

REPORT ON EXAMINATION

OF

TRIPLE-S VIDA, INC.

AS OF

DECEMBER 31, 2009

NAIC CODE 26778

BY THE

**OFFICE OF THE COMMISSIONER OF INSURANCE
OF PUERTO RICO**

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GOVERNMENT OF PUERTO RICO
OFFICE OF THE COMMISSIONER OF INSURANCE

June 30, 2011

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

Dear Commissioner:

In compliance with your instructions and pursuant to the Order Number EX-2011-39 dated February 25, 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

Triple-S Vida, Inc.
1052 Muñoz Rivera
Río Piedras, Puerto Rico 00927

hereinafter referred to as TSV or the Company.

Scope of Examination

The current examination was conducted at the home office of the Company located at 1052 Munoz Rivera, Rio Piedras, Puerto Rico. This examination covers the period of January 1, 2005 through December 31, 2009, 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 material adverse findings, significant non-compliance findings, or material changes in the financial statements noted during the examination.

Intercompany Agreements

The Company is party to both management and cost allocation arrangements with Triple-S Management Corporation (TSM). These arrangements are not in the form of written agreements. The Company is not in compliance with SSAP No. 96 which requires that all intercompany transactions be in the form of a written agreement.

Compliance with Prior Examination Findings

The prior examination report was not finalized.

History

The Company was originally incorporated in September 1964, under the provisions of the Insurance Code of Puerto Rico, and has operated under several names and ownership since incorporation. The Company has been engaged in the underwriting of life, disability, supplemental health insurance, and the

administration of annuities and individual retirement accounts. The Company was licensed to write business in both Puerto Rico and the U.S. Virgin Islands, but currently only writes business in Puerto Rico.

The Company has been a wholly owned subsidiary of TSM since January 31, 2006, when TSM completed the acquisition of 100 percent of the common stock of the Company under its previous name, Great American Life Assurance Company of Puerto Rico. Subsequently, the Company's operations were merged with TSM's life insurance subsidiary, Seguros de Vida Triple S. Effective November 1, 2007, the Company was incorporated as prescribed by the laws and the provisions of the Insurance Code of Puerto Rico under its current name.

Capital Stock

As of December 31, 2009, the Company had 3,000,000 common stock shares authorized, issued, and outstanding with a par value of \$1 per share for paid in capital of \$3,000,000. TSV is a direct subsidiary of TSM, which owns 2,999,993 of the 3,000,000 shares outstanding. TSM is a public company traded on the New York Stock Exchange.

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

Juan E. Rodríguez Díaz

Luis A. Clavell Rodríguez
Arturo Carrión Crespo
Manuel Figueroa Collazo
Antonio F. Faria Soto
Ramón M. Ruiz Comas
Adamina Soto-Martínez

Dividends to Stockholders

Article 29.340 of the Insurance Code of Puerto Rico provides that a domestic stock insurer shall not pay any cash dividend to stockholders, except out of that part of its available surplus funds which is derived from any realized net profits on its business.

The following table shows dividends paid to stockholders and the balance of unassigned surplus during the examination period:

<u>Year</u>	<u>Dividend Paid</u>	<u>Unassigned Surplus Previous Year</u>
2005(a)	\$100,000,000	\$ 42,254,873
2006	-	\$ (29,797,789)
2007	-	\$ (22,789,780)
2008	-	\$ (16,954,555)
2009	-	\$ (13,317,559)

(a) As a result of a coinsurance funds held reinsurance agreement entered into in 2005, the Company received a \$60 million ceding commission that increased unassigned surplus to over \$100 million.

The Company was in compliance with the provisions of Article 29.340 of the Insurance Code of Puerto Rico.

Surplus Note

On December 22, 2005, the Company entered into a \$57 million surplus note agreement with TSM pursuant to the provisions of Article 29.300 of the Insurance Code of Puerto Rico. The note accrues interest at an annual rate of 6.6%. The Office of the Commissioner of Insurance of Puerto Rico (OCS) granted the approval to convert \$20 million of the principal to additional paid-in surplus on January 17, 2008. The carrying amount of the surplus note as of December 31, 2009, was \$37 million.

Management and Control

The bylaws state that the Board of Directors shall have no less than six (6) 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.

