

COMMERCE GROUP INC /MA  
Form DFAN14A  
November 07, 2007  
UNITED STATES

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A**

**(Rule 14a-101)**

**INFORMATION REQUIRED IN PROXY STATEMENT**

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the Securities**

**Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to § 240.14a-12

**THE COMMERCE GROUP, INC.**

(Name of Registrant as Specified In Its Charter)

**MAPFRE SA**

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
  - (1) Title of each class of securities to which transaction applies:
  - (2) Aggregate number of securities to which transaction applies:
  - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
  - (4) Proposed maximum aggregate value of transaction:
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- Fee paid previously with preliminary materials.
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  - (4) Date Filed:
- 

**Acquisition of The Commerce Group Inc.**

**31<sup>st</sup> October 2007**

This document is purely informative. Its content does not constitute, nor can it be interpreted as, an offer or an invitation to sell, exchange or buy, and it is not binding on the issuer in any way. The information about the plans of the Company, its evolution, its results and its dividends represents a simple forecast whose formulation does not represent a guarantee with respect to the future performance of the Company or the achievement of its targets or estimated results. The recipients of this information must be aware that the preparation of these forecasts is based on assumptions and estimates, which are subject to a high degree of uncertainty, and that, due to multiple factors, future results may differ materially from expected results. Among such factors, the following are worth highlighting: the evolution of the insurance market and of the economic environment in general in those countries where the Company operates; changes in the legal framework; changes in monetary policy; circumstances which may affect the competitiveness of insurance products and services; changes in the underlying tendencies on which the mortality and morbidity tables used in Life and Health insurance are based; frequency and severity of claims insured, with respect to reinsurance and general insurance, as well as to life insurance; variations in interest rates and exchange rates; risks associated with the use of derivative instruments; the impact of future acquisitions.

MAPFRE S.A. does not undertake to update or revise periodically the content of this document.

**Disclaimer**

## Executive Summary

MAPFRE has announced the signing of an agreement to acquire all shares of The Commerce Group Inc. ( Commerce ) at a price of \$36.70 per share. The Board of Commerce deems the offer to be fair and will recommend the transaction to its shareholders. The transaction will be carried out through the merger of a subsidiary of MAPFRE with Commerce, under U.S. regulations

Commerce fits MAPFRE s growth strategy:

Leading position in motor insurance in Massachusetts

Licenses in 50 states and operations in 17 of them

Quality operations and consistent underwriting profits

Experienced management team with proven track record

Positive financial impact from the outset:

Total consideration of \$2,207mn ( 1,538mn), paid entirely in cash

Acquisition price implies P/E 2008 of 13.1x (First Call consensus) and P/BV (Q3 07 ) of 1.65x

Premium to market of 17.9% vs. 30<sup>th</sup> October s closing price, 22.5% vs. the 30-day average and of 20.4% vs. the 3-month average

Initial funding through a bridge loan. Long-term funding expected to come from an equity capital raising of 500mn, the issuance of hybrid debt of up to 800mn and internal resources

Immediately EPS accretive

Upon completion, MAPFRE would retain Commerce s management team and together both groups would design a cautious growth strategy in a number of new states, including dedicated services for the Hispanic community

**Overview of Commerce**

Strategic rationale for MAPFRE

Transaction details and financial impact

Appendix

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**Overview of The Commerce Group, Inc.**

The Commerce Group, Inc. ( Commerce ) began operating in 1971. Today it focuses on writing personal automobile insurance and other property and casualty lines in 17 states, which it distributes primarily through independent agents

Since 1990, it is the largest and most profitable personal auto writer in Massachusetts. It ranks as the 20<sup>th</sup> largest company nationwide in this line

Its operations are rated A+ (Superior) by A.M. Best, A2 by Moody's and A by S&P

% of  
Total

Written and  
accepted  
premiums

**\$1.96B**

**Total**

12%

0.23

Outside  
Massachusetts

88%

**\$1.72B**

Massachusetts

06 Breakdown of written and accepted premiums

Private Passenger

Auto Liability

50%

Auto Physical

Damage

29%

Other

8%

Commercial Auto

Liability

4%

Homeowners

9%

**5**

**Geographic focus**

Commerce has historically written business in Massachusetts, but has recently expanded in 16 other states

