

**REPORT ON EXAMINATION
OF
CHARTIS INSURANCE COMPANY - PUERTO RICO
AMENDED**

AS OF DECEMBER 31, 2009

NAIC CODE 31674

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GOVERNMENT OF PUERTO RICO
OFFICE OF THE COMMISSIONER OF INSURANCE

June 29, 2011

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-2010-228, dated October 6, 2010, with the Puerto Rico Insurance Code ("PRIC"), and in accordance with the practices and procedures issued by the National Association of Insurance Commissioners (NAIC), a comprehensive risk focused examination and financial affairs examination was made of the books records, and financial condition of:

Chartis Insurance Company-Puerto Rico
250-Muñoz Rivera Avenue
American International Plaza Suite 500
Hato Rey, Puerto Rico 00918

hereinafter referred to as "the Company".

The examination was conducted in the Company's home office, located at 250 Muñoz Rivera Avenue, American International Plaza, San Juan, Puerto Rico. The fieldwork commenced on October 6, 2010 and concluded on December 22, 2010.

Scope of Examination

The last examination was completed as of December 31, 2004. This examination covers the period from January 1, 2005 through December 31, 2009, including any relevant material transactions or events occurring subsequent to the examination date and noted during the course of the examination.

We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that we plan and perform the examination 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 the Statutory Accounting Principles and Annual Statement instructions, when are applicable to the PRIC.

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

Summary of Significant Findings

As of the examination date, the Company had \$989,732 in reinsurance recoverable from an affiliate. As per management representations, efforts to collect said amount have not been successful. Management's opinion is that said amount will be eventually collected, but they do not have an acceptance from the affiliate nor when the

balance could be collected. Under these circumstances, for examination purposes the surplus of the Company was adjusted pursuant to Article 5.010 of the PRIC and SSAP 4 of the NAIC Accounting Practices and Procedures Manual.

Compliance with prior Examination

In the prior examination report which covered the period from January 1, 1999 to December 31, 2004 and notified to the Company on March 2, 2007, the following observations were made:

- Schedule F of the 2004 Annual Statement of New Hampshire Insurance Company (“New Hampshire”), an affiliate, did not reflect as assumed business the reinsurance cessions from the Company.

Although, the reinsurance contract was between New Hampshire and the Company, the business was actually ceded under a pool arrangement with other reinsurers. Some of the pool participants were not authorized by Office of the Commissioners of Insurance, in violation with the Article 4.120 of the PRIC. Effective January 1, 2008, the Company restructured its reinsurance program, as further discussed under Reinsurance Section of this report.

- The Unpaid Loss and Loss Adjustment Expense reserves as of December 31, 2004, were deemed deficient due to certain surety business run-off losses. An adjustment in the amount of \$4,491,000 was made in accordance with the Article

5.050(2) of the PRIC. Said adjustment was subsequently recorded by the Company.

Subsequent Event

- During 2010, Mrs. María Julianna Cantinni presented her resignation to the Company as Finance Senior Vice-President, Chief Financial Officer, and Treasurer. Mr. Fernando Agosto was appointed to serve as Treasurer, Mr. Carlos González was designed to act as Senior Vice-President and Chief Financial Officer, and Mr. Felipe Diaz as Finance Senior Vice-President. In special meeting of the BOD held on October 26th, 2010, Mr. Diego Alvarez, Chief Regional Investment Officer was appointed to be a member of the Investment Committee.
- For the period ended September 30, 2010, a Cash Dividend to Stockholders in the amount of \$25 million was declared and paid, reducing in part its Surplus as regards policyholders from \$151,202,780 as of December 31, 2009, to \$132,407,976 as of September 30, 2010. For the same period, the total assets were reduced from \$228,980,837 to \$201,979,381 and the total for liabilities was reduced from \$77,778,057 to \$69,571,405. The net income as of September 30, 2010, was \$5,897,126 as presented in its quarterly statement.
- On July 20, 2011, the Company response the objections to the examination report as of December 31, 2009 (Case Number EX-2011-184). The answered of the objection letter was made to this Office pursuant to the Article 2.140 of the Insurance Code of Puerto Rico. The only issue in discussion is regards to the

proposed adjustment of \$989,732 of reinsurance recoverable due from affiliates accrued in the accounting books of the insurer on or before the year 2007.

