MAPFRE | PUERTO RICO Annual Report 2012

Financial Information

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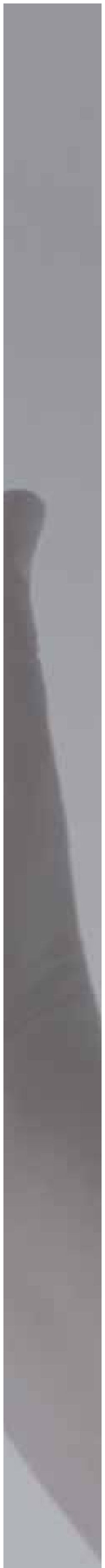

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Statutory - Basis Financial Information

Combined Balance Sheets (000's)
Property & Casualty
Statutory-basis

Admitted Assets

	2012	2011	2010
Bonds	***$341,466***	*$363,536*	*$389,145*
Common stocks	***10,737***	*9,985*	*9,704*
Cash & short-term investments	***60,628***	*42,026*	*36,574*
Real estate	***35,746***	*36,812*	*37,415*
Total invested assets	***$448,577***	***$452,359***	***$472,838***
Premium balances	***21,498***	*20,858*	*15,887*
Accrued interest	***3,242***	*3,061*	*3,764*
All other assets	***13,908***	*17,360*	*12,327*
Total admitted assets	***$487,225***	***$493,638***	***$504,816***

Liabilities and Capital & Surplus

	2012	2011	2010
Loss & LAE reserves	***$84,181***	*$87,825*	*$94,653*
Unearned premiums	***113,070***	*113,726*	*111,541*
All other liabilities	***83,412***	*93,516*	*95,032*
Total liabilities	***$280,663***	***$295,067***	***$301,226***
Capital & assigned surplus	***108,866***	*108,863*	*103,529*
Unassigned surplus	***97,696***	*89,708*	*100,061*
Total capital & surplus	***$206,562***	***$198,571***	***$203,590***
Total liabilities and capital & surplus	***$487,225***	***$493,638***	***$504,816***

Combined Statements of Income (000's)
Property & Casualty
Statutory-basis

Statements of Income

	2012	2011	2010
Premiums earned	$152,768	$152,924	$159,902
Losses incurred	(60,993)	(63,670)	(66,794)
LAE incurred	(21,964)	(19,222)	(18,491)
Underwriting expenses incurred	(67,440)	(66,901)	(59,694)
Net underwriting income	**$2,371**	**$3,131**	**$14,923**
Net investment income	$11,012	$12,404	$14,585
Net realized capital gains	10,121	7,594	1,271
Investment income	**$21,133**	**$19,998**	**$15,856**
Other income (expenses), net	1,599	760	(738)
Pre-tax net income	**$25,103**	**$23,889**	**$30,041**

Combined Cash Flows (000's)
Property & Casualty
Statutory-basis

Funds Provided by (Used in) Operations (000's)

	2012	2011	2010
Premiums collected	$145,966	$144,519	$159,883
Losses paid	(39,138)	(52,409)	(53,884)
LAE paid	(22,139)	(20,753)	(19,440)
Underwriting expenses paid	(89,188)	(84,784)	(76,829)
Underwriting cash flow	(4,499)	(13,427)	9,730
Investment income	10,283	15,877	12,631
Other income (expenses), net	698	(7,273)	(851)
Net operations cash flow	$6,482	$(4,823)	$21,510

Business Production and Profitability (000's)
Property & Casualty
Statutory-basis

	Net Premiums Written			Loss Ratio %		
Line of Business	**2012**	**2011**	**2010**	**2012**	**2011**	**2010**
Auto physical damage	**$45,166**	$47,314	$53,936	**55.90**	57.74	52.20
Commercial auto liability	**12,124**	13,948	13,925	**38.70**	41.01	36.80
Private passenger auto liability	**7,228**	4,736	6,103	**65.30**	50.91	74.60
Commercial multiple peril	**36,929**	30,998	34,044	**38.50**	47.94	46.10
Surety	**2,677**	2,856	2,857	**(4.00)**	7.07	(7.90)
Other liability - occurrences	**12,607**	14,090	11,261	**41.90**	36.14	48.20
Earthquake	**12,939**	11,504	11,597	**0.40**	0.75	1.70
Allied lines	**11,379**	12,249	11,994	**3.10**	2.50	3.20
Homeowners multiple peril	**5,890**	11,730	12,470	**49.60**	36.40	48.40
All other	**5,173**	5,684	6,691	**42.10**	52.34	33.50
Totals	**$152,112**	**$155,109**	**$164,878**	**39.90**	**41.64**	**41.80**

	Direct Premiums Written		
Line of Business	**2012**	**2011**	**2010**
Auto physical damage	**$46,556**	$48,526	$54,748
Commercial auto liability	**13,447**	15,233	15,583
Private passenger auto liability	**7,698**	5,055	6,689
Commercial multiple peril	**80,726**	70,648	60,525
Surety	**5,260**	5,842	5,625
Other liability - occurrences	**14,115**	13,812	13,265
Earthquake	**27,292**	23,400	21,513
Allied lines	**46,700**	43,375	41,300
Homeowners multiple peril	**8,369**	14,062	14,370
All other	**15,796**	14,506	14,929
Totals	**$265,959**	**$254,459**	**$248,547**

Balance Sheets (000's)
Life and Health
Statutory-basis

Admitted Assets

	2012	2011	2010
Bonds	$41,737	$57,381	$56,352
Equity securities	1,133	1,283	1,245
Policy loans	217	243	208
Cash & short-term investments	10,880	8,619	11,844
Total invested assets	**$53,967**	**$67,526**	**$69,649**
Deferred & uncollected premiums	6,537	4,404	3,752
Amounts recoverable from reinsurers	415	683	402
Accrued investment income	406	565	627
Other assets	1,272	617	285
Total admitted assets	**$62,597**	**$73,795**	**$74,715**

Liabilities and Capital & Surplus

	2012	2011	2010
Aggregate reserves	$9,061	$9,362	$9,740
Liability for deposit-type contracts	2,367	2,349	2,410
Policy & contracts claims	29,087	25,935	25,531
Other policy & contract liabilities	3,638	3,277	2,827
Accounts payable and accrued expenses	6,641	12,471	11,252
Asset valuation reserve	325	355	356
Interest maintenance reserve	2,691	553	90
Total liabilities	**$53,810**	**$54,302**	**$52,206**
Capital & surplus	**8,787**	**19,493**	**22,509**
Total liabilities and capital & surplus	**$62,597**	**$73,795**	**$74,715**

Summary of Operations and Statements of Cash Flows (000's) Life and Health Statutory-basis

Statements of Operations

	2012	2011	2010
Premiums, net of reinsurance	$158,433	$166,295	$149,389
Net investment income, including net realized capital gains	2,015	2,443	2,788
Other revenues	905	1,200	1,076
Total revenues	$161,353	$169,938	$153,253
Benefits & claims	$142,317	$136,935	$120,078
Surrender benefits	89	190	295
Increase in future policy benefits	(481)	(251)	(850)
Commissions	8,423	9,146	8,538
Taxes, licenses and general insurance expenses	22,425	23,162	21,859
Total benefits and other deductions	$172,773	$169,182	$149,920
Net (loss) income	$(11,420)	$756	$3,333

Statements of Cash Flows

Cash From Operations

	2012	2011	2010
Premiums and other considerations	$152,653	$164,766	$150,188
Investment income received	2,352	2,660	2,887
Other income	633	1,143	1,055
Total cash received from operations	$155,638	$168,569	$154,130
Life and accident & health claims paid	139,588	137,032	124,244
Surrender benefits paid	89	190	295
Commissions and other expenses paid	32,290	31,080	29,220
Total cash disbursed from operations	$171,967	$168,302	$153,759
Net cash (used in) provided by operations	$(16,329)	$267	$371

Cash From Investments

	2012	2011	2010
Proceeds from investment sold, matured or repaid	$30,451	$20,609	$20,502
Costs of investments acquired	(11,948)	(21,184)	(15,519)
Net decrease (increase) in policy loans	11	(36)	(21)
Net cash provided by (used in) investment	$18,514	$(611)	$4,962

Cash From Financing & Miscellaneous Sources

	2012	2011	2010
Net cash provided by (used in) financing & miscellaneous sources	$76	$(2,881)	$(6,834)
Net change in cash, cash equivalents & short - term investments	2,261	(3,225)	(1,501)
Beginning of year cash, cash equivalents & short-term investments	8,619	11,844	13,345
End of year cash, cash equivalents & short-term investments	$10,880	$8,619	$11,844

Premiums and Annuity Considerations (000's)
Life and Health
Statutory-basis

	Net Premiums Written		
	2012	2011	2010
Individual life & annuities	$197	$295	$309
Credit life	4,106	4,994	4,029
Group life	1,292	791	824
Group & individual accident & health	152,838	160,215	144,227
Total	$158,433	$166,295	$149,389

	Direct Premiums Written		
	2012	2011	2010
Individual life & annuities	$261	$340	$363
Credit life	4,106	4,995	4,029
Group life	2,322	3,869	3,934
Group & individual accident & health	154,541	162,738	146,985
Total	$161,230	$171,942	$155,311

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A.M. Best Rating 2012

A rating Report from A.M. Best Company represents an independent opinion from the leading provider of insurance ratings. Best's Ratings are recognized worldwide as the benchmark for assessing insurers' financial strength and ability to meet obligations to policyholders. A.M. Best's ratings reflect an in-depth knowledge of the insurance industry developed during its over 114-year relationship with the business. This is one reason why insurance industry professionals have consistently ranked Best's Ratings number one in confidence, usefulness and understanding.

The MAPFRE PRAICO Group rating is based on the consolidated operating results and financial position of MAPFRE PRAICO Insurance Company, its wholly owned subsidiary, MAPFRE Preferred Risk Insurance Company, and its affiliate MAPFRE Pan American Insurance Company. As stated by A.M. Best, the "A" (excellent) financial strength rating and the "a" issuer credit rating with negative outlook for both ratings reflect the MAPFRE PRAICO Group's excellent capitalization, solid operating performance driven by investment income and consistently profitable underwriting results, established market presence within Puerto Rico, and strong risk management practices. The negative outlook reflects concern that the MAPFRE PRAICO Group's ultimate parent, MAPFRE S.A. has exposure to continuing negative developments regarding the Eurozone sovereign debt crisis given its sizeable exposures to peripheral Eurozone debt. Further negative rating actions could occur if MAPFRE S.A. incurs a worsening of risk-adjusted capitalization tied to investment losses or a deterioration of the operating environment in key territories.

Nevertheless, as stated by A.M. Best, the "A" (excellent) financial strength rating and the "a" issuer credit rating reflect that the MAPFRE PRAICO Group maintains a conservative underwriting philosophy and a comprehensive reinsurance program, which protect surplus from the potential shock losses while enhancing the stability of earnings. Management remains conservative in establishing reserve estimates as evidenced by favorable calendar year reserve development over the long term. The rating also reflects the MAPFRE PRAICO Group's solid brand name and its integral role as a member of MAPFRE S.A., the largest insurance group in Spain. AM Best recognizes that the Puerto Rico insurance market remains competitive as local insurers challenge each other for market share, particularly within the commercial lines, which are unregulated.

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Companies Management Comments on 2012 Operations

Companies Management Comments on 2012 Operations

MAPFRE PRAICO Corporation and Subsidiaries

OVERVIEW

In 2012, MAPFRE PRAICO Corporation and its Subsidiaries experienced another remarkable year. The highlights of our Group's performance in Puerto Rico during this year have been:

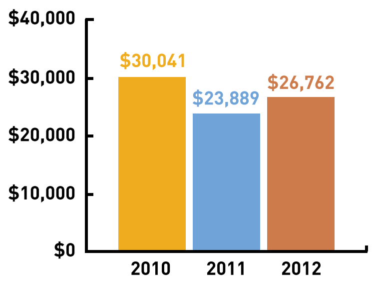
- Achieved an International GAAP income before tax of $7.5 million.
- Achieved a U.S. GAAP income before tax of $6.8 million.
- Achieved Direct Premiums Written (DPW) of $431.9 million.
- Achieved a property & casualty net loss ratio of 39.8% and a life and health net loss ratio of 89.8%.
- Closed the year with a total of 25 branch offices throughout the island and one branch office in the U.S. Virgin Islands.
- Ongoing enhancement and reinforcement of the MAPFRE brand.
- Ongoing development of MIS tools and services.
- Ongoing development of the Fundación MAPFRE efforts as part of MAPFRE's corporate social responsibility program.

MAPFRE PRAICO (P&C Group)

FINANCIAL CONDITION

The Group's statutory income before taxes totaled $26.8 million for the year ended December 31, 2012.

Income Before Taxes (000's)



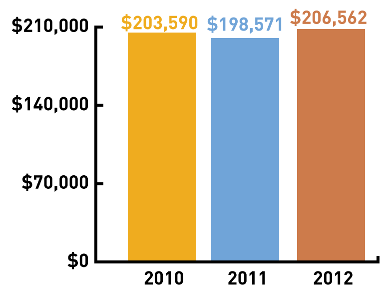
As of December 31, 2012, total statutory net admitted assets amounted to $487.2 million, a decrease of 1.3% when compared to $493.6 million in 2011.

Total net investment income for 2012, excluding capital gains, was $11.0 million, compared to $12.4 million in 2011. Net realized capital gains during 2012 amounted to $10.1 million, compared to $7.6 million in 2011.

- **Policyholders' Surplus**

Policyholders' statutory surplus increased from $198.6 million to $206.6 million or 4.0% during 2012 compared to a decrease of 2.5% for 2011.

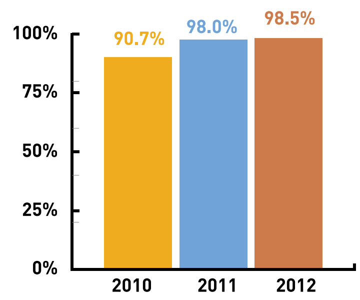
Capital and Surpluss (000's)



UNDERWRITING RESULTS

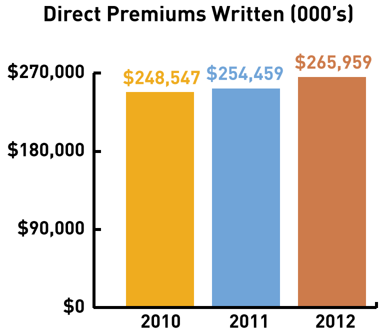
In spite of the still weakened economical situation of Puerto Rico and the negative effect that it has had over many aspects of the local insurance industry, including the amount of premiums written as well as the increasing cost of underwriting and claims expenses, the Companies achieved a net underwriting gain in 2012 of $2.4 million, representing a decrease of $760 thousand over the $3.1 million from 2011. Also, the Group's overall combined ratio remained stable by slightly increasing from 98.0% in 2011 to 98.5% in 2012. While the Companies experienced an increase of $11.5 million in the total DPW, the decrease registered in net underwriting gain and the slight increase in the combined ratio are mostly attributed to a decrease in the amount of premiums earned of $156.7 thousand, an increase in losses and loss expenses of approximately $64.8 thousand and an increase in underwriting expenses of approximately $539 thousand. The combined ratio for the last three years is shown in the following graph:

Combined Ratio



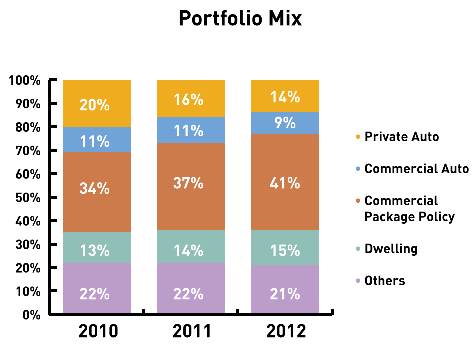
A) Premium Growth

During 2012, total DPW amounted to $265.9 million, compared to $254.5 million in 2011, for a total increase of 4.5%. This increase mostly concentrated in earthquake with $3.9 million, allied lines with $3.3 million and commercial multiple peril with $10.1 million. While the earthquake line of business variation relates to an increment in the dwelling business brought by our banking industry business partners, the increase shown by the commercial multiple peril segment is the result of a successful residential condominium policies sales strategy. Homeowners multiple peril, on the other hand, experimented a decrease in direct premiums written of $5.7 million, mainly caused by a reclassification of the automobile premium out of the Personal Package Policy (PMP).



Automobile continues to be one of our main line of business with 25% of total DPW in 2012, 2% lower than the 27% that it represented in 2011. Commercial and Personal lines (other than auto) account for the remaining 75% of total DPW in 2012, with Commercial Multiple Peril representing 30% and 28% of total DPW in 2012 and 2011, respectively.

The portfolio mix is as follows:



- **Commercial Lines**

  - Commercial multi-peril

During 2012, MAPFRE continued operating under the same soft market conditions of the previous 8 years, which was worsened by the ongoing economic recession experienced locally and the still troubled world economy. Nevertheless, MAPFRE continued recovering some ground in this line of business, achieving an increase in this line of business of 14.3%, in line with the increase of 16.7% experienced in 2011. This continuous growth is principally derived from residential condominium policies, a segment in which MAPFRE is one of the leading writers in Puerto Rico. Since 2003, the deregulation of commercial lines has allowed us to continue the use of our proprietary rates. These rates contemplate the actual reinsurance costs, and have contributed during the last nine years to the improvement of underwriting income. The utilization of our own rates in a deregulated environment also keeps enabling us to provide faster quotations for new business submitted.

  - Commercial Auto Liability

This line experienced a decrease in DPW of 11.7%, also a result of the local commercial lines insurance market, which operates under a soft market and a deregulated pricing environment. MAPFRE, however, continues to strictly adhere to its underwriting guidelines under the current soft market in order to maintain positive financial results.

- **Personal Lines**

  - Auto Liability

This line experienced a 52.3% increase in 2012. This rise with respect to 2011 is mostly due to a reclassification of the Auto Liability included in the PMP. The automobile portion of the PMP business was being reported in Homeowners instead of its intended line auto liability. In view of that, the automobile premium was reclassified out of the PMP.

  - Auto Physical Damage

DPW for this line of business decreased by 4.1%, also as a result of the situation that the automobile industry has been enduring due to the current situation of the local economy, in addition to a very aggressive pricing competition due to the adequate loss ratio of this line and low reinsurance costs.

  - Allied Lines

DPW for allied lines increased 7.7%. The increase of these lines has absorbed the combined negative effect experienced by our Companies with the decline of our core business of auto insurance during the last seven years as a result of the economic recession Puerto Rico has been undergoing and to the nonrenewal since 2009 of various high-premium insurance policies from several agencies of the Government of Puerto Rico.

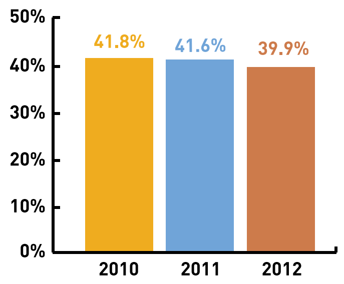
- Homeowners

DPW decreased by 40.5% during 2012, mainly due to the reclassification of the automobile premium from the PMP previously explained. Nevertheless, our market strategy for this line of business continues to bring new business and renewals, mostly through our Personal Package Policy, where sales efforts and penetration in new markets are still proving their effectiveness.

