

REPORT ON EXAMINATION
OF
COOPERATIVA DE SEGUROS MÚLTIPLES DE PUERTO RICO

AS OF

DECEMBER 31, 2010

NAIC CODE 18163

BY THE
OFFICE OF THE COMMISSIONER OF INSURANCE

TABLE OF CONTENTS

Scope of Examination	2
Summary of Significant Findings	3
Current Examination Findings	3
Compliance with Prior Examination Findings	4
History	4
Capital Stock.....	5
Dividends to Stockholders.....	6
Management and Control.....	6
Committees	8
Investment Plan.....	9
Corporate Governance	10
Conflict of Interest.....	10
Corporate Records	10
Board of Directors and Committee Minutes	11
Fidelity Bonds and Other Insurance	11
Growth of the Company	14
Insurance Products and Related Practices.....	15
Territory and Plan of Operations.....	15
Statutory Deposits.....	16
Unclaimed Funds	17
Reinsurance.....	17
Reinsurance Assumed	17
Reinsurance Ceded	17
Accounts and Records.....	19
Financial Statements	20
Comments on the Financial Statements.....	26
Subsequent Events	26
Summary of Examination Recommendations	26
Conclusion	28



GOVERNMENT OF PUERTO RICO
OFFICE OF THE INSURANCE COMMISSIONER

January 30, 2012

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 Order Number EX-2011-08 dated September 2, 2011, and the Puerto Rico Insurance Laws and Regulations, a comprehensive risk focused examination and financial affairs examination was preformed of the books, records, and financial condition of

Cooperativa de Seguros Múltiples De Puerto Rico
38 Nevarez Street
San Juan, Puerto Rico 00927

hereinafter referred to as CSM or the Company.

Scope of Examination

The current examination was conducted at the home office of the Company located at 38 Nevarez Street, San Juan, Puerto Rico. This examination covers the period of January 1, 2010 through December 31, 2010, including any material relevant transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

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

Unauthorized Reinsurance

Section 4.120(1)(b) of the Insurance Code of Puerto Rico and Ruling Letter N-AF-4-63-2005, require that domestic insurers may only reinsure with unauthorized insurers if prior authorization is obtained from the Office of the Commissioner of Insurance of Puerto Rico (OCI).

The Company did not obtain authorization in accordance with Ruling Letter N-AF-4-63-2005 from the OCI to use unauthorized reinsurers.

Unexecuted Representative Contracts

Section 9.060(3) of the Insurance Code of Puerto Rico states that: "No producer may act or state that he/she acts as authorized representative of an insurer unless there is a written contract subscribed to those effects between the latter and the insurer." As a result of the testing procedures performed by the examination team, a total of four contracts were provided without signature.

Compliance with Prior Examination Findings

The prior examination report was issued and OCI is currently evaluating their objections to the findings.

History

The Company was incorporated as a non-profit corporation on April 23, 1963, according to the provisions of Chapter 34 of the Puerto Rico Insurance Code, under the name of Cooperativa de Seguros Múltiples de Puerto Rico, beginning its operations on February 8, 1965. The Company is authorized by the Office of the Commissioner of Insurance to engage in property, marine and transportation, title, casualty, and surety insurance business.

In 2003, the Company acquired 100% of the outstanding shares of Royal & Sun Alliance (Puerto Rico), Inc., now known as Real Legacy Assurance Company. In addition, the Company owns 100% of outstanding shares of CSM Investors, Inc. During 2008, the Company acquired 100% of the outstanding shares of Martingale National Insurance Company. On December 15, 2010, the Company acquired 100% of the outstanding and issued stocks of Wall Street Mortgage Bankers Corporation (WSMBC).

The Company is licensed to write business in Puerto Rico and Florida. The Company is no longer actively writing business in Florida, but is servicing business that is in runoff.

Capital Stock

The authorized capital of the Company was \$80,000,000, represented by 100,000 Class A preferred shares with a par value of \$1 each, 10,000,000 Class B preferred shares with a par value of \$1 each, 520,000 Class C preferred shares with a par value of \$10 each, and 6,000,000 shares of common stock with a par value of \$10 each.