WA

OR

CA

MT

WY

CO

NM

ID

NV

UT

AZ

ND

SD

NE

KS

OK

TX

MN

IA

MO

AR

LA

FL



MI  
WI  
IL  
TN  
MS  
AL  
GA  
SC  
NC  
VA  
KY  
NY  
PA  
OH  
IN  
WV  
RI  
ME  
VT  
NH  
MA  
CT  
DE  
MD  
NJ  
MI

AK

HI

**American Commerce**  
Columbus, OH

**State-Wide  
Insurance Co.**  
Hempstead, NY

**Commerce Insurance Co.**  
Webster, MA

**Commerce West**  
Pleasanton, CA

**Citation Insurance**  
Webster, MA

Heartland (3% of DPW)

Northeast (80% of DPW)

West (15% of DPW) <sup>(1)</sup>

Recent Expansion States (2% of DPW) <sup>(2)</sup>

(1) Pro forma for \$170mm of premium from Stonewood Insurance Agency Agreement, anticipated to write \$20mm by 06/2008, \$50mm by 06/2009 and \$100mm by 06/2010

(2) Pro forma for \$41mm of premium from SWICO acquired April 2007

RI

**6**

**Key Strengths: competitive position**

Leading market position in the Massachusetts P&C business:

Strong brand recognition

Excellent agency relationships

Leading market shares:

# 1 in personal auto (31.5%)

# 1 in homeowners (9.8%)

# 2 in commercial auto (12.7%)

Above average position in affinity group marketing programs

Outstanding customer service

Unsurpassed economies of scale

Highly experienced management team with proven track record

In-depth understanding of the Massachusetts and U.S. regulatory and underwriting environment

7

**Key strengths: distribution through independent agents**

Independent agents are Commerce's main distribution channel

Relations with agents are excellent, as evidenced by their high degree of loyalty: nearly 60% of all agents in Massachusetts have been with the group for over 10 years

Commerce ensures the interests of agents are aligned with its own through an effective profit sharing system, which utilises a three-year rolling plan. To qualify for profit sharing, an agent's portfolio generally must have a three-year average loss ratio of 60% or better

Commerce devotes considerable attention and resources to providing a high level of service to both the agents and their customers, thus enhancing satisfaction and retention

**8**

**Key strengths: distribution through the AAA**

Commerce enjoys a strategic relationship with numerous American Automobile Association (AAA) clubs

In Massachusetts:

Commerce has exclusive distribution agreements with all three AAA clubs, whose members receive a 5% discount on their premiums

In 2006, 50% of all personal auto DPW came from AAA members (42% written by Commerce's network of independent agents and 8% through AAA agencies)

The present agreements were renewed on 01.01.2007 for a period of 20 years

Outside of Massachusetts:

Commerce distributes its products through AAA clubs in eleven states

AAA Southern New England has a 5% shareholding in American Commerce

Growth opportunities are significant, as Commerce has currently penetrated less than 1% of a membership base exceeding 100 million

**Distribution network**

**10**

Independent

Agents

AAA Agents

Brokers

Total

California

120

---

1,080

1,200

Massachusetts

792

3

---

795

Arizona

294

---

---

294

Oregon

200

1

---

201

New York

---

---

72

72

New Hampshire

55

---

---

55

Ohio

37

12

---

49

Indiana

35

1

---

36

Kentucky

25

2

---

27

Idaho

---

2

---

2

Tennessee

---

2

---

2

Connecticut

---

1

---

1

Oklahoma

---

1

---

1

Rhode Island

---

1

---

1

South Dakota



---

1

---

1

Washington

---

1

---

1

**TOTAL**

**1,558**

**28**

**1,152**

**2,738**

**Commerce competitive position**

Source: A.M. Best (2006)