As of the examination date, the directors of the Company, who were elected at the annual meeting of stockholders on May 19, 2009, were as follows:

<u>Directors</u>	<u>Principal Occupation</u>	<u>Resident</u>
Juan E. Rodríguez Díaz	Lawyer	San Juan, Puerto Rico
Luis A. Clavell Rodríguez	Physician	San Juan, Puerto Rico
Arturo Carrión Crespo	President, TSV	San Juan, Puerto Rico
Manuel Figueroa Collazo	President, VERNET, Inc.	San Juan, Puerto Rico
Antonio F. Faria Soto	Former CEO, Doral Bank	San Juan, Puerto Rico
Ramón M. Ruiz Comas	President & CEO, TSM	San Juan, Puerto Rico
Adamina Soto-Martinez	Founder and Former Managing Partner, Kevane Grant Thornton, LLP	San Juan, Puerto Rico

The officers of the Company, as appointed in the annual meeting of the Board of Directors on May 19, 2009, were the following:

Arturo Carrión Crespo	President
Carlo La Russa	Secretary and Vice President of Finance
Juan José Román	Treasurer and Executive Vice President
Edgardo Díaz Usero	Senior Vice President
Pedro Torres	Vice President of Home Services
Maria Del Pilar Rodríguez	Vice President of POS
José Antonio Soto	Vice President of Legal and Claims

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 their investment practices. The

Company adopted a plan of investment, which was approved by the Board of Directors of the Company on January 27, 2009.

The Company's investment plan established the professional qualifications of the persons who will make routine decisions to ensure their investment competence and ethical conduct in compliance with the provisions of Article 6.040 of the Insurance Code of Puerto Rico.

Corporate Governance

The parent company, TSM, is a publicly traded corporation and, therefore, is subject to the Sarbanes-Oxley Act of 2002.

Conflict of Interest

The Company requires its directors, officers, and key employees to sign the conflict of interest questionnaires 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. The review of the conflict of interest questionnaires revealed that the Company is in compliance.

Corporate Records

The Articles of Incorporation, bylaws and all amendments thereto, and the minutes of the meetings of the Board of Directors, Board of Director committees,

and shareholders were reviewed for the period under examination. The following amendments to the Articles of Incorporation and bylaws were noted:

Articles of Incorporations and Bylaws

The Articles of Incorporation and bylaws were amended to reflect the change of the name of the Company from Great American Life Assurance Company of Puerto Rico to Triple-S Vida, Inc. The amendments were approved by the stockholders and the Board of Directors in a special meeting held on August 14, 2007.

The special meeting to approve this change was held constituting a quorum as required by Article 1, Section 4 of the bylaws and in compliance with Article 29.070 of the Insurance Code of Puerto Rico.

Board of Directors and Committee Minutes

The recorded minutes of the meetings of the Board of Directors (Board) and certain internal committees 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.

The Board of Directors delegates the authority to make investment decisions to the Investment Committee. The Investment Committee held meetings during the examination period to approve the purchases of securities. The purchases of the securities were acquired in compliance with the provisions of the Articles 6.080 and 6.090 of the Insurance Code of Puerto Rico.

The Company's overall investment procedures were in compliance with Article 6.040(2) of the Insurance Code of Puerto Rico because the Board of Directors ratified the investment transactions, which were approved by the Investment Committee.

Fidelity Bonds and Other Insurance

The Company, through the corporate insurance program managed by TSM, maintained fidelity bond coverage with a single loss limit of \$5 million and an aggregate loss limit of \$10 million with a deductible of \$250,000. These amounts are in excess of the suggested minimum amount as recommended by the NAIC of \$2 million. The Company is also a named insured on various other policies providing Directors and Officers (D&O), Errors and Omissions (E&O), Commercial Property & Liability, Crime, and Umbrella 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 Profit Sharing and Savings Plan. The Company matches 100% of the employee's contribution for the first 1% of their annual salary and 50% for the next 2% and 3%. Total pension expense was \$1,125,000 and \$931,640 for the year ending 2009 and 2008, respectively. The custodian for the plan at December 31, 2009, was Banco Popular of Puerto Rico.

