

GOVERNMENT OF PUERTO RICO
OFFICE OF THE COMMISSIONER OF INSURANCE



REAL LEGACY ASSURANCE COMPANY, INC.

REPORT ON EXAMINATION
AS OF DECEMBER 31, 2015
CASE No. EX-2016-15

NAIC Code 36749
REPORT DATE: MAY 4, 2017

Peter Bliss, CFE
Examiner-in-Charge
INSRIS-PR, LLC

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GOVERNMENT OF PUERTO RICO
OFFICE OF THE COMMISSIONER OF INSURANCE

May 11, 2017

Honorable Javier Rivera Ríos
Commissioner of Insurance
Guaynabo, Puerto Rico

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Order Number EX-2016-15, dated October 11, 2016, a financial condition examination has been made of the affairs, financial condition and management of the

REAL LEGACY ASSURANCE COMPANY, INC.

Metro Office Park, Street 1, Lot 4
Guaynabo, Puerto Rico 00968-1805

hereinafter referred to as "Company" or "RLA", incorporated under the laws of the Government of Puerto Rico, as of December 31, 2015. The examination was carried out in the main offices of the Company's parent located at 38 Nevarez Street, San Juan, Puerto Rico 00927-4608. The report on this examination is respectfully submitted.

SCOPE OF EXAMINATION

An examination of the Company was performed by examiners representing the Office of the Commissioner of Insurance of Puerto Rico (OCI). The last examination covered the period of January 1, 2010 through December 31, 2010. This examination covers the period from January 1, 2011, through December 31, 2015, 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 ("NAIC") Financial Condition Examiners Handbook ("NAIC Handbook")* and generally accepted statutory insurance examination standards consistent with the insurance laws and regulations of the Government of Puerto Rico. The *NAIC Handbook* requires that we plan and perform the examination 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 risk within the Company and evaluating its system of internal controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. Key activities of the Company were determined to include Investments, Premiums and Underwriting, Claims and Reserves, Reinsurance and Financial Reporting. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements. This examination report includes significant findings

of fact and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

CURRENT EXAMINATION FINDINGS

No material adverse findings or material changes to the financial statements were noted during the examination. The following is a summary of non-compliance findings identified during the examination:

Retention of Committee Minutes

The Company failed to comply with Section 1 of Rule XII of Puerto Rico Insurance Code regarding the retention of business records. The following records could not be produced:

- Minutes of Investments Committee for the years 2011 and 2012
- Minutes of Audit Committee for the years 2011 through 2015

Actuarial Opinion Filing

The Company failed to comply with Article 5.100 of Puerto Rico Insurance Code regarding the timely filing of the opinion of a qualified actuary. Pursuant to the article, the actuarial opinion shall be filed together with its annual report. Article 3.310(1) establishes that the report must be filed before March 31st each year. The 2015 Actuarial Opinion was filed after the required filing date.

Certification of investments

The Company failed to comply with Article 6.040(2) of the Puerto Rico Insurance Code. The Board of Directors did not certify in writing, with a formal resolution at least once a year confirming that all investments have been made pursuant to the delegation, standards, limitations and investment goals established by the Board.

Listing of Shareholders

The Company failed to comply with Ruling Letter No. N-E-2-83-97 which requires a listing of stockholders be filed annually and contain the year end's list of stockholders. The 2012 filing was not made and the filings for the years 2013, 2014 and 2015 were filed after the required filing date.

Contingent Commission Payments

The Company failed to comply with Section III of Rule No. 84 of Puerto Rico Insurance Code which establishes limitations on the payments of contingent commissions. The contingent commission annual reports filed by the Company listed contingent commission payments for years 2012, 2013 and 2014. The Company reported underwriting losses for those years, and therefore, the payments were prohibited illegal incentives and not permitted under Article 27.100 of the Puerto Rico Insurance Code.

Elected Officers

The Company failed to comply with Article 29.210(1) of the Puerto Rico Insurance Code and Section 1 of Article III of its Bylaws regarding the requirement to elect a Treasurer in 2013 and a Vice President in 2014 and 2015.