**Personal auto**

**Commerce Group**

1

31.5%

Safety Group

2

11.2

Arbella Insurance Group

3

9.6

Liberty Mutual Insurance Companies

4

7.7

MetLife Auto & Home Group

5

7.1

Travelers Insurance Companies

6

7.0

Plymouth Rock Companies

7

6.1

Amica Mutual Group

8

3.6

Hanover Insurance Grp Prop and Cas Cos

9

3.6

White Mountains Insurance Group

10

2.9

Allstate Insurance Group

11

2.3

USAA Group

12

2.1

Quincy Mutual Group

13

1.4

Main Street America Group

14

1.3

**Homeowners**

**Commercial auto**

Massachusetts

Rank

% of Market

**1**

**9.8%**

2

12.7%

11

3.2

3

11.0

7

5.2

4

10.5

5

6.7

9

3.6

10

3.2

--

0.0

3

8.2

1

13.5

16

2.1

6

6.0

13  
3.0  
44  
0.1  
9  
3.3  
5  
7.9  
14  
2.6  
8  
3.8  
27  
1.1  
--  
0.0  
15  
2.5  
--  
0.0  
6  
5.9  
36  
0.2  
21  
1.5

16

1.4

Massachusetts

Rank

% of Market

Massachusetts

Rank

% of Market

**11**

**Growth in market share in MA personal auto**

Source: Commerce public filings & Equity Research

Since 1990, when it first became the largest writer of personal auto insurance in MA, Commerce market share has risen from 11.5% to 31.5% in 2006

Commerce has significantly and consistently grown its MA personal auto business

(policies in thousands; premiums in \$ million)

\$733

\$794

\$809

\$816

\$868

\$918

\$1,046

\$1,118

\$1,172

\$1,201

\$1,253

553

600

609

615

654

693

791

834

870

889

929

1996

1997

1998

1999

2000

2001

2002

2003

2004

2005

2006

Commerce MA personal auto premiums written

Commerce MA personal auto policies in force

31.5%

30.0%

29.0%

27.6%

25.9%

23.2%

22.3%

21.3%

21.6%

21.8%

20.8%



16.3%

11.5%

12.4%

14.8%

16.0%

16.4%

1990

1991

1992

1993

1994

1995

1996

1997

1998

1999

2000

2001

2002

2003

2004

2005

2006

Commerce market share in MA

**12**

**Key Strengths: underwriting results and claims handling**

Commerce has been delivering consistently for over 15 years positive technical results and significant reserve redundancies, thanks to:

Effective underwriting:

The largest proprietary underwriting database in the Massachusetts market with a high degree of data reliability, providing superior risk selection and pricing capabilities

Strict underwriting guidelines

No meaningful environmental risks legacy issues

Quick and efficient handling of claims:

24-hour claim reporting service, which improves customer satisfaction by making the initial claim handling much faster and ultimately reduces indemnity payments

Outsourced drive-in centres, close to repair shops, allowing quick adjustment and settlement of car body damages. Additionally, Commerce has a panel of preferred body shops with guaranteed prices and workmanship

Sophisticated software systems used for internal and external claims processing and field communications that increase productivity while reducing expenses and indemnity payments

Significant internal resources devoted to fighting fraud, complemented by external investigators

Regular surveys among agents, customers and third-party claimants to monitor the quality of claims handling

Low-cost structure, high degree of centralisation and unsurpassed economies of scale

**13**

**MA internal personal auto acquisition costs <sup>(1)</sup>**

Commerce enjoys a low cost structure enabling it to compete effectively

Source: Company public filings.

(1) Policy acquisition costs include the company's general fixed expenses (i.e. salaries, advertising, etc.) allocated to acquisition costs, excluding

actual commissions payable to the agents.

	14.1
Amica	
	14.7
Liberty	
	13.5
White Mountain	
Percent of earned premium	
Direct Writers	
	7.3%
USAA	
	7.7%
All companies	
	12.0
Metropolitan	
	7.5
State Farm	
	11.8
Arbella	
	8.5
Plymouth Rock	

8.1

Hanover

6.0

Safety

4.1

Travelers

3.3%

Commerce

Percent of earned premium

Agency companies

**14**

**Strong, consistent historical underwriting results**

Source: Commerce public filings, A.M. Best.

N.B. Combined ratios are on a statutory basis.