B) Claims

The direct loss ratio decreased from 41.6% in 2011 to 39.9% in 2012.

Net Loss Ratio



The direct loss ratios for the principal lines of business are as follows:

	2012	2011	2010
Fire	74.7%	82.3%	48.2%
Commercial Multi Peril	38.5%	47.9%	46.1%
Private Auto Liability	65.3%	50.9%	74.6%
Commercial Auto Liability	38.7%	41.0%	36.8%
Auto Physical Damage	55.9%	57.7%	52.2%

The following are recognized areas:

- Auto Claims Department

During 2012, the average cost per auto physical damage claim decreased from $1,863 in 2011 to $1,831 in 2012, or 1.7%. The Group has an Appraisers Unit with 16 appraisers located in branches throughout the island to establish a network of Claims Processing Centers.

The adjustment by "previous appointment program", created in 2003, continues increasing the efficiency and quality of service. Under this program, the claimants communicate with our call center to coordinate an appointment at their convenience. Most claims are adjusted within 24 hours.

- BI Claims Department and Medical Services Unit

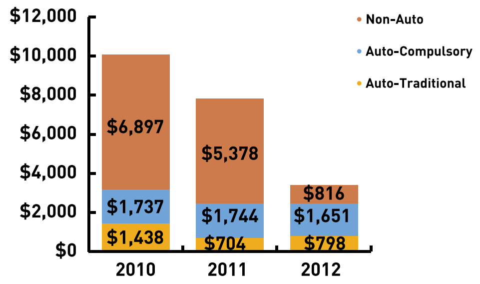
The Medical Service Unit, which was created to assess all bodily injury claims, continues to contribute significantly to the results obtained by the Group. This process has produced significant improvements and excellent control in BI claims.

The average BI claims cost decreased from $1,670 in 2011 to $1,393 in 2012, representing a decrease of 16.6%.

- Subrogation Unit

During 2012, the unit recovered $3.2 million in subrogations, compared to $7.8 million in 2011. Automobile subrogations included in these amounts remained in $2.4 million during 2012 and 2011. From these automobile subrogations, recoveries from ASCSRO decreased from $1.744 million in 2011 to $1.651 million in 2012, decreasing only $93 thousand.

Subrogation Recoveries (000's)



- Special Investigations Unit

During 2012, the unit provided estimated net effective savings of $5.1 million, a 6.7% decrease when compared to the $5.4 million achieved in 2011. The savings obtained by this unit are the result of an increase in fraud incidents, which has been attributed to the adverse situation of the local economy.

- Claims Reserves

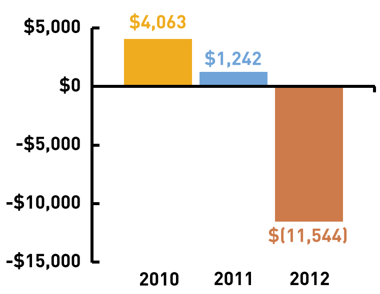
During 2012 and 2011, the Groups' loss and LAE reserves, including IBNR decreased by 4.1% and 7.2%, respectively. Case and IBNR net loss reserves at December 31, 2012 and 2011 amounted to approximately $73.1 million and $76.6 million, respectively, while LAE reserves amounted to $11.1 and $11.3 million at the end of 2012 and 2011, respectively.

External actuarial consultants from KPMG LLP have certified that our current loss and LAE reserves, including IBNR, as of December 31, 2012 are within the actuarial range of reasonable reserve estimates.

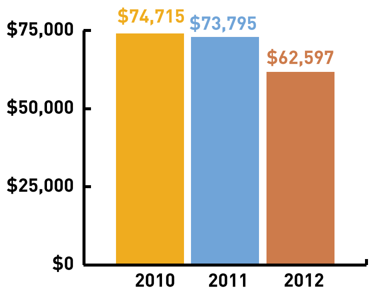
MAPFRE LIFE

FINANCIAL CONDITION

The Company's statutory result from operations before tax decreased by approximately $12.8 million, from a gain from operations of $1.2 million in 2011 to a loss from operations of $11.5 million in 2012 principally due to higher utilization in the Medicare line of business in 2012. Loss ratio for this line of business increased from 92.0% in 2011 to 104.7% in 2012.



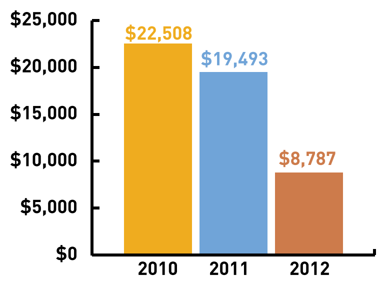
As of December 31, 2012 total statutory net admitted assets amounted to $62.6 million, a decrease of $11.2 million or 15.2% when compared to $73.8 million in 2011. This reduction was mainly the net result of a decrease in cash and invested assets from $67.5 million in 2011 to $54.0 in 2012, or approximately 20.1% from 2011, an increase in premiums receivables of $2.1 million and a decrease in reinsurance recoverable of $268 thousand. The decrease in cash and invested assets relates mainly to the net effect of an increase in cash & short term investments by $2.3 million, which was offset by a decrease in the bonds portfolio of $15.6 million.



- Capital and Surplus

Statutory Capital and Surplus decreased from $19.5 million to $8.8 million, or 54.9%, during 2012. The net decrease, which amounts to approximately $10.7 million, was caused by the net effect of the following items:

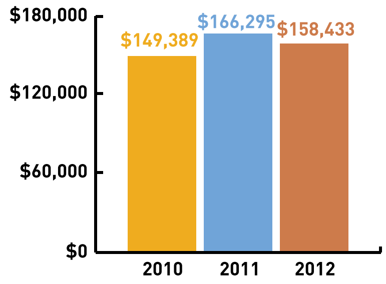
- A net loss of $11.4 million;
- A net decrease in non-admitted assets of $450 thousand;
- A net increase of net unrealized capital gains of $53 thousand;
- A net increase of deferred tax assets of $181 thousand; and
- A net decrease of the asset valuation reserve of $30 thousand.



UNDERWRITING AND OPERATIONAL RESULTS

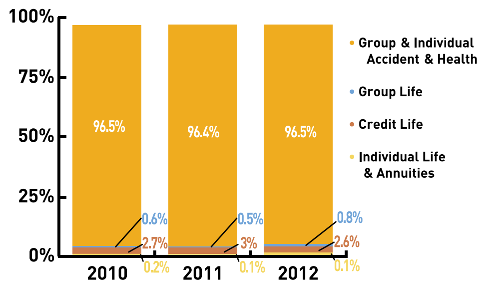
A. Premium Growth

During 2012, net premiums and annuity considerations amounted to $158.4 million compared to $166.3 million in 2011, representing a decrease of $7.9 million or 4.8%, mostly driven by the decreases of $5.8 million in Medicare Advantage business and of $1.6 million in the Commercial Health Plan business.



The Company's portfolio mix has been stable during the last four years. Group & Individual Accident & Health continue to be our main line of business, with 96.5% of total premiums in 2012, compared to 96.4% achieved in 2011. The Credit Life business remains as our second major line of business, representing 2.6% and 3.0% of the total net premium and annuity considerations during 2012 and 2011, respectively.

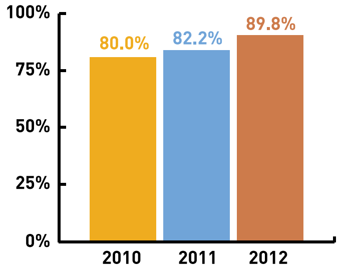
Portfolio Mix



B. Claims

The net loss ratio increased from 82.2% in 2011 to 89.8% in 2012.

Net Loss Ratio

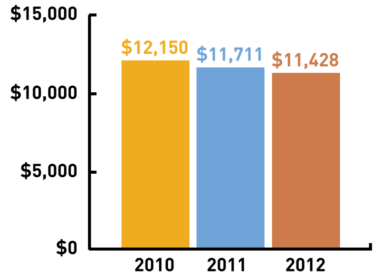


The net loss ratios for the principal lines of business were as follows:

	2012	2011	2010
Individual Life & Annuities	110.5%	114.8%	114.8%
Credit Life	20.5%	25.4%	-2.3%
Group Life	89.7%	65.9%	54.0%
Group & Individual Accident & Health	91.5%	84.0%	82.4%

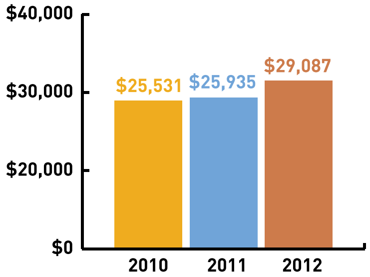
Aggregate reserves & liability for deposits type contract decreased approximately by $283 thousand, or 2.4%, from $11.7 million in 2011 to $11.4 million in 2012. Aggregate reserves for life contracts decreased by approximately $463 thousand, or 6.3%, from $7.4 million in 2011 to $6.9 million in 2012. On the other hand, aggregate reserves for accident and health contracts remained stable during 2012, increasing only $161 thousand, from $2.011 million in 2011 to $2.172 million in 2012. Total life insurance in-force volume decreased by $798 thousand. As of December 31, 2012, there were 65,419 total lives insured. The liability for annuities and deposit-type contracts slightly increased from $2.348 million in 2011 to $2.367 million in 2012, which is considered normal, as the Company's annuities portfolio has been in a run-off process since 2005.

Aggregate Reserve & Liability for Deposit-Type Contracts Trend (000's)



Claims reserves increased by $3.2 million, or 12.2%, compared to prior year. The increase noted in these reserves is mainly the result of an increase in the accident and health insurance segment, specifically motivated by an increase in the claims reserves of the Medicare line of business.

Contract Claims Reserve Trend (000's)

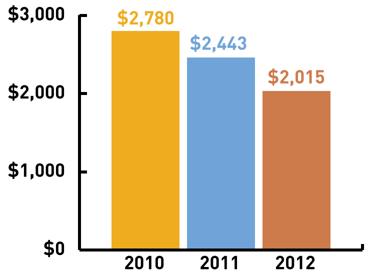


External actuarial consultants from KMPG, LLP have certified that the aggregate reserves for contracts policies and the contract claims reserves as of December 31, 2012 are within the actuarial range of reasonable estimates.

C. Net Investment Income

Total net investment income for 2012, excluding capital gains, totaled $2.0 million in 2012, compared to $2.4 million in 2011, representing a $427 thousand decrease. This decrease is primarily related to the fact that during 2012, calls, maturities and disposals that occurred during the year continued to be reinvested at lower yields.

Net Investment Income (000's)



Using the ratings provided by Standard & Poor's, approximately 2.6% of the investment portfolio is rated AAA; 74.1% is rated AA+; 3.3% is rated AA-; 4.0% is rated A+; 4.8% is rated A; 4.7% is rated A-; 1.9% is rated BBB; and 0.6% is rated BBB-. The remaining of the investment portfolio, or 4.0%, is not rated. For the year 2012, the average yield of the investment portfolio was 9.15%.

4
Audited Consolidated Financial Statements

MAPFRE PRAICO Corporation and Subsidiaries Consolidated Financial Statements and Consolidating Schedules years ended December 31, 2012 and 2011 with Report of Independent Auditors

Ernst & Young LLP
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Report of Independent Auditors

The Board of Directors
MAPFRE PRAICO Corporation and Subsidiaries:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of MAPFRE PRAICO Corporation and Subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, shareholder's equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of MAPFRE PRAICO Corporation and Subsidiaries at December 31, 2012 and 2011, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Adoption of ASU NO. 2010-26

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for deferred policy acquisition costs as a result of the retrospective adoption of the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2010-26, *Financial Services – Insurance (Topic 944): Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts (a consensus of the FASB Emergency Issues Task Force)*, effective for fiscal years beginning after December 15, 2011. Our opinion is not modified with respect to this matter.

Consolidating Schedules

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating balance sheets as of December 31, 2012 and 2011 and the consolidating statements of income and retained earnings for the years then ended are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as whole.

Ernst & Young LLP

June 18, 2013

Stamp No. E76506
affixed to
original of
this report.

Consolidated Balance Sheets
December 31, 2012 and 2011

Assets

	2012	2011
		(As adjusted)
Cash and investments:		
Cash and cash equivalents	**$ 82,009,094**	60,087,265
Short-term investments	**7,360,000**	10,560,000
Investment securities	**430,618,786**	471,635,682
Total cash and investments	**519,987,880**	542,282,947
Premiums and agents' balances receivable, net of allowance for doubtful accounts of $7,064,050 and $6,909,680 in 2012 and 2011, respectively	**38,434,880**	31,379,558
Reinsurance recoverable on:		
Paid losses, net of allowance for doubtful accounts of $25,261 and $119,172 in 2012 and 2011, respectively	**8,195,910**	8,113,188
Unpaid losses and loss adjustment expenses	**13,904,695**	17,123,226
Prepaid reinsurance premiums	**27,296,732**	25,548,526
Total reinsurance recoverable	**49,397,337**	50,784,940
Net premium finance receivables	**2,710,345**	2,772,182
Service contracts receivable	**1,606,117**	1,203,260
Accrued investment income	**3,731,757**	3,688,657
Due from related company	**1,473**	2,289
Deferred policy acquisition costs	**28,392,070**	31,638,056
Deferred service contracts acquisition costs	**8,641,743**	8,272,452
Property and equipment, net	**57,574,640**	58,479,682
Intangible assets, net	**6,890,607**	7,432,647
Prepaid income taxes	**3,867,415**	4,994,270
Other assets	**10,559,313**	11,242,650
Total assets	**$731,795,577**	754,173,590

(continued)

Consolidated Balance Sheets (continued)
December 31, 2012 and 2011

Liabilities and Shareholder's Equity

	2012	2011
		(As adjusted)
Liabilities:		
Claim liabilities:		
Unpaid losses and loss adjustment expenses	**$ 98,086,176**	104,947,877
Unpaid service contracts claims	**191,545**	99,378
Policy and contract claims	**29,674,096**	26,736,535
Total claim liabilities	**127,951,817**	131,783,790
Future policy benefits	**10,634,066**	9,141,206
Unearned premiums	**196,302,025**	203,115,059
Unearned service contracts revenue	**18,266,695**	17,372,138
Policyholder funds	**2,366,958**	2,348,582
Reserve for cancellations	**825,241**	630,835
Net deferred tax liability	**14,588,275**	15,600,248
Reinsurance premiums payable	**9,217,060**	1,557,772
Advance collections due	**2,236,348**	7,251,367
Accounts payable and accrued expenses	**33,444,295**	35,373,389
Deposit liability	**13,127,579**	17,321,297
Total liabilities	**428,960,359**	441,495,683
Shareholder's equity:		
Common stock, par value $100:		
Authorized shares - 75,000		
Issued and outstanding shares - 63,631	**6,363,100**	6,363,100
Additional paid-in capital	**107,754,946**	107,754,946
Accumulated other comprehensive income, net of deferred taxes	**24,388,707**	26,853,492
Retained earnings:		
Unrestricted	**129,247,287**	139,387,185
Restricted	**35,081,178**	32,319,184
	164,328,465	171,706,369
Total shareholder's equity	**302,835,218**	312,677,907
Commitments and contingencies (Notes 11, 17 and 18)		
Total liabilities and shareholder's equity	**$731,795,577**	754,173,590

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income
Years Ended December 31, 2012 and 2011

	2012	2011
		(As adjusted)
Revenues:		
Net premiums earned	**$311,553,806**	318,585,222
Net service contracts revenue	**1,635,678**	1,564,563
Net investment income	**11,671,637**	13,567,428
Net realized capital gains on investments	**14,831,298**	9,333,709
Net commissions earned and other income	**6,090,547**	4,863,690
Total revenues	**345,782,966**	347,914,612
Expenses:		
Claims incurred	**204,251,259**	201,651,507
Loss adjustment expenses	**21,964,303**	19,221,882
Underwriting and general expenses	**112,514,444**	106,885,455
Loss on impairment of investment security	**235,697**	–
Interest expense	**5,761**	452,870
Total expenses	**338,971,464**	328,211,714
Income before income taxes	**6,811,502**	19,702,898
Income tax expense (benefit):		
Current	**2,941,417**	2,698,775
Deferred	**(577,011)**	(2,028,880)
Total income tax expense	**2,364,406**	669,895
Net income	**$4,447,096**	19,033,003

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income
Years Ended December 31, 2012 and 2011

	2012	2011
		(As adjusted)
Net income	**$4,447,096**	19,033,003
Other comprehensive (loss) income, net of tax:		
Net unrealized change in investment securities available-for-sale and total other comprehensive (loss) income	**(2,464,785)**	15,098,063
Comprehensive income	**$1,982,311**	34,131,066

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholder's Equity
Years Ended December 31, 2012 and 2011

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Unrestricted Retained Earnings	Restricted Retained Earnings	Total Shareholder's Equity
				(As adjusted)		(As adjusted)
Balance at January 1, 2011	$6,363,100	107,754,946	11,755,429	134,016,269	29,745,097	289,634,841
Net income	–	–	–	19,033,003	–	19,033,003
Other comprehensive income	–	–	15,098,063	–	–	15,098,063
Dividends to shareholder	–	–	–	(11,088,000)	–	(11,088,000)
Net transfer to CAT Fund	–	–	–	(2,574,087)	2,574,087	–
Balance at December 31, 2011	6,363,100	107,754,946	26,853,492	139,387,185	32,319,184	312,677,907
Net income	**–**	**–**	**–**	**4,447,096**	**–**	**4,447,096**
Other comprehensive loss	**–**	**–**	**(2,464,785)**	**–**	**–**	**(2,464,785)**
Dividends to shareholder	**–**	**–**	**–**	**(11,825,000)**	**–**	**(11,825,000)**
Net transfer to CAT Fund	**–**	**–**	**–**	**(2,761,994)**	**2,761,994**	**–**
Balance at December 31, 2012	**$6,363,100**	**107,754,946**	**24,388,707**	**129,247,287**	**35,081,178**	**302,835,218**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	2012	2011
		(As adjusted)
Operating activities		
Net income	***$4,447,096***	*19,033,003*
Adjustments to reconcile net income to net		
cash used in operating activities:		
Realized capital gains on investments	***(14,831,298)***	*(9,333,709)*
Amortization of premium on investments	***2,034,061***	*2,089,773*
Amortization of intangible assets	***542,040***	*912,985*
Amortization of deposit liability loss adjustment expenses		
and other expenses fund	***(1,500,000)***	*(1,500,000)*
Gain on sale of equipment	***(54,764)***	*(1,878)*
Provision for doubtful accounts	***60,459***	*1,010,465*
Depreciation	***4,125,734***	*3,261,620*
Deferred income taxes	***(577,011)***	*(2,028,880)*
Loss on impairment of investment security	***235,697***	–
Changes in operating assets and liabilities:		
Premiums and agents' balances receivable	***(7,209,692)***	*(4,354,060)*
Reinsurance recoverable	***1,481,514***	*(4,054,791)*
Net finance receivables	***61,837***	*236,836*
Service contracts receivable	***(402,857)***	*31,149*
Accrued investment income	***(43,100)***	*761,869*
Due from related company	***816***	*(607)*
Deferred policy acquisition costs	***3,245,986***	*(129,760)*
Deferred service contracts acquisition costs	***(369,291)***	*(294,001)*
Prepaid income taxes	***1,126,855***	*(4,994,270)*
Other assets	***683,337***	*(1,013,006)*
Unpaid losses and loss adjustment expenses	***(6,861,701)***	*(3,770,489)*
Unpaid service contracts claims	***92,167***	*19,522*
Policy and contract claims	***2,937,561***	*87,725*
Future policy benefits	***1,492,860***	*1,690,547*
Unearned premiums	***(6,813,034)***	*(5,835,789)*
Unearned service contracts revenue	***894,557***	*955,366*
Policyholder funds	***18,376***	*(61,293)*
Reserve for cancellations	***194,406***	*6,751*
Reinsurance premiums payable	***7,659,288***	*(1,382,398)*
Advance collections due	***(5,015,019)***	*521,922*
Income tax payable	**–**	*(1,152,835)*
Accounts payable and accrued expenses	***(1,929,094)***	*(13,504,106)*
Total adjustments	***(18,719,310)***	*(41,825,342)*
Net cash used in operating activities	***(14,272,214)***	*(22,792,339)*

(continued)

Consolidated Statements of Cash Flows
Years Ended December 31, 2012 and 2011 (continued)

	2012	2011
		(As adjusted)
Investment activities		
Securities available-for-sale:		
Purchases	**(136,041,347)**	(185,887,814)
Proceeds from sales, redemptions or dispositions	**181,611,883**	212,362,859
Securities held-to-maturity:		
Purchases	**–**	(250,000)
Proceeds from redemptions	**5,108,153**	4,130,840
Short-term investments:		
Purchases of short-term investments	**(24,116,280)**	(120,879,506)
Maturities of short-term investments	**27,316,280**	120,346,801
Purchase of property and equipment	**(3,401,128)**	(3,955,231)
Proceeds from sale of property and equipment	**235,200**	17,851
Contingent payments of acquisition price of subsidiaries	**–**	(6,001)
Net cash provided by investment activities	**50,712,761**	25,879,799
Financing activities		
Payments of loans payable to banks	**–**	(9,000,000)
Dividends paid to parent	**(11,825,000)**	(11,088,000)
Deposit liability funds received	**–**	19,000,000
Deposit liability indemnity-related payments	**(2,693,718)**	(178,703)
Net cash used in financing activities	**(14,518,718)**	(1,266,703)
Increase in cash and cash equivalents	**21,921,829**	1,820,757
Cash and cash equivalents at beginning of year	**60,087,265**	58,266,508
Cash and cash equivalents at end of year	**$82,009,094**	60,087,265
Supplementary information		
Noncash transactions affecting cash flow activities:		
Change in net unrealized gains on securities available-for-sale, including change in deferred income tax of $(434,962) and $2,664,362 in 2012 and 2011, respectively	**$(2,464,785)**	15,098,063
Other:		
Income taxes paid	**$ 1,814,562**	8,845,880
Interest paid	**$ –**	529,753
Acquisition of property and equipment through payable to provider	**$ –**	25,217

See accompanying notes to consolidated financial statements.

