

REPORT ON EXAMINATION

OF

TRIPLE-S SALUD, INC.

AMENDED

AS OF

DECEMBER 31, 2011

NAIC CODE 55816

BY THE

OFFICE OF THE COMMISSIONER OF INSURANCE

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GOVERNMENT OF PUERTO RICO
OFFICE OF THE INSURANCE COMMISSIONER

December 21, 2012

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-2012-18 dated August 28, 2012, 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 Salud, Inc.
Roosevelt Avenue 1441
San Juan, Puerto Rico 00922

hereinafter referred to as TSS or the Company.

Scope of Examination

The current examination was conducted at the home office of the Company located at Roosevelt Avenue 1441, San Juan, Puerto Rico. This examination covers the period of January 1, 2011 through December 31, 2011, including any material relevant

transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

The examination was conducted 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.

Incomplete Form B

Based on the review of the filed 2011 *Form B – Annual Registration for Holding Company Systems* (Form B) by the in-house analyst, it was found that the Company did not include all the transactions and information required, including the submission of biographical information for all directors and officers of the Company's parent, Triple-S Management Corporation. A detailed listing of the transactions and information missing was communicated to the Company. The Company was not in compliance with Rule 83 of the Insurance Code of Puerto Rico which requires the adherence to the Form B instructions.

Missing Notes to the 2012 Quarterly Financial Statements

A review of the 2012 quarterly financial statements found that they did not include Notes to Financial Statements as required by the NAIC *Quarterly Statement Instructions*. The Company was not in compliance with Normative Letter No. 2010-118-AF of the Insurance Code of Puerto Rico which requires compliance with the NAIC *Quarterly Statement Instructions*.

Unauthorized Reinsurance Intermediaries

Two reinsurance intermediaries are involved in the placement of the Company's reinsurance with Munich Reinsurance Company. The intermediaries have not been authorized by the Office of the Commissioner of Insurance of Puerto Rico (OCS). The Company is not in compliance with Section 7 and 10 of Rule 97 of the Regulation of the Insurance Code of Puerto Rico that states that neither an insurer nor reinsurer can hire a

person, firm, association or corporation to act in the capacity of reinsurance intermediary, unless that person is authorized by the OCS.

Failure to Respond Timely to Requests

During the course of the examination there were a number of requests for documentation or information that were either not fulfilled or fulfilled significantly beyond the time stipulated. The Company was not in compliance with Rule 1-A of the Insurance Code of Puerto Rico which requires full cooperation with the investigation being carried out by the Commissioner. It also deems the failure to respond to requests for information that have been submitted or not responding during the time stipulated as among the acts that obstruct or hinder the investigative power of the Commissioner.

Compliance with Prior Examination Findings

The following is a summary of significant adverse findings contained in the OCS' prior examination report as of December 31, 2010, along with resulting action taken by the Company in connection therewith. Based upon testing performed during the current examination period, the Company has remediated the examination findings. The following findings were identified in the prior examination report:

Board of Directors Elections

The Company elects all its directors at the annual meeting of stockholders for a regular term of one year. The timing of these elections was not in compliance with the Company's Articles of Incorporation or bylaws, both of which required a staggered board of directors, consisting of split into three groups, with each group being reelected each year for a 3-year term.

Resolution: The Articles of Incorporation and bylaws were amended to remove the paragraphs which required a staggered board of directors in that directors were split into three groups, with one group being reelected each year for a 3-year term.

Intercompany Agreements

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

Resolution: A formal agreement which included the management and cost allocation arrangements was executed on April 10, 2012.

History

The Company was formed in 1959 by a group of physicians and dentists. TSS is a managed care organization that provides health benefits services to subscribers through contracts with hospitals, physicians, dentists, laboratories and other organizations, and is the largest health insurance company in Puerto Rico. The Company was formerly known as Triple-S, Inc. and changed its name to Triple-S Salud, Inc. on February 16, 2009. The Triple-S mark is widely recognized throughout Puerto Rico.

TSS is a member of the Blue Cross and Blue Shield Association (BCBSA), and is subject to the regulation of the OCS and the applicable regulations of the Division of Banking and Insurance of the Government of the United States Virgin Islands (USVI), with respect to operations in the USVI.

The Company is a wholly owned subsidiary of Triple-S Management Corporation (TSM), a public company traded on the New York Stock Exchange.