At this time the Company including supporting documentation and indicating that they recoverable until June 28, 2011, the amount of \$588,376 from the reinsurers. According to the information given by the Company, will be the adjustment examination for the difference of \$401,356.

Company History

The Company was incorporated in Puerto Rico on October 17, 1971, as American International Insurance Company of Puerto Rico and commenced operations on July 8, 1974.

The Company is authorized to subscribe all kinds of property and casualty insurance, pursuant to Chapter 4 of the PRIC.

On July 28, 2009, the Company submitted a request to the OCI the change of name to Chartis Insurance Company-Puerto Rico, which was approved on September 30, 2009. The new name was effective on October 1, 2009.

Capital Stocks

As of December 31, 2009, the outstanding common stocks amounted to \$2,600,000 and consisted of 260,000 shares having a par value of \$10 per share. Chartis Overseas Limited owns 259,993 shares. Chartis Overseas Limited is owned by Chartis International, LLC, a wholly owned subsidiary of American International Group, Inc. Pursuant to Article 3.090 of the PRIC, the Company is required to maintain minimum

paid-in capital of \$2,600,000. The Company complies with the provision of paid in capital as of December 31, 2009. No additional capital contributions were made during the period under examination.

In compliance with Article 29.150(1) of the PRIC, the remaining seven (7) shares were issued to the following directors:

Manuel Rodríguez-Méndez	René Pinto-Lugo	Agustín Montalvo-Rivera
Francisco Diaz-Rodríguez	Sean Clifford	Carlos Talavera Klingenfuss
María Juliana Cantini de Lucas		

Dividends to Stockholders

Article 29.340 of the PRIC provides that a domestic stocks insurer shall not pay any cash dividend to stockholders, except out to that part of its available surplus funds, which is derived from any, realized net profits on its business. A dividend in the amount of \$12,000,000 was declared and paid during 2006, in compliance with said Article.

Corporate Records

The Articles of Incorporations, By-Laws and all amendments there to, and the minutes of the meetings of the Board of Directors (BOD) and shareholders for the period under examination were reviewed. The followings amendments were approved to the Articles of Incorporations and By-Laws:

Articles of Incorporation

The change in the Company's name from American International Insurance Company of Puerto Rico to Chartis Insurance Company-Puerto Rico, was approved by the shareholders and the Board of Directors in the special meeting held on August 18, 2009, in compliance with Article II, Section 207 of the By-Laws and Article 29.070 of the PRIC.

By-Laws

- Article I, Section 104 and 106, Article II, Section 206, Article IV, Sections 401, 404A, 404B and 404C. These amendments relate to the notice of meeting of shareholders and the appointments of officers. Said amendments were approved at the shareholders meetings held on March 21, 2006 and April 7, 2006.
- Change in name to Chartis Insurance Company-Puerto Rico as approved in the special meeting of the shareholders on August 18, 2009.

Investment Plan

The Company adopted a plan of investment, which was approved by the BOD of the Company on May 18, 1999 and revised in August 2003. The Company's investment plan establishes the professional qualifications of the persons who will make routine decisions to ensure their investment competence and ethical conduct in compliance with the provisions of Article 6.040 of the PRIC.

BOD and Investment Committee Minutes

We reviewed the minutes of the meetings of the BOD and Investment Committee for the period under examination. Based on our review, we concluded that the minutes documented the Company's significant transactions and events and approval of them. Our examination disclosed that overall the Company has an organizational structure which promotes internal controls and risk management control strategies. The corporate governance transactions examined were conducted in compliance with Chapter 29 of the PRIC.

