

**REPORT ON EXAMINATION
OF
TRANS-OCEANIC LIFE INSURANCE COMPANY**

AS OF

DECEMBER 31, 2010

NAIC CODE 69523

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

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GOVERNMENT OF PUERTO RICO
OFFICE OF THE INSURANCE COMMISSIONER

November 9, 2011

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

Dear Commissioner:

In compliance with your instructions and pursuant to the Order Number EX-2011-136A dated May 4, 2011, and the Puerto Rico Insurance Laws and Regulations, a comprehensive risk focused examination and financial affairs examination was made of the books, records, and financial condition of

Trans-Oceanic Life Insurance Company
#3 Munet Court
Guaynabo, Puerto Rico 00968

hereinafter referred to as TOLIC or the Company.

Scope of Examination

The current examination was conducted at the home office of the Company located at #3 Munet Court, Guaynabo, Puerto Rico. This examination covers the period of January 1, 2008 through December 31, 2010, including any material relevant transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

We conducted our examination in accordance with the *National Association of Insurance Commissioners Financial Condition Examiners Handbook* (Handbook). The Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and Annual Statement instructions, as applicable to the Puerto Rico Insurance Laws and Regulations.

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

Summary of Significant Findings

Current Examination Findings

The following is a summary of the adverse findings and significant non-compliance findings noted during the examination.

Affiliate Transaction Disclosures

The Company did not report amounts paid under software use and lease agreements with an affiliate during the examination period, in accordance with the *NAIC 2010 Annual Statement Instructions for Life Companies*, Schedule Y - Part 2: Summary of Insurer's Transactions with Any Affiliates. During 2008 and 2009, the amounts paid under these agreements exceeded one-half of one percent of the Company's admitted assets and, as such, met the threshold for Schedule Y reporting as prescribed in the *NAIC 2010 Annual Statement Instructions for Life Companies*.

In addition, the *NAIC 2010 Annual Statement Instructions for Life Companies* related to Footnote 10, Information Concerning Parent, Subsidiaries, Affiliates, and Other Related Parties, state that the financial statements shall include disclosures of all material related party transactions (defined as those that exceed one-half of one percent of the total admitted assets of the reporting entity). During the examination period, the Company did not report override commissions of

approximately \$1.5 million per year on insurance premiums paid to an affiliate in Footnote 10 of the Annual Statement for 2010.

Incorrect Responses to General Interrogatories

The Company failed to accurately respond to the 2010 NAIC Annual Statement General Interrogatories in the following six areas:

(1) 2010 Holding Company Interrogatory Line 1.1

The Company responded “no” to the interrogatory regarding whether the reporting entity is a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer. As a result of the December 31, 2010 reorganization, the Company became a subsidiary of Trans-Oceanic Group, Inc., a holding company with three subsidiaries. The subsidiaries are TOLIC, Victory Insurance Company, and Tuchman Travel & Leisure.

(2) 2010 Prior Exam Adjustments Interrogatory Line 3.5

The Company responded “no” to the interrogatory regarding whether all financial statement adjustments within the latest financial examination report have been accounted for in a subsequent financial statement filed with the Office of the Commissioner of Insurance of Puerto Rico (OCS). The Company’s responses to the December 31, 2007, examination report contain evidence of adjusting entries from examination findings identified within the financial statements. In addition, amendments to the December 31, 2009,

financial statements are included in the NAIC filing database, and the Company filed corrections with the OCS.

(3) 2010 Prior Exam Examination Recommendation Compliance Interrogatory Line 3.6

The Company responded "no" to the interrogatory regarding whether all of the recommendations within the latest financial examination report have been complied with in the Annual Statements for 2010. The Company's filing dated August 1, 2010, responding to the examination report dated December 31, 2007, shows that responses were provided by the Company to the OCS indicating compliance with the examination recommendations.

(4) 2010 Audit Committee Compliance Interrogatory Line 10.7

The Company responded "yes" to the interrogatory regarding whether the reporting entity has established an Audit Committee in compliance with the domiciliary state insurance laws. The Company did not have a formal audit committee as of December 31, 2010; however, this is in compliance with the Insurance Code of Puerto Rico in effect as of that date.