As of December 31, 2010, the paid-in capital of the Company was \$34,643,889 distributed as follows:

Description	Outstanding Shares	Par Value	Paid-in Capital
Common	3,441,486	\$10	\$34,414,861
Class A Preferred	35,992	\$ 1	35,992
Class B Preferred	193,036	\$ 1	193,036
Total			<u>\$34,643,889</u>

As of December 31, 2009, the paid-in capital of the Insurer was \$31,315,425, consisting of \$31,097,101, Common Stock, \$34,456, Class A Preferred, and \$183,868, Class B Preferred.

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 the examination period, the Company paid dividends to stockholders of \$1,409,142. The balance of unassigned surplus for the previous year was \$54,556,139. The Company was in compliance with the provisions of Section 29.340 of the Insurance Code of Puerto Rico.

Management and Control

The bylaws state that the Board of Directors will consist of thirteen members who shall be elected for a minimum term of one year and a maximum of three years. The Company was found to be in compliance with these provisions.

Section 29.150 of the Insurance Code of Puerto Rico states that not less than a majority of directors of an insurer shall be residents of, and actually reside in, Puerto Rico. The Company was in compliance with Section 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, were as follows:

<u>Directors</u>	<u>Principal Occupation</u>	<u>Residence</u>
Luis A. Velázquez Vera	Associate University Professor	Quebradillas, Puerto Rico
Altagracia Peña Suárez	Retired - Commonwealth Government	Río Piedras, Puerto Rico
Federico Rivera Llopiz	Retired - Commonwealth Government	Río Piedras, Puerto Rico
José A. Morales Burgos	Systems Engineering Consultant	Humacao, Puerto Rico
Brenda J. Varela García	Director - Office of Citizen Affairs	Lares, Puerto Rico
Roberto Delgado Jiménez	Laboratory Technician	Morovis, Puerto Rico
Juan González Feliciano	President - CEO G. Management Corporation	Trujillo Alto, Puerto Rico
Iván Flores Pérez	Conflict Mediator	Caguas, Puerto Rico
Carmen E. Muñoz Hernández	Director - Municipality of Caguas	Trujillo Alto, Puerto Rico
Nancy Banrey Aponte	Spanish Teacher	Las Piedras, Puerto Rico
Edil E. Villarrubia Roman	Facilities Manager	Añasco, Puerto Rico
Maritza Floran Hernández	Special Education Teacher	Toa Baja, Puerto Rico

<u>Directors</u>	<u>Principal Occupation</u>	<u>Residence</u>
Román M. Velasco González	Román Velasco & Associates	Guaynabo, Puerto Rico

The officers of the Company, as appointed during the annual meeting of the Board of Directors, were as follows:

Roberto Castro Hiraldo	President
Ruth E. Gómez Arias	Secretary
Ramón A. Rodríguez Rosa	Vice President
Luis J. Vilaro Suarez	Vice President
Gidel H. Méndez Martínez	Vice President
Luis M. Cordero Rivera	Assistant President
Rizick E. Rosario Peña	Assistant President

Committees

For the purpose of facilitating the work of the Board of Directors and ensuring fulfillment of the purpose of the Company, the Board of Directors appointed the Executive, Audit, Legislative and Regulatory, Investment, Education and Public Relations, Promotion and Development Committees. As of December 31, 2010, the following were the members of these committees:

Executive

Roberto Castro Hiraldo, Chair
Luis A. Velázquez Vera
Altagracia Peña Suárez
Federico Rivera Llopiz
Roberto Delgado Jiménez
Juan González Feliciano

Education

Nancy Banrey Aponte, Chair
Altagracia Peña Suárez
Federico Rivera Llopiz
Juan González Feliciano
Maritza Floran Hernández

Legislative and Regulatory

Juan González Feliciano, Chair
Altagracia Peña Suárez
Nancy Banrey Aponte
Román M. Velasco González
Iván Flores Pérez