1. Nature of Operations and Summary of Significant Accounting Policies

MAPFRE PRAICO Corporation and Subsidiaries (hereinafter the Company) is an insurance group that is mainly engaged in the underwriting of property and casualty insurance lines in Puerto Rico and the United States Virgin Islands (USVI), and also in the underwriting of life and health insurance lines in Puerto Rico and the USVI. The consolidated financial statements include controlled subsidiaries. A detail of the Company's subsidiaries as of December 31, 2012 and 2011 is as follows:

	DIRECTLY % OWNED	INDIRECTLY % OWNED
MAPFRE PRAICO Insurance Company (MAPFRE PRAICO)	100%	–
MAPFRE Preferred Risk Insurance Company (MAPFRE PRICO)	–	100%
MAPFRE Pan American Insurance Company (MAPFRE PAICO)	100%	–
MAPFRE Finance of Puerto Rico Corp. (MAPFRE Finance)	100%	–
MAPFRE Insurance Agency of Puerto Rico, Inc. (MIA)	100%	–
MAPFRE Life Insurance Company (MAPFRE Life)	100%	–
Auto Guard, Inc. (Auto Guard)	100%	–
Multiservicar, Inc. (Multiservicar) (formerly Club MAPFRE del Automóvil, Inc.)	100%	–

MAPFRE S.A. holds 99.2172% of the common stock of MAPFRE América S.A., which in turn owns 100% of the common stock of the Company.

During 2005, MAPFRE Life was certified by the Center for Medicare and Medicaid Services (CMS) to offer its Medicare Advantage plans effective January 1, 2006. This product provided approximately $77 million and $83 million in premiums written during 2012 and 2011, respectively.

Effective October 3, 2006, the Company acquired all the outstanding shares of common stock of Baldrich & Associates, Inc. (Baldrich), an insurance agency. The final acquisition cost was contingent on the performance of the acquired business over a 66-month period. The acquisition included an initial cash consideration paid at inception of $6,742,500 and an additional contingent payment due at the conclusion of the first six (6) months immediately following the closing date, with additional contingent payments, each due at the conclusion of the five twelve-month periods immediately following the end of that first six-month period. As part of a related negotiation, the Company also acquired all the outstanding shares of common stock of Auto Guard, an extended warranty company for automobiles, and Multiservicar (formerly Club MAPFRE del Automovil, Inc.), a company that was originally engaged in the sale and distribution of vehicle stencils (Etch) through automobile dealers. The final acquisition cost was contingent on the performance of the acquired businesses over a 48-month period. The acquisition included an initial cash consideration paid at inception, with additional contingent payments, each due at the end of the following four calendar years commencing with 2007. Final contingent payment related to this acquisition was made in 2011.

On August 16, 2011, the Department of State of the Commonwealth of Puerto Rico authorized Club MAPFRE del Automóvil, Inc. to change its name to Multiservicar, Inc.

The following are the significant accounting policies followed by the Company:

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

(a) Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP), which differ from statutory accounting practices prescribed or permitted by the Commissioner of Insurance of the Commonwealth of Puerto Rico (the Commissioner). All intercompany accounts and transactions among the consolidated companies have been eliminated.

(b) Statutory Accounting Practices

MAPFRE PRAICO, MAPFRE PRICO, MAPFRE PAICO and MAPFRE Life, which are domiciled in Puerto Rico, prepare their statutory-basis financial statements in accordance with accounting practices prescribed or permitted by the Commissioner. Prescribed accounting practices include a variety of publications of the National Association of Insurance Commissioners (NAIC), as well as state laws, regulations and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed. The Company follows only prescribed accounting practices established by the NAIC and the Commissioner.

(c) Cash Equivalents

Cash equivalents of approximately $13,800,000 as of December 31, 2012, consist of certificates of deposit with an initial term of less than three months. For purposes of the consolidated statements of cash flows, the Company considers all highly liquid investments with an original maturity of three months or less at the date of acquisition as cash equivalents. There were no cash equivalents as of December 31, 2011.

(d) Investment Securities

The Company classifies its investment securities as either available-for-sale or held-to-maturity based on the Company's intent and ability to hold such securities until maturity, and the nature of the securities purchased.

Securities classified as held-to-maturity are carried at amortized cost. Securities classified as available-for-sale are carried at fair value and unrealized holding gains or losses on such securities, net of the related tax effect, are excluded from earnings and reported as a separate component of shareholder's equity until realized.

The amortized cost of fixed maturity investments classified as available-for-sale and as held-to-maturity is adjusted for amortization of premiums and accretion of discounts, which is included in net investment income. Dividend and interest income are recognized when earned.

Realized gains and losses on the sale of investments are recognized in operations on the specific identification basis.

Transfers of debt securities into the held-to-maturity category from the available-for-sale category are made at fair value at the date of transfer. The unrealized holding gain or loss at the date of transfer is retained in the separate component of shareholder's equity and in the carrying value of the held-to-maturity securities. Such amounts are amortized over the remaining life of the securities.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

(d) Investment Securities (continued)

The Company regularly monitors the difference between the cost and estimated fair value of its investments. When an other-than-temporary impairment has occurred, the amount of the other-than-temporary impairment recognized in earnings depends on whether the Company intends to sell the security or more-likely-than-not will be required to sell the security before the expected recovery of its amortized cost basis less any current-period credit loss. If the Company intends to sell the security or more-likely-than-not will be required to sell the security before recovery of its amortized cost basis less any current period credit loss, the other-than-temporary impairment is recognized in earnings equal to the entire difference between the investments' amortized cost basis and its fair value at the balance sheet date. If the Company does not intend to sell the security and it is not more-likely-than-not that the Company will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary impairment is separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to other factors is recognized in other comprehensive income, net of applicable income taxes. The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected using the Company's cash flows projections using its base assumptions.

A decline in the fair value of any available-for-sale or held-to-maturity security below cost, that is deemed to be other-than-temporary, results in an impairment to reduce the carrying amount to fair value. To determine whether impairment is other-than-temporary, the Company considers all available information relevant to the collectability of the security, including past events, current conditions and reasonable and supportable forecasts when developing estimate of cash flows expected to be collected. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year-end, forecasted performance of the investee, and the general market condition in the geographic area or industry the investee operates in.

(e) Short-Term Investments

Short-term investments consist of certificates of deposit that have original maturities of less than one year not considered to be cash equivalents.

(f) Premiums Earned

Premiums on property and casualty contracts are recognized as revenues ratably throughout the terms of the related policies. The portion of premiums related to the period prior to the end of coverage is recorded in the consolidated balance sheets as unearned premiums and is transferred to premium revenue as earned. All insurance premiums are reported net of reinsurance ceded. Premiums on traditional life insurance and annuity contracts are reported as earned when due. Premiums on accident, health and other short-term contracts are recognized as earned, primarily on a daily pro rata basis over the contract period. Premiums on credit life contracts are recognized as earned in proportion to the amounts of insurance in-force. Benefits and expenses are associated with earned premiums, which result in the recognition of profits over the life of the policy contract. This association is accomplished by means of the provisions for future policy benefits and the amortization of deferred policy acquisition costs. Unearned premiums are determined on a daily pro rata basis.

(g) Recognition of Service Contracts Revenue

Service contracts premiums are generally recognized as revenue on a pro rata basis over the policy term. The portion of premiums that will be earned in the future are deferred and reported as unearned service contracts revenue. Service contracts revenue for the years ended December 31, 2012 and 2011 are presented net of commission expenses amounting to $1,581,630 and $1,339,858, respectively.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

(h) Deferred Policy Acquisition Costs

In October 2010, the Financial Accounting Standards Board (FASB or the Board) issued guidance to address diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. The amendments in Accounting Standard Update (ASU) 2010–26, *Financial Services Insurance (Topic 944): Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts (a consensus of the FASB Emerging Issues Task Force)* (ASU 2010–26), affected insurance entities that are within the scope of Topic 944, *Financial Services—Insurance*, that incur costs in the acquisition of new and renewal insurance contracts. The amendments in this ASU clarify how to determine whether the costs incurred in connection with the acquisition of new or renewal insurance contracts qualify as deferred acquisition costs and it specifies which of these costs should be capitalized. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011, and may be applied prospectively upon adoption. Retrospective application to all prior periods presented upon the date of adoption also is permitted, but not required.

The Company adopted the new guidance included retrospectively. Retrospective application of the amendments in ASU 2010-26 resulted in a reduction to opening balance of unrestricted retained earnings for the earliest period presented and a decrease in the amount of capitalized costs in connection with the acquisition or renewal of insurance contracts because, as required by ASU 2010-26, the Company will only defer costs that are incremental and directly related to the successful acquisition of new or renewal business. Adoption of the new guidance decreased unrestricted retained earnings as of January 1, 2011 as follows:

	UNRESTRICTED RETAINED EARNINGS
Balance at January 1, 2011, as previously reported	**$136,918,525**
Adjustment to deferred policy acquisition costs	**(4,757,798)**
Adjustment to deferred income taxes	**1,855,542**
Balance at January 1, 2011, as adjusted	**$134,016,269**

Also, adoption of ASU 2010-26 reduced unrestricted retained earnings, as reported, as of December 31, 2011, from $142,610,412 to $139,387,185, and net income from $19,353,974 to $19,033,003.

The effect that the adjustments required upon adoption of ASU 2010-26 on the December 31, 2011 balances was as follows:

	DEFERRED POLICY ACQUISITION COSTS	DEFERRED INCOME TAX LIABILITY	DEFERRED INCOME TAX (BENEFIT) EXPENSE	UNDERWRITING AND GENERAL EXPENSES
Balance before adoption	**$36,242,665**	**16,981,630**	**(2,503,040)**	**107,038,644**
Effect of adoption	**(4,604,609)**	**(1,381,382)**	**474,160**	**(153,189)**
As adjusted	**$31,638,056**	**15,600,248**	**(2,028,880)**	**106,885,455**

Amortization of deferred policy acquisition costs charged to expense was approximately $39,303,000 and $39,663,000 in 2012 and 2011, respectively.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

(i) Deferred Service Contracts Acquisition Costs

Commissions and other costs of acquiring service contracts, that vary with and are primarily related to the production of new and renewal business, have been deferred. The related amortization is provided over the period of the related contracts and reflected in the accompanying Consolidated Statements of Income.

(j) Unpaid Losses and Loss Adjustment Expenses

The liability for unpaid losses and loss adjustment expenses represents management's best estimate of ultimate net costs of all reported and unreported losses incurred through December 31. The Company does not discount the liability for unpaid losses and loss adjustment expenses. The liability for unpaid losses and loss adjustment expenses is estimated using individual case basis valuations and statistical analyses. Those estimates are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management believes the liability for unpaid losses and loss adjustment expenses is adequate. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations.

Salvage and subrogation recoverable amounts are estimated using the "case basis" method for large recoverable amounts and historical statistics for smaller recoverable amounts. Recoverable amounts deducted from the liability for unpaid losses and loss adjustment expenses were approximately $1,857,000 and $2,192,000 at December 31, 2012 and 2011, respectively.

(k) Policy and Contract Claims

Unpaid claims and claim adjustment expenses on accident and health policies represent management's best estimate of ultimate net cost of all reported and unreported claims incurred through December 31. The liability for unpaid claims is estimated using individual case-basis valuations and statistical analyses. Those estimates are subject to the effects of trends in claim severity and frequency. Although variability is inherent in such estimates, management believes that the liability for unpaid claims is adequate. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations.

(l) Future Policy Benefits

Future policy benefits have been computed by the net level premium method based on estimated future investment yield, mortality and withdrawal experience. The interest rate assumption ranges from 3.5% to 6.0% for all years of issue. Mortality has been calculated principally on select and ultimate tables in common usage in the industry. Withdrawals have been determined principally based on industry tables, modified by the Company's experience.

Unpaid future policy benefits as of December 31, 2012 and 2011 consist of the following:

	2012	2011
Life	**$ 8,789,511**	7,485,583
Accident and health	**1,844,555**	1,655,623
	$10,634,066	9,141,206

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

(m) Reserve for Cancellations

A reserve for cancellations is created for expected adjustments to commissions earned relating to policy cancellations. The reserve is estimated in accordance with the criteria set forth in Topic 450-20, *Contingencies – Loss Contingencies*, of the FASB's Accounting Standards Codification (the Codification).

(n) Reinsurance

The Company cedes and assumes insurance risk under reinsurance contracts. Those reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks and provide additional capacity for growth.

Amounts recoverable from reinsurance for unpaid claim liabilities are estimated in a manner consistent with the related liabilities associated with the reinsured policies. Reinsurance ceded amounts for unearned premiums, unpaid losses and loss adjustment expenses are presented as assets. Premiums ceded and recoveries of claims incurred and loss adjustment expenses have been reported as a reduction of net premiums earned and claims and loss adjustment expenses incurred, respectively. Commission and expense allowances received in connection with reinsurance ceded have been accounted for as a reduction of the related policy acquisitions costs and are deferred and amortized accordingly.

(o) Land, Building and Equipment

Land is reported at cost. Building and equipment are stated at cost less accumulated depreciation. Maintenance and repairs are expensed as incurred. Costs of computer equipment, programs, systems, installations and enhancements are capitalized. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets, as follows:

- Electronic data processing equipment and operating software is depreciated over the lesser of its useful life or three years;
- Non-operating software is depreciated over the lesser of its useful life or three years;
- Building is depreciated over the lesser of its useful life or 40 years; and
- Other property and equipment is depreciated over its estimated useful life.

(p) Intangible Assets

The Company accounts for intangible assets in accordance with the provisions of Topic 350 of the Codification, *Intangibles-Goodwill and Other*.

On October 3, 2006, the Company acquired all the outstanding shares of common stock of Baldrich, Auto Guard and Multiservicar. As a result of this transaction, the Company recorded as intangible assets subject to amortization the $7,975,448 excess of purchase price over net assets acquired. Due to several contingent payments that have been paid subsequent to the purchase date, the last of which was made in 2011, the gross carrying amount of the total intangible assets acquired increased by $6,001 during 2011. Intangible assets acquired and their respective accumulated amortization as of December 31, 2012 and 2011, are detailed as follows:

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

(p) Intangible Assets (continued)

		As of December 31, 2012			As of December 31, 2011		
Amortized Intangible Assets	**Estimated Remaining Useful Life (Years)**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Intangible Assets**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Intangible Assets**
Customer relationships	15	**$10,278,343**	**3,387,736**	**6,890,607**	10,278,343	2,845,696	7,432,647
Contract with Insurer	–	**273,843**	**273,843**	**-**	273,843	273,843	–
Non-compete agreements	–	**1,057,724**	**1,057,724**	**-**	1,057,724	1,057,724	–
Trade names and trademarks	–	**90,090**	**90,090**	**-**	90,090	90,090	–
Total identifiable intangible assets acquired		**$11,700,000**	**4,809,393**	**6,890,607**	11,700,000	4,267,353	7,432,647

Aggregate amortization expense recorded for the years ended December 31, 2012 and 2011 was $542,040 and $912,985, respectively. Estimated amortization expense for the following five years is as follows:

For the year ended December 31, 2013	**$542,040**
For the year ended December 31, 2014	**$542,040**
For the year ended December 31, 2015	**$542,040**
For the year ended December 31, 2016	**$542,040**
For the year ended December 31, 2017	**$542,040**

(q) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases (temporary differences), and operating loss, and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company recognizes the effect of income tax positions only if those positions are more-likely-than-not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest related to unrecognized tax benefits in interest expense and penalties as income tax expense.

(r) Commissions Earned

Commission revenue is recognized when related policies are effective, net of commission expenses and change in reserve for insurance policy cancellations.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

(s) Net Finance Receivables

Finance receivables mainly consist of insurance premiums loans financed with maturities up to 10 months. These loans are collateralized with the unearned premiums of the related policies written by the insurance companies. Generally, the Company requires 30% of the insurance premiums as down payment and the remaining portion is financed. Substantially all finance receivables mature in 2013. During 2012, the Company commenced offering financing for extended warranty contracts. These loans offer maturities of up to 24 months. Amounts collected on finance receivables are included in net cash used in or provided by investing activities in the accompanying Statements of Cash Flows. The Company maintains an allowance for doubtful accounts for estimated losses inherent in its finance receivables portfolio. This allowance for doubtful accounts is reviewed periodically. All loans over 90 days past due are reserved. The established reserve for 2012 and 2011 amounted to $139,453 and $139,713, respectively. Bad debt expenses or recoveries of bad debts are included in general and administrative expenses in the accompanying Statements of Income. Management writes off accounts after all collection efforts, which include involvement of the in-house legal counsel, are deemed unsuccessful and the potential for recovery is considered remote. Amounts written off by the Company were approximately $21,400 and $50,000 in 2012 and 2011, respectively. The Company does not have any off-balance-sheet credit exposure related to its customers.

