

Commonwealth of Puerto Rico
OFFICE OF THE COMMISSIONER OF INSURANCE

TRANS-OCEANIC LIFE INSURANCE COMPANY
NAIC CODE 69523

REPORT ON EXAMINATION
AS OF
DECEMBER 31, 2012

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COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMMISSIONER OF INSURANCE

June 30, 2014

Ms. Ángela Weyne Roig
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 Exam Order EX-2013-09 dated June 26, 2013, 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, 2011 through December 31, 2012, 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 adverse findings or significant non-compliance findings were noted during the examination:

(1) Board of Directors Approval of Salaries Over \$12,000

Based on the review of the Board of Directors minutes it was determined that the Company was not in compliance with Article 29.220 of the Insurance Code of Puerto Rico as the Board of Directors did not authorize in advance salary or compensation to any director, officer or employee that exceeded \$12,000.

(2) Disclosure of Related Party Transaction

The Company paid override commissions on insurance premiums to Touma & Taveras, a Parent Company stockholder that is owned by the current President of the Company and his spouse. These commissions were paid according to a Managing General Agent's agreement for the solicitation of business and amounted to \$1,683,000 in 2012 and \$1,852,000 in 2011. These commissions were not reported in the Annual Statements as required by the NAIC's 2012 Life Financial Statement Instructions for Footnote 10, "Information Concerning Parent, Subsidiaries, Affiliates and Other Related Parties" and SSAP 25 paragraph 18, which states: "the financial statements shall include disclosures of all material related party transactions" (i.e., those that exceed one-half of one percent of the total admitted assets of the reporting entity).

(3) Filing of Bylaws

The Bylaws were amended on December 13, 2011 to correct an error in the state of incorporation. The amendment correctly stated the Company was incorporated in the Commonwealth of Puerto Rico. The Company submitted to the State Department the amendment, however, a copy was not filed with the Commissioner for approval or disapproval as required by Article 29.080(3) Insurance Code of Puerto Rico.

(4) Officers

Article 29.210(1) of the Insurance Code of Puerto Rico states the officers of the company shall consist of a president, vice president, treasurer and secretary. The company only had a president, secretary and treasurer during the examination

period. The Company was not in compliance with Article 29.210 of the Insurance Code of Puerto Rico and its own corporate Bylaws regarding Officers.

(5) Shareholders Meeting

The annual shareholders meetings were held at the current principal place of business but the company's Bylaws state the old business address. The Company was not in compliance with Article 29.140(1) of the Insurance Code of Puerto Rico and its own corporate Bylaws regarding meetings of stockholders.

(6) Authorization of Investments

The Company is not in compliance with Article 6.040(3) of the Insurance Code of Puerto Rico, which requires that the Board of Directors of an insurer meet at least every three months to review and authorize the investment plan and investment portfolio. The Company met every six months and properly approved the investment plan and investments.

(7) Tax Exemption

The Company was not in compliance with Rule 66, Article 5 A of the Regulations of Puerto Rico Insurance Code and Section 7.021(3) of the Insurance Code, requiring the filing of application for tax exemption on or before January 31 of each year. The Company did not comply with these Articles for the year 2011. The Company timely filed for the year 2012.

(8) Audit Committee

The Company was not in compliance with Rule 14 A, Section 4(D) and Section 14 of the Regulations of Puerto Rico Insurance Code requiring the Company to have an

Audit Committee. The Board of Directors officially appointed a group of individuals to constitute an Audit Committee on December 12, 2012.

Compliance with Prior Examination Findings

A prior examination was completed for the three-year period ending December 31, 2010. Based upon testing performed during the current examination period, the Company was in compliance with prior examination findings.

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.

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 this 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, 2012, 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:

Carmen Taveras Burgos
Nicolás Touma Correa
Carlos Eduardo Girod
Luis Marques Guillermetey
Jorge Luis Mendín
Edrick Touma Taveras
Humberto Tapia Taveras
José Eddie Bisbal Vázquez

Dividends to Stockholders

TOLIC paid cash dividends to stockholders of \$208,130 and \$140,444 during the years 2012 and 2011, respectively.

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.