**Combined Ratio**

**Loss and Loss Adjustment Expense Ratio**

**Expense Ratio**

**Reserve Redundancies**

(\$83.8)

(\$87.8)

Additions to (reductions in) reserves for earlier losses (\$ millions)

(\$35.3)

(\$39.9)

(\$61.4)

(\$42.4)

(\$14.4)

(\$43.7)

(\$61.4)

(\$57.0)

(\$25.2)

1996

1997

1998

1999

2000

2001

2002

2003

2004

2005

2006

107.2%

101.2%

89.1%

87.3%

87.8%

96.3%

99.3%

99.1%

96.9%

98.6%

98.7%

96.9%

98.9%

92.6%

98.9%

100.1%

115.7%

110.3%

108.0%

106.0%

101.7%

106.1%

80

90

100

110

120

1996

1997

1998

1999

2000

2001

2002

2003

2004

2005

2006

Commerce

U.S. P&C Industry

59.9%

60.8%

62.9%

73.4%

75.5%

74.6%

71.8%

72.1%

71.7%  
71.1%  
71.7%  
65.5%  
75.3%  
73.6%  
75.0%  
81.5%  
88.4%  
81.4%  
78.9%  
76.4%  
72.7%  
78.7%  
50  
60  
70  
80  
90  
1996  
1997  
1998  
1999  
2000  
2001  
2002



2003  
2004  
2005  
2006  
22.9%  
24.9%  
27.2%  
29.2%  
26.5%  
23.8%  
24.4%  
25.1%  
26.5%  
27.1%  
25.9%  
26.2%  
26.3%  
25.4%  
24.9%  
24.6%  
25.1%  
26.5%  
27.4%  
27.9%  
27.6%  
27.0%

15

20

25

30

1996

1997

1998

1999

2000

2001

2002

2003

2004

2005

2006

**15**

**Key Strengths: investment portfolio and returns**

Commerce generates recurring investment yields from a portfolio made up primarily of high quality fixed income investments:

Nearly 90% of ABS instruments are AAA-rated and an equal percentage is mortgage-backed

Sub-prime exposure is very limited (\$28mn) and has caused losses of \$4.7mn to date

12/31/06 Total : \$3,071mn

**Private sector: 52%**

**Public sector: 48%**

**16**

**Key Strengths: profitability and cash generation**

Commerce has consistently recorded growing profits and above-industry-average returns on the back of its recurring positive underwriting results and strong net financial income

Source: Commerce public filings, A.M. Best

(\$ in millions)

Cash generation is also strong, as evidenced by a cash flow from operating activities of \$344 million (18.8% of NPW)

(\$ in millions)

**17**

**Key strengths: experienced management team**

Source: Company public filings.

Appointed COO/EVP of non-MA operations in January 2007

17 years at California State Auto Association

COO and EVP of Non-MA  
Operations

50

Lawrence Pentis

Appointed EVP of MA operations (responsible for underwriting,  
product/pricing and marketing) in August 2006

Senior VP for Commerce Group in May 2001 until August 2006

Appointed General Counsel of Commerce Group in February 2000

Secretary of ACIC Holding and Commerce West

General Counsel and EVP of  
MA Operations

44

James A. Ermilio

Appointed Senior VP of Policyholder Benefits in 1988 and appointed  
EVP of country-wide policyholder benefits in August 2006

Became responsible for the Claims Operations of ACIC in August 2001  
and of Commerce West and State-wide in 2007

Vice President Mortgage Operations, 1981 1988

EVP, Policyholder benefits  
(claims)

51

Arthur J. Remillard III

A Certified Public Accountant, was appointed CFO and Senior VP of  
Commerce Group in February 2006

Treasurer and Chief Accounting Officer of Commerce Group from 1994  
through 2006

Assistant Treasurer and Comptroller of Commerce Group from 1990 to 1994

CFO

46

Randall V. Becker

A Certified Public Accountant, was appointed CEO to replace Arthur Remillard, Jr. in July 2006

Previously President and COO of Commerce Insurance since 2001

Appointed Executive Vice President of Commerce Group in 1989

CEO, President, Chairman of the Board

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Gerald Fels

**Biography**

**Position**

**Age**

**Name**

**18**

Overview of Commerce

**Strategic rationale for MAPFRE**

Transaction details and financial impact

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**Consistency with MAPFRE's current strategy**

**Fit of Commerce with MAPFRE**

**Criteria**

Earnings per share accretive from the first year assuming the announced financing mix

Return on Investment above MAPFRE's cost of capital

The discontinuation of listing will increase Commerce EBT by about \$7mn/year

**Operations that increase earnings per share in the first three years**

Commerce's performance will be enhanced by the access to MAPFRE's:

Experience competing under different regulations, which will facilitate the transition to the new regulatory environment in Massachusetts