(t) Comprehensive Income

Comprehensive income consists of net income and unrealized net holding gains (or losses) from investment securities classified as available-for-sale, net of related taxes, and is presented in the accompanying Consolidated Statements of Comprehensive Income and Statements of Shareholder's Equity.

(u) Fair Value Measurements

The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Company determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- *Level 1 Inputs*: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the Company at the measurement date.

- *Level 2 Inputs*: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

- *Level 3 Inputs*: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards* (IFRS) (ASU 2011-04). The new standard does not extend the use of fair value but, rather, provides guidance about how fair value should be applied where it is already required or permitted under IFRS or U.S. GAAP. For U.S. GAAP, most of the changes are clarifications of existing guidance or wording changes to align with IFRS. The ASU also requires additional disclosures for nonpublic entities to provide quantitative information about significant observable inputs used for all Level 3 measurements and a description of the valuation process used. The provisions of the ASU are effective for annual or interim reporting periods beginning after December 15, 2011. The Company adopted the provisions of the ASU in 2012. The adoption of ASU 2011-04 did not have a material effect on the Company's financial statements.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

(v) Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of

The Company accounts for long-lived assets in accordance with the provisions of Topic 360-10-35 of the Codification, *Property, Plant and Equipment – Overall – Subsequent Measurement – Impairment or Disposal of Long-Lived Assets*, which requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be reco gnized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(w) Insurance-Related Assessments

The Company accounts for insurance-related assessments in accordance with the provisions of Topic 405-30 of the Codification, *Liabilities – Insurance-Related Assessments*. This topic prescribes liability recognition when the following three conditions are met: (1) the assessment has been imposed or the information available prior to the issuance of the financial statements indicates it is probable that an assessment will be imposed; (2) the event obligating an entity to pay (underlying cause of) an imposed or probable assessment has occurred on or before the date of the financial statements; and (3) the amount of the assessment can be reasonably estimated. Also, Topic 405-30 provides for the recognition of an asset when the paid or accrued assessment is recoverable through either premium taxes or policy surcharges.

(x) Concentration of Credit Risk

Financial instruments, which potentially may subject the Company to significant credit risks, consist principally of premiums and agents' balances, accrued investment income and other accounts receivable. A substantial majority of the business activity of the Company is with insureds and other customers located in Puerto Rico and, as such, the Company is subject to the risks associated with the economy of Puerto Rico. The Company establishes an allowance for doubtful accounts based on specific credit risk factors of each customer, in addition to other sources of information.

(y) Advertising Costs

Advertising costs are charged to operations as incurred. Advertising costs for 2012 and 2011 amounted to approximately $1,133,000 and $1,093,000, respectively.

(z) Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

(aa) Recent Accounting Pronouncements

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* (ASU 2011-05). This ASU intends to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. To achieve the latter and to facilitate convergence of U.S. GAAP and IFRS, the FASB decided to eliminate the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity, among other amendments included in this ASU. The amendments require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, which is the one the Company has elected, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. The amendments in this ASU should be applied retrospectively. The Company has adopted this ASU beginning on its December 31, 2012 consolidated financial statements. In December 2011, the FASB issued ASU 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards ASU No. 2011-05* (ASU 2011-12), in order to defer only those changes in ASU 2011-05 that relate to the presentation of reclassification adjustments and to allow the Board time to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. In February 2013, the FASB issued ASU 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* (ASU 2013-02), which includes updated guidance to improve the reporting of reclassifications out of accumulated other comprehensive income. The guidance included in ASU 2013-02 requires an entity to present, either on the face of the statement of income or in the notes, separately for each component of comprehensive income, the current period reclassifications out of accumulated other comprehensive income by the respective line items of net income affected by the reclassification. The updated guidance is effective prospectively for reporting periods beginning after December 15, 2012 and will not have any effect on the Company's consolidated financial statements.

In July 2011, the FASB issued ASU 2011-06, *Other Expenses (Topic 720): Fees Paid to Federal Government by Health Insurers* (ASU 2011-06), which addresses questions about how health insurers should recognize and classify in their income statements fees mandated by the Patient Protection and Affordable Care Act as amended by the Health Care and Education Reconciliation Act. The Acts impose an annual fee on health insurers for each calendar year beginning on or after January 1, 2014. A health insurer's portion of the annual fee becomes payable to the U.S. Treasury once the entity provides health insurance for any U.S. health risk for each applicable calendar year. The amendments specify that the liability for the fee should be estimated and recorded in full once the entity provides qualifying health insurance in the applicable calendar year in which the fee is payable with a corresponding deferred cost that is amortized to expense using a straight-line method of allocation unless another method better allocates the fee over the calendar year that it is payable. This guidance is effective for calendar years beginning after December 31, 2013, when the fee initially becomes effective. The Company is evaluating the impact, if any, that the adoption of this guidance will have on the Company's financial position or results of operations.

In December 2011, the FASB issued ASU 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities* (ASU 2011-11), which requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position and to allow investors to better compare financial statements prepared under U.S. GAAP with financial statements prepared under IFRS. This guidance is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The Company is evaluating the impact, if any, the adoption of this guidance will have on its consolidated financial statements.

In October 2012, the FASB issued ASU 2012-04, *Technical Corrections and Improvements* (ASU 2012-04). In 2010, the FASB added a project to its agenda to address feedback received from stakeholders on the Codification and to make other improvements to U.S. GAAP. This project will facilitate Codification

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

(aa) Recent Accounting Pronouncements (continued)

updates for technical corrections, clarifications, and improvements, and should eliminate the need for periodic agenda requests for narrow and incremental items. The types of issues that will be considered through this project are changes to clarify the Codification or correct unintended application of guidance that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. This ASU also includes more substantive, limited-scope improvements which represent narrow and incremental improvements to U.S. GAAP and are not purely technical corrections. Additionally, this ASU includes amendments that identify when the use of fair value should be linked to the definition of fair value in Topic 820, *Fair Value Measurement*. This ASU contains conforming amendments to the Codification to reflect the measurement and disclosure requirements of Topic 820 which are generally non-substantive in nature. While the Board does not anticipate that the amendments in this ASU will result in pervasive changes to current practice, certain amendments may result in a change to existing practice. For those amendments which the Board deemed to be more substantive, transition guidance and a delayed effective date accompany them. The amendments in this ASU cover a wide range of Topics in the Codification and are presented in two sections—*Technical Corrections and Improvements* (Section A) and *Conforming Amendments Related to Fair Value Measurements* (Section B).The amendments in this ASU that will not have transition guidance will be effective upon issuance for both public entities and nonpublic entities. For public entities, the amendments that are subject to the transition guidance will be effective for fiscal periods beginning after December 15, 2012. For nonpublic entities, the amendments that are subject to the transition guidance will be effective for fiscal periods beginning after December 15, 2013. Management does not expect the implementation of this ASU to have a material effect on the Company's consolidated financial statements.

2. Current Vulnerability Due to Certain Concentrations

MAPFRE PRAICO, MAPFRE PRICO and MAPFRE PAICO write personal and commercial lines of property and casualty insurance primarily in Puerto Rico. As of December 31, 2012, most of the Company's insured properties are located in areas exposed to damage by hurricanes and other casualties. The Company has established reinsurance programs designed to mitigate the effect of catastrophic losses. Based on recent Potential Maximum Loss studies performed for the Company, management believes that the net impact on the Company's financial position, if any, should any of these events occur, would not be significant after considering reinsurance coverage in-force.

3. Catastrophe Loss Reserve and Related Trust Fund

In accordance with Chapter 25 of the Insurance Code of the Commonwealth of Puerto Rico (the Code), as amended, the Company's property and casualty insurance subsidiaries (P&C subsidiaries) are required to establish and maintain a reserve supported by a trust fund for the payments of catastrophe losses. The establishment of this trust fund increases the financial capacity in order to offer protection for those insurers exposed to catastrophe losses. This trust may invest its funds in securities authorized by the Code, but not in investments whose value may be affected by hazards covered by the catastrophe insurance losses. The interest earned on these investments and any realized gain (loss) on investment transactions becomes part of the reserve for catastrophe insurance losses and are recorded as income (expense) of the Company's P&C subsidiaries. The assets in this fund will be used solely and exclusively to pay catastrophe insurance losses covered under policies written in Puerto Rico, upon approval by the Commissioner. The Company's P&C subsidiaries established a trust fund with a bank to deposit the funds.

3. Catastrophe Loss Reserve and Related Trust Fund (continued)

The Company's P&C subsidiaries are required to make deposits to the trust fund, if any, on or before January 30 of the following year. Contributions to be deposited in the trust fund are determined by applying a contribution rate, not in excess of 5%, to catastrophe written premiums as instructed annually by the Commissioner, unless the balance of the reserve exceeds 8% of the catastrophe exposure, as defined by Chapter 25. The Company's P&C subsidiaries deposited in January 2013 and 2012 the amounts of $1,356,601 and $1,199,563, respectively, corresponding to the contributions for writings in 2012 and 2011, respectively. The contributions were determined in 2012 and 2011 by applying a rate of 1% to catastrophe premiums written as required by the Commissioner. The amounts deposited in the trust fund are deductible for income tax purposes. A deferred tax expense and liability were recorded to account for the difference in tax basis caused by deducting the transfer in the current period when the actual CAT losses have not been incurred. The total $35,081,178 and $32,319,184 balance of the catastrophe loss reserve as of December 31, 2012 and 2011, respectively, was accounted for as an appropriation of retained earnings in the accompanying Consolidated Balance Sheets.

The amount deposited in the trust fund may be reimbursed in the case that the P&C subsidiaries cease to underwrite property risks, subject to catastrophe losses, upon approval of the Commissioner. Also, authorized withdrawals are allowed when the catastrophe loss reserve exceeds 8% of the catastrophe exposure, as defined by Chapter 25.

For the years ended December 31, 2012 and 2011, the movement of the catastrophe loss reserve is as follows:

	2012	2011
Catastrophe loss reserve at beginning of year	***$32,319,184***	*29,745,097*
Investment income	***1,405,393***	*1,374,524*
Catastrophe loss reserve trust fund at end of year	***33,724,577***	*31,119,621*
Contribution payable	***1,356,601***	*1,199,563*
Catastrophe loss reserve at end of year	***$35,081,178***	*32,319,184*

The portion of the retained earnings in the P&C insurance subsidiaries as of December 31, 2012 and 2011 that was restricted is as follows:

	2012	2011
MAPFRE PRAICO	***$33,693,482***	*31,034,101*
MAPFRE PRICO	***1,090,530***	*1,016,332*
MAPFRE PAICO	***297,166***	*268,751*
	$35,081,178	*32,319,184*

4. Investment Securities

Investment securities as of December 31, 2012 and 2011, consist of the following:

	2012	2011
Available-for-sale, at fair value	$424,226,088	459,292,498
Held-to-maturity, at carrying amount	6,392,698	12,343,184
	$430,618,786	471,635,682

The amortized cost, gross unrealized holding gains, gross unrealized holding losses and fair value of investment securities classified as available-for-sale and held-to-maturity by major type and class of security as of December 31, 2012 and 2011 were as follows:

	2012			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Securities available-for-sale:				
Fixed maturity securities:				
U.S. Treasury securities and obligations of U.S. government instrumentalities	$282,825,729	17,642,255	(337,600)	300,130,384
U.S. Treasury securities and obligations of U.S. government instrumentalities held in CAT Fund	33,590,880	2,296,757	(29,712)	35,857,925
U.S. municipal bonds	46,459,736	6,114,881	–	52,574,617
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	7,958,819	152,144	(57,427)	8,053,536
Obligations of the Commonwealth of Puerto Rico and its instrumentalities held in CAT Fund	205,000	8,682	–	213,682
Corporate debt securities	13,701,108	1,511,917	–	15,213,025
Mortgage-backed securities	257,254	16,435	(447)	273,242
Total fixed maturity securities	384,998,526	27,743,071	(425,186)	412,316,411
Equity securities:				
Common stocks	4,605,747	685,518	(89,197)	5,202,068
Preferred stocks	300,413	799	(1,473)	299,739
Exchange traded funds	5,630,145	777,725	–	6,407,870
Total equity securities	10,536,305	1,464,042	(90,670)	11,909,677
Total securities available-for-sale	$395,534,831	29,207,113	(515,856)	424,226,088
Securities held-to-maturity:				
Fixed maturity securities:				
U.S. Treasury securities and obligations of U.S. government instrumentalities	$ 503,599	110,231	–	613,830
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	400,000	–	(4,000)	396,000
Corporate debt securities	4,964,704	864,246	–	5,828,950
Mortgage-backed securities	274,395	6,211	(342)	280,264
Certificates of deposit	250,000	–	–	250,000
Total securities held-to-maturity	$6,392,698	980,688	(4,342)	7,369,044

4. Investment Securities (continued)

	2011			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Securities available-for-sale:				
Fixed maturity securities:				
U.S. Treasury securities and obligations of U.S. government instrumentalities	$309,616,389	22,840,872	(22,671)	332,434,590
U.S. Treasury securities and obligations of U.S. government instrumentalities held in CAT Fund	32,543,189	2,783,392	–	35,326,581
U.S. municipal bonds	50,331,533	5,177,766	–	55,509,299
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	12,724,759	249,021	(6,030)	12,967,750
Obligations of the Commonwealth of Puerto Rico and its instrumentalities held in CAT Fund	205,000	15,413	–	220,413
Corporate debt securities	10,823,262	654,011	(211,274)	11,265,999
Mortgage-backed securities	315,263	17,501	(465)	332,299
Total fixed maturity securities	416,559,395	31,737,976	(240,440)	448,056,931
Equity securities:				
Common stocks	4,841,458	486,031	(244,173)	5,083,316
Preferred stocks	513,605	–	(71,605)	442,000
Exchange traded funds	5,630,145	284,453	(204,347)	5,710,251
Total equity securities	10,985,208	770,484	(520,125)	11,235,567
Total securities available-for-sale	$427,544,603	32,508,460	(760,565)	459,292,498
Securities held-to-maturity:				
Fixed maturity securities:				
U.S. Treasury securities and obligations of U.S. government instrumentalities	$ 504,512	136,698	–	641,210
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	1,403,273	10,520	(3,773)	1,410,020
Corporate debt securities	9,900,210	–	(598,160)	9,302,050
Mortgage-backed securities	285,189	7,815	(535)	292,469
Certificates of deposit	250,000	–	–	250,000
Total securities held-to-maturity	$ 12,343,184	155,033	(602,468)	11,895,749

As of December 31, 2012 the Company transferred an investment on an obligation of the Commonwealth of Puerto Rico and its instrumentalities classified from held-to-maturity to available-for-sale. Such transfer was due to a significant deterioration in the issuer's creditworthiness. Topic 320-10-35-10 of the *Codification, Investments—Debt and Equity Securities*, states that when a security is transferred from held-to-maturity to available-for-sale, it shall be accounted for at fair value. As of December 31, 2012, this security had an amortized cost of $1,000,000 and a fair value of $982,530. An unrealized holding loss amounting to $17,470 was reported in other comprehensive income.

4. Investment Securities (continued)

The amortized cost and fair value of the Company's investments in fixed maturity securities as of December 31, 2012, are summarized, by stated maturity, as follows:

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Years to maturity:				
Due within one year or less	$ 13,684,463	13,901,555	250,000	250,000
Due after one year through five years	63,606,832	68,528,931	503,599	613,830
Due after five years through ten years	202,606,325	223,347,560	4,964,704	5,828,950
Due after ten years	104,843,652	106,265,123	400,000	396,000
Mortgage-backed securities	257,254	273,242	274,395	280,264
Total	$384,998,526	412,316,411	6,392,698	7,369,044

Actual maturities may differ from stated maturities because borrowers may have the right to call or prepay obligations.

Amortized cost exceeds fair value of certain investments as of December 31, 2012. No provision has been made for possible losses resulting from the decline in estimated fair value for securities held in the investment portfolio since such decline in estimated fair value is not deemed to be other-than-temporary.

Gross unrealized holding losses on investment securities for which other-than-temporary impairments have not been recognized and the fair value of those securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of December 31, 2012 and 2011 were as follows:

4. Investment Securities (continued)

	2012					
	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
Securities available-for-sale:						
Fixed maturity securities:						
U.S. Treasury securities and obligations of U.S. government instrumentalities	$17,975,305	(337,600)	–	–	17,975,305	(337,600)
U.S. Treasury securities and obligations of U.S. government instrumentalities held in CAT fund	1,662,545	(29,712)	–	–	1,662,545	(29,712)
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	3,959,828	(57,427)	–	–	3,959,828	(57,427)
Mortgage-backed securities	–	–	30,379	(447)	30,379	(447)
Equity securities:						
Common stocks	1,106,851	(89,197)	–	–	1,106,851	(89,197)
Preferred stocks	–	–	48,939	(1,473)	48,939	(1,473)
Total securities available-for-sale	24,704,529	(513,936)	79,318	(1,920)	24,783,847	(515,856)
Securities held-to-maturity:						
Fixed maturity securities:						
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	396,000	(4,000)	–	–	396,000	(4,000)
Mortgage-backed securities	25,009	(21)	36,218	(321)	61,227	(342)
Total securities held-to-maturity	421,009	(4,021)	36,218	(321)	457,227	(4,342)
Total	$25,125,538	(517,957)	115,536	(2,241)	25,241,074	(520,198)

4. Investment Securities (continued)

	2011					
	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
Securities available-for-sale:						
Fixed maturity securities:						
U.S. Treasury securities and obligations of U.S. government instrumentalities	$ 4,969,850	(22,671)	–	–	4,969,850	(22,671)
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	3,962,399	(433)	1,590,126	(5,597)	5,552,525	(6,030)
Corporate debt securities	909,230	(99,642)	952,750	(111,632)	1,861,980	(211,274)
Mortgage-backed securities	–	–	30,396	(465)	30,396	(465)
Equity securities:						
Common stocks	1,227,476	(215,179)	172,633	(28,994)	1,400,109	(244,173)
Preferred stocks	–	–	442,000	(71,605)	442,000	(71,605)
Exchange traded funds	590,189	(39,434)	1,841,480	(164,913)	2,431,669	(204,347)
Total securities available-for-sale	11,659,144	(377,359)	5,029,385	(383,206)	16,688,529	(760,565)
Securities held-to-maturity:						
Fixed maturity securities:						
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	399,500	(3,773)	–	–	399,500	(3,773)
Corporate debt securities	4,852,050	(107,615)	4,450,000	(490,545)	9,302,050	(598,160)
Mortgage-backed securities	–	–	14,192	(535)	14,192	(535)
Total securities held-to-maturity	5,251,550	(111,388)	4,464,192	(491,080)	9,715,742	(602,468)
Total	$ 16,910,694	(488,747)	9,493,577	(874,286)	26,404,271	(1,363,033)

U.S. Treasury Securities and Obligation of U.S. Government Instrumentalities, Obligations of the Commonwealth of Puerto Rico and its Instrumentalities, and Mortgage-backed Securities – The unrealized losses on the Company's investments in U.S. Treasury Securities and Obligations of U.S. Government Instrumentalities, as well as Obligations of the Commonwealth of Puerto Rico and its Instrumentalities, were mainly caused by interest rate changes. These securities have been in impaired position for less than twelve months. The unrealized losses on U.S. Treasury Securities and Obligations of U.S. Government Instrumentalities pertain to two securities that range from 0.36% to 2.48% of their amortized cost. The unrealized losses on Obligations of the Commonwealth of Puerto Rico and its Instrumentalities pertains to six securities that range from 0.50% to 2.49% of their amortized cost. The unrealized losses on Mortgage-backed Securities pertain to four securities; one has been in impaired position for less than twelve months and three for more than twelve months. The unrealized losses for Mortgage-backed Securities range from .08% to 2.53% of their amortized cost. Because the Company (a) does not intend to sell the securities and (b) believes that it is not more likely than not that it will be required to sell the securities before recovery of their amortized cost basis, the securities are not considered to be other-than-temporarily impaired as of December 31, 2012.