(5) 2010 Custodial Agreement Interrogatory Line 27.01

The Company responded with the banks "Santander Securities, Popular Securities, Secretario de Hacienda and Citibank" to the interrogatory requesting names of custodians that comply with the custodial requirements of the *2011 National Association of Insurance Commissioners Financial Condition Examiners Handbook*. However, the Company does not have written custodial

agreements with two of its custodians - Merrill Lynch and Banco Santander - that contain the provisions for safeguards and controls recommended in the custodial or safekeeping agreement guidance in the *2011 National Association of Insurance Commissioners Financial Condition Examiners Handbook*, Section 1 (III) (F). In addition, the Company could not provide a custodial agreement with Banco Popular in place as of December 31, 2010. An agreement with Banco Popular was provided that was executed on June 20, 2011.

(6) 2010 Conflicts of Interest for Board of Directors Line 17

The Company responded "yes" to the interrogatory regarding whether the reporting entity has an established procedure for disclosure to its Board of Directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees or responsible employees that is in conflict or is likely to conflict with the official duties of such person. The Company does have an informal policy for Board of Directors disclosure of conflict of interest statements. However, no formal conflict of interest statements were documented and provided to the Board of Directors as of December 31, 2010. A conflict of interest statement was drafted and presented for signature at the July 2011 Board of Directors meeting.

Timing of Shareholder Meetings

The Company held its 2008 annual shareholders meeting in December of that year rather than in June as required by the Company bylaws. This exception was

also noted in the years 2005 through 2007 by the OCS in its prior exam report dated August 9, 2010. In 2009, the meeting date changed back to June in accordance with the Company's bylaws.

Incorrect State of Incorporation in Bylaws

The Company bylaws indicate incorporation in the state of Delaware. The Company is incorporated in the Commonwealth of Puerto Rico, and the inadvertent reference to Delaware is most likely the result of modeling the document on bylaws of a Delaware corporation.

Investment Policy and Transactions

The Board of Directors did not adopt the Company's December 2009 Investment Policy. The Company is not in compliance with Article 6.040, Section 1, of the Insurance Code of Puerto Rico, which requires that the Board of Directors of an insurer shall adopt a written plan to acquire and maintain investments and to outline their investment practices. In addition, during the period from 2008 through 2010, the Board of Directors meeting minutes did not contain evidence of a formal resolution adopted at least once a year, that all investments have been made pursuant to the delegation, standards, limitations and investment goals established by the Board, or by a committee authorized by the Board with the responsibility to administer the investments of the insurer. The Company is not in compliance with Article 6.040, Section 2, of the Insurance Code of Puerto Rico.

NAIC SVO Designation Filings

The Company identified "Z" for all NAIC designations in column 6 on Schedule D, Part 1 of the Annual Statement. The acquired date information in the Schedule lists acquired dates that indicate these securities were held more than 120 days. The December 31, 2010 *Purposes and Procedures Manual of the NAIC Securities Valuation Office*, page 14 requires the following:

"...Z means that the NAIC Designation reported by the insurance company was not derived by or obtained from the Securities Valuation Office (SVO), but has been determined analytically by a reporting insurance company. A security designated with a Z must be submitted to the SVO for valuation within 120 days of the date the security was acquired. The Z symbol should not be used for securities that are exempt from filing with the SVO pursuant to Part Two, Section 4 (e) of this Manual."

Admitted and Non-admitted Uncollected Premiums

The Company's Accidental and Health Groups Aging report as of December 31, 2010, contained uncollected premium balances exceeding 90 days due that are not reported in the financial statement as either admitted or non-admitted assets. The Company is not in compliance with the *NAIC Accounting Practices and Procedures Manual* Statement of Statutory Accounting Principles (SSAP) No. 6

which requires that to the extent that there is no related unearned premium, any uncollected premium balances which are over ninety days due shall be non-admitted.

In addition, governmental premiums balances exceeding 90 days have not been reported in the financial statements as admitted assets. The Company is not in compliance with SSAP No. 84 which requires that amounts receivable under government insured plans, including amounts over 90 days due, and that qualify as accident and health contracts in accordance with SSAP No. 50, shall be admitted assets.

Per the *NAIC 2010 Annual Statement Instructions for Life Companies*, admitted assets related to “uncollected premiums and agents” balances in the course of collection” should be identified as assets online 15.1, page 2 of the Annual Statement in column 1 and net admitted assets in column 3. Additionally, admitted assets related to “uncollected premiums and agents” balances in the course of collection” should be identified on Schedule T, Premiums and Annuity Considerations.

Per the *NAIC 2010 Annual Statement Instructions for Life Companies*, non-admitted assets related to “uncollected premiums and agents” balances in the course of collection” should be identified as non-admitted assets on line 15.2 page 2 of the

Annual Statement column 2 as well as reported in the Exhibit of Non-Admitted Assets on page 16 line 15.1 of the Annual Statement.