On February 7, 2011, TSS acquired 100% of the outstanding capital of Socios Mayores en Salud Holdings, Inc. (SMSH) for approximately \$83 million in a transaction funded with unrestricted cash. SMSH is the parent company of American Health, Inc. (AH), a provider of Medicare Advantage managed care services to over 40,000 members in Puerto Rico. AH is currently being run on a stand-alone basis using that company's former employees.

Capital Stock

As of December 31, 2011, the Company had 5,000,000 common stock shares authorized, and 3,750,000 issued and outstanding with a par value of \$40 per share, for a reported value of \$150,000,000.

Subsequent Event: Authorized shares of common stock were increased to 20,000,000 pursuant to an amendment to the Company's Articles of Incorporation. The amended Articles of Incorporation were approved by the OCS on June 14, 2012. There was no change made to the number of common stock shares issued and outstanding.

TSS is a direct subsidiary of TSM, which owned 3,749,991 of the 3,750,000 shares outstanding as of December 31, 2011. The remaining nine shares were issued to the

following Company directors in compliance with Article 29.150(1) of the Insurance Code of Puerto Rico:

Dr. Jesús Sánchez Colón
Jorge Fuentes Benejam
Jaime Morgan Stubbe
Dr. Luis Clavell Rodríguez
Antonio Faria Soto
Manuel Figueroa Collazo
Socorro Rivas Rodríguez
Juan Rodríguez Díaz
Ramón M. Ruíz Cómas

Dividends to Stockholders

Section 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.

During 2011, the Company paid dividends in the amount of \$13,000,000 to its parent, TSM. The Company reported unassigned surplus in the amount of \$149,687,807 for the previous year end, December 31, 2010.

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

Management and Control

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.

The Company elects all directors at the annual meeting of stockholders for a regular term of office of one year. As of the examination date, the directors of the Company, who were elected at the annual meeting of stockholders on May 10 2011, were as follows:

<u>Directors</u>	<u>Principal Occupation</u>	<u>Residence</u>
Dr. Jesús Sánchez Colón	Physician/Provider	San Juan, Puerto Rico
Jorge Fuentes Benejam	Engineer	San Juan, Puerto Rico
Jaime Morgan Stubbe	Attorney	San Juan, Puerto Rico
Dr. Luis Clavell Rodríguez	Physician/Provider	San Juan, Puerto Rico
Antonio Faria Soto	Former CEO, Doral Bank	San Juan, Puerto Rico
Manuel Figueroa Collazo	Engineer	San Juan, Puerto Rico
Socorro Rivas Rodríguez	President & CEO, TSS	San Juan, Puerto Rico
Juan Rodríguez Díaz	Attorney	San Juan, Puerto Rico
Ramón M. Ruíz Cómas	President & CEO, TSM	San Juan, Puerto Rico

Subsequent Event: The number of directors was reduced to five, pursuant to the amended Articles of Incorporation approved by the OCS on June 14, 2012. The current directors as of the date of this report are:

<u>Directors</u>	<u>Principal Occupation</u>	<u>Residence</u>
Dr. Jesús R. Sánchez Colón	Physician/Provider	San Juan, Puerto Rico
Jorge L. Fuentes Benejam	Engineer	San Juan, Puerto Rico
Dr. Luis A. Clavell Rodríguez	Physician/Provider	San Juan, Puerto Rico
Pablo Almodovar Scalley	President, TSS	San Juan, Puerto Rico
Ramón M. Ruíz Cómas	President & CEO, TSM	San Juan, Puerto Rico

The officers of the Company, as reported on the jurat page of the 2011 annual statement were the following:

Socorro Rivas Rodríguez	President
Pablo Almodovar Scalley	Executive Vice President
Carlos Torres Díaz	Senior Operation Vice President

The Company was not in compliance with Section 29.210 of the Insurance Code of Puerto Rico in regard to the election of officers as documented in the *Corporate Records* section below.

Subsequent Event: Socorro Rivas Rodríguez retired as President and CEO of the Company as of October 1, 2012. She was replaced by Pablo Almodovar Scalley. As of the date of this report, the position of Executive Vice President has not been filled.

Investment Plan

Section 6.040 of the Insurance Code of Puerto Rico provides, among other things, that the board of directors (Board) 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.

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 Section 6.040 of the Insurance Code of Puerto Rico.

Corporate Governance

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

Based on representations made by the Company, the audit committee of the Company's parent, Triple-S Management, has been functioning as the audit committee for the

Company, but the audit committee of TSM has not been formally designated as the audit committee of the Company. The Company was not in compliance with Rule 14-A of the Insurance Code of Puerto Rico that allows for this arrangement but prescribes a method of formal designation.