Equity securities – The Company owns common stocks mainly from companies in the telecommunications, real estate and pipelines sectors. The Company also owns shares of exchange traded funds representing the principal U.S. equity indexes. As of December 31, 2012, the Company recognized

4. Investment Securities (continued)

an other-than-temporary impairment due to an equity security which had been showing a fair value lower than its amortized cost for over a twelve month-period and for that same period of time the unrealized loss had exceeded the severity threshold established. As a result, the security's fair value of $253,356 became the new amortized cost and the loss of $235,697 was recognized as a realized loss on impairment in the accompanying Statements of Income. The new cost basis shall not be adjusted for subsequent recoveries in fair value. Future increases or decreases in fair value will be included in other comprehensive income. The unrealized holding losses pertaining to the remaining of the Company's equity securities was mainly due to cyclical weakness in the U.S. equity market. The Company evaluated the near-term prospects of the issuers in relation to the severity and duration of the impairments. Based on that evaluation and the Company's ability and intent to hold these investments for a reasonable period of time sufficient for a forecasted recovery of fair value, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2012.

Mortgage-backed securities represent first mortgage pools and collateralized mortgage obligations (CMOs) both of which are explicitly or implicitly guaranteed by the Federal Government.

Regardless of the classification of the securities as available-for-sale or held-to-maturity, the Company has assessed each position for credit impairment.

Factors considered in determining whether a loss is temporary include:

- the length of time and the extent to which fair value has been below cost;
- the severity of the impairment;
- the cause of the impairment and the financial condition and near-term prospects of the issuer;
- activity in the market of the issuer which may indicate adverse credit conditions; and
- the Company's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

The Company's review for impairment generally entails:

- identification and evaluation of investments that have indications of possible impairment;
- analysis of individual investments that have fair values less than amortized cost, including consideration of the length of time the investment has been in an unrealized loss position and the expected recovery period;
- discussion of evidential matter, including an evaluation of factors or triggers that could cause individual investments to qualify as having other-than-temporary impairment and those that would not support other-than-temporary impairment; and
- documentation of the results of these analyses.

4. Investment Securities (continued)

For equity securities, management considers the various factors described above, including its intent and ability to hold the equity security for a period of time sufficient for recovery to amortized cost. Where management lacks that intent or ability, the security's decline in fair value is deemed to be other-than-temporary and is recorded in earnings.

For debt securities that are not deemed to be credit impaired, management performs additional analysis to assess whether it intends to sell or more-likely-than-not would be required to sell the investment before the expected recovery of the amortized cost basis. In most cases, management has asserted that it has no intent to sell and that it believes it is more-likely-than-not that it will not be required to sell the investment before recovery of its amortized cost basis.

For debt securities, a critical component of the evaluation for other than temporary impairments is the identification of credit impaired securities where management does not expect to receive cash flows sufficient to recover the entire amortized cost basis of the security. For securities purchased and classified as available-for-sale with the expectation of receiving full principal and interest cash flows, this analysis considers the likelihood of receiving all contractual principal and interest.

On December 31, 2001, the Company reevaluated its investment policies and transferred corporate bonds from the available-for-sale to the held-to-maturity category. Management made an assessment of its investments at that time and reclassified certain investments in order to control volatility of market fluctuations. The unrealized holding gain of these investments as of December 31, 2012 amounted to $1,136, net of deferred income taxes of $200. The unrealized holding loss of these investments as of December 31, 2011 amounted to $132,222, net of deferred income taxes of $23,333.

Proceeds from sales, maturities and calls of investments in debt securities during 2012 and 2011 were $186,720,036 and $216,493,699, respectively.

The Company's realized capital gains and losses on sale of investments are summarized as follows:

	2012	2011
Securities available-for-sale:		
Gross realized gains	***$14,842,115***	*9,333,709*
Gross realized losses	***(10,817)***	*–*
Net realized capital gains on sale of investment	***$14,831,298***	*9,333,709*

4. Investment Securities (continued)

Net investment income for the years ended December 31, 2012 and 2011 was as follows:

	2012	2011
Gross investment income:		
Fixed maturity securities	***$14,443,065***	*16,041,067*
Equity securities	***433,688***	*409,114*
Policy loans	**–**	*7,551*
Interest on deposits and short-term investments	***214,086***	*398,214*
Mutual funds and other invested assets	***1,971***	–
Total investment income	***15,092,810***	*16,855,946*
Less: investment expenses	***(3,421,173)***	*(3,288,518)*
Net investment income	***$11,671,637***	*13,567,428*

5. Fair Value Measurements

(a) Fair Value of Financial Instruments

Fair value measurements represent the amounts that would be received to sell assets or that would be paid to transfer liabilities in an orderly transaction between market participants at the measurement date. Those fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects the Company's own judgments about the assumptions that market participants would use in pricing an asset or liability. Those judgments are developed by the Company based on the best information available in the circumstances, including expected cash flows and appropriately risk-adjusted discount rates, available observable and unobservable inputs.

The Company uses the following methods and assumptions in estimating the fair value of each class of financial instruments:

Cash and cash equivalents, short-term investments, receivables and payables: The fair value reported in the consolidated balance sheets of cash and cash equivalents, short-term investments, premiums and agents' balances receivable, reinsurance recoverable, net premiums finance receivables, service contracts receivable, reinsurance premiums payable, advance collections due, and accounts payable and accrued expenses approximates their carrying value because of the short term nature of these instruments.

Investment securities: Equity securities classified as available-for-sale are measured using quoted market prices at the reporting date multiplied by the quantity held. For equity securities that are not actively traded, estimated fair values are based on values of issues of comparable yield and quality. Debt securities classified as available-for-sale are measured using quoted market prices multiplied by the quantity held when quoted market prices are available. If quoted market prices for those debt securities are not available, the fair value is determined using a market approach valuation technique, which uses prices and other relevant information generated by market transactions involving identical or comparable assets.

5. Fair Value Measurements (continued)

(a) Fair Value of Financial Instruments (continued)

Loan payable to bank: The fair value of loan payable to bank is calculated by discounting contractual cash flows, adjusted for prepayment estimates, if any, using estimated current market discount rates that reflect the credit and interest rate risk inherent in the loan. As of December 31, 2010, the carrying amount of the loan payable to bank was $9,000,000. The fair value of the loan payable to bank as of December 31, 2010 amounted to $9,077,930. On November 4, 2011, the Company paid off the loan's outstanding balance, which amounted to $9,268,366, including principal and interest.

Investment securities classified as available-for-sale are the only financial assets that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. No financial liabilities are recognized or disclosed at fair value by the Company in the consolidated financial statements on a recurring basis.

As of December 31, 2012 and 2011, the Company did not have any nonfinancial asset or liability recognized or disclosed at fair value in the consolidated financial statements on a nonrecurring basis.

5. Fair Value Measurements (continued)

(b) Fair Value Hierarchy

The following tables present the placement in the fair value hierarchy of assets that are measured at fair value on a recurring basis as of December 31, 2012 and 2011:

	2012 Fair Value Measurement at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Securities available-for-sale:				
Fixed maturity securities:				
U.S. Treasury securities and obligations of U.S. government instrumentalities	$20,581,793	279,548,591	–	300,130,384
U.S. Treasury securities and obligations of U.S. government instrumentalities held in CAT Fund	–	35,857,925	–	35,857,925
U.S. municipal bonds	–	52,574,617	–	52,574,617
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	–	8,053,536	–	8,053,536
Obligations of the Commonwealth of Puerto Rico and its instrumentalities held in CAT Fund	–	213,682	–	213,682
Corporate debt securities – Financial industry	–	15,213,025	–	15,213,025
Mortgage-backed securities	–	273,242	–	273,242
Total fixed maturity securities	20,581,793	391,734,618	–	412,316,411
Equity securities:				
Common stocks – Telecommunications industry	1,466,422	–	–	1,466,422
Common stocks – Retail industry	528,466	–	–	528,466
Common stocks – Pharmaceutical, Consumer and Medical Devices & Diagnosis industry	488,475	–	–	488,475
Common stocks – Pipelines industry	842,582	–	–	842,582
Common stocks – Technology industry	592,427	–	–	592,427
Common stocks – Personal Products industry	215,892	–	–	215,892
Common stocks – Real Estate industry	594,513	–	–	594,513
Common stocks – Petroleum industry	473,291	–	–	473,291
Preferred stocks – Financial industry	299,739	–	–	299,739
Exchange traded funds – Other industries	6,407,870	–	–	6,407,870
Total equity securities	11,909,677	–	–	11,909,677
Total securities available-for-sale	$32,491,470	391,734,618	–	424,226,088

5. Fair Value Measurements (continued)

(b) Fair Value Hierarchy (continued)

	2011 Fair Value Measurement at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Securities available-for-sale:				
Fixed maturity securities:				
U.S. Treasury securities and obligations of U.S. government instrumentalities	$ 21,293,798	311,140,792	–	332,434,590
U.S. Treasury securities and obligations of U.S. government instrumentalities held in CAT Fund	–	35,326,581	–	35,326,581
U.S. municipal bonds	–	55,509,299	–	55,509,299
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	–	12,967,750	–	12,967,750
Obligations of the Commonwealth of Puerto Rico and its instrumentalities held in CAT Fund	–	220,413	–	220,413
Corporate debt securities – Financial industry	–	11,265,999	–	11,265,999
Mortgage-backed securities	–	332,299	–	332,299
Total fixed maturity securities	21,293,798	426,763,133	–	448,056,931
Equity securities:				
Common stocks – Telecommunications industry	1,501,110	–	–	1,501,110
Common stocks – Retail industry	445,726	–	–	445,726
Common stocks – Pharmaceutical, Consumer and Medical Devices & Diagnosis industry	457,435	–	–	457,435
Common stocks – Pipelines industry	897,074	–	–	897,074
Common stocks – Technology industry	575,792	–	–	575,792
Common stocks – Personal Products industry	212,137	–	–	212,137
Common stocks – Real Estate industry	528,941	–	–	528,941
Common stocks – Petroleum industry	465,101	–	–	465,101
Preferred stocks – Financial industry	442,000	–	–	442,000
Exchange traded funds – Other industries	5,710,251	–	–	5,710,251
Total equity securities	11,235,567	–	–	11,235,567
Total securities available-for-sale	$ 35,529,365	426,763,133	–	459,292,498

The Company's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers into or out of level 1, level 2 or level 3 for the years ended December 31, 2012 and 2011.

6. Net Premium Finance Receivables

Substantially all the premium finance receivables mature in 2012. The balance of the premium finance receivables as of December 31, 2012 and 2011 is presented net of unearned finance charges and the allowance for doubtful accounts as follows:

	2012	2011
Premium finance receivables	***$3,036,943***	*3,108,958*
Unearned interest	***(187,145)***	*(197,063)*
Allowance for loan losses	***(139,453)***	*(139,713)*
	$2,710,345	*2,772,182*

7. Deposits with Insurance Commissioners

As of December 31, 2012, the Company's insurance subsidiaries had deposited the following certificates of deposit with the Commissioner and the Commissioner of Insurance of the U.S. Virgin Islands to comply with their minimum deposit requirements:

Puerto Rico		U.S. Virgin Islands	
MAPFRE PAICO	$ 1,500,000	MAPFRE PRAICO	$ 500,000
MAPFRE PRAICO	$ 1,500,000	MAPFRE LIFE	$ 500,000
MAPFRE PRICO	$ 1,500,000		

These certificates of deposit are included in short-term investments in the accompanying Consolidated Balance Sheets.

Also, as of December 31, 2012, MAPFRE Life had deposited with the Commissioner securities with a carrying amount of $1,322,256 (fair value of $1,298,000).

8. Property and Equipment, Net

Property and equipment, net are composed of the following:

	2012	2011
Land	**$ 16,209,103**	16,209,103
Building and improvements	**45,573,339**	44,626,994
Computers and softwares	**28,460,931**	26,952,352
Furniture and fixtures	**9,151,532**	8,775,543
Automobiles	**490,206**	398,372
Operating equipment	**1,700,164**	1,710,218
	101,585,275	98,672,582
Less: accumulated depreciation	**(44,010,635)**	(40,192,900)
Property and equipment, net	**$ 57,574,640**	58,479,682

9. Claim Liabilities

The activity in the claim liabilities during 2012 and 2011 is summarized as follows (in thousands):

	2012	2011
Gross claim liabilities as of January 1	**$131,784**	135,447
Reinsurance recoverable on claim liabilities as of January 1	**17,124**	14,065
Net claim liabilities as of January 1	**114,660**	121,382
Incurred claims and loss adjustment expenses:		
Insured events of current year	**225,010**	225,796
Insured events of prior years	**1,206**	(4,923)
Total	**226,216**	220,873
Payment of losses and loss adjustment expenses:		
Insured events of current year	**167,979**	173,448
Insured events of prior years	**58,850**	54,147
Total	**226,829**	227,595
Net claim liabilities as of December 31	**114,047**	114,660
Reinsurance recoverable on claim liabilities as of December 31	**13,905**	17,124
Gross claim liabilities as of December 31	**$127,952**	131,784

As a result of changes in estimates of insured events in prior years, the incurred loss and loss adjustment expenses for the year ended December 31, 2012 and 2011, net of reinsurance recoverable, increased (decreased) by approximately $1,200,000 and ($5,000,000), respectively. This was mainly due to a higher than expected adjusting and other expenses payments allocated to prior years in 2012 and the improvement in the claim handling process and the services provided in 2011.

9. Claim Liabilities (continued)

The anticipated effect of inflation is implicitly considered when estimating liabilities for losses and loss adjustment expenses. While anticipated price increases due to inflation are considered in estimating the ultimate claim costs, the increase in average severity of claims is caused by a number of factors that vary with the individual type of policy written. Future average severities are projected based on historical trends adjusted for implemented changes in underwriting standards, policy provisions, and general economic trends. Those anticipated trends are monitored based on actual development and are modified if necessary.

10. Transactions with Related Parties

During 2012 and 2011, the Company charged approximately $3,500 and $3,900, respectively, to MAPFRE Dominicana, S.A., for administrative services provided to this affiliate throughout the year. These charges are recorded within the general and administrative expenses in the accompanying Consolidated Statements of Income.

During 2012 and 2011, the Company reinsured premiums amounting to approximately $88,341,000 and $80,116,000, respectively, with MAPFRE Re Compañía de Reaseguros, S.A. (MAPFRE Re). In addition, the Company had a net payable and a net receivable balance to MAPFRE Re of $7,378,000 and $870,000 as of December 31, 2012 and 2011, respectively.

11. Reinsurance

The Company cedes a portion of its risk under insurance policies to limit the amount of loss on individual claims arising from large risks or from hazards of an unusual nature.

For 2012, reinsurance agreements with effectiveness for the period from July 1, 2011, until June 30, 2012, and from July 1, 2012 to June 30, 2013, were in effect. A description of the principal reinsurance agreements for the Company, which covered the first semester, follows:

Property:

a) Commercial property lines are covered under a 50/50 quota share surplus treaty comprised of 33 lines. This treaty has an event limit of $200,000,000 in any one loss occurrence.

b) Auto Physical Damage Excess of Loss Reinsurance – The Company has coverage of up to $21,000,000 in excess of $1,000,000 retention.

c) Commercial Catastrophe Excess of Loss Reinsurance – The Company has coverage of up to $190,000,000 in excess of $5,000,000 retention.

d) A catastrophe excess of loss treaty is also maintained for personal lines and residential condominium business, with limits up to $160,000,000 with retention of $5,000,000.

11. Reinsurance (continued)

Property: (continued)

e) An excess of loss treaty was maintained for Property per risk business with limits of $30,000,000 excess of $1,000,000.

f) A catastrophe excess of loss treaty is also maintained for inland marine policies and marine policies classified by the reinsured as pleasure craft (Yacht and Outboard Motorboat) business, Ocean Cargo and Commercial Marine Risks, with limits up to $39,000,000 with retention of $1,000,000.

g) Umbrella Catastrophe Excess of Loss Reinsurance – The Company has coverage, on a First Layer, of up to $280,000,000 excess of the underlying programs; $195,000,000 for commercial lines catastrophe excess of loss; excess of $165,000,000 for personal lines / residential condominium excess of loss, and in excess of $40,000,000 for inland marine and marine excess of loss. On a Second Layer, which excludes windstorm, the Company has coverage of up to $125,000,000 for each loss occurrence in excess of $280,000,000, in excess of each underlying programs; $165,000,000 for personal lines / residential condominium excess of loss, in excess of $195,000,000 for commercial lines excess of loss catastrophe excess of loss; and in excess of $40,000,000 for inland marine and marine excess of loss.

Casualty:

a) There is an excess of loss treaty with effectiveness from September 1, 2011 to July 1, 2012, with a limit on a first layer of $600,000 for each loss occurrence in excess of $400,000 for auto and non-auto, a second layer and clash cover automobile and non-automobile (combined) with a limit of $4,000,000 each loss occurrence in excess of $1,000,000, and third layer and clash cover automobile and non-automobile (combined) with a limit of $7,000,000 each loss occurrence in excess of $5,000,000.

The Company also maintains proportional contracts for its surety, boiler & machinery and travel and home assistance business lines.

A description of the principal reinsurance agreements for the Company, which covered the second semester, follows:

Property:

a) Commercial property lines are covered under a 50/50 quota share surplus treaty comprised of 33 lines. This treaty has an event limit of $200,000,000 in any one loss occurrence.

b) Auto Physical Damage Excess of Loss Reinsurance – The Company has coverage of up to $21,000,000 in excess of $1,000,000 retention.

c) Commercial Catastrophe Excess of Loss Reinsurance – The Company has coverage of up to $185,000,000 in excess of $5,000,000 retention.

d) A catastrophe excess of loss treaty is also maintained for personal lines and residential condominium business, with limits up to $155,000,000 with retention of $5,000,000.

e) An excess of loss treaty was maintained for Property per risk business with limits of $30,000,000 excess of $1,000,000.