The insurer delegates the authority to make investment decisions to its Investment Committee. The Investment Committee held meetings during the examination period to approve the purchases of securities pursuant to Article 6.040(2) of the PRIC. According with our revision to the BOD Minutes under the examination period, the purchases of securities, as were delegate in the Investment Committee were duly ratified by the BOD.

The Company's overall investment procedures were determined to be in compliance with Chapter 6 of the PRIC, including the ratification of the BOD of the investments transactions, in accordance with Article 6.040(2) of the PRIC.

Management and Control

The By-Laws provide that the BOD shall have no less than five (5) or more than nine (9) members, which shall be elected at the annual meeting of the stockholders. Article 29.150 of the PRIC requires, among others, that not less than the majority of Directors of an insurer shall be resident of and actually reside in Puerto Rico. At least

three-fourths ($\frac{3}{4}$) of the directors shall be citizens of the United States. The Company is in compliance with said requirements.

Corporate Governance

The corporate governance is responsible for providing general oversight to corporate matters, including the development and implementation of the appropriate governance policies and procedures. This is to assure that board members are properly appointed and well prepared to fulfill their duties and obligations in the best interests of the policyholders of the Company.

The Company is not a publicly traded corporation and therefore, is not subject to the Sarbanes-Oxley Act of 2002. The Company does not have a local internal audit function. Said functions are performed by the Internal Audit Division of American International Group Inc. ("AIG"). AIG assists all levels of management by reviewing and testing financial and operational controls and processes established by management to ensure adequate coverage compliance with laws, regulations and Company policy.

The Company has a local Compliance Officer who is responsible to ascertain Company's compliance and/or effectiveness of the internal controls, company policies, regulatory requirements, laws and regulations, both at the local and federal level.

The Compliance Officer is also responsible of informing management about important issues in the industry and on results obtained during the monitoring activities and special assignments. In addition, maintains an ongoing communication

and coordination with the person responsible at the regional and home office level and participates in the audit, risk and other committees as required.

Board of Directors

The directors of the Company as of the examination date as elected in the annual meeting of stockholders dated on April 22, 2009, were as follows:

<u>Directors</u>	<u>Principal Occupation</u>	<u>Resident</u>
Manuel Rodríguez Méndez	Chairman of the Board	San Juan, Puerto Rico
María Juliana Cantini de Lucas	Treasurer	San Juan, Puerto Rico
Francisco Díaz Rodríguez	Director	San Juan, Puerto Rico
René Pinto Lugo	Director	San Juan, Puerto Rico
Agustín Montalvo Méndez	Director	San Juan, Puerto Rico
Carlos Talavera Kligenfuss	Director	Miami, Florida
Sean Clifford	Director	Miami, Florida

Senior Officers

The senior officers of the Company, as was appointed in the annual meeting of the BOD held on May 12th, 2009, were the following:

Francisco Díaz	President
María Juliana Cantini	Senior Vice-President-Finance, Chief Financial Officer, Controller/Treasurer
Agustín Montalvo	Senior Vice-President - Operations, and Chief Operating Officer
Jacqueline Barros	Senior Vice-President - Regional Property
Brenda E. Gil	Secretary

On May 12th, 2009 the BOD appointed the members to the corresponding committees as follows:

Investment Committee

Fernando Agosto
 María Juliana Cantini
 Francisco Díaz
 Manuel Rodríguez Méndez
 Alternate:
 Agustín Montalvo

Audit Committee

María Juliana Cantini
 Francisco Díaz
 Gustavo Sarabía
 Sandra Schwabe
 José E. Ramos
 Agustín Montalvo