Public Relations, Promotion & Development

José A. Morales Burgos, Chair
Brenda J. Varela García
Carmen E. Muñoz Hernández
Edil E. Villarrubia Román
Maritza Floran Hernández

Investment

Roberto Delgado Jiménez, Chair
Román M. Velasco González
José A. Morales Burgos
Carmen E. Muñoz Hernández
Edil E. Villarrubia Román

Audit

Federico Rivera Llopiz, Chair
Brenda J. Varela García
José A. Morales Burgos
Edil E. Villarrubia Román
Iván Flores Pérez

Investment Plan

Section 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.

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 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 requires its directors to file a conflict of interest statement at the time they are originally elected to the Board of Directors 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 was in compliance at the time a Director was originally appointed to serve on the Board.

Corporate Records

The Articles of Incorporation, bylaws and all amendments thereto, and the minutes of the meetings of the Board of Directors, committees, and shareholders were reviewed for the period under examination. There were no changes made to the Articles of Incorporation or bylaws during the period under examination.

Board of Directors and Committee Minutes

The recorded minutes of the meetings of the Board of Directors and certain internal committees were reviewed for the period under examination. The recorded minutes adequately documented their 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 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 because the Board of Directors ratified the investment transactions, which were approved by the Investment Committee.

Fidelity Bonds and Other Insurance

As of December 31, 2010, the Company and its subsidiaries maintain a Directors & Officers/Employment Practices liability policy issued by insurers authorized by the Commissioner of Insurance of Puerto Rico.

The following is a summary of this coverage:

Coverage	Aggregate/Limit per Coverage	Retention
Directors and Officers	\$7,500,000	\$50,000
Employment Practices	\$2,000,000	\$25,000
Professional Liability	\$3,000,000	\$50,000
Fiduciary Liability	\$5,000,000	\$50,000
ERISA Bond	\$560,000	-

The coverage exceeds the minimum amount for the level of exposure suggested by the National Association of Insurance Commissioners (NAIC).

Pension and Insurance Plans

Officers and Employee Pension Plan

The Company provides a Defined Benefit Pension Plan (Plan) for its employees. The Plan provides a monthly benefit based on average compensation and years of credited service at the time of termination of employment. This benefit will be paid from the normal retirement date.

Employees begin to participate in the Plan the day they complete one year of service. All employees who participate in the Plan must contribute 4% of their compensation to the Plan. The contribution is made through payroll deductions. The Company pays for the total cost of the Plan not covered by the employee contributions.

The amount of contributions paid by the Company is determined by an actuary.

All contributions to the Plan will be held in trust.

Supplementary Retirement Plan for Certain Executives

In 2001, the Company created a Non-qualified Retirement Plan for Senior Executives. The purpose of this plan is to provide this group of professionals with the opportunity to supplement their retirement benefits and provides a lifetime monthly benefit equal to 1% of the salary package.

Participation in this Plan is subject to additional terms and conditions of continuous fulfillment, which include holding one of the covered positions, being in good standing, consistent performance of the employee's duties and obligations with the company, and voluntarily signing a non-competition agreement.

This Plan does not create any right in favor of the employees that perform and occupy executive positions, since it operates by invitation at the discretion of the Executive President, or at the discretion of the Board of Directors, when it is the President of the Company that will be invited to participate. On December 19, 2001, a trust was established by public deed to manage the funds of the Plan.

Health Insurance

The Company provides its regular employees with a group health insurance plan. This plan offers coverage for medical services for employees and the members of their immediate family. Both the Company and the employee contribute to paying for this coverage.

Life Insurance

The Company provides a Group Life Insurance Plan free of cost to employees. This is a benefit that the employee acquires on becoming a regular employee.

Long-Term Disability Insurance

The Company provides employees with coverage equivalent to a certain percentage of the employee's monthly salary as long-term disability insurance for physical or mental disabilities, subject to the terms and conditions of the insurance.