11. Reinsurance (continued)

Property: (continued)

f) A catastrophe excess of loss treaty is also maintained for inland marine policies and marine policies classified by the reinsured as pleasure craft (Yacht and Outboard Motorboat) business, Ocean Cargo and Commercial Marine Risks, with limits up to $38,000,000 with retention of $1,000,000.

g) A catastrophe excess of loss treaty is also maintained for polices classified by the Company as Loss Limit Property including the Company's participation in primary and layered Commercial Property policies, with limit up to $47,000,000 in excess of $5,000,000 retention.

h) Umbrella Catastrophe Excess of Loss Reinsurance – The Company has coverage, on a First Layer, of up to $50,000,000 excess of each of the underlying programs; $190,000,000 for commercial lines catastrophe excess of loss; excess of $160,000,000 for personal lines / residential condominium excess of loss; excess of $39,000,000 for inland marine and marine excess of loss and in excess of $52,000,000 for loss limit catastrophe excess of loss. On a Second Layer, the Company has coverage of up to $266,000,000 for each loss occurrence in excess of $50,000,000, in excess of each of the underlying programs; $160,000,000 for personal lines / residential condominium excess of loss, in excess of $190,000,000 for commercial lines catastrophe excess of loss; excess of $39,000,000 for inland marine and marine excess of loss and in excess of $52,000,000 for loss limit catastrophe excess of loss. On a Third Layer, which excludes windstorm, the Company has coverage of up to $125,000,000 for each loss occurrence in excess of $316,000,000, in excess of each of the underlying programs; $160,000,000 for personal lines / residential condominium excess of loss, in excess of $190,000,000 for commercial lines catastrophe excess of loss; excess of $39,000,000 for inland marine and marine excess of loss and in excess of $52,000,000 for loss limit catastrophe excess of loss.

Casualty:

a) There is an excess of loss treaty with effectiveness from July 1, 2012 to July 1, 2013, with a limit on a first layer of $600,000 for each loss occurrence in excess of $400,000 for auto and non-auto, a second layer and clash cover automobile and non-automobile (combined) with a limit of $4,000,000 each loss occurrence in excess of $1,000,000, and third layer and clash cover automobile and non-automobile (combined) with a limit of $7,000,000 each loss occurrence in excess of $5,000,000.

In addition, there is a reinstatement premium protection contract to reinstate various layers of the Commercial Property Catastrophe Excess of Loss Program, Personal Lines and Residential Condominium Catastrophe Excess of Loss Program, Inland Marine and Marine Excess of Loss Program and Loss Limit Catastrophe Excess of Loss Program. The Company also maintains proportional contracts for its surety, boiler & machinery and travel and home assistance business lines.

Life & Health:

a) The Company reinsures life and accidental death insurance policies with MAPFRE Re. The agreements provide coverage for amounts in excess of the maximum retention of $75,000 up to $525,000 for Group Life and Individual Life. Also since 2008, the Company maintains a 100% ceded reinsurance contract for the Group Life and Group Long Term Disability categories of International Policies issued by the Company. The Company also maintains reinsurance coverage for its medical expenses in the Commercial Health & Medicare lines of business, in excess of $300,000 up to $700,000 ultimate net loss and in excess of $200,000 up to $800,000 ultimate net loss, respectively.

11. Reinsurance (continued)

Life & Health: (continued)

b) A catastrophe excess of loss treaty is also maintained for life and accidental death insurance policies in the occurrence of an event affecting three or more policyholders. The agreement provides coverage for amounts in excess of $100,000 up to $900,000 on the first layer and in excess of $1,000,000 up to $4,100,000 on the second layer.

c) Since October 2012, the Company maintains a 70% ceded reinsurance contract for Cancer, Group Life and Individual Life categories of policies issued through commercial campaign from a Direct Marketing Company.

d) The Company maintains reinsurance coverage for its medical expenses in the Commercial Health of Administrative Service Only (ASO) groups, in excess of $100,000 up to $900,000 of the Company's gross liability. The Company also maintains reinsurance coverage for its Air Life and Ordinary Life lines of business, in excess of $50,000 and in excess of $25,000, respectively. The Air Life and Ordinary Life contracts are in run-off status.

e) The Company assumed 75% in 2012 and 2011, of the accident and health insurance risks written by an affiliated company. The contract provides that the Company will charge administrative fees based on the collected premiums to cover all expenses incurred in the administration of the assumed policies. During 2012 and 2011, reinsurance premium for this contract was approximately $51,000 and $55,000, respectively.

f) Also, since March 2011, the Company assumed an 80% reinsurance contract, that covers medical expenses in the Commercial Health & Medicare lines of business, with respect to the business generated by an affiliate company (MAPFRE BHD Seguros), for both individual or group policies. The agreement provides coverage for amounts in excess of $300,000 up to $700,000 ultimate net loss and in excess of $200,000 up to $800,000 ultimate net loss, respectively.

In 2012 and 2011, the Company did not commute any ceded reinsurance nor did it enter into or engage in any agreement that reissues policies or contracts that were in-force or had existing reserves as of the effective dates of such agreements.

Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristic of the reinsurers to minimize its exposure to significant losses from reinsurers' insolvencies.

In the accompanying consolidated financial statements, premiums, losses and loss adjustment expenses are reported net of reinsurance ceded; however, unpaid losses and loss adjustment expenses and unearned premiums are reported gross of reinsurance ceded.

A summary of significant reinsurance amounts affecting the consolidated financial statements are as follows:

11. Reinsurance (continued)

	2012		2011	
	Premiums Written	Premiums Earned	Premiums Written	Premiums Earned
Direct	$427,391,444	426,551,896	426,337,539	425,964,148
Assumed:				
Non-affiliates	177,873	177,873	97,251	97,251
Ceded:				
Affiliates	(89,086,288)	(88,895,823)	(80,173,214)	(82,963,872)
Non-affiliates	(27,837,882)	(26,280,140)	(24,961,367)	(24,512,305)
Net	$310,645,147	311,553,806	321,300,209	318,585,222

	2012	2011
Claims incurred:		
Direct	$214,619,564	213,447,702
Assumed	35,887	19,596
Ceded	(10,404,192)	(11,815,791)
Net	$204,251,259	201,651,507

The Company's direct and assumed unearned premiums as of December 31, 2012 and 2011 amounted to $196,302,025 and $203,115,059, respectively. This amount is related to non-affiliates in its entirety. The net amount of return commissions recoverable as of December 31, 2012, if all assumed and ceded reinsurance treaties were canceled is summarized as follows:

	Assumed Reinsurance		Ceded Reinsurance		Net	
	Unearned Premium Reserve	Commission Payable	Unearned Premium Reserve	Commission Recoverable	Unearned Premium Reserve	Commission Recoverable
Affiliates	$ –	–	15,558,109	4,289,544	(15,558,109)	(4,289,544)
All other	–	–	11,738,623	2,810,512	(11,738,623)	(2,810,512)
Total	$ –	–	27,296,732	7,100,056	(27,296,732)	(7,100,056)

As of December 31, 2012 and 2011, the Company's ceded reinsurance arrangements reduced certain other items in the accompanying consolidated financial statements as follows (in thousands):

11. Reinsurance (continued)

	2012	2011
Losses and loss adjustment expenses receivable:		
Affiliates	**$ 7,332**	7,187
Non-affiliates	**$ 864**	926
Losses and loss adjustment expense reserves:		
Affiliates	**$10,015**	10,722
Non-affiliates	**$ 3,890**	6,401
Unearned premium reserves:		
Affiliates	**$15,558**	15,366
Non-affiliates	**$11,739**	10,183

Amounts payable or recoverable for reinsurance on paid and unpaid losses are not subject to periodic or maximum limits.

12. Deposit Liability

During 2011, the Company entered into an insurance agreement which has been accounted for as a deposit liability, because the agreement did not transfer insurance risk. The following schedule summarizes the applicable activity in 2012 and 2011.

	2012	2011
Deposit balance, beginning o f the year	**$17,321,297**	-
Amounts deposited	**-**	19,000,000
Payments made	**(2,693,718)**	(178,703)
Amortization of loss adjustments expenses and other expenses fund	**(1,500,000)**	(1,500,000)
Deposit balance, at end of the year	**$13,127,579**	17,321,297

13. Statutory-Basis of Accounting for Insurance Subsidiaries

The Company's insurance subsidiaries are required to file statutory-basis financial statements with the Commissioner. Accounting practices followed in the preparation of those statutory-basis financial statements differ from generally accepted accounting principles.

The statutory-basis capital and surplus and net income of the Company's insurance subsidiaries as of and for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Statutory-basis capital and surplus	**$215,349,106**	218,063,967
Statutory-basis net income	**$ 12,901,959**	23,817,351

14. Loan Payable to Bank

Effective November 6, 2006, the Company financed the initial acquisition cost of the group of insurance-related companies previously described through an unsecured loan of $9 million with a commercial bank. This loan bore interest at 5.8025%. Interest on this loan was payable semiannually on May 6th and November 6th of each year until it was paid in full on November 4, 2011. Interest expense on this loan amounted to $451,144 in 2011.

15. Income Taxes

The entities comprising the consolidated financial statements are taxed individually as consolidated returns are not available under existing Puerto Rico tax laws. Accordingly, the income taxes represent the sum of the individual companies' tax expenses.

Property and casualty insurance companies are taxed on their taxable income determined on the basis of the statutory annual statements filed with the Commissioner. Also, income from operations is subject to an alternative minimum income tax that is calculated based on a formula established by the existing tax laws.

Income tax expense differs from amounts expected by applying the statutory tax rate (30%) to income before income taxes because of the matter explained in the preceding paragraph, the tax-exempt nature of interest earned on obligations from the Puerto Rico and U.S. Federal governments and their subdivisions, and the contributions to the catastrophe loss reserve, which are deductible for income tax purposes.

As a qualified domestic life insurance company, MAPFRE Life is only subject to Puerto Rico income taxes on capital gains and the Puerto Rico alternative minimum tax. No alternative minimum tax was paid by MAPFRE Life in 2012 and 2011.

Operations in the USVI are subject to a 5% premium tax on policies underwritten therein. Also, MAPFRE PRAICO and MAPFRE Life, as qualified foreign insurance companies, are subject to income taxes in the USVI.

During the last quarter of calendar year 2010, the Government of Puerto Rico approved Act 171 of November 15, 2010. This action constituted the first phase of the current administration's tax reform package, which included provisions that were effective for calendar year 2010. Among other changes, this phase of the Tax Reform extended the carryover period of net operating losses from 7 to 10 years. This provision, however, applies only to losses incurred during taxable years commenced after December 31, 2004 and before December 31, 2012. Subsequently, the Government approved Act 1 of January 31, 2011, which constituted the second phase of the Tax Reform. Among other things, this act reduced the maximum corporate income tax rate from 39% to 30%, eliminated a temporary surtax of 5%, reduced the Alternative Minimum Tax rate and added several tax credits and deductions.

15. Income Taxes (continued)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31, 2012 and 2011 are as follows (the 2011 amounts have been adjusted to reflect the adoption of the new deferred policy acquisition costs standard described in Note 1):

	2012	2011 (As adjusted)
Deferred tax liabilities:		
Deferred policy acquisition costs	**$ 6,091,775**	6,916,456
Deferred service contracts acquisition costs	**1,728,349**	1,654,490
Deposits into CAT Fund	**3,832,470**	3,561,150
Unrealized holding gain on securities available-for-sale	**4,303,888**	4,738,850
Depreciation	**14,444**	-
Other	**10,310**	10,733
Gross deferred tax liabilities	**15,981,236**	16,881,679
Deferred tax assets:		
Allowance for doubtful accounts	**1,140,660**	1,146,866
Alternative minimum tax	**276,141**	275,818
Capital loss carryforward	**117,974**	117,974
Net operating loss carryforwards	**3,811,577**	1,043,698
Other	**51,415**	45,226
Deferred tax assets before valuation allowance	**5,397,767**	2,629,582
Less: valuation allowance	**4,004,806**	1,348,151
Total deferred tax assets	**1,392,961**	1,281,431
Net deferred tax liability	**$14,588,275**	15,600,248

At December 31, 2012, the Company has net operating carryforward losses available to offset future taxable income, if any, as follows:

Expiration:	
2015	**$ 1,220,133**
2017	**713,407**
2018	**414,619**
2019	**560,681**
2020	**995,498**
2021	**5,542,820**
2022	**8,335,906**
2032	**670,957**
	$18,454,021

In assessing the realizability of deferred tax assets, management considers whether it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities (including the impact of available carryforward period), projected future taxable income and tax-planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management

15. Income Taxes (continued)

believes it is more-likely-than-not that the Company will realize the benefits of those deductible differences other than net operating loss carryforwards, alternative minimum tax credit carryforwards and a portion of the allowance for doubtful accounts, for which a valuation allowance in the amount of $4,004,806 and $1,348,151 was established in 2012 and 2011, respectively.

As of December 31, 2012, tax years 2008 through 2012 are subject to examination by Puerto Rico taxing authorities.

16. Retirement Plan

The full time employees of the Company's subsidiaries participate in a defined contribution pension plan (the Plan). The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended, and Section 1081.01(d) of the Puerto Rico Internal Revenue Code of 2011, formerly Section 1165(e) of the Puerto Rico Internal Revenue Code of 1994, as amended. Under the provisions of the Plan, the Company matches employee contributions on a dollar for dollar basis contributed up to a maximum of 6% of the eligible employees' gross salary. The Plan provides for annual contributions as determined by the Company's Board of Directors. The Company contributions to the plan during 2012 and 2011 amounted to approximately $1,994,000 and $1,940,000, respectively.

17. Commitments

The Company leases office space under non-cancelable operating leases with terms in excess of one year. Minimum lease payments required under the lease agreements at December 31, 2012 are as follows:

2013	*$222,115*
2014	*29,250*
2015	*1,040*
	$252,405

In 2012 and 2011, the Company recorded rent expense of approximately $566,000 and $439,000, respectively.

18. Contingencies

(a) Guarantee Associations

Pursuant to Chapter 41 and Rule 56 of the Code, the Company's P&C Subsidiaries are members of Sindicato de Aseguradores para la Suscripción Conjunta de Seguros de Responsabilidad Profesional Médico-Hospitalaria (SIMED) and the Sindicato de Aseguradores de Responsabilidad Profesional para Médicos. Both syndicates were created for the purpose of underwriting medical-hospital and medical-professional liability insurance, respectively.

18. Contingencies (continued)

(a) Guarantee Associations (continued)

As members, the Company's P&C Subsidiaries share proportional risks, based on a formula established by the Code, with other member companies and, accordingly, are contingently liable in the event that the syndicates cannot meet their obligations. During 2012 and 2011, no assessments were received. No amounts were accrued at December 31, 2012 or 2011.

Pursuant to Article 12 of Rule LXIX of the Code, the Company's P&C Subsidiaries are also members of the Asociación de Suscripción Conjunta del Seguro de Responsabilidad Obligatorio (ASCSRO), which provides compulsory auto liability insurance to cover damages to motor vehicles of third parties as a result of a traffic accident, to applicants of said insurance who have been rejected by private insurers. ASCSRO is composed of all private insurers, which write more than one percent of vehicle liability insurance in Puerto Rico. These members participate in ASCSRO's profit and losses in proportion to said writings. During 2012 and 2011, ASCSRO distributed to the members an experience refund. Also, during 2012 and 2011, MAPFRE PRAICO and MAPFRE PRICO received approximately $1,505,000 and $1,643,000, respectively, from ASCSRO, out of the total experience refunds distributed.

Additionally, the Company's P&C Subsidiaries are also members of the Puerto Rico Insurance Guaranty Association For All Kinds of Insurance Except Life, Disability and Health (the Association) and, as members, are obligated to provide funds for the settlement of claims and reimbursements of unearned premiums of insurance policies issued by insolvent insurance companies. No assessments were paid in 2012 or 2011. The Association may levy additional assessments to cover these insolvencies; however, total charges for any year are limited to 2% of the total direct premiums written in the related year.

Pursuant to the Code, MAPFRE Life is a member of the Puerto Rico Insurance Guaranty Association for Life, Disability and Health Insurance (the Guaranty Association). As a member, MAPFRE Life is required to provide funds for the settlement of claims and reimbursement of unearned premiums of insurance policies issued by insolvent insurance companies. During 2012 and 2011, no accrual for possible future assessments was provided. MAPFRE Life has not been informed nor had any knowledge of assessments or insurance companies that have become insolvent that could result in significant future charges by the Guaranty Association.

(b) Legal Proceedings

The Company is named as a defendant in various legal actions arising principally from claims made under insurance policies and contracts. Those actions are considered by the Company in estimating the liability for unpaid loss and loss adjustment expense reserves. The Company is also subject to legal proceedings and claims arising in the ordinary course of business relating to various employee matters. The Company's management believes, with the advice of its legal counsel, that the ultimate resolution of those actions will not have a material adverse effect on the Company's consolidated financial position or results of operations.

On August 23, 2012, MAPFRE Life received a demand for arbitration and notice of arbitration proceeding from a network provider. The network provider seeks to recover amounts that the Company deducted from monthly fees paid to the network provider, on account of covered prescription drug services invoiced by MAPFRE Life from April 2009 through July 31, 2012. MAPFRE Life filed a counter claim for an amount previously claimed against the network provider. After several procedural events, in January, 2013, the claimed amount was increased during the discovery proceedings. The parties engaged in discovery procedures, beginning on January, 2013 and as ordered by the panel of arbitrators, a process of auditing the claims was performed and completed. There is no hearing scheduled yet and, so far, MAPFRE Life has been and will continue to vigorously contest the claim. Management, based on the advice of its legal counselors, is of the opinion that the ultimate outcome of this action will not have a material adverse effect on the consolidated financial position and results of operations of the Company.

18. Contingencies (continued)

(b) Legal Proceedings (continued)

During the month of November, 2012, MAPFRE Life received a payment related to premiums owed to MAPFRE Life for the health insurance coverage contracted by a governmental agency's labor union for the year 2009. MAPFRE Life had been attempting to collect this debt for a long period of time. On December 8, 2012, the governmental agency sent a notice to MAPFRE Life asking for the refund of the amount paid, for it had been allegedly paid in error. A final and formal invoice collecting the amount paid was received by MAPFRE Life on January 22, 2013. This notice activated formal administrative procedure, which MAPFRE Life followed by filing an objection to the invoice within the term provided. The governmental agency rejected the objection and an appeal followed, filed by MAPFRE Life on March 13, 2013. MAPFRE Life vigorously contested the claim and intends to continue to do so exhausting administrative procedures. Management based on the advice of its legal counselors, is of the opinion that an unfavorable outcome is not foreseeable at the present time, and that the ultimate outcome of this action will not have a material adverse effect on the consolidated financial position and results of operations of the Company.

(c) Audits from the Commissioner

During 2008, the Commissioner audited the statutory-basis financial statements of MAPFRE PRAICO for the years 2004 to 2007. The Company received from the Commissioner on June, 2011, the audit reports and an order imposing a $5,000 fine related to these audits. After the Company timely objected to some of the findings, the matter was finally adjudicated during year 2012, correcting a part of the findings objected. The Company's management believes that the findings included in said report do not have a material adverse effect on the Company's consolidated financial position or results of operations.

During 2009, the Commissioner performed a Market Conduct Examination of MAPFRE PRAICO on those claims received between December 1, 2008 and September 30, 2009. MAPFRE PRAICO received a report from the Commissioner on September, 2010. The report was objected, and the matter is still pending review from the Commissioner. The Company's management believes that the potential findings from this examination will not have a material adverse effect on the Company's consolidated financial position or results of operations.

During 2010, the Commissioner performed an audit of MAPFRE PRAICO's statutory-basis financial statements for the years 2005 to 2009 following the NAIC audit guide requirements. MAPFRE PRAICO received from the Commissioner on July, 2011, a report related to this examination, which was timely objected by MAPFRE PRAICO. During 2012, the Commissioner accepted the objections presented by MAPFRE PRAICO and issued a final report. Findings contained in this report will not have a material effect on the Company's consolidated financial position since they are operational in nature.