Trust Committee

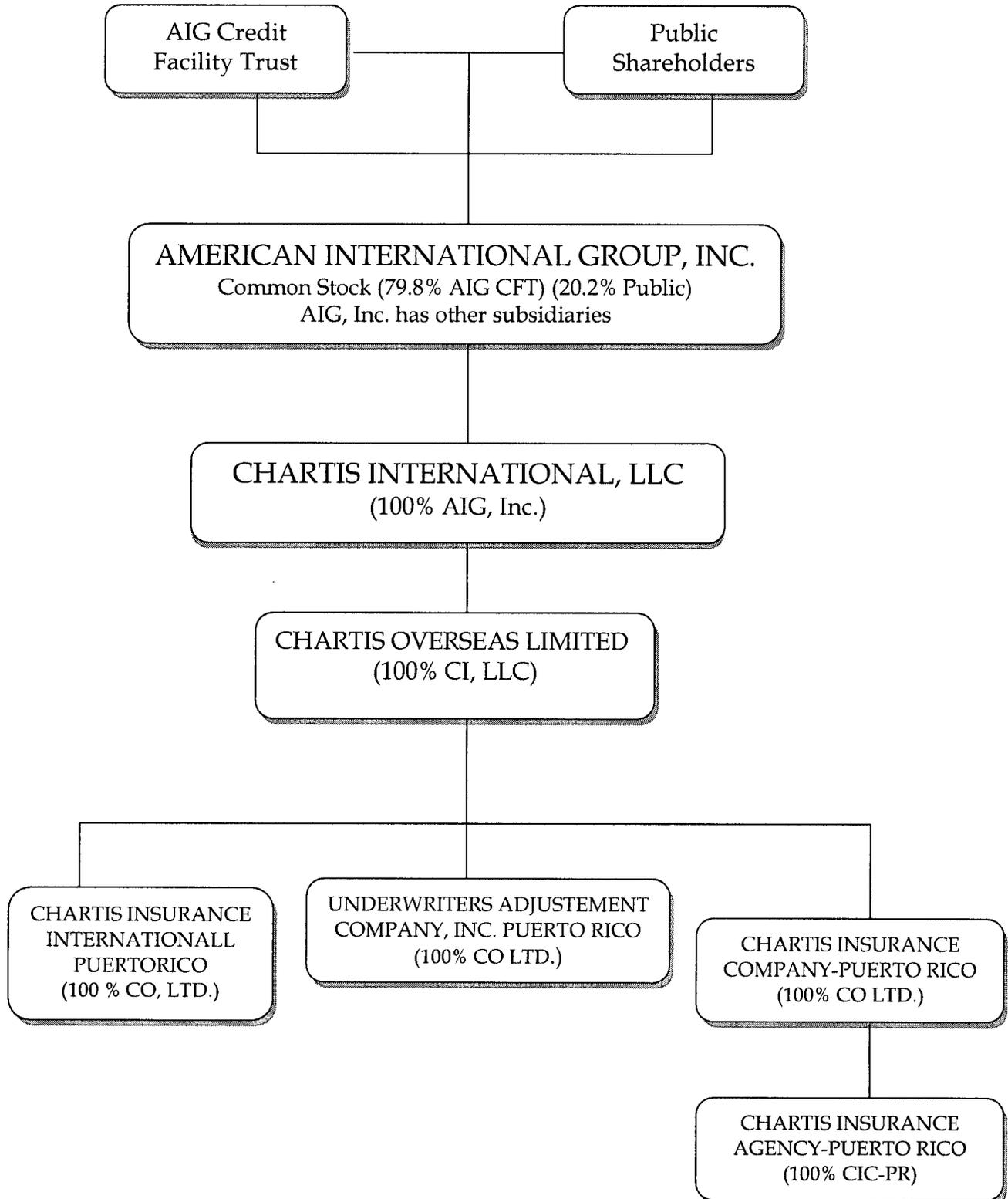
María Juliana Cantini
 Francisco Díaz
 Manuel Rodríguez Méndez
 Agustín Montalvo

Conflict of Interest

Article 29.230(1) of the PRIC prohibits interests of officers and directors in certain transactions, that a director or officer of an insurer shall not accept or be the beneficiary of any fee brokerage gift or other emolument because of any investment, loan, deposit purchase, sale, exchange, reinsurance or other similar transaction made by or for the insurer, or be peculiarly interested therein in any capacity except on behalf of the insurer.