Intercompany Agreements

The Company has the following unwritten agreements with affiliates.

Management fees paid to the Company's parent, TSM amounted to \$2,026,248 in 2009. In addition, the Company is allocated certain expenses related to services provided by TSM on behalf of the Company, which amounted to \$3,566,510 for 2009.

There are no written agreements related to these management and cost allocations fees. The Company was not in compliance with SSAP No. 96 of the *NAIC Accounting Practices and Procedures Manual*, which requires all intercompany transactions to be in the form of a written agreement.

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
2009	\$352,484,564	\$303,158,439	\$3,000,000	\$22,060,000	\$(12,733,875)
2008	329,391,208	280,648,767	3,000,000	22,060,000	(13,317,559)
2007	309,464,903	264,359,444	3,000,000	2,060,000	(16,954,539)
2006	292,972,243	253,702,026	2,500,000	2,560,000	(22,789,780)
2005	282,511,185	250,248,973	2,500,000	2,560,000	(29,797,789)

Insurance Products and Related Practices

The Company is authorized to write life and disability insurance in conformity with Chapter 4 of the Insurance Code of Puerto Rico. For the period covered by this examination, the major kind of insurance and gross premiums written were as follows:

	2005	2006	2007	2008	2009
Industrial Life	\$17,136	\$9,520	\$53,720	\$12,819	\$6,824
Ordinary Life	59,209,069	61,348,772	62,433,637	64,419,000	68,856,570
Life Annuities	3,754,597	6,153,681	6,150,511	8,018,308	4,434,115
Credit Life	13,902	16,885	14,127	13,994	10,593
Group Life	354,295	8,695,042	7,406,678	7,393,573	5,467,031
A&H Group	0	12,989,700	10,637,697	8,911,826	7,278,615
A&H Other	17,168,362	21,124,662	22,338,439	25,825,723	31,238,253
TOTAL	\$80,517,361	\$110,338,262	\$109,034,809	\$114,595,243	\$117,292,001

Territory and Plan of Operations

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:

	2005	2006	2007	2008	2009
Puerto Rico	\$80,517,086	\$110,337,979	\$109,034,186	\$114,594,620	\$117,291,570
USVI	275	283	623	623	431
TOTAL	\$80,517,361	\$110,338,262	\$109,034,809	\$114,595,243	\$117,292,001

Statutory Deposits

As of December 31, 2009, 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	Amortized Value
P.R.I.D. Bonds	7/01/12	\$670,000	\$717,674
PR INDUSTRIAL TOURIST	7/01/11	1,855,000	1,694,455
TOTAL		\$2,525,000	\$2,412,129

Article 3.151 of the Insurance Code of Puerto Rico requires that a domestic insurer shall not be authorized to transact insurance in Puerto Rico, unless it deposits and maintains on deposit assets with a value not less than fifty percent (50%) of the amount of the paid-in capital. The deposit is held to protect the Puerto Rico insurance policyholders and creditors.

Article 3.090 of the Insurance Code of Puerto Rico requires the Company to maintain minimum paid-in capital of \$2,600,000 and statutory deposit of not less than \$1,300,000 of amortized value. The Company was in compliance with Article 3.090 of the Insurance Code of Puerto Rico as of December 31, 2009.

Article 3.160 of the Insurance Code of Puerto Rico requires that 50% of the minimum paid in capital be in Puerto Rico securities. The Company maintained investments in Puerto Rico securities in excess of \$1,500,000 at amortized cost. The Company was in compliance with Article 3.160 of the Insurance Code of Puerto Rico as of December 31, 2009.

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 the payment of the unclaimed funds and 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 maintained several reinsurance contracts in force as of December 31, 2009. Reinsurance cessions are made under pro rata, excess of loss, and catastrophic treaties.

The principle reinsurance agreements are as follows:

- A group life pro rata agreement in which the Company cedes 50% of the risk up to \$250,000 on the life of any participating individual.
- A group life facultative excess of loss agreement in which the Company cedes risks in excess of \$25,000 on certain group life policies.
- A combined pro rata and excess of loss agreement in which the Company cedes 50% of the losses up to \$200,000 and 100% of the excess of \$200,000.
- A facultative pro rata agreement for the long-term disability insurance in which the Company cedes 65% of the risk.
- An accidental death catastrophic agreement covers each and every accident arising out of one event or occurrence resulting in the death or dismemberment of five or more persons. The retention for each event is

\$250,000 with a maximum of \$1,000,000 for each event and \$2,000,000 per year.