Required Reserves for Catastrophic Insurance Losses

The Company failed to comply with Article 25.030 (4) and (7) and Section 10 of Rule 72 of Regulations of the Puerto Rico Insurance Code.

We determined that the Insurer did not comply with Article 25.030 (4) by not maintaining at least eight percent (8%) of its catastrophic exposure for the year 2014. In addition, paragraph 7 of said Article establishes, that the Insurer should retains 2% of its catastrophic risk for hurricanes. The Insurer did not comply with the minimum withholding required by Article. 25.030 (7).

Rule 72, on the other hand, defines in its Section 3, subparagraph G, that catastrophic exposure will be estimate using a risk-simulation model with at least two (2) recognized entities, and at least the arithmetical average shall be selected from among the results of each model. The Insurer did not comply with this requirement of Rule 72 by only calculating exposure with a single simulation model for the year 2012.

Finally, the Insurer did not comply with Reserve to Policyholder Surplus Ratio for the years 2011, 2012 and 2013 in violation of Section 10 of Rule No. 72.

Unclaimed Funds

For the year 2011, the Company submitted to this Office an Unclaimed Funds Reports that indicated they had no unclaimed funds. However, the Company made a payment of unclaimed funds to the Commissioner. Also, during 2011 and 2015, the Company did not publish the public notice of the unclaimed funds, as required by Article 26.050(1). For the year 2015, the Company failed to timely submit the unclaimed funds

report and the unclaimed funds payment to the Commissioner, not complying with Articles 26.040(1) and 26.060(1), respectively.

Articles of Incorporation Amendment

The Company did not comply with Article 29.070(3) of the Insurance Code of Puerto Rico regarding filing amendments to its Articles of Incorporation. It was noted that the Company changed the location of its main offices subsequent to the examination date and did not submit a certified amendment to the Commissioner as required by Article 29.070(3) of the Insurance Code of Puerto Rico, as of the time of our procedures.

Dividend Payments

The Company did not comply with Article 44.050(e) of the Insurance Code of Puerto Rico regarding notification of dividend declarations. The Company did not notify the Commissioner of a 2014 declaration of dividends within fifteen (15) business days following to the distribution.

PRIOR EXAMINATION FINDINGS

No material adverse findings or material changes to the financial statements were noted during the prior examination. Non-compliance findings were identified and are listed below:

Intercompany Agreements

The Company was party to cost allocation arrangements with an affiliate, Overseas Insurance Agency (OIA). These arrangements were not in the form of written agreements as required by SSAP No. 96. The Company has corrected this issue.

Negative Equity Reporting

The Company reported a negative equity position of \$4.36 million on the liability line "Other Expenses" on page 3 of the 2010 Annual Statement. This amount should have been reported as a negative Affiliated Common Stock asset on page 2 in compliance with SSAP No. 97, paragraphs 7 and 13. The Company has corrected this issue and has taken steps with OCI to obtain approval to eliminate the negative equity position.

Unauthorized Reinsurers

Article 4.120 of the Insurance Code of Puerto Rico and Ruling Letter N-AF-4-63-2005 requires that domestic insurers may only reinsure with unauthorized insurers if prior authorization is obtained from the OCI. The Company ceded business to five reinsurers which were not authorized in Puerto Rico. The Company did not obtain prior approval from the OCI.

COMPANY HISTORY

Real Legacy Assurance Company, Inc. (RLA or Company) was incorporated in 1974 under the name Royal Insurance Company of Puerto Rico, Inc. and began operating on January 1, 1978. It was originally a subsidiary of Royal & SunAlliance Group, PLC which began operations in 1710. In 1998, the Company changed its name to Royal & SunAlliance Insurance (Puerto Rico) Inc., and on October 8, 2003, the Company was acquired by Cooperativa de Seguros Múltiples de Puerto Rico (CSM) at a cost of \$66.4 million. On August 2, 2004, the Company adopted its new corporate name, Real Legacy Assurance Company, Inc. RLA is also the parent company of Overseas Insurance

Agency, Inc. and Island Heritage Insurance. Island Heritage Insurance has not had an active license during the period under examination.