Directors, officers and others key employees annually complete a conflict of interest questionnaires certifying compliance with the above mentioned provision.

Organizational Chart



Inter-company Agreements

The Company provides accounting and management services to related entities and charges fees accordingly, as per an inter-company administration agreement. Claims adjustment services are provided to the Company by an affiliate under an inter-company claims services agreement. The transactions with affiliates were performed in conformity with SSAP# 25 of the Accounting Practices and Procedures Manual of the NAIC.

Fidelity Bonds and Other Insurance

The fidelity coverage is provided under AIG Global policy with aggregate limits of \$140 million any one loss and \$280 million aggregate limit, with a deductible of \$50,000 per occurrence. Said limits are in compliance with the minimum amount recommended by the NAIC.

Other insurance coverage provided under the AIG Global policy are the following:

- Umbrella and Excess Casualty \$300 million, with a \$10,000 deductible, in excess of the primary limit written by Regal Legacy Assurance Company.
- Directors and Officers with a limit of \$250 million.
- Employment Practice Liability with primary limits of \$10 million and excess limit of \$120 million.

In addition the Company had additional property and liability coverage under policies issued by a local insurer, as deemed necessary for the operation of the business.

Pension and Insurance Plans

Employees Retirement Plan

The Company maintains a 401(k) contribution retirement plan for its employees through the AIG, the ultimate holding company. The retirement plan is a qualified non contributory, which is subject to the ERISA provisions. The employee of AIG (including most of the subsidiaries and affiliates) which attained age 21 and have completed twelve months of continued services, are eligible to participate in the retirement plan. Any employees rested with five (5) years or more of service is entitled to the pension benefits at the age 65. The benefits are based up the percentage average at the final compensation multiplied by the credited years of service limited to 44 years of services. Other benefits for employees with ten (10) or more years of services may retire at early age of 55 to 64. Any employee with five (5) years or less in services is entitled to receive any accumulated pension.

Deferred Compensation Plan

Some of the Company's officers and key employees participate in AIG's stock plan until year 1999, which are disclosed in AIG's Form 10-K.

Savings Plan

Full time employees are eligible after six (6) months of services to make basic contributions between 1% to 10% from its salaries and other economic benefits. The Company makes a contribution equivalent up to 6% of the participant's annual salary.

The Company offer a Health and Life Insurance benefits for retired employees and certain dependents.

Territory and Plan of Operations

For the period covered under this examination, the Company was licensed to transact insurance business in the following territories:

	2005	2006	2007	2008	2009
Puerto Rico	\$150,235,701	\$143,763,076	\$139,774,903	\$135,683,785	\$116,866,226
U. S. Virgins Islands	430,070	1,713,504	1,707,125	57,620	127,962
Total Gross Premium	\$150,665,771	\$145,476,580	\$141,482,028	\$135,741,405	\$116,994,188

According to the Management Discussion and Analysis (MD&A), the decrease in gross premiums in the last five (5) years was directly related with the local market pricing terms (soft market) in the property and casualty lines of business.

Growth of the Company

The following data was obtained from the annual statements filed to the OCI:

Year	Admitted Assets	Liabilities	Capital Stock	Contributed Surplus	Unassigned Surplus	Catastrophe Reserve	P/S Ratio
2005	\$212,480,854	\$89,622,393	\$2,600,000	17,512,000	\$65,816,328	\$36,930,133	0.3
2006	213,068,423	94,302,097	2,600,000	17,512,000	59,297,024	39,357,302	0.4
2007	224,960,614	92,418,052	2,600,000	17,512,000	70,469,041	41,961,521	0.3
2008	31,886,570	89,611,456	2,600,000	17,512,000	81,354,170	40,808,944	0.2
2009	228,980,837	77,778,057	2,600,000	17,512,000	91,838,669	39,252,111	

The increase in the unassigned surplus from the years 2005 to 2009, was mainly due to the net operating incomes¹. The decrease in the Catastrophe Reserve was due to

¹ The decrease in the unassigned surplus from year 2005 to 2006 was due to the dividend in stock paid in the amount of \$12 millions.

a reclassification to comply with the minimum reinsurance retention required under Rule 72, of the Regulations of the PRIC, as amended.