Growth of the Company

The following data was obtained from the annual statements filed with the Office of the Commissioner of Insurance (OCS):

Year	Admitted Assets	Liabilities	Company Capital Stock	Special Surplus Funds	Unassigned Surplus
2010	\$472,043,621	\$274,167,876	\$34,643,889	\$131,058,107	\$32,173,749

Year	Admitted Assets	Liabilities	Company Capital Stock	Special Surplus Funds	Unassigned Surplus
2009	467,437,390	254,142,990	31,315,425	127,422,836	54,556,139
2008	469,440,256	255,309,148	30,062,356	127,214,009	55,754,850
2007	513,200,716	269,083,235	25,992,664	126,949,098	91,175,719

Insurance Products and Related Practices

The Company is authorized to write all kinds of property and casualty 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:

	2007	2008	2009	2010
Liability Lines	\$42,517,465	\$41,336,781	\$40,710,646	\$41,586,132
Property Lines	113,326,342	101,349,402	91,637,374	93,748,908
Property and Liability Lines	27,680,309	27,342,283	28,587,173	30,531,036
Other Lines	11,475,921	10,810,230	9,338,853	9,961,162
TOTAL	\$195,000,037	\$180,838,696	\$170,274,046	\$175,827,238

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:

	2007	2008	2009	2010
Puerto Rico	\$181,662,964	\$168,172,602	\$157,000,740	\$165,054,776
Florida	13,337,073	12,666,094	13,273,306	10,772,462
TOTAL	\$195,000,037	\$180,838,696	\$170,274,046	\$175,827,238

Statutory Deposits

As of December 31, 2010, the Company maintained the following statutory deposits with the OCI in compliance with Section 3.151 of the Insurance Code of Puerto Rico.

Description	Maturity Date	Par Value	Amortized Value
GNMA	7/15/2023	\$1,274,914	\$374,914
GNMA	12/15/2035	1,500,000	666,384
PR Industrial Revenue Bond	7/1/2012	600,000	553,635
TOTAL		\$3,374,914	\$1,594,933

Section 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.

Section 3.090 of the Insurance Code of Puerto Rico requires the Company to maintain minimum paid-in capital of \$2,800,000 and statutory deposits of not less than \$1,400,000 of amortized value. The Company was in compliance with Section 3.090 of the Insurance Code of Puerto Rico as of December 31, 2010.

Section 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 \$1,400,000 at amortized cost. The Company was in compliance with Section 3.160 of the Insurance Code of Puerto Rico as of December 31, 2010.

Unclaimed Funds

The Company did comply with Section 26.040 of the Insurance Code of Puerto Rico by reporting unclaimed funds to the OCI, on or before May 1, for the year under examination.

The Company submitted to the OCI the notice of unclaimed funds owed and the payment of the unclaimed funds and was in compliance with Sections 26.050 and 26.060 of the Insurance Code of Puerto Rico.

Reinsurance

Reinsurance Assumed

The Company participated in two property reinsurance arrangements that represented \$754,609 in assumed reinsurance for the exam period.

Reinsurance Ceded

The Company maintained a comprehensive reinsurance program to limit their underwriting exposure as of December 31, 2010.

Reinsurance contracts are made under quota share, excess of loss and catastrophe agreements. The principal reinsurance agreements are as follows:

- Liability excess of loss treaties covered the automobile, general, and other liability lines of business for a maximum coverage of \$4.25 million per risk, with retention of \$1,000,000.
- Property excess of loss treaties provided maximum coverage of \$15 million, with a net retention of \$250,000.

The Company also had commercial and personal lines property catastrophe coverage to protect itself from losses in excess of certain limits arising from a loss or disaster of a catastrophic nature. These treaties provided reinsurance for losses in excess of \$2.5 million resulting from any catastrophe, subject to a maximum loss of approximately \$190 million for commercial exposures and \$50 million for personal risks.

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*.

