20% to 2%. The 2% rise to amount of \$1,730,986. As it present below:

Probable Maximum Loss (PML), study	\$432,746,506
*Minimum Catastrophic Reserve Required (8% de PML)	\$34,619,720
Minimum Retention Required (2% de PML)	\$8,654,930
20% of Minimum Retention Required (\$8,654,930 x 20%)	\$1,730,986
Aggregate Write Ins, present in the Annual Statement	\$4,545,293

***See Theme: Catastrophic Reserve.**

In another items, included as part of Aggregate Liabilities, the Chapter 26 of the Insurance Code of Puerto Rico, as amendment, regulates the manner in which they decide it unclaimed funds on the money retained and due, included unearned premiums, and the payment of claims that have not been claimed by persons who are entitled to, in a period of one year.

In order to verify compliance of the Insurer with referred Chapter, in this examination, it was verified, that the Reports of Unclaimed Funds, records at this Office, for the period of the examination, by the Insurer performed with the said Chapter; to be publishes; to be submitted the report no Unclaimed and to make payments of the Unclaimed Funds, to this Office, in accordance with the provisions of referred Chapter.

Also, it verified, that the Insurer has a item in their accounting books, called "Unclaimed Funds", which records of Unclaimed Funds and it was confirmed, among the worksheets external auditors that the balance presented by the Insurer was in order.

CATASTROPHIC RESERVE	\$21,680,974
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At December 31, 2009, the balance presented in the Annual Statement for the Catastrophic Reserve, rise to amount of \$21,680,974.

The Article 25.030(4) of the Insurance Code of Puerto Rico, as amendment, provides that every insurer that subscribes catastrophic risks will must establish and to accumulate a reserve, of at least eight (8%) percent of their exposure to catastrophic hurricane to pay the losses caused by such catastrophic events. The Article 25.040 of the Insurance Code of Puerto Rico, as amendment, provides that at 31 January each year, every domestic insurer that have subscribed catastrophic insurance, it has entered into a trust deposit a sum of money equal to the reserve for insurance catastrophic losses. By Ruling Letter No. 2010-106-EX 25 of the January 2010, this Office, established to the year 2009, the percent (%) that would apply to the net direct premiums, to determine the portion, along the lines of insurance, will use to determine how much amount, to will deposit to Catastrophic Reserve Trust. Pursuant to said Ruling Letter, supra, this Office, established, to the year 2009, that one percent (1%) of the portion determined, in according to the line of insurance, as the amount to will deposit to the trust Catastrophic Reserve.

The Insurer submitted during this examination, the trust deed Catastrophic Reserve, in force as November 23, 1994, pursuant approved by this Office. And, in accordance with the Article 25 040, supra, and the referred Ruling Letter, supra, and by

reviewing to the bank statement, to January 31, 2010, it found that the Insurer performed with the aforementioned Articles of Law, to make a contribution to the Catastrophic Reserve, for catastrophic policies in force in 2009, to the amount of \$1,022,066, which have a total accumulate, rise to amount of \$26,226,266, including the Aggregate Write- Ins.

Given that the Article (8) of the Rule LXXII- of the Rules of the Insurance Code of Puerto Rico, as amendment, provides that every insurer shall, in installments, over the next four (4) years, to present the two (2%) percent of the minimum retention, the Insurer, performed with the Article 25.030, a present in the Annual Statement, as Special Surplus, at least eight (8%) percent of the PML, rise to amount of \$34,619,720. See **Theme: Liabilities Aggregates.**

UNDERWRITTEN PREMIUMS RATIO

The Insurer complied with the ratio of underwritten premiums with regard to policyholders' surplus as required in Article 4.150(2) of the Puerto Rico Insurance Code, as amended.

CONCLUSION

The financial condition of the Insurer as of December 31, 2009, after performing examination adjustments is the following:

*Assets	<u>\$ 430,473,665</u>
Liabilities	233,564,172
Catastrophe reserve	26,226,266
Capital	5,000,000
Paid in and contributed capital	65,000,000
Unassigned surplus	<u>100,683,226</u>
Total Liabilities, Capital and Surplus	<u>\$430,473,665</u>

*There is a difference of \$1.00, which is due to decimal rounding

The Unassigned Surplus of the Insurer as a consequence of the adjustments made during this examination increased the net amount by \$1,812,293.

SUBSEQUENT EVENTS

DIVIDEND POLICY AND PLAN

While this examination was being performed, the Insurer revised its Dividend Policy and Plan and made several amendments effective December 31, 2010. The amendments included changing the annual dividend to be declared as no more than 60% of the statutory net income of the Insurer, which was a change from the previous percentage of 50% to 60%.