Reinsurance

Reinsurance Assumed

The Company did not assume any risk during the examination period.

Reinsurance Ceded

The Company maintains several reinsurance contracts in force as of December 31, 2009. The reinsurance contracts reviewed were found to meet the NAIC guidelines with respect of the insolvency and arbitration clauses, transfer of risk, reporting and settlement information deadlines, as stated in SSAP No. 62 of the Accounting Practices and Procedures Manual issued by the NAIC.

During the years 2008 and 2009, the Company requested OCI permission to use non authorized reinsurers. The requests were after the effective date of the reinsurance contracts in violation of the Ruling Letter No. N-AF-4-63-2005 of April 11, 2005. Previous to the year 2008, the Company incurred in similar violations to the Ruling Letter and the OCI imposed at that time administrative fines that were paid by the Company.

As indicated in the *Compliance with Prior Examination* topic, the reinsurance program was modified effective January 1, 2008, as follows:

Chartis Overseas Ltd. (formerly known as	67%
American International Underwriters Overseas, Ltd	
New Hampshire Insurance Company	12%
National Union Fire Insurance Company of Pittsburg PA	11%
American Home Assurance Company	10%
	<u>100%</u>

With regards to the use of Chartis Overseas Ltd. as eligible non authorized reinsurer pursuant to the provisions of Article 4.120 of the PRIC, the Company must annually update the application providing quarterly financial statements to the OCI and the Company shall have to maintain any considerations for all the financial concerns been satisfied as was determined in letter of February 4, 2010, issue by the OCI.

Accounts and Records

In compliance with Article 3.300 of the PRIC and the Rule IX of the PRIC, the Company's statutory home office as well as the primary location of its books and records is located at 250 Muñoz Rivera Ave, San Juan, Puerto Rico. The Company's accounts and records are maintained in an integrated mechanized system (SISE System).

PricewaterhouseCoopers, LLP conducted the audit of the Company based on statutory principles as of December 31, 2009, as well as all prior years under examination. In our examination to the Company, we reviewed the external auditor's working papers for the year 2009, and use them to support our examination. As per the independent audit report, there were no material internal control weaknesses found during the audit of the financial statement. Also, the actuarial report and opinion for

the period under our examination were prepared by the actuary Mr. Jay B. Morow, Senior Vice President and Chief Actuary, M.A.A.A., F.C.A.S. According to said actuarial opinion, the reserves meet the requirements of the PRIC and were computed in accordance with accepted actuarial standards and principles and make a reasonable provision in the aggregate for all of the Company's unpaid and loss expense obligations under the terms of its contracts agreements. Said review was fully conducted in Puerto Rico in compliance with Rule LXVI Regulation of the PRIC.

Statutory Deposits

As of December 31, 2009, the Company maintained the following statutory deposits with the PRDI in compliance with the requirements of the Article 3.151 of the PRIC.

Description	Maturity Date	Amortized Value	Fair Value
PR Commonwealth Public Improvement	7/2010	263,131	266,550
PR Public Financial Corp.	7/2012	259,296	274,879
PR Commonwealth Public Improvement	7/2012	427,483	422,372
PR Electronic Power Authority	7/2015	451,132	430,724
TOTAL		\$1,401,042	\$1,394,525

Financial Statements

Following are the financial statements of the Company:

- Comparative Balance Sheets as of December 31, 2009 and 2008, according to the 2009 Annual Statement.

- Statement of Income and Expenses for the years ended December 31, 2009 and 2008, according to the Annual Statement.
- Balance Sheet for the year ended December 31, 2009, according to adjustments made in this examination.
- Reconciliation of Surplus for the period since the last examination.