It was noted that none of variances in net balances were material to the Company's financial statement and no financial changes were made for the reporting issues noted above related to Uncollected Premiums.

Compliance with Prior Examination Findings

A prior examination was completed for the three-year period ending December 31, 2007. The Company appears to be in compliance with the prior examination findings with the exception of the timing of shareholder meetings included in the "Summary of Significant Findings" section above.

History

The Company was originally incorporated on December 22, 1959. The Company has been engaged in the underwriting of supplemental accident and health insurance, as well as other life and health insurance products including annuities. TOLIC has Certificates of Authority to write business in Puerto Rico, the U.S. Virgin Islands and Florida, but writes the vast majority of its business in Puerto Rico. The Company also obtained permission from the Office of the Insurance Commissioner to create an organization in Panama.

In 2008, TOLIC enhanced its market share in the accident and health market through the acquisition of Universal Life Insurance Company's accident and health policies portfolio. Currently, that segment of TOLIC's business accounts for approximately 90% of the Company's premium income.

Effective December 31, 2010, the Company completed a reorganization involving TOLIC and its parent company Victory Insurance Corporation (Victory). As a result of the reorganization, Victory was merged into TOLIC, and TOLIC became a subsidiary of a new corporation named Trans-Oceanic Group, Inc. (TG).

The principal economic effect of the merger of Victory into TOLIC was that certain parcels of real estate came to be owned by TOLIC. TG also became the parent company of two corporations named Victory Insurance Agency, Inc. and Tuchman Travel & Leisure, Inc. that will operate under licenses that had formerly belonged to Victory.

Capital Stock

As of December 31, 2010, the Company had 10,000,000 common stock shares authorized, and 250,000 issued and outstanding with a par value of \$10 per share, for paid in capital of \$2,500,000. TOLIC is a direct subsidiary of TG, which owns 249,992 of the 250,000 shares outstanding.

The remaining eight shares were issued to the following Directors in compliance with Article 29.150(1) of the Insurance Code of Puerto Rico:

Nicolás Touma Correa
Jorge Luis Mendín
Manuel Fernández Mejías
Luis Márques Guillermet
José Eddie Bisbal
Carlos Eduardo Girod
Carmen Taverns Burgos
Rubén E. Cardona Batiz

Dividends to Stockholders

TOLIC did not pay any cash dividends to stockholders during the years 2008 through 2010.

Management and Control

The bylaws state that the Board of Directors shall have no less than five (5) or more than fifteen (15) members who shall be elected at the annual meeting of the stockholders.

Article 29.150 of the Insurance Code of Puerto Rico states that not less than the majority of directors of an insurer shall be residents of, and actually reside in Puerto Rico. The Company was in compliance with Article 29.150 of the Insurance Code of Puerto Rico and its own corporate bylaws regarding residency.

As of the examination date, the directors of the Company, who were elected at the annual meeting of stockholders on June 16, 2010, were as follows:

<u>Directors</u>	<u>Principal Occupation</u>	<u>Residence</u>
Nicolas Touma Correa	President & CEO, TOLIC	San Juan, Puerto Rico
Jorge Luis Mendín	Attorney	San Juan, Puerto Rico
Luis Márques Guillermety	Certified Public Accountant	San Juan, Puerto Rico
Manuel Fernández Mejías	Attorney	San Juan, Puerto Rico
José Eddie Bisbal	Physician	San Juan, Puerto Rico
Carlos Eduardo Girod	Physician	San Juan, Puerto Rico
Carmen Taverns Burgos	General Managing Agent, TOLIC	San Juan, Puerto Rico
Rubén E. Cardona Batiz	Supply Chain Manager	San Juan, Puerto Rico

The officers of the Company, as appointed in the annual shareholders meeting on June 16, 2010, were the following:

Nicolás Touma Correa	President
Jorge Luis Mendín	Secretary
Luis Márques Guillermety	Treasurer

Investment Plan

Article 6.040 of the Insurance Code of Puerto Rico provides, among other things, that the Board of Directors of the insurer shall adopt a written plan to acquire and maintain investments, and to outline the investment practices. Although the Company developed an investment policy dated December 2009, the Board of Directors meeting minutes did not contain evidence of a formal resolution to be adopted at least once a year, that all investments have been made pursuant to the delegation, standards, limitations and investment goals established by the Board, or by a committee authorized by the Board with the responsibility to administer

the investments of the insurer. Therefore, the Company was not in compliance with Article 6.040 of the Insurance Code of Puerto Rico. This finding has been included in the "Summary of Significant Findings" section above.