CAPITAL STOCK

As of December 31, 2015, the Company had 500,000 common stock shares authorized, and 300,000 shares issued and outstanding with a par value of \$10 per share. As a result, paid in capital totaled \$3,000,000. RLA is a direct subsidiary of CSM, which owns 299,995 of the 300,000 shares outstanding.

CORPORATE RECORDS

ARTICLES OF INCORPORATION AND BYLAWS

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. There were no amendments to the Bylaws or the Articles of Incorporation during the period under examination.

MINUTES

The Company failed to comply with Section 1, Rule XII of Puerto Rico Insurance Code regarding the retention of business records. The following records could not be produced:

- Minutes of Investments Committee for the year 2011 and 2012
- Minutes of Audit Committee for the years 2011 through 2015

See the section titled "Summary of Significant Findings" for the finding titled "Retention of Committee Minutes".

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.

BOARD OF DIRECTORS

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

Name and Location	Principal Occupation
José A. Morales Burgos Humacao, Puerto Rico	Industrial Engineer
Juan Reyes Caraballo Arecibo, Puerto Rico	Attorney
Roberto Castro Hiraldo San Juan, Puerto Rico	CSM President
Gidel Mendez Martinez Gurabo, Puerto Rico	RLA President and CSM Vice President of Underwriting
Edwin Quinones Suarez Sabana Hoyos, Puerto Rico	Consultant, Retired former RLA President
Enrique A. Lopez Pereira Guaynabo, Puerto Rico	Accountant

OFFICERS

Officers are elected by the Board on an annual basis. A list of the officers elected or appointed during 2015 and serving on December 31, 2015, is as follows:

Name	Title
Gidel H. Méndez Martínez	President
Aleida Alsina Rivera	Finance Director
Ricardo Fernandes	Vice President
Diana Rodríguez	Vice President, Underwriting
Luis Murphy	Claims Manager

The Insurer failed to comply with Article 29.210(1) of the Puerto Rico Insurance Code and Section 1 of Article III of its Bylaws regarding the requirement to elect a Treasurer in 2013 and a Vice President in 2014 and 2015. See the section titled "Summary of Significant Findings" for the finding titled "Elected Officers".

COMMITTEES

As of December 31, 2015, the Board has designated following Committees to facilitate the work of the Board of Directors.

Audit Committee

Edwin Quiñones Suárez
Aleida Alsina

Investment Committee

Enrique López Pereira
Aleida Alsina

Catastrophe Business Continuity Plan Committee

Gidel H. Méndez Martínez
Diana Rodríguez
Aleida Alsina
Miriam Rivera
Jorge Asenjo
Edwin Rodríguez

CONFLICT OF INTEREST

The Company requires its Directors and Officers to file a conflict of interest statement annually concerning items that could have an impact on the way they conduct the Company's business in accordance with Article 29.230 of the Insurance Code of Puerto Rico. The review of the conflict of interest questionnaires revealed that the Company was in compliance.

INVESTMENT PLAN

The Company failed to comply with Article 6.040(2) of the Puerto Rico Insurance Code. The Board of Directors did not certify in writing with a formal resolution at least once a year, that all investments have been made pursuant to the delegation, standards, limitations and investment goals established by the Board. See the section titled "Summary of Significant Findings" for the finding titled "Certification of Investments".

DIVIDENDS TO STOCKHOLDERS

Article 29.340 of the Insurance Code of Puerto Rico provides that a domestic stock insurer shall not pay any cash dividend to stockholders, except out of any realized net profits on its business. The following table shows dividends paid to stockholders and the balance of unassigned surplus during the examination period:

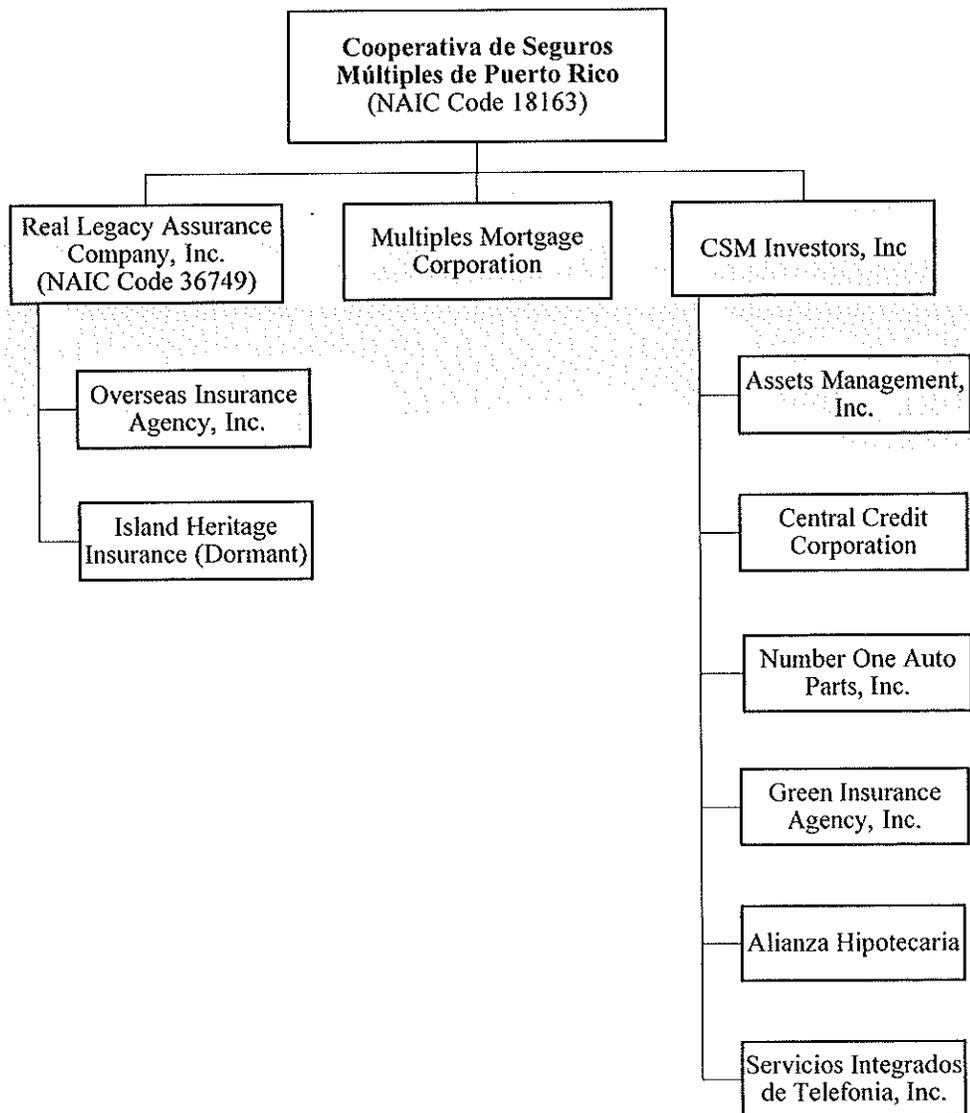
Year	Dividend Paid	Unassigned Surplus Previous Year
2011	\$	\$ 25,220,719
2012	0	24,180,457
2013	0	18,582,654
2014	1,500,000	12,061,931
2015	0	4,282,628

The Company was in compliance with the provisions of Article 29.340 of the Insurance Code of Puerto Rico. However, the Company did not comply with Article 44.050(e) of the Puerto Rico Insurance Code regarding the required notification to the Commissioner of dividends paid in 2014.

HOLDING COMPANY SYSTEM

As of December 31, 2015, RLA was a member of a holding company group where CSM was the ultimate parent of a group of companies that include insurers, insurance agencies, and other for profit business. CSM also owns 100% of the outstanding stocks of CSM Investor, Inc., which was incorporated with the purpose of controlling and directing the complementary business operations of the Insurer. CSM Investor, Inc., owns 100% of the outstanding stocks of the following for-profit corporations: Assets Management, Inc., Number One Auto Parts, Inc., Central Credit Corporation, Green Insurance Agency, Inc., Alianza Hipotecaria and Servicios Integrados de la Telefonía, Inc. In addition, Cooperativa is the 70% owner of the Multiples Mortgage Corporation, a mortgage bank.