Chartis Insurance Company-Puerto Rico
Comparative Balance Sheets
As of December 31, 2009 and 2008

Assets	<u>2009</u>	<u>2008</u>
Investments - Bonds & Common stocks (affiliates stocks)	\$ 149,513,024	\$ 152,001,498
Cash and short-term investments	47,602,407	49,625,389
Investment income due and accrued	1,418,278	1,809,217
Uncollected premiums and agents' balances	16,367,263	15,374,781
Amounts recoverable from reinsurers	14,031,000	12,981,716
Electronic data processing equipment	48,831	93,701
Guaranty Fund Assessments Invoiced Receivable	34	268
Total Assets	<u>\$ 228,980,837</u>	<u>\$ 231,886,570</u>
Liabilities		
Losses and Loss Adjustment Expenses	\$ 27,945,063	\$ 29,229,055
Commissions payable, contingent commissions	2,885,427	2,552,973
Other expenses	4,186,514	5,365,146
Taxes, licenses and fees	70,989	67,362
Income Taxes Payable		3,240,553
Unearned premiums	21,299,070	24,227,838
Advance Premium	389,640	383,307
Ceded reinsurance premiums payable	9,636,000	10,215,000
Amounts withheld or retained for account of others	1,022,384	1,146,171
Provision for reinsurance	2,658,829	8,552,749
Payable to parent; subsidiaries and affiliates	299,924	112,736
Retention For Catastrophe Insurance Losses	7,060,918	3,530,459
Others Liabilities	323,299	988,107
Total liabilities	<u>\$ 77,778,057</u>	<u>\$ 89,611,456</u>
Liabilities, Capital & Surplus		
Catastrophe Insurance Reserve	\$ 39,252,111	\$ 40,808,944
Common capital stock	2,600,000	2,600,000
Gross paid in and contributed surplus	17,512,000	17,512,000
Unassigned funds (surplus)	91,838,669	81,354,170
Surplus as regards policyholders	<u>\$ 151,202,780</u>	<u>\$ 142,275,114</u>
Total Liabilities Capital & Surplus	<u>\$ 228,980,837</u>	<u>\$ 231,886,570</u>

Chartis Insurance Company-Puerto Rico
Balance Sheet as per Examination
As of December 31, 2009

Assets	Annual Statement	Examination Adjustments	Balance per Examination
Investments - Bonds & Common stocks (affiliates stocks)	\$ 149,513,024		\$ 149,513,024
Cash and short-term investments	47,602,407		47,602,407
Investment income due and accrued	1,418,278		1,418,278
Uncollected premiums and agents' balances	16,367,263		16,367,263
Amounts recoverable from reinsurers	14,031,000	401,356	13,629,644
Electronic data processing equipment	48,831		48,831
Guaranty Fund Assessments Invoiced Receivable	34		34
Total Assets	\$ 228,980,837	\$401,356	\$ 228,579,481
Liabilities			
Losses and Loss Adjustment Expenses	\$ 27,945,063		\$ 27,945,063
Commissions payable; contingent commissions	2,885,427		2,885,427
Other expenses	4,186,514		4,186,514
Taxes; licenses and fees	70,989		70,989
Unearned premiums	21,299,070		21,299,070
Advance Premium	389,640		389,640
Ceded reinsurance premiums payable	9,636,000		9,636,000
Amounts withheld or retained for account of others	1,022,384		1,022,384
Provision for reinsurance	2,658,829		2,658,829
Payable to parent; subsidiaries and affiliates	299,924		299,924
Retention For Catastrophe Insurance Losses	7,060,918		7,060,918
Others Liabilities	323,299		323,299
Total liabilities	\$ 77,778,057		\$ 77,778,057
Liabilities, Capital & Surplus			
Catastrophe Insurance Reserve	\$ 39,252,111		\$ 39,252,111
Common capital stock	2,600,000		2,600,000
Gross paid in and contributed surplus	17,512,000		17,512,000
Unassigned funds (surplus)	91,838,669	401,356	91,437,313
Surplus as regards policyholders	151,202,780	401,356	150,801,424
Total Liabilities Capital & Surplus	\$228,980,837		\$ 228,579,481