Corporate Governance

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

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

Conflict of Interest

During the years 2008 through 2010, the Company did not require its directors, officers, and key employees to sign a conflict of interest questionnaire concerning items that could have an impact on the way they conduct the Company's business in accordance with Article 29.230 of the Insurance Code of Puerto Rico. No transactions were noted during the examination indicating the Company is not in compliance with the above Article, and a conflict of interest statement was drafted and presented for signature by all directors at the July 2011 Board of Directors meeting. This finding has been included in the "Summary of Significant Findings" section above.

Corporate Records

The Articles of Incorporation, bylaws and all amendments thereto, and the minutes of the meetings of the Board of Directors and shareholders were reviewed for the period under examination. No amendments to the Articles of Incorporation and bylaws were noted during the examination period. A finding regarding the non-compliance with the bylaws has been included in the "Summary of Significant Findings" section above.

Board of Directors and Committee Minutes

The recorded minutes of the meetings of the Board of Directors (Board) were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events in accordance with Chapter 29 of the Insurance Code of Puerto Rico. A finding regarding the non-compliance with the bylaws has been included in the "Summary of Significant Findings" section above.

The Company's overall investment procedures were not in compliance with Article 6.040(2) of the Insurance Code of Puerto Rico because the Board of Directors had not ratified the investment transactions or the investment policy document. See the finding included in the "Summary of Significant Findings" section above.

Fidelity Bonds and Other Insurance

The Company maintained fidelity bond coverage with a single and aggregate loss limit of \$500,000. This amount exceeds the suggested minimum amount as recommended by the NAIC of \$350,000. The Company is also a named insured on various other policies providing Commercial Property & Liability, Crime, Inland Marine, Umbrella, and Auto coverage.

Pension and Insurance Plans

Employees' Retirement Plan

Substantially all of the Company's employees are covered by a qualified defined contribution retirement plan sponsored by the Company. The benefits are provided in the form of a Salary Deferral Retirement (401K) Plan. The Company matches 25% of the employee's contribution up to 4% of their annual salary, and may contribute a discretionary amount in addition to any matching contribution for all eligible participants. Total pension expense was \$22,494 and \$19,687 for the years ending 2010 and 2009, respectively. The custodian for the plan at December 31, 2010, was Mid-Atlantic Capital Corporation.

Intercompany Agreements

The Company has the following written agreements with affiliates:

Override Commission Agreement

The Company paid override commissions on insurance premiums to Touma & Taveras, a former stockholder of Victory and current stockholder of Trans-Oceanic Group, Inc., that is owned by TOLIC's President and his spouse. Commissions amounted to \$1,458,000 in 2010, \$1,494,000 in 2009, and \$1,503,000 in 2008, and were paid according to a general agent's agreement for the solicitation of business. The OCS has reviewed this commission arrangement.

Other Agreements

The Company made payments to Victory of \$180,000 each year from 2008 through 2010 under a building lease agreement and \$261,000 in 2008 under a software use and services agreement that expired on September 30, 2008.

Growth of the Company

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

Year	Admitted Assets	Liabilities	Company Capital Stock	Gross Paid Contributed Surplus	Unassigned Surplus
2010	\$38,067,448	\$24,410,667	\$2,500,000	\$50,000	\$11,106,781
2009	32,127,918	23,083,107	2,500,000	50,000	6,494,811
2008	27,560,190	21,060,178	2,500,000	50,000	3,950,012

Insurance Products and Related Practices

The Company is authorized to write supplemental accident and health insurance, as well as other life and health insurance products including annuities, in conformity with Chapter 4 of the Insurance Code of Puerto Rico.

For the period covered by this examination, the major kinds of insurance and gross premiums written were as follows:

	2006	2007	2008	2009	2010
Life	1,447,645	1,215,328	1,145,757	3,144,552	2,821,523
Annuities	41,260	42,550	33,945	27,598	21,421
A&H	15,239,201	15,370,669	25,947,905	22,438,102	22,174,552
TOTAL	\$16,728,106	\$16,628,547	\$27,127,607	\$25,610,252	\$25,017,496

The premium increase in 2008 is attributed to the acquisition of the Universal Life Insurance Company (ULICO) portfolio of Accident and Health business. This acquisition is discussed in the "Territory and Plan of Operations" section below. The decrease in premium in 2009 is due to cancellations related to the economic conditions in Puerto Rico.