Product knowledge across several countries in all P&C lines

Integrated and unified IT platform

Reinsurance solutions for the most appropriate protection of the portfolio

**Companies whose growth and profitability can be enhanced through the application of MAPFRE's expertise**

US was indicated in the past as a target market for MAPFRE

Joint growth opportunities exist through:

The introduction of a specific offering for the Hispanic community (21.8 million people in the states in which Commerce presently operates, equivalent to 14% of their total population)

Business expansion in and outside of Massachusetts, including an increased penetration of the AAA club members' base



**Markets or  
segments that are  
not fully penetrated  
or developed by  
MAPFRE**

**20**

**MAPFRE Insurance Company Of Florida**

Company domiciled and licensed in Florida, currently writing commercial lines business and more recently personal Auto. Rated A- by A.M. Best

**MAPFRE Insurance Company**

Company domiciled and licensed in New Jersey, as well as in 34 other states. Rated A- by A.M. Best

**Road America Motor Club**

Acquired by MAPFRE Asistencia in 2003. Founded in 1978, provides a variety of B2B services related to roadside assistance and ancillary services to the OEM, telecom and insurance industries

More than 19 million customers

Two state-of-the-art call center facilities in Columbus, GA and Miami, FL

Overall capacity for more than 2 million services annually

Coverage of Canada (Road Canada) and Puerto Rico

**Federal Assist**, subsidiary of MAPFRE Asistencia specialised in providing Medical Travel Assistance, Medical Case Management and Home Repairs Assistance since 1993

Furthermore, MAPFRE operates in the Associated Commonwealth of Puerto Rico through **MAPFRE Puerto Rico**, the oldest and third-largest insurer in the island, writing P&C, Life and Health insurance. Rated A by A.M. Best

**MAPFRE current operations in the US**

21

**U.S. personal auto markets**

MA has attractive demographics for personal auto insurance

Source: NAIC, Bureau of Economic Analysis, U.S. Census Bureau, Insurance Information Institute, National Auto Dealers Association and AIPSO. Data as of 2005.

840

843

845

845

849

926

931

945

962

983

991

1,028

1,059

1,063

1,113

1,122

1,182

\$1,184

Average

Premium for personal  
auto insurance

96.9

86.3

91.8

93.5

98.6

92.5

121.7

91.7

97.3

105.5

92.5

98.4

87.7

104.0

92.3

85.7

87.0

96.3%

Combined Ratio

Washington

Hawaii

California

Texas

Pennsylvania

Arizona

Michigan

Maryland

Alaska

Nevada

Connecticut

Delaware

Rhode Island

Florida

Massachusetts

New York

District of Columbia

New Jersey

State

4,225,106

770,475

24,523,124

NA

8,281,032

3,661,581

6,323,287

3,779,282

392,662

1,631,401

2,403,762

589,277

673,359

10,879,575

4,146,762

9,100,868

216,217

5,132,615

Number of Cars

Insured

35,730

8.5

2.1

34,818

5.7

1.9

37,283

34.2

2.5

33,160

34.7

1.9

34,810

3.7

1.8

30,384

27.9

1.6

32,719

3.6

1.8

41,587

5.3

1.9

36,636

4.6

2.5

37,420

23.2

1.3

47,701

10.0

2.1

37,080

5.7

2.0

35,757

9.4

1.8

34,712

19.1

1.9

43,601

6.7

2.0

40,916

13.5

1.5

53,594

6.8

0.8

\$43,318

14.1%

1.8

Per Capita

personal Income

% of Population

Hispanic

Vehicles Per

Housing Unit

**22**



**Impact on MAPFRE business mix**

**MAPFRE Standalone<sup>(1)</sup>**

**Impact on  
Geographic  
Mix**

**MAPFRE Pro Forma**

**On the basis of  
Premiums**

**Impact on  
Product Mix**

(1) Pro forma including recent acquisitions

**Spain**

**58%**

**UNIDAD**

**AMERICA**

**19%**

**MAPFRE RE**

**11%**

**MAPFRE**

**ASISTENCIA**

**2%**

**MAPFRE INTL.**

**10%**

**Spain**

**53%**

**UNIDAD**

**AMERICA**

**17%**

**MAPFRE RE**

**10%**

**MAPFRE**

**ASISTENCIA**

**2%**

**MAPFRE INTL.**

**9%**

**EE.UU.**

**9%**

**Non-life**

**80%**

**Life**

**20%**

**Non-life**

**81%**

**Life**

**19%**

**23**

**Impact on MAPFRE's business profile**

MAPFRE's business profile will be strengthened by the integration of Commerce:

Addition of an established and solid platform to develop a business in the U.S.