Section 4.120(1)(b) of the Insurance Code of Puerto Rico and Ruling Letter N-AF-4-63-2005 of April 11, 2005, requires that domestic insurers may only reinsure with unauthorized insurers if prior authorization is obtained from the Office of the Commissioner of Insurance of Puerto Rico. The Company reinsured with eleven companies that were not authorized in Puerto Rico and without the previous approval of the Commissioner.

In addition, Schedule F of the 2010 Annual Statement lists these reinsurers as authorized; the reinsurance reserve credit taken by the Company was not considered material and, therefore, is not reflected as an adjustment in this report.

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 ended 2010 in compliance with Rule XIVa of the Regulations of the Insurance Code of Puerto Rico. Supporting work papers were prepared by the CPA as required by Rule XIVa of the Regulations of the Insurance Code of Puerto Rico.

The actuarial study and opinion for the period under examination was prepared by Martha A. Winslow, FCAS, MAAA, actuary for Towers Watson.

Financial Statements

Below are the financial statements of the Company:

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

Cooperativa de Seguros Múltiples de Puerto Rico
Assets

As of December 31, 2010

	Annual Statement	Examination Adjustments	Examination Balance
Bonds	\$ 208,700,774		\$ 208,700,774
Preferred stock	7,964,648		7,964,648
Common stocks	134,166,016		134,166,016
Real estate	10,556,754		10,556,754
Cash and short-term investments	83,008,027		83,008,027
Other invested	8,938,324		8,938,324
Investment income due and accrued	2,009,885		2,009,885
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	5,541,983		5,541,983
Amounts recoverable from reinsurers	1,449,096		1,449,096
Electronic data processing equipment and software	530,899		530,899
Receivable from parent, subsidiary and affiliates	1,210,776		1,210,776
Aggregate write-ins for other than invested assets	7,966,439		7,966,439
Total Assets	\$ 472,043,621		\$ 472,043,621

Cooperativa de Seguros Múltiples de Puerto Rico
Liabilities, Surplus and Other Funds

As of December 31, 2010

	Annual Statement	Examination Adjustments	Examination Balance
Losses	\$ 43,150,963		\$ 43,150,963
Loss adjustment expenses	11,972,590		11,972,590
Other expenses	5,968,634		5,968,634
Borrowed money	549,688		549,688
Unearned premiums	91,830,828		91,830,828
Advance premium	73,528,613		73,528,613
Ceded reinsurance premiums payable	2,837,248		2,837,248
Amounts withheld or retained for account of others	1,269,610		1,269,610
Payable to parent, subsidiary and affiliates	148,815		148,815
Aggregate write-ins for liabilities	42,910,887		42,910,887
Total Liabilities	<u>\$274,167,876</u>		<u>\$274,167,876</u>
Special surplus funds	\$131,058,107		\$131,058,107
Common capital stock	34,414,861		34,414,861
Preferred capital stock	229,028		229,028
Unassigned funds (surplus)	32,173,749		32,173,749
Total Surplus	<u>\$197,875,745</u>		<u>\$197,875,745</u>
Total Liabilities and Surplus	<u><u>\$ 472,043,621</u></u>		<u><u>\$ 472,043,621</u></u>

Cooperativa de Seguros Múltiples de Puerto Rico
Statement of Income

As of December 31, 2010

Underwriting Income

Premiums earned	\$144,300,913
Deductions:	
Losses incurred	96,626,726
Loss expenses incurred	19,451,480
Other underwriting expenses incurred	66,853,765
Total underwriting expenses incurred	<u>\$182,931,971</u>
Net underwriting gain or (loss)	(\$38,631,058)

Deductions:

Net investment income earned	\$11,272,037
Net realized capital gains or (losses)	331,801
Net investment gain or (loss)	<u>11,603,838</u>

Other Income

Net gain (loss) from agents' or premium balances charged off	\$(10,469)
Finance and service charges not included in premiums	148,932
Aggregate write-ins for miscellaneous income	2,416,905
Total other income	<u>\$2,555,368</u>