Territory and Plan of Operations

On April 11, 2008, the Company entered into a purchase agreement with ULICO, an unrelated insurance company, whereby it acquired a cancer insurance

portfolio in the aggregate amount of \$9.9 million. The related reserves were established at \$7.2 million. The insurance portfolio was transferred with an effective date of January 1, 2008, with the approval of the OCS.

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

	2008	2009	2010
Puerto Rico	\$27,040,077	\$25,537,295	\$24,964,800
US Virgin Islands	76,193	64,312	48,505
Florida	11,337	8,645	4,191
TOTAL	\$27,127,607	\$25,610,252	\$25,017,496

Statutory Deposits

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

Description	Maturity Date	Par Value	Book/ Adjusted Carrying Value
EMPLOYERS RETIREMENT SYSTEM	7/1/2023	\$300,000	\$ 300,000
PR GNMA POOL UNIT 93	11/15/2028	25,000	25,618
PR GNMA POOL UNIT 92	9/15/2028	25,000	25,618
PR HOUSING FINANCE CORP.	1/1/2012	130,000	123,417
PR SALES TAX FINANCE CORP.	8/1/2036	300,000	300,000
PR SALES TAX FINANCE CORP.	8/1/2029	400,000	400,000
PR PUBLIC FINANCE	8/1/2015	200,000	204,508
TOTAL		\$1,380,000	\$1,379,161

Article 3.090 of the Insurance Code of Puerto Rico requires the Company to maintain minimum paid-in capital of \$2,500,000, and Article 3.151 requires statutory deposits with amortized value of not less than one-half of the capital required per Article 3.090, or \$1,250,000. The Company maintained statutory deposits in excess of \$1,379,000 at amortized cost. The Company was in compliance with Articles 3.090 and 3.151 of the Insurance Code of Puerto Rico as of December 31, 2010.

Unclaimed Funds

The Company complied with Article 26.040 of the Insurance Code of Puerto Rico by reporting unclaimed funds to the OCS on or before May 1 for the years under examination.

The Company submitted to the OCS the notice of unclaimed funds owed and made payment for the unclaimed funds. The Company was in compliance with Articles 26.050 and 26.060 of the Insurance Code of Puerto Rico.

Reinsurance

Reinsurance Assumed

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

Reinsurance Ceded

The Company primarily writes indemnity coverage for cancer policies. The payout is limited by the policy terms and the Company does not reinsure these risks. The Company also writes small amounts of other business and reinsures these coverages as follows:

- Life risks in excess of \$50,000 per individual
- 100% of the disability risks
- 20% of group life claims in excess of \$20,000
- Accidental death, disability, and dismemberment risks in excess of \$10,000 up to \$100,000

The total reported ceded premiums and related reinsurance balances are not material as of December 31, 2010.

Accounts and Records

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

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

The actuarial study and opinion for the period under examination was prepared by Fernando J. Troncoso, ASA, MAAA, of Troncoso Consulting Group, Inc., Annandale, Virginia.

Financial Statements

Below are the financial statements of the Company:

- Assets
- Liabilities, Surplus, and Other Funds
- Summary of Operations
- Capital and Surplus Account

Trans-Oceanic Life Insurance Company
Assets

As of December 31, 2010

	Annual Statement	Examination Adjustments	Examination Balance
Bonds	\$ 18,952,149		\$ 18,952,149
Preferred stocks	66,569		66,569
Common stocks	132,313		132,313
Real estate - Property occupied by Company	3,000,000		3,000,000
Cash and short-term investments	12,489,484		12,489,484
Contract loans	62,778		62,778
Investment income due and accrued	346,872		346,872
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	1,883,820		1,883,820
Amounts recoverable from reinsurers	8,985		8,985
Electronic data processing equipment and software	254,676		254,676
Aggregate write-ins for other than invested assets	869,802		869,802
Total Assets	<u>\$ 38,067,448</u>		<u>\$ 38,067,448</u>

Trans-Oceanic Life Insurance Company
Liabilities, Surplus and Other Funds

As of December 31, 2010

	Annual Statement	Examination Adjustments	Examination Balance
Aggregate reserve for life contracts	\$ 2,616,683		\$ 2,616,683
Aggregate reserve for accident and health contracts	13,116,200		13,116,200
Contract claims:			
Life	43,736		43,736
Accident and health	4,942,337		4,942,337
Commissions to agents due or accrued life and annuity contracts	1,039,614		1,039,614
General expenses due or accrued	1,184,457		1,184,457
Taxes, licenses and fees due or accrued	17,422		17,422
Remittances and items not allocated	400,839		400,839
Asset valuation reserve	133,441		133,441
Payable to parent, subsidiaries and affiliates	174,221		174,221
Aggregate write-ins for liabilities	741,717		741,717
Total Liabilities	<u>\$ 24,410,667</u>		<u>\$ 24,410,667</u>
Common capital stock	\$ 2,500,000		\$ 2,500,000
Gross paid in and contributed surplus	50,000		50,000
Unassigned funds (surplus)	11,106,781		11,106,781
Total Surplus	<u>\$ 13,656,781</u>		<u>\$ 13,656,781</u>
Total Liabilities and Surplus	<u>\$ 38,067,448</u>		<u>\$ 38,067,448</u>