Enhanced geographical, business cycle and currency diversification

Considerable strengthening of management resources and skills in North America

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Overview of Commerce

Strategic rationale for MAPFRE

**Transaction details and financial impact**

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## **Transaction highlights**

### **Expected Timetable**

Commerce operations to remain in Massachusetts

Management retention in place

### **Operations**

2Q 2008

### **Estimated closing**

Initial funding through a bridge loan

Expected long-term funding through an equity capital raising of 500mn, hybrid debt issuance of up to 800mn and internal resources

### **Financing**

Total consideration of \$2,207mn ( 1,538mn), \$36.70 per share

Acquisition price implies P/E 2008 of 13.1x (First Call consensus) and P/BV (Q3 07) of 1.65x

Premium to market of 17.9% vs. 30<sup>th</sup> October's closing price, 22.5% vs. the 30-day average and of 20.4% vs. the 3-month average

### **Pricing**

All cash consideration

### **Structure**

Acquisition of 100% of The Commerce Group Inc.

### **Transaction Overview**

Subject to the relevant regulatory authorisations and to the requisite approval of the merger agreement by the holders of at least two-thirds of the shares of Commerce common stock

Approved by the Board of MAPFRE and recommended by the Board of Commerce

### **Conditions and other**

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**Financial impact: value creation for MAPFRE shareholders**

The acquisition of Commerce will be immediately additive to MAPFRE's EPS

Projected returns exceed MAPFRE's cost of capital

Funding mix aimed to protect present solvency position by combining equity issuance with a rational use of the Group's hybrid capacity

0.005

--

0.005

**2007**

0.008

0.007

**Commerce**

0.021

0.016

**Previously announced  
acquisitions <sup>(1)</sup>**

0.031

0.025

**Total**

**2008**

**2009**

(1) Genel Sigorta, CCM, MCA, Bankinter Vida, shareholding in Cattolica

(Euros per share)

**27**

**Transaction structure**

1.

MAPFRE creates a Special Purpose Vehicle (SPV) and capitalises it with the financial resources needed to acquire Commerce

2.

The merger between the SPV and Commerce is approved by the holders of at least two thirds of Commerce common stock

3.

SPV and Commerce merge

4.

The resulting company buys back Commerce's shares. In exchange, shareholders will receive cash

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**Organisational structure**

Source: Company financials.

N.B. Ratings represent S&P/Moody's senior unsecured debt ratings at holding company and AM Best financial strength rating at insurance subsidiary.

(1) Pro forma for \$170mn of premium from Stonewood Insurance Agency Agreement, anticipated to write \$20mn by 06/2008, \$50mn by 06/2009 and \$100mn by 06/2010.

(2) Announced in December 2006, completed in April 2007.

100%

**Commerce  
Insurance Co.**

(Webster, MA)

A+

**ACIC Holding Co.**

(RI)

**American Commerce**

(Columbus, OH)

A+

**Citation Insurance**

(Webster, MA)

A+

100%

100%

95%

**The Commerce Group, Inc.**

(Webster, MA)

BBB/Baa2

AAA Southern New

**England**

5%

**State-Wide Insurance** <sup>(2)</sup>

**(Hempstead, NY)**

**A+**

**Bay Finance Co.**

**(Webster, MA)**

**stopped doing business in  
Aug. 2007**

100%

NA

3

NA

MA, CT

--

1,846

# of Employees

06 DPW (\$mn)

Distribution

States

\$95

795 Agents

MA

\$1,544

795 Agents

MA, NH

\$226 <sup>(1)</sup>

90

1,231 Agents

CA, OR, AZ

N/A

246

# of Employees

\$168

738 Agents

WA, AZ, OK, RI, OR, OH, KY, IN,  
TN, ID, SD,CT

06 DPW (\$mn)

Distribution

States

\$38

145 Brokers, Direct

NY, NJ

A.M.Best FSR

Headquarters

A.M.Best FSR

Headquarters

**Commerce West**

**(Pleasanton, CA)**

**A+**

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**Commerce s historical financials**

Source: Company financials.