Chartis Insurance Company-Puerto Rico
Statement of Income and Expenses
For the years ended December 31, 2009 and 2008

	2009	2008
Premiums Earned	\$ 30,383,849	\$ 35,290,406
Losses Incurred	\$ 7,678,245	\$ 5,329,522
Loss Adjustment Expenses Incurred	4,627,786	2,939,485
Other Underwriting Expenses Incurred	14,492,918	11,455,802
Total Underwriting Deductions	\$ 26,798,949	\$ 19,724,809
Net Underwriting Gain (Loss)	\$ 3,584,900	\$ 15,565,597
Net Investment Income Earned	\$ 6,154,205	\$ 7,614,686
Net realized capital gains (losses) less capital gains tax	(14,530)	(3,668)
Net Investment Gain (Loss)	\$ 6,139,675	\$ 7,611,018
Net Income before all other income taxes	\$ 9,724,575	\$ 23,176,615
Income Taxes Incurred	939,604	6,133,179
Net Income	\$ 8,784,971	\$ 17,043,436

Chartis Insurance Company - Puerto Rico
Reconciliation of Surplus Since the Last Examination
As of December 31, 2009

	2009	2008	2007	2006	2005
Surplus as regards policyholders; December 31 prior year	\$142,275,114	\$132,542,562	\$118,766,326	\$122,858,461	\$109,560,813
Net income	8,784,971	17,043,436	13,158,008	7,856,192	8,227,261
Change in net unrealized capital gains or (losses)	186,956	(428,301)	808,673	(729,926)	
Change in net deferred income tax	(854,137)	185,800	(579,494)	4,797,451	
Change in non admitted assets	(1,553,585)	90,343	4,415,201	(4,693,671)	5,442,571
Change in provision for reinsurance	5,893,921	(3,628,268)	(4,026,152)	677,819	(372,184)
Dividends to stockholders				(12,000,000)	
Aggregate write-ins for gains and losses in surplus	(3,530,459)	(3,530,459)			
Change in surplus as regards policyholders for the year	\$8,927,667	\$9,732,551	\$13,776,236	(\$4,092,135)	\$13,297,648
Surplus as regards policyholders; December 31 current year	\$151,202,780	\$142,275,114	\$132,542,562	\$118,766,326	\$122,858,461

**Comments on Non Compliance Items and Significant Changes in the Financial
Statements**

Following are the comments on non-compliance items disclosed during the course of our examination, if any, and material changes found:

Non compliance Items

Amounts Recoverable from Reinsurers

A total amount of \$989,732 has not been recovered from affiliated reinsurers on losses and losses adjustments expenses paid by the Company, pertaining to year 2007 and prior. Said balance consisted of the following:

Affiliated Reinsurers	Amount
AIG Risk Management, Inc.	\$ 600,339
American Home Assurance	416,666
National Union Fire Insurance Company of Pittsburg PA	(186,978)
New Hampshire Insurance Company	80,600
JLT Group	114,160
Others	<u>(35,055)</u>
Total	<u>\$989,732</u>

During the year 2010, the Company wrote-off \$265,000, of the above balance. It is management's opinion that the remaining balance is recoverable, but they do not have any affirmative acceptance from the affiliates or a specific date when the balance overdue will be collected. According to management representations, this situation results mainly from the employee turn over.

For examination purposes, we will consider the amount of \$989,732 as non-admitted assets pursuant to Article 5.010 of the PRIC and SSAP 4 of the NAIC Accounting Practices and Procedures Manual.

Material Changes

	December 2009	December 2008	Variation
Losses Incurred	\$ 7,678,245	\$5,329,522	44%
Loss Adjustment Expenses Incurred	4,627,786	2,939,485	57%
Other Underwriting Expenses Incurred	14,492,918	11,455,802	27%
Net Investment Income Earned	6,154,205	7,614,686	-19%
Income Taxes Incurred	939,604	6,133,179	


 Maritza Burgos Carattini
 Examiner in Charge