The annual shareholders meetings were held at the current principal place of business as the Bylaws stated the old business address. The Company was not in compliance with Article 29.140(1) of the Insurance Code of Puerto Rico and its own corporate Bylaws regarding meetings of stockholders. A finding regarding this non-compliance with the Bylaws has been included in the “Summary of Significant Findings” section above.

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 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.

Article 29.210(1) of the Insurance Code of Puerto Rico states the officers of the company shall consist of a president, vice president, treasurer and secretary. The company only had a president, secretary and treasurer during the examination period. The Company was not in compliance with Article 29.210(1) of the Insurance Code of Puerto Rico and its own corporate Bylaws regarding Officers. A finding regarding the non-compliance with the Bylaws has been included in the “Summary of Significant Findings” section above.

As of the examination date, the Directors of the Company, who were elected at the annual meeting of stockholders on June 20, 2012, were as follows:

Directors	Principal Occupation	Residence
Nicolás Touma Correa	President & CEO, TOLIC	San Juan, Puerto Rico
Jorge Luis Mendín	Attorney	San Juan, Puerto Rico
Luis Marques Guillermet	Certified Public Accountant	San Juan, Puerto Rico

Directors	Principal Occupation	Residence
Humberto Tapia Taveras	Director of Marketing, TOLIC	San Juan, Puerto Rico
José Eddie Bisbal	Physician	San Juan, Puerto Rico
Carlos Eduardo Girod	Physician	San Juan, Puerto Rico
Carmen Taveras Burgos	General Managing Agent, TOLIC	San Juan, Puerto Rico
Edrick Touma Taveras	Director of Operations, TOLIC	San Juan, Puerto Rico

The officers of the Company as appointed at the annual shareholders meeting on June 20, 2012 were the following:

Nicolás Touma Correa	President
Jorge Luis Mendín	Secretary
Luis Marques 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 investment practices. Review of the Board of Directors minutes noted approval of the Investment Policy for establishing the Company's goals and investments.

The Company is not in compliance with Article 6.040(3) of the Insurance Code of Puerto Rico, which requires that the Board of Directors of an insurer meet at least every three months to review and authorize the investment plan and investment portfolio. The Company met every six months and properly approved the investment plan and investments. 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

The Company initiated a formal procedure for the completion of a Conflict of Interest Statement on June 29, 2011 for disclosure to its Board of Directors of any material interest or affiliation 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 review of the Conflict of Interest Statements 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 and shareholders were reviewed for the period under examination.

The Bylaws were amended on December 13, 2011 to correct an error in the state of incorporation. The amendment stated correctly that the Company was incorporated in the Commonwealth of Puerto Rico. The Company submitted to the State Department the amendment, however, a copy was not filed with the Commissioner for approval or disapproval as required by Article 29.080(3) of the Insurance Code of

Puerto Rico. This finding has been included in the “Summary of Significant Findings” section above.

No amendments to the Articles of Incorporation were noted during the examination period.

Board of Directors and Committee Minutes

The recorded minutes of the meetings of the Board of Directors were reviewed for the period under examination.

Review of the Board of Directors minutes determined that the Company was not in compliance with Article 29.220 of the Insurance Code of Puerto Rico as the Board of Directors did not authorize in advance salary or compensation to any director, officer or employee that exceeded \$12,000. This finding has been included in the “Summary of Significant Findings” section above.

The Company was not in compliance with Rule 14 A, Section 14 of the Regulations of Puerto Rico Insurance Code requiring the Company to have an Audit Committee. The Board of Directors officially appointed a group of individuals to constitute an Audit Committee on December 12, 2012. This finding has been 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 \$400,000. 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

The Company provides retirement benefits to substantially all employees as long as they have reached 21 years of age and three months of service with the Company. The benefits are provided through a defined contribution plan in the form of a Salary Deferral Retirement Plan (401(k) plan). The salary deferral plan allows employees to contribute up to the lesser of 10% of their total compensation of \$10,000 in 2011 and 2012. Employees are fully vested in their voluntary contributions immediately and become gradually vested in employer contributions over five years, after which they are 100% vested. 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 \$61,738 and \$42,016 for the years ending 2012 and 2011, respectively. MidAtlantic Capital Corporation is the custodian of the plan and executes all investment transactions and holds assets. The Plan is subject to the provisions of the Employee Retirement Income Security Act (ERISA).