COMPLIANCE WITH PREVIOUS EXAMINATION REPORT

INCOME TAX RECOVERABLE

This Office in Case EX-2008-333- October 2008 Examination Report, based on SSAP Number 10, commented that in its 2007 Annual Statement the Insurer had shown recoverable taxes that were not current, over a year old and not recovered by the Insurer. As provided in SSAP Number 10, the interpretation of this Office is that these taxes should be recovered by the Insurer in the immediate period in which they were overpaid. These taxes have not been adjusted since Case EX-2008-333, the Insurer submitted evidence that they had been recovered.

Nevertheless, exercising the right to which it was advised, under the provisions of Articles 2.140(2) and 2.190(2) of the Puerto Rico Insurance Code, as amended, the Insurer, in a letter dated September 7, 2010, objected to the interpretation made by this Office of said SSAP Number 10. At the time of this examination, the arguments made by the Insurer and their objections were pending resolution by this Office.

PUERTO RICO MISCELLANEOUS INSURANCE GUARANTY ASSOCIATION

This Office, in Case EX-2008-333 October 2008 Examination Report advised the Insurer of its failure to comply with Article 27.160(2) of the Puerto Rico Insurance Code, as amended, by having recovered from its insureds amounts that were greater than the special assessment paid by the Insurer to the Puerto Rico Miscellaneous Insurance Guaranty Association of \$1,590,992.

In a letter dated October 15, 2010, the Insurer indicated that a specialized firm would be retained to identify, print and mail correspondence for the cases that are identified as having a right to the return of the excess premiums collected, and it is considered that the Insurer would be in condition to begin this return process of these premiums beginning on March 31, 2011. At the time of this examination, the Insurer reported that work on process was ongoing.

Respectfully submitted,



María I. Pedrosa-Rosa
Examiner

SUMMARY OF ADJUSTMENTS, COMMENTS AND RECOMMENDATIONS

1. By maintaining a Board of Directors, whose directors were shareholders of the Insurer, and most of its members, to December 31, 2009, residing in Puerto Rico, the Insurer, comply with Articles 29.150(1)(a) and (2) of the Insurance Code of Puerto Rico, as amendment. Page 4.
2. The Insurer complied with the provisions of Articles 29.140(1) and 29.160(1) of the Insurance Code of Puerto Rico, as amendment, and its By- laws, to conclude, for the period of examination, the Shareholders, as established the aforementioned Articles of Law. Page 7.
3. The Insurer complied with the provisions of Articles 29.210(1) of the Insurance Code of Puerto Rico, as amendment, and it's By- laws, to the Board of Directors elect its officers for the period under examination, as established by the aforementioned Articles of Law. Page 7.
4. To maintain, at December 31, 2009, the minimum funds required, the Insurer, comply with Articles 3.090, 3.151 and 3.160 of the Insurance Code of Puerto Rico, as amendment. Page 8.
5. The Insurer will pay dividends in the period under examination, pursuant to the provisions of Article 29.340(a) of the Insurance Code of Puerto Rico, as amendment. Page 9.
6. To manage their investments, accounting functions, check the actuarial reserves and the processing and payment of claims adjustment in Puerto Rico, the Insurer,

7. to comply with the provisions of Article 7.021 of the Insurance Code of Puerto Rico, as amendment, and Rule LXVI of the Rules of the Insurance Code. Page 9.
8. By not giving in more than 75% reinsurance of the risks underwritten, the Insurer complied with the provisions of Article 4.120(3) of the Insurance Code of Puerto Rico, as amendment. Page 10.
9. To assign risk reinsurance to re-insurers were not authorized by this Office to do business in Puerto Rico, the Insurer no complied with the provisions of Articles 4.120(1)(a) and (b) of the Insurance Code of Puerto Rico, as amendment, nor Ruling Letter N-AF-4-63-2005 of April 11, 2005. Pages 10 and 11.
10. The Insurer complied with the provisions for investment, in Chapter 6 of the Insurance Code of Puerto Rico, as amendment. Page 18.
11. The Insurer completed the equity method, according to SSAP No. 46 of NAIC Manual. Page 19.
12. The Insurer, comply with SSAP No. 40 of NAIC Manual, capitalizing on the improvements to building structures for use by business operations. Page 20.
13. The Insurer, must be will correct the balance presented in the Annual Statement, to Cash account, at 31 December 2009. By increasing the Cash account for \$ 1,812,293. Page 21.
14. The Insurer complied with Article 5.010 of the Insurance Code of Puerto Rico and the SSAP No. 6 of NAIC Manual, to submit its Annual Statement, outstanding premiums of not less than 90 days. Page 22.