Conflict of Interest

The Company requires its directors, officers, and key employees to sign conflict of interest questionnaires concerning items that could have an impact on the way they conduct the Company's business in accordance with Section 29.230 of the Insurance Code of Puerto Rico. The review of the conflict of interest questionnaires revealed that the Company is in compliance with Section 29.230 of the Insurance Code of Puerto Rico.

Corporate Records

The Articles of Incorporation, bylaws and all amendments thereto, and the minutes of the meetings of the Board, Board committees, and shareholders were reviewed for the period under examination.

Articles of Incorporations and Bylaws

The Articles of Incorporation and bylaws were amended to increase authorized shares of common stock to 20,000,000, set the number of required directors to five, and to consolidate certain paragraphs to mirror those of the parent and other subsidiaries. This included removing paragraphs that required a staggered Board in which directors were split into three groups, with one group being reelected each year for a 3-year term. The amendments were approved by the Board in an ordinary meeting held on February 10, 2012.

The ordinary meeting to approve this change was held constituting a quorum as required by Article 1, Section 4 of the bylaws and in compliance with Section 29.070 of the Insurance Code of Puerto Rico. The amended Articles of Incorporation and bylaws were approved by the OCS on June 14, 2012.

Board of Directors and Committee Minutes

The recorded minutes of the meetings of the Board were reviewed for the period under examination. Other than the findings noted below, the recorded minutes of the Board adequately documented its meetings, approval of Company transactions and events in accordance with Chapter 29 of the Insurance Code of Puerto Rico.

The Board 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 Sections 6.080 and 6.090 of the Insurance Code of Puerto Rico.

The Company's overall investment procedures were in compliance with Section 6.040(2) of the Insurance Code of Puerto Rico in that the Board ratified the investment transactions, which were approved by the investment committee.

A review of the minutes of the board of directors' meetings found that the only officers elected were the positions of secretary and assistant treasurer. The Company was not in

compliance with Section 29.210 of the Insurance Code of Puerto Rico, which requires that the officers of the insurer shall be elected by the board of directors and consist of a president, vice president, treasurer and secretary. Furthermore, the jurat page of the 2011 annual statement only identifies a president and two vice presidents as officers of the Company.

A review of the minutes of the board of directors' meetings found no record of the prior authorization of salaries or other compensation over \$12,000 to directors, officers, and employees. The Company was not in compliance with Section 29.220 of the Insurance Code of Puerto Rico which requires prior Board approval of all compensation over \$12,000.

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. 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

Company employees hired prior to September 30, 2007, are covered by a non-contributory defined benefit retirement plan sponsored by TSM. The plan covers TSS

employees who are age 21 or older and have completed one year of service, and pension benefits begin to vest after five years of service. Employees hired after that date are covered by one of two qualified defined contribution retirement plans sponsored by the Company. In both plans, one for administrative employees and one for union employees, benefits are provided in the form of a Salary Deferral Retirement (401K) Plan. In the administrative employee plan, the Company matches 50% of the employee's contribution up to a percentage of their annual salary ranging from 6% to 8%, dependent upon their years of service. The plan for union employees matches twenty cents for each one dollar of employee pre-tax contribution, up to a limit of 6% of compensation. In both plans, the employer may contribute a discretionary amount in addition to any matching contribution for all eligible participants. The pension plan utilizes a custodian in Puerto Rico to safeguard its assets.

Intercompany Agreements

The Company has the following agreements with affiliates:

- Although the arrangement has been in place prior to the examination period, a management agreement with the Company's parent, TSM, was formally executed on April 10, 2012. Pursuant to the agreement, management fees and expense allocations are paid to TSM.
- Shared services agreements are in place between TSS and Interactive Systems, Inc. (ISI), Seguros Triple-S (STS), Triple-S Vida, Inc. (TSV) and Triple-C, Inc. Except for the service agreement with ISI, which was executed on January 1, 2009, the service agreements were executed on January 1, 2008. Pursuant to the

agreements, certain administrative services are provided by the Company to the affiliates.

- An information technology services agreement between TSS and ISI was executed on January 1, 2008. The agreement provides for general technology processing services to be provided by ISI to TSS.