Employees' Insurance Plans

TOLIC provides medical, dental and life insurance benefits to eligible employees who meet minimum service requirements; however, these benefits only cover active employees and do not extend to retired individuals.

Intercompany Agreements

The Company has the following written agreements with affiliates:

Commission Agreement

The Company paid override commissions on insurance premiums to Touma & Taveras, Inc., 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 \$1,683,000 in 2012 and \$1,852,000 in 2011 and were paid according to a Managing General Agent's agreement for the solicitation of business. The OCS has reviewed this commission arrangement.

These commissions were not reported in the Annual Statements as required by the NAIC's 2012 Life Financial Statement Instructions for Footnote 10, "Information Concerning Parent, Subsidiaries, Affiliates and Other Related Parties" and SSAP 25 paragraph 18, which states: "the financial statements shall include disclosures of all material related party transactions" (i.e., those that exceed one-half of one percent of the total admitted assets of the reporting entity). This finding has been included in the "Summary of Significant Findings" section above.

Rental Agreements

TOLIC has a non-cancelable lease agreement with its former parent company that resulted in payments of \$3,600 per year during the examination period. The lease related to a small portion of the building at #3 Munet Court, and the space was used to operate a travel agency.

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
2012	\$49,577,757	\$27,113,176	\$2,500,000	\$50,000	\$19,914,581
2011	\$42,937,590	\$25,627,749	\$2,500,000	\$50,000	\$14,759,841

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:

	2011	2012
Life	2,518,681	3,032,938
Annuities	29,992	41,717
A&H	23,714,018	25,974,805
TOTALS	\$26,262,691	\$29,049,460

The primary factor for the premium increase in 2012 is the higher retention of renewal business.

Territory and Plan of Operations

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

	2011	2012
Puerto Rico	\$26,214,760	\$29,027,871
Virgin Islands	41,888	16,644
Florida	6,043	4,945
TOTALS	\$26,262,691	\$29,049,460

Statutory Deposits

As of December 31, 2012, 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
EMPLOYEES RETIREMENT SYSTEM	7/1/2023	\$300,000	\$ 300,000
PR GNMA POOL UNIT 92	11/15/2028	25,000	25,578
PR GNMA POOL UNIT 93	11/15/2028	25,000	25,578
PR PUBLIC BUILDING AUTHORITY	7/1/2021	375,000	345,646
PR SALES TAX FINANCE CORP.	8/1/2029	365,000	365,000
PR SALES TAX FINANCE CORP.	8/1/2029	35,000	35,000
PR SALES TAX FINANCE CORP.	8/1/2036	300,000	300,000
TOTALS		\$1,425,000	\$1,396,802

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 3.160 requires statutory deposits in Puerto Rican securities with amortized value of not less than one-half of the capital required per Article 3.090, or \$1,250,000. The Company maintained investments in Puerto Rico securities in excess of \$1,396,000 at amortized cost. The Company was in compliance with Articles 3.090 and 3.160 of the Insurance Code of Puerto Rico as of December 31, 2012.

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 the coverage as follows:

- Life risks in excess of \$50,000 per individual (1) policies issued 1972 to September 2006; (2) 50% of the face amount with maximum of \$25,000 for policies issued October 2005 to June 2011; (3) retention of \$25,000 for policies issued July 2011 to present.
- 50% of group life claims in excess of \$40,000.
- 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, 2012.

Accounts and Records

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

The Company was not in compliance with Rule 66, Article 4, Section 2d and Article 5 A of the Regulations of the Insurance Code of Puerto Rico requiring the filing of application for tax exemption on or before January 31 of each year. The Company did not comply with these Articles for the year 2011. However, the Company timely filed for the year 2012. This finding has been included in the "Summary of Significant Findings" section above.