During 2011, the Commissioner examined the operations of MAPFRE Life and MAPFRE PRAICO following NAIC guidelines for the period between January 1, 2007 through December 31, 2010 for MAPFRE Life and for the period between January 1, 2010 through December 31, 2010 for MAPFRE PRAICO. On January 2012, both companies received the audit reports related to these audits from the Commissioner. Even though none of the findings included in the audit reports have a material adverse effect on any of the companies' financial positions or results of operations, MAPFRE PRAICO and MAPFRE Life challenged certain findings. The Commissioner accepted the objections presented by MAPFRE PRAICO and issued an amended report during 2012; no administrative fine was imposed to MAPFRE PRAICO. MAPFRE LIFE successfully challenged certain findings contained in the audit report from the Commissioner and, after several stipulations were reached to amend certain portions of the report, the Commissioner issued during 2012 its final order issuing the report for public inspection. As per the terms of the order, MAPFRE LIFE was fined in the amount of $2,000 which it paid, thus not having a material adverse effect on the Company's consolidated financial position or results of operations.

18. Contingencies (continued)

(c) Audits from the Commissioner (continued)

The Company's agency subsidiary (MIA) is subject to compliance audits as an agent, general agent and excess lines broker by the Commissioner. During 2004, the Commissioner performed financial and compliance audits of MIA as an agent and general agent covering the period from 1999 to 2003. MIA has not yet received the audit reports from the Commissioner in connection with these audits, which very likely will not be received given the time transpired since the audits were performed and the period subject to review.

(d) Audits from Other Regulatory Agencies

MAPFRE Life is also subject to financial and compliance audits from the CMS. On August 13, 2010, MAPFRE Life received a letter notifying that the organization had been selected for a financial and compliance audit of records relating to the financial activities of the year 2008 pursuant to Sections 1857 (d)(1)(2) and 1860D-12 (b)(3)(c) of the Social Security Act. CMS has contracted a private audit firm to conduct the audit in the capacity of CMS's agents. An audit report was issued in May, 2011. CMS asked MAPFRE Life to submit a note of corrective actions as to findings subject of the audit and MAPFRE Life complied in submitting its response on November 18, 2011, as indicated. All findings have already been corrected and/or plans and procedures are already in place. None of the findings resulting from this audit have a material adverse effect on the Company's financial position and results of operations. On November 2, 2012, CMS officially closed this audit.

On February 10, 2012, MAPFRE Life received a letter from CMS notifying that the organization had been selected for a financial and compliance audit of records relating to the financial activities of the year 2010 pursuant to Section 1857(d)(1)(2) and 1860D-12(b)(3)(c) of the Social Security Act. The letter indicated that CMS will contract a private firm to conduct the audit in the capacity of CMS's agents. The audit commenced during the latter part of 2012 and it is still in process.

On July 9, 2012, another letter was received from CMS whereby notice was given that CMS would be performing a program audit of MAPFRE Life, examining its operations of the Medicare Part C and Part D programs. After submission of information and a site visit during the month of August, CMS issued on October 9, 2012 a notice of an intermediate sanction against MAPFRE Life whereby MAPFRE Life was banned from performing marketing or enrollment activities. No monetary sanctions were imposed. The sanction is to be lifted once MAPFRE Life files an attestation statement indicating that all findings have been corrected pursuant to the Corrective Action Plan (CAP) filed with CMS. MAPFRE Life is currently performing a validation and monitoring of activities with the purpose of corroborating that findings have been corrected. A final audit report was issued in February 8, 2012, and a term of 90 days has been provided for MAPFRE Life to respond to the audit report. As a result of the intermediate sanction received, the Company will have a significant reduction in Medicare premiums written during 2013.

19. Restrictions over Statutory Capital and Dividends

Payment of dividends to shareholders is limited to unassigned surplus related to the operations of the Company's insurance subsidiaries (as defined by the Code), less the amounts transferred or to be transferred to the CAT Fund based on direct premiums written for the year. The unassigned surplus of the Company's insurance subsidiaries available for the payment of dividends as of December 31, 2012 and 2011 was approximately $88,038,000 and $93,500,000, respectively.

Property and casualty and life and health insurance companies are subject to certain Risk-Based Capital (RBC) requirements as specified by the NAIC. Under those requirements, the amount of capital and surplus maintained by the insurance companies is to be determined based on the various risk factors related to it. At December 31, 2012 and 2011, the Company's insurance subsidiaries met the RBC requirements.

20. Comprehensive Income

The related tax effects allocated to the accumulated balance of the unrealized holding gains on securities classified as available-for-sale that are included as comprehensive income in the accompanying Statements of Comprehensive Income and Statements of Shareholder's Equity for the years ended December 31, 2012 and 2011 are as follows:

	2012		
	Before-tax Amount	Deferred Tax (Expense) Benefit	Net-of-tax Amount
Unrealized holding gains on securities classified as available-for-sale arising during 2012	$11,931,551	(1,789,733)	10,141,818
Reclassification adjustment for gains realized in income	(14,831,298)	2,224,695	(12,606,603)
Net change in unrealized gains	$ (2,899,747)	434,962	(2,464,785)

	2011		
	Before-tax Amount	Deferred Tax (Expense) Benefit	Net-of-tax Amount
Unrealized holding gains on securities classified as available-for-sale arising during 2011	$27,096, 134	(4,064,418)	23,031,716
Reclassification adjustment for gains realized in income	(9,333,709)	1,400,056	(7,933,653)
Net change in unrealized gains	$17,762,425	(2,664,362)	15,098,063

21. Subsequent Events

On February 14, 2013, MAPFRE Life formalized with CMS an agreement to terminate by mutual agreement its Medicare Advantage and Prescription Drug contract effective April 1, 2013.

The Company evaluated subsequent events through June 18, 2013, the date on which these financial statements were available to be issued. There are no other material subsequent events that would require further disclosure.

Consolidating Schedules

Consolidating Schedule - Balance Sheet Information
December 31, 2012

	MAPFRE PRAICO INSURANCE COMPANY	MAPFRE PREFERRED RISK INSURANCE COMPANY	Total	Section A Elimination Entries DR	Section A Elimination Entries CR	MAPFRE PRAICO INSURANCE COMPANY and Subsidiary Consolidated	MAPFRE PAN AMERICAN INSURANCE COMPANY	MAPFRE Insurance Agency of Puerto Rico, Inc.
Assets								
Cash and Investments:								
Cash and cash equivalents	$56,248,968	675,899	56,924,867	–	–	56,924,867	842,661	784,675
Short-term investments	2,250,000	2,000,000	4,250,000	–	–	4,250,000	2,000,000	–
Investment securities	291,473,901	71,016,850	362,490,751	–	–	362,490,751	14,181,432	–
Investment in subsidiaries	30,873,476	–	30,873,476	–	30,873,476	–	–	–
Total cash and investments	380,846,345	73,692,749	454,539,094	–	30,873,476	423,665,618	17,024,093	784,675
Premiums and agents' balances receivable, net	26,899,865	5,125,294	32,025,159	–	1,538,703	30,486,456	218,400	1,468,104
Reinsurance recoverable on:								
Paid losses, net	892,230	1,584	893,814	–	–	893,814	–	–
Unpaid losses and loss adjustment expenses	13,737,085	3,807,492	17,544,577	–	3,640,631	13,903,946	631,482	–
Prepaid reinsurance premiums	27,273,410	11,003,064	38,276,474	–	10,981,386	27,295,088	1,411,743	–
Total reinsurance recoverable	41,902,725	14,812,140	56,714,865	–	14,622,017	42,092,848	2,043,225	–
Net premium finance receivables	–	–	–	–	–	–	–	–
Service contracts receivable	–	–	–	–	–	–	–	–
Accrued investment income	2,560,005	544,515	3,104,520	–	–	3,104,520	137,876	–
Due from related company	3,222,879	65,611	3,288,490	–	471,502	2,816,988	16,145	41,171
Deferred policy acquisition costs	20,543,318	864,214	21,407,532	–	–	21,407,532	117,096	–
Deferred service contract acquisition costs	–	–	–	–	–	–	–	–
Property and equipment, net	46,404,828	–	46,404,828	–	–	46,404,828	–	584
Intangible assets, net	–	–	–	–	–	–	–	–
Note receivable from affiliate	–	–	–	–	–	–	–	–
Prepaid income taxes	1,538,952	537,112	2,076,064	–	–	2,076,064	434,162	547,925
Other assets	4,747,437	236,132	4,983,569	–	–	4,983,569	21,680	23,237
Total assets	$528,666,354	95,877,767	624,544,121	–	47,505,698	577,038,423	20,012,677	2,865,696

See accompanying report of independent auditors.

Consolidating Schedule - Balance Sheet Information
December 31, 2012

						Section B Elimination Entries		
MAPFRE Finance of Puerto Rico, Corp.	MAPFRE Life Insurance Company	Auto Guard, Inc.	Multiservicar, Inc.	MAPFRE PRAICO Corporation	Total	DR	CR	MAPFRE PRAICO Corporation and Subsidiaries Consolidated
215,023	10,019,818	1,048,448	831,802	11,341,800	82,009,094	–	–	82,009,094
–	860,000	250,000	–	–	7,360,000	–	–	7,360,000
–	45,288,465	8,658,138	–	–	430,618,786	–	–	430,618,786
–	–	–	–	277,691,306	277,691,306	17,100,000	294,791,306	–
215,023	56,168,283	9,956,586	831,802	289,033,106	797,679,186	17,100,000	294,791,306	519,987,880
–	6,471,474	–	–	–	38,644,434	–	209,554	38,434,880
–	7,302,096	–	–	–	8,195,910	–	–	8,195,910
–	–	–	–	–	14,535,428	–	630,733	13,904,695
–	–	–	–	–	28,706,831	–	1,410,099	27,296,732
–	7,302,096	–	–	–	51,438,169	–	2,040,832	49,397,337
2,710,345	–	–	–	–	2,710,345	–	–	2,710,345
–	–	1,606,117	–	–	1,606,117	–	–	1,606,117
–	406,056	83,305	–	–	3,731,757	–	–	3,731,757
466	–	199,821	–	136,211	3,210,802	–	3,209,329	1,473
–	6,867,442	–	–	–	28,392,070	–	–	28,392,070
–	–	8,641,743	–	–	8,641,743	–	–	8,641,743
–	471,217	–	10,698,011	–	57,574,640	–	–	57,574,640
–	–	–	–	6,890,607	6,890,607	–	–	6,890,607
–	–	–	–	9,934,868	9,934,868	–	9,934,868	–
15,087	(144,652)	864,175	74,654	–	3,867,415	–	–	3,867,415
1,596,348	1,897,179	26,930	168,514	1,841,856	10,559,313	–	–	10,559,313
4,537,269	79,439,095	21,378,677	11,772,981	307,836,648	1,024,881,466	17,100,000	310,185,889	731,795,577

Consolidating Schedule - Balance Sheet Information
December 31, 2012

	MAPFRE PRAICO INSURANCE COMPANY	MAPFRE PREFERRED RISK INSURANCE COMPANY	Total	Section A Elimination Entries DR	Section A Elimination Entries CR	MAPFRE PRAICO INSURANCE COMPANY and Subsidiary Consolidated	MAPFRE PAN AMERICAN INSURANCE COMPANY	MAPFRE Insurance Agency of Puerto Rico, Inc.
Liabilities and Shareholder's Equity								
Liabilities:								
Claim liabilities:								
Unpaid losses and loss adjustment expenses	$96,001,210	5,445,017	101,446,227	3,640,631	–	97,805,596	911,313	–
Unpaid service contract claims	–	–	–	–	–	–	–	–
Policy and contract claims	–	–	–	–	–	–	–	–
Total claim liabilities	96,001,210	5,445,017	101,446,227	3,640,631	–	97,805,596	911,313	–
Future policy benefits	–	–	–	–	–	–	–	–
Unearned premiums	138,147,604	53,901,019	192,048,623	10,981,386	–	181,067,237	6,488,510	–
Unearned service contract revenue	–	–	–	–	–	–	–	–
Policyholder funds	–	–	–	–	–	–	–	–
Reserve for cancellations	–	–	–	–	–	–	–	176,823
Net deferred tax liability	11,751,268	1,210,081	12,961,349	–	–	12,961,349	237,396	(95,549)
Reinsurance premiums payable	8,654,186	357,505	9,011,691	1,538,703	1,197,320	8,670,308	105,801	–
Advanced collections due	–	–	–	–	–	–	–	–
Accounts payable and accrued expenses	16,939,870	3,583,175	20,523,045	1,197,320	–	19,325,725	855,083	502,058
Due to affiliates	66,373	507,494	573,867	471,502	–	102,365	94,518	1,606,154
Note payable to affiliate	–	–	–	–	–	–	–	–
Deposit Liability	13,127,579	–	13,127,579	–	–	13,127,579	–	–
Total liabilities	284,688,090	65,004,291	349,692,381	17,829,542	1,197,320	333,060,159	8,692,621	2,189,486
Shareholder's Equity:								
Common stock	5,000,000	3,000,000	8,000,000	3,000,000	–	5,000,000	3,000,000	1,700
Additional paid-in capital	65,000,000	7,025,000	72,025,000	7,025,000	–	65,000,000	784,383	–
Accumulated other comprehensive income, net of deferred taxes	20,628,920	6,340,144	26,969,064	6,340,144	–	20,628,920	1,233,556	–
Retained earnings	153,349,344	14,508,332	167,857,676	14,508,332	–	153,349,344	6,302,117	674,510
Total shareholder's equity	243,978,264	30,873,476	274,851,740	30,873,476	–	243,978,264	11,320,056	676,210
Total liabilities and shareholder's equity	$528,666,354	95,877,767	624,544,121	48,703,018	1,197,320	577,038,423	20,012,677	2,865,696

See accompanying report of independent auditors.

						Section B Elimination Entries		
MAPFRE FINANCE of Puerto Rico Corp.	MAPFRE LIFE INSURANCE COMPANY	Auto Guard, Inc.	Multiservicar, Inc.	MAPFRE PRAICO Corporation	Total	DR	CR	MAPFRE PRAICO Corporation and Subsidiaries Consolidated
–	–	–	–	–	98,716,909	630,733	–	98,086,176
–	–	191,545	–	–	191,545	–	–	191,545
–	29,674,096	–	–	–	29,674,096	–	–	29,674,096
–	29,674,096	191,545	–	–	128,582,550	630,733	–	127,951,817
–	10,634,066	–	–	–	10,634,066	–	–	10,634,066
–	10,156,377	–	–	–	197,712,124	1,410,099	–	196,302,025
–	–	18,266,695	–	–	18,266,695	–	–	18,266,695
–	2,366,958	–	–	–	2,366,958	–	–	2,366,958
–	–	648,418	–	–	825,241	–	–	825,241
(31,526)	(294,476)	1,796,637	14,444	–	14,588,275	–	–	14,588,275
–	540,567	–	–	–	9,316,676	209,554	109,938	9,217,060
–	2,236,348	–	–	–	2,236,348	–	–	2,236,348
261,371	6,831,669	629,246	237,743	4,911,338	33,554,233	109,938	–	33,444,295
798,987	434,877	40,695	41,641	90,092	3,209,329	3,209,329	–	–
–	–	–	9,934,868	–	9,934,868	9,934,868	–	–
–	–	–	–	–	13,127,579	–	–	13,127,579
1,028,832	62,580,482	21,573,236	10,228,696	5,001,430	444,354,942	15,504,521	109,938	428,960,359
74,200	3,032,000	50	5,000	6,363,100	17,476,050	11,112,950	–	6,363,100
1,619,517	15,413,146	–	4,250,000	107,754,946	194,821,992	87,067,046	–	107,754,946
–	2,139,263	386,968	–	24,388,707	48,777,414	24,388,707	–	24,388,707
1,814,720	(3,725,796)	(581,577)	(2,710,715)	164,328,465	319,451,068	173,169,623	18,047,020	164,328,465
3,508,437	16,858,613	(194,559)	1,544,285	302,835,218	580,526,524	295,738,326	18,047,020	302,835,218
4,537,269	79,439,095	21,378,677	11,772,981	307,836,648	1,024,881,466	311,242,847	18,156,958	731,795,577

Consolidating Schedule - Statement of Income and Retained Earnings Information
Year Ended December 31, 2012

				Section A Elimination Entries					
	MAPFRE PRAICO INSURANCE COMPANY	MAPFRE PREFERRED RISK INSURANCE COMPANY	Total	DR	CR	MAPFRE PRAICO INSURANCE COMPANY and Subsidiary Consolidated	MAPFRE PAN AMERICAN INSURANCE COMPANY	MAPFRE Insurance Agency of Puerto Rico, Inc.	MAPFRE FINANCE of Puerto Rico Corp.
Revenues:									
Net premiums earned	$143,239,596	8,347,667	151,587,263	21,031,815	21,031,815	151,587,263	1,180,549	–	–
Net service contracts revenue	–	–	–	–	–	–	–	–	–
Net investment income	6,486,855	2,374,040	8,860,895	–	–	8,860,895	506,397	–	–
Net realized capital gains on investments	11,007,931	951,972	11,959,903	–	–	11,959,903	1,313	–	–
Net commissions earned and other income	996,372	–	996,372	–	–	996,372	–	2,392,430	678,078
Total revenues	161,730,754	11,673,679	173,404,433	21,031,815	21,031,815	173,404,433	1,688,259	2,392,430	678,078
Expenses:									
Claims incurred	54,602,971	5,766,619	60,369,590	14,539,600	14,539,600	60,369,590	623,404	–	–
Loss adjustment expenses	20,886,165	918,653	21,804,818	156,873	156,873	21,804,818	159,485	–	–
Underwriting and general expenses	64,371,528	3,051,626	67,423,154	3,052,453	3,052,453	67,423,154	594,129	1,984,142	365,601
Loss in impairment of investment security	235,697	–	235,697	–	–	235,697	–	–	–
Interest expense	5,761	–	5,761	–	–	5,761	–	–	–
Total expenses	140,102,122	9,736,898	149,839,020	17,748,926	17,748,926	149,839,020	1,377,018	1,984,142	365,601
Income (loss) before equity in earnings of subsidiaries and income taxes	21,628,632	1,936,781	23,565,413	3,282,889	3,282,889	23,565,413	311,241	408,288	312,477
Equity in earnings of subsidiaries	2,002,753	–	2,002,753	2,002,753	–	–	–	–	–
Income (loss) before income taxes	23,631,385	1,936,781	25,568,166	5,285,642	3,282,889	23,565,413	311,241	408,288	312,477
Income tax expense (benefit):									
Current	2,451,296	(6,718)	2,444,578	–	–	2,444,578	(3,840)	114,486	85,247
Deferred	(523,249)	(59,254)	(582,503)	–	–	(582,503)	(11,922)	7,971	8,496
Total income tax expense (benefit):	1,928,047	(65,972)	1,862,075	–	–	1,862,075	(15,762)	122,457	93,743
Net income (loss)	21,703,338	2,002,753	23,706,091	5,285,642	3,282,889	21,703,338	327,003	285,831	218,734
Retained Earnings, begining of year	148,746,006	12,505,579	161,251,585	12,505,579	–	148,746,006	5,975,114	388,679	1,595,986
Dividends to shareholder	(17,100,000)	–	(17,100,000)	–	–	(17,100,000)	–	–	–
Retained earnings, end of year	$153,349,344	14,508,332	167,857,676	17,791,221	3,282,889	153,349,344	6,302,117	674,510	1,814,720

See accompanying report of independent auditors.