Trans-Oceanic Life Insurance Company
Summary of Operations

As of December 31, 2010

Premiums and annuity considerations for life and accident and health contracts	\$ 24,840,775
Net investment income	1,088,587
Amortization of interest maintenance reserve	54,020
Aggregate write-ins for miscellaneous income	3,600
Total	\$ 25,986,982
Death benefits	\$ 506,894
Disability benefits and benefits under accident and health contracts	6,859,825
Surrender benefits and withdrawals for life contracts	135,810
Increase in aggregate reserves for life and accident and health contracts	(43,304)
Total	\$ 7,459,225
Commissions on premiums, annuity considerations and deposit-type contract funds	6,017,483
General insurance expenses	9,085,813
Insurance taxes, licenses and fees	436,138
Increase in loading on deferred and uncollected premiums	(6,298)
Total	\$ 22,992,361
Net gain from operations	2,994,621
Net realized capital loss	(982,420)
Net (Loss)/Income	\$ 2,012,201

Trans-Oceanic Life Insurance Company
Capital and Surplus Account

As of December 31, 2010

Capital and surplus, December 31, prior year	<u>\$ 9,044,811</u>
Net income (loss)	\$ 2,012,201
Change in net unrealized capital gains	449,416
Change in non-admitted assets	2,784,456
Change in asset valuation reserve	(24,922)
Aggregate write-ins for gains and losses in surplus	<u>(609,181)</u>
Net change in capital and surplus for the year	<u>\$ 4,611,970</u>
Capital and surplus, December 31, current year	<u>\$13,656,781</u>

Trans-Oceanic Life Insurance Company
Reconciliation of Capital and Surplus Account

As of December 31, 2010

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

Capital and Surplus Account			
December 31, 2010, per Annual Statement			\$13,656,781
	<u>Per</u>	<u>Per</u>	<u>Increase</u>
	<u>Company</u>	<u>Examination</u>	<u>(Decrease)</u>
			<u>in surplus</u>
Assets:			
No Adjustments	\$0	\$0	\$0
Liabilities:			
No Adjustments	\$0	\$0	\$0
Net Change in Surplus			<u>\$13,656,781</u>

Comments on the Financial Statements

Aggregate reserve for life contracts	\$ 2,616,683
Aggregate reserve for accident and health contracts	13,116,200
Contract claims: Life	43,736
Contract claims: Accident and health	4,942,337
Uncollected premiums and agents' balances in the course of collection	1,883,820
Deferred premiums, agents' balances and installments booked but deferred and not yet due	0

An independent review of aggregate reserves was performed by INS Consultants, Inc. (INS), Philadelphia, Pennsylvania.

Reserves were reviewed by INS for compliance with standard valuation laws, applicable National Association of Insurance Commissioners Actuarial Guidelines, and Model Regulations. Sample contracts were selected from the valuation systems for reserve testing based on the residual risk assessments as determined by INS. In choosing samples, INS focused on the products and contracts having provisions identified by INS as having specific risks, thus emphasizing the added risk associated with the contracts tested.

The balance sheet items enumerated above appear to be calculated using valuation parameters, which appear to be free of any material error and valuation files that appear to be complete. Based on the above discussion and analysis, INS concluded that the December 31, 2010, balance sheet items covered in the examination scope appear fairly stated subject to the previously mentioned recommendations. They have been accepted for the purpose of this report.

Subsequent Events

There were no significant subsequent events.

Summary of Examination Recommendations

Affiliate Transaction Disclosures

The Company did not report amounts paid under software use and lease agreements with an affiliate during the examination period, in accordance with the *NAIC 2010 Annual Statement Instructions for Life Companies*, for Schedule Y - Part 2: Summary of Insurer's Transactions with Any Affiliates. During 2008 and 2009, the amounts paid under these agreements exceeded one-half of one percent of the Company's admitted assets and, as such, met the threshold for Schedule Y reporting as prescribed in the *NAIC 2010 Annual Statement Instructions for Life Companies*.