An independent CPA audited the Company's statutory basis financial statements for the year 2012 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, 2012

	Annual Statement	Examination Adjustments	Examination Balance
Bonds	\$ 26,331,490		\$ 26,331,490
Preferred stocks	48,039		48,039
Common stocks	485,827		485,827
Real estate - Property occupied by Company	3,905,461		3,905,461
Cash and short-term investments	15,031,966		15,031,966
Contract loans	47,499		47,499
Investment income due and accrued	222,346		222,346
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	1,453,532		1,453,532
Deferred premiums, agents' balances and installments booked but deferred and not yet due	153,885		153,885
Amounts recoverable from reinsurers	15,000		15,000
Electronic data processing equipment and software	96,417		96,417
Aggregate write-ins for other than invested assets	1,786,295		1,786,295
Total Assets	\$ 49,577,757		\$ 49,577,757

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

As of December 31, 2012

	Annual Statement	Examination Adjustments	Examination Balance
Aggregate reserve for life contracts	\$ 3,137,965		\$ 3,137,965
Aggregate reserve for accident and health contracts	13,141,640		13,141,640
Contract claims:			
Life	102,393		102,393
Accident and health	5,956,137		5,956,137
Commissions to agents due or accrued life and annuity contracts	1,659,917		1,659,917
General expenses due or accrued	1,749,795		1,749,795
Taxes, licenses and fees due or accrued	7,239		7,239
Net deferred tax liability	4,454		4,454
Remittances and items not allocated	319,709		319,709
Asset valuation reserve	299,489		299,489
Payable to parent, subsidiaries and affiliates	155,547		155,547
Aggregate write-ins for liabilities	578,891		578,891
Total Liabilities	\$ 27,113,176		\$ 27,113,176
Common capital stock	\$ 2,500,000		\$ 2,500,000
Gross paid in and contributed surplus	50,000		50,000
Unassigned funds (surplus)	19,914,581		19,914,581
Total Capital and Surplus	\$ 22,464,581		\$ 22,464,581
Total Liabilities, Capital and Surplus	\$ 49,577,757		\$ 49,577,757

Trans-Oceanic Life Insurance Company
Summary of Operations

As of December 31, 2012

Premiums and annuity considerations for life and accident and health contracts	\$ 28,519,635
Net investment income	1,048,870
Amortization of interest maintenance reserve	(28,008)
Aggregate write-ins for miscellaneous income	3,600
Total	\$ 29,544,097
Death benefits	\$ 201,878
Disability benefits and benefits under accident and health contracts	7,502,927
Surrender benefits and withdrawals for life contracts	28,200
Increase in aggregate reserves for life and accident and health contracts	(230,226)
Total	\$ 7,502,779
Commissions on premiums, annuity considerations and deposit-type contract funds	9,608,740
General insurance expenses	8,350,429
Insurance taxes, licenses and fees	350,303
Increase in loading on deferred and uncollected premiums	34,096
Total	\$ 25,846,347
Net gain from operations	3,697,750
Net realized capital gain	20,984
Net (Loss)/Income	\$ 3,718,734

Trans-Oceanic Life Insurance Company
Capital and Surplus Account

As of December 31, 2012

Capital and surplus, December 31, prior year	<u>\$17,309,841</u>
Net income (loss)	\$ 3,718,734
Change in net unrealized capital gains	18,787
Change in non-admitted assets	1,753,588
Change in asset valuation reserve	(128,239)
Dividends to stockholders	(208,130)
Net change in capital and surplus for the year	<u>\$ 5,154,740</u>
Capital and surplus, December 31, current year	<u>\$22,464,581</u>

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

As of December 31, 2012

The following is a reconciliation of Capital and Surplus as Regards Policyholders between that reported by the Company and as determined by the examination.

Capital and Surplus Account				
December 31, 2012, per Annual Statement				<u>\$22,464,581</u>
	<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>\$22,464,581</u>

Comments on the Financial Statements

Aggregate reserve for life contracts	\$ 3,137,965
Aggregate reserve for accident and health contracts	13,141,640
Contract claims: life	102,393
Contract claims: accident and health	5,956,137
Uncollected premiums and agents' balances in the course of collection	1,453,532
Deferred premiums, agents' balances and installments booked but deferred and not yet due	153,885

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 specific risk provisions, 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, 2012, balance sheet items covered in the examination scope appear fairly stated and have been accepted for the purpose of this report.

Subsequent Events

On May 21, 2013, the Company entered into a Real Property Purchase Agreement with an unrelated third party to sell the property currently occupied as the home office for a sales price of \$2,575,000, with the purchaser providing a refundable escrow deposit of \$128,750.

Summary of Examination Recommendations

Board of Directors Approval of Salaries Over \$12,000

Based on the review of the Board of Directors minutes it was determined that the Company was not in compliance with Article 29.220 of the Insurance Code of Puerto Rico. The Board did not authorize in advance salary or compensation to any director or officer that exceeded \$12,000 as required.