Income Statement

Key Balance Sheet Items and Ratios

For the Year Ending December 31

2004

2005

2006

YTD 3Q'06

YTD 3Q'07

Total Investments and cash

\$2,527.7

\$2,765.3

\$3,070.8

\$2,985.3

\$2,846.6

Premiums Receivable

459.8

475.1

480.6

511.6

497.9

Total Assets

3,612.2

3,927.0

4,110.9

4,089.1

3,979.7

Unpaid Losses/Loss Adjustment Expense

990.3

989.2

971.9

957.0

1,011.9

Unearned Premiums

902.6

933.2

935.4

986.0

989.9

Bonds Payable

298.2

298.4

298.6

298.5

298.7

Stockholders Equity

1,116.2

1,305.1

1,503.3

1,477.0

1,339.9

Shareholder Dividends Paid

43.0

49.4

66.0

49.1

57.9

**Key Performance Ratios:**

Return on Average Equity, Ex. AOCI

21.7%

20.2%

17.1%

13.1%

12.0%

Operating Return on Average Equity, Ex. AOCI

20.4

18.9

16.4

12.8

10.7

Loss and LAE Ratio

62.9

60.8

59.9

59.8

64.9

Underwriting Expense Ratio

24.9

26.5

29.2

27.5

29.1

Combined Ratio

87.8

87.3

89.1

87.3

94.0

Debt to Cap

21.1

18.6

16.6

16.8

17.8

(\$ in millions)

For the Year Ending December 31

2004

2005

2006

YTD 3Q'06

YTD 3Q'07

**Revenues:**

Direct Premiums Written

\$1,838.2

\$1,874.2

\$1,864.2

\$1,445.0

\$1,447.7

Premiums Assumed

128.2

132.1

99.0

78.4

78.6

Earned Premiums

1,638.8

1,709.9

1,760.7

1,302.9

1,363.6

Net Investment Income

119.4

124.0

153.0

104.1

119.8

Premium Finance and Service Fees

28.4

28.3



28.6

21.4

23.5

Net Realized Investment Gains

23.6

22.9

16.6

7.7

28.9

**Total Revenue**

1,806.6

1,884.4

1,949.5

1,436.0

1,535.8

**Expenses:**

Loss and Loss Adjustment Expenses

1,044.8

1,050.2

1,068.4

778.9

885.2

Policy Acquisition Costs

439.2

463.3

516.3

381.5

395.0

Interest Expense and Amortization of Bond Fees

18.3

18.3

18.3

13.7

13.7

**Total Expenses**

1,502.4

1,531.8

1,603.0

1,174.1

1,293.9

Earnings before Income Taxes and Minority Interest

304.2

352.6

346.4

261.9

241.8

Income Taxes

89.0

107.8

104.0

79.1

69.2

Earnings before Minority Interest

215.2

244.8

242.4

182.8

172.6

Change in Accounting Principles

0.0

0.0

0.0

0.0

0.0

Minority Interest in Earnings of Affiliates

(0.8)

(0.9)

(0.9)

(0.7)

(1.2)

**Net Earnings**

\$214.4

\$243.9

\$241.5

\$182.1

\$171.4

Net premiums written

1,712.5

1,736.2

1,825.3

1,428.6

1,400.5

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**Investor Relations Department**

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In connection with the operation hereby disclosed, COMMERCE will file with the Stock Exchange Commission ( SEC ), among other materials, a proxy statement. We urge investors to read the proxy statement and these other materials when they become available because they will contain important information about COMMERCE and the proposed acquisition. Investors will be able to obtain free copies of the proxy statement (when available) as well as other filed documents containing information about the Company on the SEC 's website at <http://www.sec.gov>. Likewise, free copies of the COMMERCE's SEC filings are also available at <http://www.commerceinsurance.com> (Investor Relations). MAPFRE and its directors and executive officers may be deemed, under SEC rules, to be participants in the solicitation of proxies. Information regarding such individuals is available at the web page <http://www.mapfre.com> and will also be available in a Schedule 13D to be filed by MAPFRE with the SEC.

**Disclaimer**

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