Growth of the Company

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

Year	Admitted Assets	Liabilities	Company Capital Stock	Unassigned Surplus
2011	\$626,057,236	\$335,333,546	\$150,000,000	\$140,723,690
2010	694,052,004	394,364,194	150,000,000	149,687,807

Insurance Products and Related Practices

The Company is authorized to write health insurance in conformity with Chapter 4 of the Insurance Code of Puerto Rico. For the period covered by this examination, the line of business and related direct written premiums were as follows:

	2011	2010
Comprehensive (hospital and medical)	\$ 780,070,144	\$ 785,705,044
Medicare Supplement	37,147,478	36,081,972
Federal Employees Health Benefits Program	138,002,970	130,802,861
Title XVIII - Medicare	457,763,054	459,495,033
Title XIX - Medicaid	2,728,685	285,083,790
Other Health	12,676,493	12,890,568
TOTAL	\$ 1,428,388,824	\$1,710,059,268

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:

	2011	2010
Puerto Rico	\$ 1,425,902,409	\$ 1,707,890,859
US Virgin Islands	2,486,417	2,168,409
TOTAL	\$ 1,428,388,826	\$ 1,710,059,268

Statutory Deposits

As of December 31, 2011, the Company maintained the following statutory deposits with the OCS in compliance with Section 3.151 of the Insurance Code of Puerto Rico:

Description	Maturity Date	Par Value	Book/ Adjusted Carrying Value
PR Sales Tax Finance Corp. (Bond)	8/1/2038	\$500,000	\$ 565,000
Certificate of Deposit UV	8/7/2011	500,000	500,000
Total		\$1,000,000	\$1,065,000

Section 3.090 of the Insurance Code of Puerto Rico requires the Company to maintain minimum paid-in capital of \$1,000,000, and Section 3.160 of the Insurance Code requires Investment in Puerto Rico securities with amortized value of not less than one-half of the capital required per Section 3.090, or \$500,000. The Company maintained investments in Puerto Rico securities in excess of the requirement at amortized cost. The Company was in compliance with Sections 3.090 and 3.160 of the Insurance Code of Puerto Rico as of December 31, 2011.

Unclaimed Funds

The Company complied with Section 26.040 of the Insurance Code of Puerto Rico by reporting unclaimed funds to the OCS on or before May 1 for the year 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 Sections 26.050 and 26.060 of the Insurance Code of Puerto Rico.

Reinsurance

Reinsurance Assumed

The Company assumed certain risks under an agreement that meets the Company's risk profile. During 2011, the Company reported assumed premiums of \$170,446.

Reinsurance Ceded

The Company had three automatic excess of loss reinsurance contracts in force as of December 31, 2011, providing the following:

- Group organ transplant coverage through which the Company cedes either 100% of the risk up to \$1,000,000 per organ transplant or up to \$500,000 per organ transplant, depending on which option is chosen, per covered person, per lifetime.
- Coverage of all in-force, new and renewed medical insurance business issued by TSS under their Medicare Advantage Plan, including group organ transplant

coverage. The reinsurer accepts 75% of TSS' liability over \$100,000 to a maximum of \$675,000 per covered person, per contract year.

- Group organ transplant coverage for active or retired employees of the Government of Puerto Rico (ELA Employees), under which the reinsurer accepts 100% of TSS' liability up to a maximum of \$500,000 per covered person, per lifetime.

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. 61 of the *NAIC Accounting Practices and Procedures Manual*.

Although there is no current reinsurance contract in place with Optimum Reassurance Inc. of Barbados, there are amounts reported due from the reinsurer related to a prior contract. Optimum Reassurance Inc. of Barbados, is an unauthorized reinsurer. The Company is not in compliance with Section 4.120 of the Insurance Code of Puerto Rico which requires prior approval from the OCS for the use of unauthorized reinsurers.

Two reinsurance intermediaries are involved in the placement of the Company's reinsurance with Munich Reinsurance Company. The intermediaries have not been authorized by the OCS. The Company is not in compliance with Section 7 and 10 of Rule 97 of the Regulation of the Insurance Code of Puerto Rico which states that neither

an insurer nor reinsurer can hire a person, firm, association or corporation to act in the capacity of reinsurance intermediary, unless that person is authorized by the OCS.

Accounts and Records

The Company maintained its principal operational offices in San Juan, Puerto Rico where this examination was conducted in compliance with Rule IX of the Insurance Code of Puerto Rico.

An independent CPA audited the Company's statutory basis financial statements for the year 2011 in compliance with Rule XIV-A of the Insurance Code of Puerto Rico. Supporting work papers were prepared by the CPA as required by Rule XIV-A of the Insurance Code of Puerto Rico.