We recommend that the Board authorize in advance all salaries and other compensation over \$12,000 to directors, officers and employees as required by Section 29.220 of the Insurance Code of Puerto Rico.

Disclosure of Related Party Transaction

The Company paid override commissions on insurance premiums to Touma & Taveras, a Parent Company stockholder that is owned by the current President of the Company and his spouse. These commissions were paid according to a Managing General Agent's agreement for the solicitation of business and amounted to \$1,683,000 in 2012 and \$1,852,000 in 2011. These commissions were not reported in the Annual Statements as required by the NAIC's 2012 Life Financial Statement Instructions for Footnote 10, "Information Concerning Parent, Subsidiaries, Affiliates and Other Related

Parties" and SSAP 25 paragraph 18, which states: "the financial statements shall include disclosures of all material related party transactions" (i.e., those that exceed one-half of one percent of the total admitted assets of the reporting entity).

It is recommended that the Company disclose the override commissions paid Touma & Taveras under a Managing General Agent's agreement in Footnote 10 to the Annual Statements as required by the Instructions to the Annual Statement.

Filing of Bylaws

The Bylaws were amended on December 13, 2011 to correct an error in the state of incorporation. The amendment stated correctly that the Company was incorporated in the Commonwealth of Puerto Rico. The Company submitted to the State Department the amendment, however, a copy was not filed with the Commissioner for approval or disapproval as required by Article 29.080(3) Insurance Code of Puerto Rico.

We recommend that the Company file the amended Bylaws with the Commissioner as required by Section 29.080 of the Insurance Code of Puerto Rico.

Officers

Article 29.210(1) of the Insurance Code of Puerto Rico states the officers of the company shall consist of a president, vice president, treasurer and secretary. The company only had a president, secretary and treasurer during the examination period. The Company was not in compliance with Article 29.150 of the Insurance Code of Puerto Rico and its own corporate Bylaws regarding Officers.

We recommend that the Company either amend its Bylaws or elect the necessary officers as required by Section 29.150 of the Insurance Code of Puerto Rico.

Shareholders Meeting

The annual shareholders meetings were held in the current principal place of business as the company's Bylaws state the old business address. The Company was not in compliance with Article 29.140(1) of the Insurance Code of Puerto Rico and its own corporate Bylaws regarding meetings of stockholders.

We recommend that the Company amend its Bylaws as required by Article 29.140 of the Insurance Code of Puerto Rico.

Authorization of Investments

The Company is not in compliance with Article 6.040(3) of the Insurance Code of Puerto Rico, which requires that the Board of Directors of an insurer meet at least every three months to review and authorize the investment plan and investment portfolio. The Company met every six months and properly approved the investment plan and investments.

We recommend that the Board of Directors meet every three months to authorize investment transactions to comply with Article 6.040 of the Insurance Code of Puerto Rico.

Tax Exemption

The Company was not in compliance with Rule 66, Article 4, Section 2d and Article 5 A of the Regulations of Insurance Code of Puerto Rico requiring the filing of application for tax exemption on or before January 31 of each year. The Company did not comply with these Articles for the year 2011. The Company timely filed for the year 2012.

We recommend that the Company continue to file timely tax exemption applications to comply with Rule 66 of the Insurance Code of Puerto Rico.

Audit Committee

The Company was not in compliance with Rule 14 A, Section 14 of the Regulations of the Insurance Code of Puerto Rico requiring the Company to have an Audit Committee. The Board of Directors officially appointed a group of individuals to constitute an Audit Committee on December 12, 2012.

We recommend that the Company continue to comply with Rule 14 A of the Insurance Code of Puerto Rico.

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, 2012, consistent with the insurance laws of Puerto Rico.

In addition to the undersigned, Donald Sirois, CFE, CPA, Manager; and Wayne Weber, CFE, CPA, Staff Examiner; INSRIS-PR, LLC; Paul Berkebile, CFSA, CISA, CRISC and Robert Ficken, CPA, CIA, CISA, CFE, AES, IT Specialists, INS Services, Inc.; and Frank Edwards, ASA, MAAA, Actuary, INS Consultants, Inc. participated in the examination.


Richard Kramer, CFE, AIE, FLMI
Examiner-in-Charge