In addition, the *NAIC 2010 Annual Statement Instructions for Life Companies*, related to Footnote 10, Information Concerning Parent, Subsidiaries, Affiliates, and Other Related Parties, state that the financial statements shall include disclosures of all material related party transactions (defined as those that exceed one-half of one percent of the total admitted assets of the reporting entity). During the examination period, the Company did not report override commissions of approximately \$1.5 million per year on insurance premiums paid to an affiliate in Footnote 10 of the Annual Statement for the year 2010.

We recommend that the Company comply with the *NAIC 2010 Annual Statement Instructions for Life Companies*, regarding Schedule Y reporting of transactions with affiliates and Footnote 10 reporting of related party transactions.

Incorrect Responses to General Interrogatories

The Company failed to accurately respond to the 2010 NAIC Annual Statement General Interrogatories in the following six areas:

(1) 2010 Holding Company Interrogatory Line 1.1

The Company responded “no” to the interrogatory regarding whether the reporting entity is a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer. As a result of the December 31, 2010 reorganization, the Company

became a subsidiary of Trans-Oceanic Group, Inc., a holding company with three subsidiaries - Trans-Oceanic Life Insurance Company, Victory Insurance Company, and Tuchman Travel & Leisure.

(2) 2010 Prior Exam Adjustments Interrogatory Line 3.5

The Company responded "no" to the interrogatory regarding whether all financial statement adjustments within the latest financial examination report have been accounted for in a subsequent financial statement filed with the OCS. The Company's responses to the December 31, 2007 examination report contain evidence of adjusting entries from examination findings identified within the financial statements. In addition, amendments to the December 31, 2009, financial statements are included in the NAIC filing database, and the Company filed corrections with the OCS.

(3) 2010 Prior Exam Examination Recommendation Compliance Interrogatory Line 3.6

The Company responded "no" to the interrogatory regarding whether all of the recommendations within the latest financial examination report have been complied with in the Annual Statements for 2010. The Company's filing dated August 1, 2010 responding to the examination report dated December 31, 2007 shows that responses were provided by the Company to the OCS indicating compliance with the examination recommendations

(4) 2010 Audit Committee Compliance Interrogatory Line 10.7

The Company responded "yes" to the interrogatory regarding whether the reporting entity has established an Audit Committee in compliance with the domiciliary state insurance laws. The Company did not have a formal audit committee as of December 31, 2010; however, this is in compliance with the Insurance Code of Puerto Rico in effect as of that date.

(5) 2010 Custodial Agreement Interrogatory Line 27.01

The Company responded "Santander Securities, Popular Securities, Secretario De Hacienda and Citibank" to the interrogatory requesting names of custodians that comply with the custodial requirements of the *NAIC Financial Condition Examiners Handbook*. However, the Company does not have written custodial agreements with two of its custodians, Merrill Lynch and Banco Santander, which contain the provisions for safeguards and controls recommended in the custodial or safekeeping agreement guidance in the 2010 *National Association of Insurance Commissioners Financial Condition Examiners Handbook*, Section 1 (III) (F). In addition, the Company could not provide a custodial agreement with Banco Popular in place as of December 31, 2010. An agreement with Banco Popular was provided that was executed on June 20, 2011.

(6) 2010 Conflicts of Interest for Board of Directors Line 17

The Company responded "yes" to the interrogatory regarding whether the reporting entity has an established procedure for disclosure to its Board of Directors or trustees of any material interest or affiliation on the part of any of

its officers, directors, trustees or responsible employees that is in conflict or is likely to conflict with the official duties of such person. The Company does have an informal policy for Board of Directors disclosure of conflict of interest statements. However, no formal conflict of interest statements were documented and provided to the Board of Directors as of December 31, 2010. A conflict of interest statement was drafted and presented for signature at the July 2011 Board of Directors meeting.

We recommend, based on the six items noted above, that the Company comply with NAIC 2010 Annual Statement Instructions for Life Companies, regarding the completion of the NAIC Annual Statement interrogatories and accurately respond.

Timing of Shareholder Meetings

The Company held its 2008 annual shareholders meeting in December of that year rather than in June as required by the Company bylaws. This exception was also noted in the years 2005 through 2007 by the OCS in its prior exam report dated August 9, 2010. In 2009, the meeting date changed back to June in accordance with the Company's bylaws.

We recommend that the Company continue to comply with the provisions of its bylaws regarding the scheduling of shareholder meetings.