The actuarial study and opinion for the period under examination was prepared by independent actuary, Marc Lambright, FSA, MAAA, of Oliver Wyman, Philadelphia, Pennsylvania.

Based on the review of the filed 2011 *Form B - Annual Registration for Holding Company Systems* (Form B) by the in-house analyst, it was found that the Company did not include all the transactions and information required, including the submission of biographical information for all directors and officer of the Company's parent, Triple-S Management Corporation. A detailed listing of the transactions and information missing was communicated to the Company. The Company was not in compliance with Rule 83 of the Regulation of the Insurance Code of Puerto Rico which requires the adherence to the Form B instructions.

A review of the 2012 quarterly statements found that they did not include Notes to Financial Statements as required by the NAIC Quarterly Statement Instructions. The Company was not in compliance with Normative Letter No. 2010-118-AF of the Insurance Code of Puerto Rico which requires compliance with the NAIC Quarterly Statement Instructions.

The Company had several checking accounts with balances as of December 31, 2011, above the Federal Deposit Insurance Corporation (FDIC) insured limit of \$250,000. The Company was not in compliance with Rule 51 of the Regulation of the Insurance Code of Puerto Rico which states that insurers may not maintain amounts in checking accounts in excess of the amount necessary to cover disbursements made in normal operations of the insurer for more than the amount insured by the FDIC.

During the course of the examination there were a number of requests for documentation or information that were either not fulfilled or fulfilled significantly beyond the time stipulated. The Company was not in compliance with Rule I-A of the Insurance Code of Puerto which requires full cooperation with the investigation being carried out by the Commissioner. It also deems the failure to respond to requests for information that have been submitted or not responding during the time stipulated as among the acts that obstruct or hinder the investigative power of the Commissioner.

Financial Statements

Below are the financial statements of the Company:

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

Triple-S Salud, Inc.
Assets

As of December 31, 2011

	Annual Statement	Examination Adjustments	Examination Balance
Bonds	\$ 260,505,085		\$ 260,505,085
Common stocks	108,383,558		108,383,558
Cash and short-term investments	39,171,058		39,171,058
Investment income due and accrued	3,230,505		3,230,505
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	77,492,688		77,492,688
Amounts recoverable from reinsurers	8,613,627		8,613,627
Amounts receivable relating to uninsured plans	59,303,409		59,303,409
Current federal and foreign income tax recoverable and interest thereon	4,484,584		4,484,584
Net deferred tax asset	11,265,338		11,265,338
Electronic data processing equipment and software	8,763,030		8,763,030
Receivables from parents, subsidiaries and affiliates	7,442,696		7,442,696
Health care and other amounts receivable	14,718,862		14,718,862
Aggregate write-ins for other than invested assets	22,682,796		22,682,796
Total Assets	\$ 626,057,236		\$ 626,057,236

Triple-S Salud, Inc.
Liabilities, Capital and Surplus

As of December 31, 2011

	Annual Statement	Examination Adjustments	Examination Balance
Claims unpaid	\$ 219,819,448		\$ 219,819,448
Unpaid claims adjustment expenses	4,010,011		4,010,011
Aggregate health policy reserves	255		255
Premiums received in advance	5,645,171		5,645,171
General expenses due or accrued	34,716,336		34,716,336
Ceded reinsurance premiums payable	6,157,795		6,157,795
Amounts withheld or retained for the account of others	24,462,105		24,462,105
Remittances and items not allocated	812,162		812,162
Borrowed money and interest thereon	916,462		916,462
Amount due to parent, subsidiaries and affiliates	6,834,700		6,834,700
Liability for amounts held under uninsured plans	12,907,643		12,907,643
Federal Employees Health Benefit Program	19,051,458		19,051,458
Total Liabilities	\$ 335,333,546		\$ 335,333,546
Common capital stock	\$ 150,000,000		\$ 150,000,000
Unassigned funds (surplus)	140,723,690		140,723,690
Total Capital and Surplus	\$ 290,723,690		\$ 290,723,690
Total Liabilities, Capital and Surplus	\$ 626,057,236		\$ 626,057,236