- The Company has several other reinsurance agreements covering the individual life business mostly on an excess of loss basis up to a maximum retention of \$50,000 and retention of \$175,000 for certain products issued after 1999.

The reinsurance contracts reviewed complied with NAIC guidelines with respect to the insolvency clause, arbitration clause, transfer of risk, reporting, and settlement information deadlines as stated in SSAP No. 62 of the *NAIC Accounting Practices and Procedures Manual*.

Accounts and Records

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

An independent CPA audited the Company's statutory basis financial statements for the year 2009 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 Steven Griffith, MAAA, of Griffith, Ballard and Company, Cedar Rapids, Iowa.

Financial Statements

Below are the financial statements of the Company:

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

Triple-S Vida, Inc.
Assets

As of December 31, 2009

	Annual Statement	Examination Adjustments	Examination Balance
Bonds	\$ 306,807,247		\$ 306,807,247
Common stocks	12,942,542		12,942,542
Cash and short-term investments	3,088,025		5,940,014
Contract loans	5,940,014		3,088,025
Investment income due and accrued	3,439,304		3,439,304
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	847,682		847,682
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	17,597,631		17,597,631
Amounts recoverable from reinsurers	1,084,973		1,084,973
Electronic data processing equipment and software	303,339		303,339
Aggregate write-ins for other than invested assets	433,807		433,807
Total Assets	<u>\$ 352,484,564</u>		<u>\$ 352,484,564</u>

Triple-S Vida, Inc.
Liabilities, Surplus and Other Funds

As of December 31, 2009

	Annual Statement	Examination Adjustments	Examination Balance
Aggregate reserve for life contracts	\$ 247,671,401		\$ 247,671,401
Aggregate reserve for accident and health contracts	19,728,174		19,728,174
Contract claims:			
Life	8,697,680		8,697,680
Accident and health	7,156,432		7,156,432
Premiums and annuity considerations for life and accident and health received in advance	186,020		186,020
Interest maintenance reserve	8,719,087		8,719,087
Commissions to agents due or accrued – life and annuity contracts	2,131,659		2,131,659
General expenses due or accrued	3,470,507		3,470,507
Taxes, licenses and fees due or accrued	537,822		537,822
Current federal and foreign income taxes	1,378,024		1,378,024
Net deferred tax liability	143,683		143,683
Amounts held for agents' account	263,243		263,243
Asset valuation reserve	645,440		645,440
Payable to parent, subsidiaries and affiliates	639,852		639,852
Aggregate write-ins for liabilities	1,789,415		1,789,415
Total liabilities	<u>\$303,158,439</u>		<u>\$303,158,439</u>
Common capital stock	\$3,000,000		\$3,000,000
Surplus notes	37,000,000		37,000,000
Gross paid in and contributed surplus	22,060,000		22,060,000
Unassigned funds (surplus)	(12,733,875)		(12,733,875)
Total Surplus	<u>\$49,326,125</u>		<u>\$49,326,125</u>
Total Liabilities and Surplus	<u>\$ 352,484,564</u>		<u>\$ 352,484,564</u>

Triple-S Vida, Inc.
Summary of Operations

As of December 31, 2009

Premiums and annuity considerations for life and accident and health contracts	\$112,065,437
Net investment income	17,546,687
Amortization of interest maintenance reserve	746,236
Commissions and expense allowances on reinsurance ceded	41,575
Aggregate write-ins for miscellaneous income	448,153
Total	\$130,848,088
Death benefits	\$23,465,617
Matured endowments	665,596
Annuity benefits	103,179
Disability benefits and benefits under accident and health contracts	12,503,898
Surrender benefits and withdrawals for life contracts	12,791,143
Increase in aggregate reserves for life and accident and health contracts	11,855,390
Total	\$61,384,823
Commissions on premiums, annuity considerations and deposit-type contract funds	31,707,894
General insurance expense	29,425,871
Insurance taxes, licenses and fees	2,424,810
Increase in loading on deferred and uncollected premiums	882,460
Aggregate write-ins for deductions	5,000,000
Total	\$130,825,858
Net gain from operations	22,230
Federal and foreign income taxes incurred	216,279
Net realized capital loss	(869,192)
Net (Loss)/Income	\$ (1,063,241)