Net income before dividends to policyholders and before federal & foreign income taxes	\$(24,471,852)
Federal and foreign income taxes incurred	
Net (Loss)/Income	<u><u>\$(24,471,852)</u></u>

Cooperativa de Seguros Múltiples de Puerto Rico
Capital and Surplus Account

As of December 31, 2010

Capital and surplus, December 31, prior year	<u>\$213,294,399</u>
Net income (loss)	\$(24,471,852)
Change in net unrealized capital gains	11,316,026
Change in net deferred income tax	1,017,600
Change in nonadmitted assets	(5,482,479)
Capital Changes	
Paid in	3,328,465
Transferred from capital	2,271,937
Dividends to stockholders	(1,409,142)
Aggregate write-ins for gains and losses in surplus	(1,989,210)
Net change in capital and surplus for the year	<u>\$(15,418,655)</u>
Capital and surplus, December 31, current year	<u>\$197,875,744</u>

**Cooperativa de Seguros Múltiples de Puerto Rico
Reconciliation of Capital and Surplus Account**

As of December 31, 2010

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

Capital and Surplus Account December 31, 2010, per Annual Statement	\$197,875,655
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:	472,043,621	472,043,621	
No adjustment			
LIABILITIES:	274,167,876	274,167,876	
No adjustments			
Net Change in Surplus:			0

Capital and Surplus Account December 31, 2010, Per Examination	<u><u>\$197,875,655</u></u>
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Comments on the Financial Statements

There were no comments on the balance sheet items.

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2010, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The OCI consulting actuary, Eugene G. Thompson, ACAS, MAAA of INS Consultants, Inc., reviewed the loss and loss adjustment expense work papers provided by the Company and was in concurrence with this opinion.

Subsequent Events

There were no subsequent events required to be disclosed.

Summary of Examination Recommendations

Unauthorized Reinsurance

Section 4.120(1)(b) of the Insurance Code of Puerto Rico and Ruling Letter N-AF-4-63-2005, require that domestic insurers may only reinsure with unauthorized insurers if prior authorization is obtained from the Office of the Commissioner of Insurance of Puerto Rico. The Company did not obtain authorization in

accordance with Ruling Letter N-AF-4-63-2005 from the OCI to use unauthorized reinsurers.

In addition, Schedule F of the 2010 Annual Statement lists these reinsurers as authorized; the reinsurance reserve credit taken by the Company was not considered material and, therefore, is not reflected as adjustment in this report.

We recommend that the Company comply with Section 4.120(1)(b) of the Insurance Code of Puerto Rico and classify unauthorized reinsurers correctly in Schedule F of the Annual Statement.

Unexecuted Representative Contracts

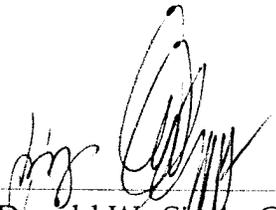
Section 9.060(3) of the Insurance Code of Puerto Rico states that: "No producer may act or state that he/she acts as authorized representative of an insurer unless there is a written contract subscribed to those effects between the latter and the insurer." As a result of the testing procedures performed by the examination team, a total of four contracts were provided without signature.

We recommend that the Company develop procedures to ensure that all representatives of the Company sign a contract, which is to be included in the Company's files.

Conclusion

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Cooperativa de Seguros Múltiples De Puerto Rico** as of December 31, 2010, consistent with the insurance laws of Puerto Rico.

In addition to the undersigned, Patricia Casey Davis, CPA, CFE, Manager; James M. Perkins, CFE, Staff Examiner; and Barry W. Lupus, CPA, Staff Examiner; all of INSRIS-PR, LLC; Paul Berkebile, CFSA, CISA, Senior Manager and Joseph Dobias, CISA, IT Specialist, both of INS Services, Inc.; Eugene G. Thompson, ACAS, MAAA, Actuary, of INS Consultants, Inc.; and Rafael Ruffat Pastoriza, Examiner of the Office of the Commissioner of Insurance, participated in the examination.



Donald W. Sirais, CFE
Examiner-in-Charge