Triple-S Salud, Inc.
Statement of Revenue and Expenses

As of December 31, 2011

Net premium income	\$ 1,416,455,653
Change in unearned premium reserves and reserve for rate credits	294,831
Total revenues	\$ 1,416,750,484
Hospital/medical benefits	\$ 828,969,233
Emergency room and out-of-area	87,808,826
Prescription drugs	317,368,053
Net reinsurance recoveries	(9,004,420)
Total hospital and medical	\$ 1,225,141,692
Claims adjustment expenses	36,645,203
General administrative expenses	127,942,802
Total underwriting deductions	\$1,389,729,697
Net underwriting gain	\$27,020,787
Net investment income earned	12,954,164
Net realized capital gains	13,867,580
Aggregate write-ins for other income or expense	2,039,612
Net income after capital gains tax and before all other federal income taxes	\$55,882,143
Federal and foreign income taxes incurred	\$6,518,601
Net (Loss)/Income	\$ 49,363,542

Triple-S Salud, Inc.
Capital and Surplus Account

As of December 31, 2011

Capital and surplus, December 31, prior year	<u>\$ 299,687,807</u>
Net income (loss)	\$ 49,363,542
Change in net unrealized capital losses	(29,370,874)
Change in net deferred income tax	(10,489,000)
Change in non-admitted assets	(5,059,739)
Dividends to stockholders	(13,000,000)
Aggregate write-ins for gains and losses in surplus	(408,046)
Net change in capital and surplus for the year	<u>\$ (8,964,117)</u>
Capital and surplus, December 31, current year	<u><u>\$ 290,723,690</u></u>

Triple-S Salud, Inc.
Reconciliation of Capital and Surplus Account

As of December 31, 2011

There was no change in surplus as regards policyholders between that reported by the Company and as determined by the examination.

Capital and Surplus Account				
December 31, 2011, per Annual Statement				\$ 290,723,690
	<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
Surplus per examination				<u>\$ 290,723,690</u>

Comments on the Financial Statements

Claims unpaid	\$219,819,448
Unpaid claims adjustment expense	4,010,011
Aggregate health policy reserves	255

An independent review of 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.

Based on INS' review, the reserve items above appear fairly stated and are calculated using valuation parameters which appear to be free of any material error that would affect liability calculations. INS has concluded that the December 31, 2011, balance sheet items covered in the examination scope appear fairly stated. They have been accepted for the purpose of this examination.

Subsequent Events

There were no significant subsequent events other than the following that were mentioned previously in this report:

- The number of directors was reduced to five, pursuant to the amended Articles of Incorporation approved by the OCS on June 14, 2012.
- Authorized shares of common stock were increased from 5,000,000 to 20,000,000 pursuant to an amendment to the Company's Articles of Incorporation approved by the OCS on June 14, 2012.
- Socorro Rivas Rodríguez retired as President and CEO of the Company as of October 1, 2012. She was replaced by Pablo Almodovar Scalley.

Summary of Examination Recommendations

Incomplete Form B

It is recommended that the Company include all transactions and information as instructed by Form B - *Annual Registration for Holding Company Systems* as required by Rule 83 of the Insurance Code of Puerto Rico.

Missing Notes to the 2012 Quarterly Financial Statements

It is recommended that the quarterly financial statements include all information required by the NAIC *Quarterly Statement Instructions* as required by Normative Letter No. 2010-118-AF of the Insurance Code of Puerto Rico.

Unauthorized Reinsurance Intermediaries

It is recommended that the Company utilize reinsurance intermediaries that are authorized as prescribed by Rule 97 of the Regulation of the Insurance Code of Puerto Rico.

Checking Account Balances over FDIC Insurance Limit

It is recommended that the Company maintain deposits in checking accounts according to the limit set forth in Rule 51 of the Regulation of the Insurance Code of Puerto Rico.

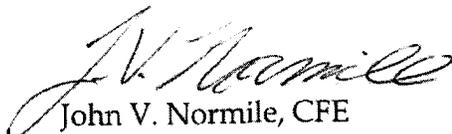
Failure to Respond Timely to Requests

It is recommended that the Company respond to all requests during an examination and within the time stipulated as required by Rule I-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 **Triple-S Salud, Inc.** as of December 31, 2011, consistent with the insurance laws of Puerto Rico.

In addition to the undersigned, Charles P. McMorrow, CFE, Staff Examiner; Donna Leterrio, CFE, Staff Examiner; and Patricia Casey Davis, CPA, CFE, Manager, all of INSRIS-PR, LLC; Paul Berkebile, CFSA, CISA, Senior Manager and Robert Ficken, CPA, CIA, IT Specialist of INS Services, Inc.; and Frank Edwards, ASA, MAAA, Actuary of INS Consultants, Inc. participated in the examination.


John V. Normile, CFE
Examiner-in-Charge