MAPFRE LIFE INSURANCE COMPANY	Auto Guard, Inc.	Multiservicar, Inc.	MAPFRE PRAICO Corporation	Total	Section B Elimination Entries DR	CR	MAPFRE PRAICO Corporation and Subsidiaries Consolidated
158,785,994	–	–	–	311,553,806	2,951,549	2,951,549	311,553,806
–	1,635,678	–	–	1,635,678	–	–	1,635,678
2,014,912	289,433	–	–	11,671,637	–	–	11,671,637
2,824,262	45,820	–	–	14,831,298	–	–	14,831,298
300,194	–	1,684,315	373,130	6,424,519	333,972	–	6,090,547
163,925,362	1,970,931	1,684,315	373,130	346,116,938	3,285,521	2,951,549	345,782,966
142,195,128	1,063,137	–	–	204,251,259	1,552,133	1,552,133	204,251,259
–	–	–	–	21,964,303	28,548	28,548	21,964,303
31,050,941	532,416	2,929,794	7,634,267	112,514,444	423,848	423,848	112,514,444
–	–	–	–	235,697	–	–	235,697
–	–	333,972	–	339,733	–	333,972	5,761
173,246,069	1,595,553	3,263,766	7,634,267	339,305,436	2,004,529	2,338,501	338,971,464
(9,320,707)	375,378	(1,579,451)	(7,261,137)	6,811,502	947,020	947,020	6,811,502
–	–	–	11,708,233	11,708,233	11,708,233	–	–
(9,320,707)	375,378	(1,579,451)	4,447,096	18,519,735	12,655,253	947,020	6,811,502
300,946	–	–	–	2,941,417	–	–	2,941,417
(205,330)	191,833	14,444	–	(577,011)	–	–	(577,011)
95,616	191,833	14,444	–	2,364,406	–	–	2,364,406
(9,416,323)	183,545	(1,593,895)	4,447,096	16,155,329	12,655,253	947,020	4,447,096
5,690,527	(765,122)	(1,116,820)	171,706,369	332,220,739	160,514,370	–	171,706,369
–	–	–	(11,825,000)	(28,925,000)	–	17,100,000	(11,825,000)
(3,725,796)	(581,577)	(2,710,715)	164,328,465	319,451,068	173,169,623	18,047,020	164,328,465

Consolidating Schedule - Balance Sheet Information
December 31, 2011

	MAPFRE PRAICO INSURANCE COMPANY	MAPFRE PREFERRED RISK INSURANCE COMPANY	Total	Section A Elimination Entries DR	Section A Elimination Entries CR	MAPFRE PRAICO INSURANCE COMPANY and Subsidiary Consolidated	MAPFRE PAN AMERICAN INSURANCE COMPANY	MAPFRE Insurance Agency of Puerto Rico, Inc.
Assets								
Cash and Investments:								
Cash and cash equivalents	*$40,406,759*	*798,944*	*41,205,703*	*–*	*–*	*41,205,703*	*403,308*	*1,352,350*
Short-term investments	*2,500,000*	*2,250,000*	*4,750,000*	*–*	*–*	*4,750,000*	*2,000,000*	*–*
Investment securities	*314,580,371*	*72,150,549*	*386,730,920*	*–*	*–*	*386,730,920*	*14,790,572*	*–*
Investment in subsidiaries	*28,495,630*	*–*	*28,495,630*	*–*	*28,495,630*	*–*	*–*	*–*
Total cash and investments	*385,982,760*	*75,199,493*	*461,182,253*	*–*	*28,495,630*	*432,686,623*	*17,193,880*	*1,352,350*
Premiums and agents' balances receivable, net	*23,184,887*	*4,201,019*	*27,385,906*	*–*	*1,660,937*	*25,724,969*	*300,416*	*1,262,600*
Reinsurance recoverable on:								
Paid losses, net	*1,403,838*	*21,500*	*1,425,338*	*–*	*–*	*1,425,338*	*377,536*	*–*
Unpaid losses and loss adjustment expenses	*16,789,903*	*3,318,065*	*20,107,968*	*–*	*2,986,628*	*17,121,340*	*554,096*	*–*
Prepaid reinsurance premiums	*25,530,345*	*11,320,206*	*36,850,551*	*–*	*11,303,719*	*25,546,832*	*1,643,570*	*–*
Total reinsurance recoverable	*43,724,086*	*14,659,771*	*58,383,857*	*–*	*14,290,347*	*44,093,510*	*2,575,202*	*–*
Net premium finance receivables	*–*	*–*	*–*	*–*	*–*	*–*	*–*	*–*
Service contracts receivable	*–*	*–*	*–*	*–*	*–*	*–*	*–*	*–*
Accrued investment income	*2,401,314*	*521,381*	*2,922,695*	*–*	*–*	*2,922,695*	*138,282*	*–*
Due from related company	*1,730,980*	*1,009,554*	*2,740,534*	*–*	*975,426*	*1,765,108*	*19,955*	*–*
Deferred policy acquisition costs	*23,256,415*	*1,053,901*	*24,310,316*	*–*	*–*	*24,310,316*	*149,325*	*–*
Deferred service contract acquisition costs	*–*	*–*	*–*	*–*	*–*	*–*	*–*	*–*
Property and equipment, net	*47,139,950*	*–*	*47,139,950*	*–*	*–*	*47,139,950*	*–*	*2,582*
Intangible assets, net	*–*	*–*	*–*	*–*	*–*	*–*	*–*	*–*
Note receivable from affiliate	*–*	*–*	*–*	*–*	*–*	*–*	*–*	*–*
Prepaid income taxes	*3,105,659*	*518,159*	*3,623,818*	*–*	*–*	*3,623,818*	*426,304*	*368,695*
Other assets	*6,158,254*	*119,068*	*6,277,322*	*–*	*–*	*6,277,322*	*71,040*	*32,831*
Total assets	*$536,684,305*	*97,282,346*	*633,966,651*		*45,422,340*	*588,544,311*	*20,874,404*	*3,019,058*

See accompanying report of independent auditors.

	MAPFRE Finance of Puerto Rico, Corp.	MAPFRE Life Insurance Company	Auto Guard, Inc.	Multiservicar, Inc.	MAPFRE PRAICO Corporation	Total	Section B Elimination Entries		MAPFRE PRAICO Corporation and Subsidiaries Consolidated
							DR	CR	
	253,276	7,508,944	702,163	1,039,264	7,622,257	60,087,265	–	–	60,087,265
	–	1,110,000	400,000	–	2,300,000	10,560,000	–	–	10,560,000
	–	62,283,584	7,830,606	–	–	471,635,682	–	–	471,635,682
	–	–	–	–	284,297,858	284,297,858	29,000,000	313,297,858	–
	253,276	70,902,528	8,932,769	1,039,264	294,220,115	826,580,805	29,000,000	313,297,858	542,282,947
	–	4,368,421	–	–	–	31,656,406	–	276,848	31,379,558
	–	6,310,314	–	–	–	8,113,188	–	–	8,113,188
	–	–	–	–	–	17,675,436	–	552,210	17,123,226
	–	–	–	–	–	27,190,402	–	1,641,876	25,548,526
	–	6,310,314	–	–	–	52,979,026	–	2,194,086	50,784,940
	2,772,182	–	–	–	–	2,772,182	–	–	2,772,182
	–	–	1,203,260	–	–	1,203,260	–	–	1,203,260
	–	565,381	62,299	–	–	3,688,657	–	–	3,688,657
	23,558	–	197,518	–	39,249	2,045,388	–	2,043,099	2,289
	–	7,178,415	–	–	–	31,638,056	–	–	31,638,056
	–	–	8,272,452	–	–	8,272,452	–	–	8,272,452
	–	305,776	–	11,031,374	–	58,479,682	–	–	58,479,682
	–	–	–	–	7,432,647	7,432,647	–	–	7,432,647
	–	–	–	–	10,221,510	10,221,510	–	10,221,510	–
	(47,821)	(315,555)	864,175	74,654	–	4,994,270	–	–	4,994,270
	865,495	2,113,572	15,180	241,294	1,625,916	11,242,650	–	–	11,242,650
	3,866,690	91,428,852	19,547,653	12,386,586	313,539,437	1,053,206,991	29,000,000	328,033,401	754,173,590

Consolidating Schedule - Balance Sheet Information
December 31, 2011

	MAPFRE PRAICO INSURANCE COMPANY	MAPFRE PREFERRED RISK INSURANCE COMPANY	Total	Section A Elimination Entries DR	Section A Elimination Entries CR	MAPFRE PRAICO INSURANCE COMPANY and Subsidiary Consolidated	MAPFRE PAN AMERICAN INSURANCE COMPANY	MAPFRE Insurance Agency of Puerto Rico, Inc.
Liabilities and Shareholder's Equity								
Liabilities:								
Claim liabilities:								
Unpaid losses and loss adjustment expenses	$102,868,417	4,807,810	107,676,227	2,986,628	–	104,689,599	810,488	–
Unpaid service contract claims	–	–	–	–	–	–	–	–
Policy and contract claims	–	–	–	–	–	–	–	–
Total claim liabilities	102,868,417	4,807,810	107,676,227	2,986,628	–	104,689,599	810,488	–
Future policy benefits	–	–	–	–	–	–	–	–
Unearned premiums	138,682,554	58,772,928	197,455,482	11,303,719	–	186,151,763	8,063,329	–
Unearned service contract revenue	–	–	–	–	–	–	–	–
Policyholder funds	–	–	–	–	–	–	–	–
Reserve for cancellations	–	–	–	–	–	–	–	205,328
Net deferred tax liability	12,621,350	1,203,142	13,824,492	–	–	13,824,492	224,855	(103,520)
Reinsurance premiums payable	316,357	467,384	783,741	1,660,937	1,199,905	322,709	72,114	–
Advanced collections due	–	–	–	–	–	–	–	–
Accounts payable and accrued expenses	22,943,294	3,525,844	26,469,138	1,199,905	–	25,269,233	826,353	1,488,584
Due to affiliates	965,818	9,608	975,426	975,426	–	–	22,829	1,038,287
Note payable to affiliate	–	–	–	–	–	–	–	–
Deposit Liability	17,321,297	–	17,321,297	–	–	17,321,297	–	–
Total liabilities	295,719,087	68,786,716	364,505,803	18,126,615	1,199,905	347,579,093	10,019,968	2,628,679
Shareholder's Equity:								
Common stock	5,000,000	3,000,000	8,000,000	3,000,000	–	5,000,000	3,000,000	1,700
Additional paid-in capital	65,000,000	7,025,000	72,025,000	7,025,000	–	65,000,000	784,383	–
Accumulated other comprehensive income, net of deferred taxes	22,219,212	5,965,051	28,184,263	5,965,051	–	22,219,212	1,094,939	–
Retained earnings	148,746,006	12,505,579	161,251,585	21,885,194	9,379,615	148,746,006	5,975,114	388,679
Total shareholder's equity	240,965,218	28,495,630	269,460,848	37,875,245	9,379,615	240,965,218	10,854,436	390,379
Total liabilities and shareholder's equity	$536,684,305	97,282,346	633,966,651	56,001,860	10,579,520	588,544,311	20,874,404	3,019,058

See accompanying report of independent auditors.

MAPFRE FINANCE of Puerto Rico Corp.	MAPFRE LIFE INSURANCE COMPANY	Auto Guard, Inc.	Multiservicar, Inc.	MAPFRE PRAICO Corporation	Total	Section B Elimination Entries DR	CR	MAPFRE PRAICO Corporation and Subsidiaries Consolidated
–	–	–	–	–	105,500,087	552,210	–	104,947,877
–	–	99,378	–	–	99,378	–	–	99,378
–	26,736,535	–	–	–	26,736,535	–	–	26,736,535
–	26,736,535	99,378	–	–	132,336,000	552,210	–	131,783,790
–	9,141,206	–	–	–	9,141,206	–	–	9,141,206
–	10,541,843	–	–	–	204,756,935	1,641,876	–	203,115,059
–	–	17,372,138	–	–	17,372,138	–	–	17,372,138
–	2,348,582	–	–	–	2,348,582	–	–	2,348,582
–	–	425,507	–	–	630,835	–	–	630,835
(40,022)	81,624	1,612,819	–	–	15,600,248	–	–	15,600,248
–	1,231,065	–	–	–	1,625,888	276,848	208,732	1,557,772
–	7,251,367	–	–	–	7,251,367	–	–	7,251,367
95,526	6,579,431	365,900	272,868	684,226	35,582,121	208,732	–	35,373,389
521,483	274,569	4,599	4,028	177,304	2,043,099	2,043,099	–	–
–	–	–	10,221,510	–	10,221,510	10,221,510	–	–
–	–	–	–	–	17,321,297	–	–	17,321,297
576,987	64,186,222	19,880,341	10,498,406	861,530	456,231,226	14,944,275	208,732	441,495,683
74,200	3,032,000	50	5,000	6,363,100	17,476,050	11,112,950	–	6,363,100
1,619,517	15,413,146	–	3,000,000	107,754,946	193,571,992	85,817,046	–	107,754,946
–	3,106,957	432,384	–	26,853,492	53,706,984	26,853,492	–	26,853,492
1,595,986	5,690,527	(765,122)	(1,116,820)	171,706,369	332,220,739	190,275,483	29,761,113	171,706,369
3,289,703	27,242,630	(332,688)	1,888,180	312,677,907	596,975,765	314,058,971	29,761,113	312,677,907
3,866,690	91,428,852	19,547,653	12,386,586	313,539,437	1,053,206,991	329,003,246	29,969,845	754,173,590

Consolidating Schedule - Statement of Income and Retained Earnings Information
Year Ended December 31, 2011

	MAPFRE PRAICO INSURANCE COMPANY	MAPFRE PREFERRED RISK INSURANCE COMPANY	Total	Section A Elimination Entries DR	Section A Elimination Entries CR	MAPFRE PRAICO INSURANCE COMPANY and Subsidiary Consolidated	MAPFRE PAN AMERICAN INSURANCE COMPANY	MAPFRE Insurance Agency of Puerto Rico, Inc.	MAPFRE FINANCE of Puerto Rico Corp.
Revenues:									
Net premiums earned	$142,629,674	8,863,356	151,493,030	22,258,189	22,258,189	151,493,030	1,431,443	–	–
Net service contracts revenue	–	–	–	–	–	–	–	–	–
Net investment income	7,708,212	2,620,590	10,328,802	–	–	10,328,802	500,846	–	–
Net realized capital gains on investments	7,478,603	1,197,280	8,675,883	–	–	8,675,883	47,095	–	–
Net commissions earned and other income	925,490	–	925,490	–	–	925,490	–	2,925,193	745,873
Total revenues	158,741,979	12,681,226	171,423,205	22,258,189	22,258,189	171,423,205	1,979,384	2,925,193	745,873
Expenses:									
Claims incurred	57,249,618	5,648,608	62,898,226	14,296,163	14,296,163	62,898,226	772,420	–	–
Loss adjustment expenses	18,045,663	1,023,633	19,069,296	103,471	103,471	19,069,296	152,586	–	–
Underwriting and general expenses	61,775,361	3,189,687	64,965,048	3,478,940	3,478,940	64,965,048	571,424	2,566,516	418,510
Interest expense	1,726	–	1,726	–	–	1,726	–	–	–
Total expenses	137,072,368	9,861,928	146,934,296	17,878,574	17,878,574	146,934,296	1,496,430	2,566,516	418,510
Income (loss) before equity in earnings of subsidiaries and income taxes	21,669,611	2,819,298	24,488,909	4,379,615	4,379,615	24,488,909	482,954	358,677	327,363
Equity in earnings of subsidiaries	2,880,480	–	2,880,480	2,880,480	–	–	–	–	–
Income (loss) before income taxes	24,550,091	2,819,298	27,369,389	7,260,095	4,379,615	24,488,909	482,954	358,677	327,363
Income tax expense (benefit):									
Current	1,860,023	78,534	1,938,557	–	–	1,938,557	18,182	75,301	89,247
Deferred	(2,003,492)	(139,716)	(2,143,208)	–	–	(2,143,208)	(19,459)	60,186	15,288
Total income tax expense (benefit):	(143,469)	(61,182)	(204,651)	–	–	(204,651)	(1,277)	135,487	104,535
Net income (loss)	24,693,560	2,880,480	27,574,040	7,260,095	4,379,615	24,693,560	484,231	223,190	222,828
Retained Earnings, begining of year	150,552,446	14,625,099	165,177,545	14,625,099	–	150,552,446	5,490,883	165,489	1,373,158
Dividends to shareholder	(26,500,000)	(5,000,000)	(31,500,000)	–	5,000,000	(26,500,000)	–	–	–
Retained earnings, end of year	$148,746,006	12,505,579	161,251,585	21,885,194	9,379,615	148,746,006	5,975,114	388,679	1,595,986

See accompanying report of independent auditors.

MAPFRE LIFE INSURANCE COMPANY	Auto Guard, Inc.	Multiservicar, Inc.	MAPFRE PRAICO Corporation	Total	Section B Elimination Entries DR	Section B Elimination Entries CR	MAPFRE PRAICO Corporation and Subsidiaries Consolidated
165,660,749	–	–	–	318,585,222	3,565,720	3,565,720	318,585,222
–	1,564,563	–	–	1,564,563	–	–	1,564,563
2,442,536	295,244	–	–	13,567,428	–	–	13,567,428
610,731	–	–	–	9,333,709	–	–	9,333,709
148,304	–	73,480	387,476	5,205,816	342,126	–	4,863,690
168,862,320	1,859,807	73,480	387,476	348,256,738	3,907,846	3,565,720	347,914,612
137,180,607	800,254	–	–	201,651,507	2,115,751	2,115,751	201,651,507
–	–	–	–	19,221,882	15,637	15,637	19,221,882
31,687,370	624,342	1,047,090	5,005,155	106,885,455	673,219	673,219	106,885,455
–	–	342,126	451,144	794,996	–	342,126	452,870
168,867,977	1,424,596	1,389,216	5,456,299	328,553,840	2,804,607	3,146,733	328,211,714
(5,657)	435,211	(1,315,736)	(5,068,823)	19,702,898	761,113	761,113	19,702,898
–	–	–	24,101,826	24,101,826	24,101,826	–	–
(5,657)	435,211	(1,315,736)	19,033,003	43,804,724	24,862,939	761,113	19,702,898
577,488	–	–	–	2,698,775	–	–	2,698,775
(487)	58,800	–	–	(2,028,880)	–	–	(2,028,880)
577,001	58,800	–	–	669,895	–	–	669,895
(582,658)	376,411	(1,315,736)	19,033,003	43,134,829	24,862,939	761,113	19,033,003
8,773,185	(1,141,533)	198,916	163,761,366	329,173,910	165,412,544	–	163,761,366
(2,500,000)	–	–	(11,088,000)	(40,088,000)	–	29,000,000	(11,088,000)
5,690,527	(765,122)	(1,116,820)	171,706,369	332,220,739	190,275,483	29,761,113	171,706,369

MAPFRE | PUERTO RICO