15. The Insurer comply with SSAP No.10 of NAIC Manual, to submit its Annual Statement, recoverable current contributions. Page 22.
16. The Insurer complied with Paragraph 6 of SSAP No. 25 of the Manual of the NAIC, introducing and implementing action to collect its affiliated companies. Page 23.
17. The Insurer reflected a loss reserve adequate. As verified, the Insurer still reflected loss reserves available for payment of losses in 2009 or earlier, amounting to \$27,355,226. Page 24.
18. The Insurer complied with Rule LXXII of the Regulation of the Insurance Code of Puerto Rico, as amended, at present 20% to 2% as a Required Minimum Retention for the year 2009, the Aggregate Liabilities. Page 28.
19. The Insurer complied with Chapter 26 of the Insurance Code of Puerto Rico, holding an item, post, file the report of Unclaimed Funds and make payment of unclaimed funds to the Office. Page 29.
20. The Insurer complied with the provisions for Catastrophic Reserve, as required by Articles 25.030 and 25.040 of the Insurance Code of Puerto Rico, as amended, and Regulations Letter No. 2010-106-EX of the 25 January 2010 and 2008-89-AP of May 14, 2008. Pages 30 and 31.
21. The Insurer complied with the terms of premiums written to policyholder surplus required by Article 4.150(2) of the Insurance Code of Puerto Rico, as amendment. Page 31.

Appendix

MAPFRE PRAICO Insurance Company

CASH

Regular Examination 12-31-2009

Bank	General Ledger	Description	Annual Rep. 2009	Adjustment	Examination Balance
BBVA	57101100	Payroll	\$ (65,122.49)	\$ (17,894.10)	\$ (83,016.49)
BBVA	57101113	Flood (Old)	964,207.59	10,342.00	974,549.59
BBVA	57101114	Operations	3,088,054.84	1,616,623.55	4,704,678.80
BBVA	57101115	Claims	(3,240,217.60)	(43,184.46)	(3,283,402.06)
BBVA	57101123	Suppliers	(64,715.80)	21.44	(64,694.36)
BBVA	57101124	Commissions	(899,367.27)	(942.32)	(900,309.59)
BBVA	57101131	MAPF. PRAICO- Sinot Premiums	682,106.14	(2,477.00)	679,629.14
BBVA	57101135	MAPF. PRAICO- Sinot Claims	(2,463.38)	0.00	(2,463.38)
BBVA	57101161	VISA/MC/ AMEX and ATM	(111,063.04)	124,333.17	13,270.13
BBVA	57301110	Cashier Finance	(304.60)	0.00	(304.60)
BBVA	57301120	Cashier Collections	192,254.54	0.00	192,254.54
BBVA	57301140	Cashier Branches	254,572.31	0.00	254,572.31
BBVA	57301190	Cashier Flood	16,714	0.00	16,714
BPPR	57101110	Premiums	176,252.90	65,914.64	242,167.57
BPPR	57001117	Trust Division	125,480.20	0.00	125,480.20
BPPR	57101127	Flood (New)	5,395.00	1,899.00	7,294.00
BPPR	57101128	Credit Card/ ATM	1,444.00	0.00	1,444.00
First Bank P.R.	57101160	Private Vehicle	321,243.01	1,806.31	323,049.32
Scotiabank P.R.	57101118	Simple Interest	7,815.00	(10.00)	7,805.00
Westernbank P.R.	57101133	Dwelling	(54,861.00)	55,861.00	1,000.00
	57201110	Petty Cash	3,675.00	0.00	3,675.00
	57001110	Certificates of Deposits	32,167,016.14	0.00	32,167,016.14
BNYM	57101158	Cash Equivalents	157,384.37	0.00	157,384.37
Total			<u>\$ 33,725,499.86</u>	<u>\$ 1,812,293.23</u>	<u>\$ 35,537,793.09</u>

Cont. Appendix- Certificates of Deposit

MAPFRE PRAICO Insurance Company
CASH
Regular Examination 12-31-2009

<u>BANK</u>	<u>Certificate Number</u>	<u>AMOUNT</u>
Banco Popular de Puerto Rico	2020000014	\$565,016.14
Banco Popular de Puerto Rico	1020000001	556,000.00
WESTERNBANK	3500504221	100,000.00
Government Development Bank	22133a	1,702,000.00
Banco Bilbao Vizcaya Argentaria- DEP EST	654518	1,000,000.00
Banco Bilbao Vizcaya Argentaria	470-3240000948-30	4,495,000.00
Banco Bilbao Vizcaya Argentaria	470-3240000-948-31	8,300,000.00
Banco Bilbao Vizcaya Argentaria	470-3240000948-33	1,030,000.00
WESTERNBANK	3500504254	150,000.00
RG Premier Bank	822610085	250,000.00
Government Development Bank	22565a	4,010,000.00
Government Development Bank - DEP EST	22600	500,000.00
Government Development Bank	22761a	4,250,000.00
Government Development Bank	22790a	5,259,000.00
Total		<u>\$ 32,167,016.14</u>