Incorrect State of Incorporation in Bylaws

The Company bylaws indicate incorporation in the state of Delaware. The Company is incorporated in the Commonwealth of Puerto Rico, and the inadvertent reference to Delaware is most likely the result of modeling the document on bylaws of a Delaware corporation.

We recommend that TOLIC amend its bylaws to state that the Company was incorporated in the Commonwealth of Puerto Rico.

Investment Policy and Transactions

The Board of Directors did not adopt the Company's December 2009 Investment Policy. The Company is not in compliance with Article 6.040, Section 1, of the Insurance Code of Puerto Rico, which requires that the Board of Directors of an insurer shall adopt a written plan to acquire and maintain investments and to outline the investment practices. In addition, during the period from 2008 through 2010, the Board of Directors meeting minutes did not contain evidence of a formal resolution adopted at least once a year, that all investments have been made pursuant to the delegation, standards, limitations and investment goals established by the Board, or by a committee authorized by the Board with the responsibility to administer the investments of the insurer. The Company is not in compliance with Article 6.040, Section 2, of the Insurance Code of Puerto Rico.

We recommend that the Company comply with the Sections of Article 6.040 of Insurance Code of Puerto Rico regarding the adoption of an investment plan and approve the investment plan at least annually.

NAIC SVO Designation Filings

The Company identified "Z" for all NAIC designations in column 6 on Schedule D, Part 1 of the Annual Statement. In addition, Column 21 lists acquired dates that indicate these securities were held more than 120 days.

Per the December 31, 2010 Purposes and Procedures Manual *of the NAIC Securities Valuation Office*, page 14 requires the following:

"...Z means that the NAIC Designation reported by the insurance company was not derived by or obtained from the Securities Valuation Office (SVO), but has been determined analytically by a reporting insurance company. A security designated with a Z must be submitted to the SVO for valuation within 120 days of the date the security was acquired. The Z symbol should not be used for securities that are exempt from filing with the SVO pursuant to Part Two, Section 4 (e) of this Manual."

We recommend that the Company comply with the NAIC filing requirements noted in the *Purposes and Procedures Manual of the NAIC Securities Valuation Office*, regarding the use of a Z designation in Schedule D, Part 1.

Admitted and Non-admitted Uncollected Premiums

The Company's Accidental and Health Groups Aging report as of December 31, 2010, contained uncollected premium balances exceeding 90 days due that are not reported in the financial statement as either admitted nor non-admitted assets. The Company is not in compliance with the *NAIC Accounting Practices and Procedures Manual* Statement of Statutory Accounting Principles (SSAP) No. 6 which requires that to the extent that there is no related unearned premium, any uncollected premium balances which are over ninety days due shall be non-admitted.

In addition, governmental premiums balances exceeding 90 days have not been reported in the financial statements as admitted assets. The Company is not in compliance with SSAP No. 84 which requires that amounts receivable under government insured plans, including amounts over 90 days due, and that qualify as accident and health contracts in accordance with SSAP No. 50 shall be admitted assets.

Per the *NAIC 2010 Annual Statement Instructions for Life Companies*, admitted assets related to “uncollected premiums and agents’ balances in the course of collection” should be identified as assets on line 15.1, page 2 of the Annual Statement in column 1 and net admitted assets in column 3. Additionally, admitted assets related to “uncollected premiums and agent balances in the course of collection” should be identified on Schedule T - Premiums and Annuity Considerations.

Per the *NAIC 2010 Annual Statement Instructions for Life Companies*, non-admitted assets related to “uncollected premiums and agents’ balances in the course of collection” should be identified as non-admitted assets per line 15.2 page 2 of the Annual Statement in column 2 as well as reported in the Exhibit of Non-Admitted Assets on page 16 line 15.1 of the Annual Statement.

It was noted that none of variances in net balances were material to the Company’s financial statement and no financial changes were made for the reporting issues noted above related to Uncollected Premiums.

We recommend that the Company comply with the Accounting Practices and Procedures Manual as well as the Annual Statement Instructions for disclosure and reporting of uncollected premium balances as admitted or non-admitted assets.

Conclusion

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

In addition to the undersigned, Peter Bliss, CFE, Examiner-in-Charge; Natalie Davis, AFE, Staff Examiner; Kristina Sampson, CPA, Staff Examiner; and Patricia Casey Davis, CPA, CFE, Manager, all of INSRIS-PR, LLC; Claude Granese, CPA, IT Specialist, INS Services, Inc.; and Frank Edwards, ASA, MAAA, Actuary, INS Consultants, Inc. participated in the examination.



Peter Bliss, CFE
Examiner-in-Charge