Triple-S Vida, Inc.
Capital and Surplus Account

As of December 31, 2009

Capital and surplus, December 31, prior year	<u>\$48,742,441</u>
Net income (loss)	\$(1,063,241)
Change in net unrealized capital gains	1,008,945
Change in net deferred income tax	(14,142)
Change in nonadmitted assets	1,085,739
Change in asset valuation reserve	(645,440)
Aggregate write-ins for gains and losses in surplus	<u>211,821</u>
Net change in capital and surplus for the year	<u>\$583,682</u>
Capital and surplus, December 31, current year	<u>\$49,326,123</u>

Triple-S Vida, Inc.
RECONCILIATION OF CAPITAL and SURPLUS ACCOUNT

As of December 31, 2009

Capital and Surplus Account	
December 31, 2009, per Annual Statement	\$49,326,123

	<u>PER</u> <u>COMPANY</u>	<u>PER</u> <u>EXAM</u>	<u>INCREASE</u> <u>(DECREASE)</u> <u>IN SURPLUS</u>
ASSETS:			
No Adjustment			
LIABILITIES:			
No Adjustment			
Net Change in Surplus:			0
Capital and Surplus Account			
December 31, 2009, Per Examination			\$49,326,123

Comments on the Financial Statements

Aggregate Reserve for Life Contracts

Aggregate Reserve for Accident and Health Contracts

Contract Claims: Life

Contract Claims: Accident and Health

Uncollected Premiums and Agents' Balances in Course of Collection

Deferred Premiums, Agents' Balances, and Installments Booked but Deferred and Not Yet Due

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. INS verified reserve compliance except for 10, 15, 20, and 30 year term plans. For these plans, TSV did not comply with the Valuation of Life Insurance Policies Model Regulation, commonly referred to as Guideline XXX which took effect as of January 1, 2000, but has not been adopted by Puerto Rico. INS estimated that the additional reserve required to comply with Guideline XXX is approximately \$40.3 million. It is of note that TSV's asset adequacy analysis demonstrates that the current reserve amount is sufficient.

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.

As part of the examination process, TSV's valuation runs and supporting work papers for the reserves reported in Exhibit 5 were reviewed. There were no discrepancies between net reserves shown in the valuation files and the net reserves reported in the annual statements. Trend analyses were performed for each reserve item in Exhibit 5. The overall results appeared reasonable.

The primary risks associated with Exhibit 5 business are adverse mortality, asset default, interest rate volatility, and mismatching of asset and liability cash flows. These risks were further reviewed by evaluating the 2009 Actuarial Opinion Memorandum. Based on that review, INS accepted TSV's conclusion that additional reserves are not required.

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, 2009, 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 subsequent events required to be disclosed

Summary of Examination Recommendations

Intercompany Agreements

The Company is party to both management and cost allocation arrangements with TSM. These arrangements are not in the form of written agreements. The Company is not in compliance with SSAP No. 96, which requires that all intercompany transactions be in the form of a written agreement.

We recommend that all intercompany transactions be in the form of a written agreement as required by SSAP No. 96.

Conclusion

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Triple-S Vida, Inc.** as of December 31, 2009, consistent with the insurance laws of Puerto Rico.

In addition to the undersigned, John V. Normile, CFE, Examiner-in-Charge; Patrick White, CFE, Staff Examiner; Kristina Sampson, CPA, Staff Examiner; and Patricia Casey Davis, CPA, CFE, Manager, all of INSRIS-PR, LLC; Paul Berkebile, CFSA, CISA, Senior Manager and James Coyle, CISA, IT Specialist, both of INS Services, Inc.; Frank Edwards, ASA, MAAA, Actuary, INS Consultants, Inc.; and Rafael Ruffat, Examiner and Martiza Burgos, Examiner both of the Oficina del Comisionado de Seguros participated in the examination.



John V. Normile, CFE
Examiner-in-Charge