The following is an organizational chart that reflects the identities and interrelationships between the Company, its subsidiaries, and other affiliates with direct business relationships with the Company as of December 31, 2015:



On December 31, 2015, the Company made a capital contribution of \$3 million to Overseas Insurance Agency, Inc.

INTERCOMPANY AGREEMENTS

The Company was involved in the following intercompany Cost Sharing/Expense Allocation Agreements in effect during the examination period:

General Agency Agreement between RLA and Overseas Insurance Agency, Inc. (OIA)

Establishes the terms and conditions for OIA to represent RLA as its general

agency with general powers to inspect the execution and operations of RLA's policy services and to carry out other administrative and managerial functions, as established in the contract. The Company made payments in the amount of \$14.9 million under this agreement for commissions, office space, fixed assets and general business expenses.

TERRITORY AND PLAN OF OPERATIONS

RLA primarily writes commercial multiple peril and auto liability/physical insurance. Approximately, 60 percent of the Company's business is government-related. RLA writes business through general agencies including their subsidiary, OIA. For the period covered by this examination, the significant lines of insurance and direct premiums written were as follows:

Direct Written Business by Line of Business	2015	2014	2013	2012	2011
Fire	\$ 6,797,542	\$ 8,510,346	\$ 9,559,766	\$ 10,994,915	\$ 13,321,663
Allied lines	13,259,771	16,846,638	19,618,813	22,240,371	28,329,031
Homeowners multiple peril	18,158,932	18,211,121	19,153,809	19,344,366	19,302,936
Commercial multiple peril	35,451,654	32,325,524	29,157,350	22,601,901	24,469,013
Ocean marine	840,614	862,151	1,094,039	1,090,091	1,519,768
Inland marine	667,897	709,844	530,962	503,652	24,637
Earthquake	8,235,297	9,658,275	10,432,198	11,311,475	12,861,076
Other liability - occurrence	6,689,990	6,736,334	6,383,780	6,015,595	5,783,347
Products liability - occurrence	99,782	102,832	86,923	94,721	86,057
Private passenger auto liability	3,082,756	2,758,864	2,338,437	1,924,592	1,818,320
Commercial auto liability	3,648,063	3,591,465	4,242,455	3,548,444	3,848,969
Auto physical damage	18,624,516	16,006,144	11,748,218	8,108,203	7,619,091
Fidelity	1,259	1,322	0	285,074	3,960
Surety	794,416	715,054	433,493	262	195,548
Burglary and theft	11,950	12,177	0	0	0
Boiler and machinery	445,700	370,815	331,182	495,441	906,295
Total	\$116,810,139	\$117,418,906	\$115,111,425	\$108,559,103	\$120,089,711

GROWTH OF THE COMPANY

The following information was obtained from the Company's filed Annual Statements and covers the past five years through December 31, 2015.

Year	Admitted Assets	Surplus	Gross Premiums Written	Net Income
2011	\$154,187,315	\$67,382,743	\$120,089,711	\$2,263,498
2012	162,234,164	62,624,176	108,559,103	1,711,212
2013	156,994,766	57,286,991	115,111,425	4,793,566
2014	151,898,438	50,518,789	117,418,906	4,221,157
2015	147,310,152	48,378,149	116,810,139	(6,092,040)

Policyholders' surplus was directly affected during the examination period by underwriting and investment losses, as well as a dividend paid in 2014. Policyholder's surplus decreased during the period under examination from \$67,382,743 to \$48,378,149 as of December 31, 2015.

REINSURANCE

ASSUMED

The Company did not assume any business during the period under examination.

CEDED

Various treaty reinsurance agreements are in effect as of December 31, 2015 to mitigate the impact of large and severe claim losses.

RLA entered into a four-layer Property per Risk Excess of Loss Reinsurance Agreement with multiple subscribing reinsurers for personal and commercial property losses occurring between April 1, 2015 and March 31, 2016. The Company retains the first

\$1 million of ultimate net losses per risk per loss while the reinsurers assume the next \$49 million of ultimate net losses per risk per loss.

RLA entered into a four-layer Catastrophe Excess of Loss Reinsurance Agreement with multiple subscribing reinsurers for personal and commercial property losses occurring from April 1, 2015 to March 31, 2016. The Company retains the first \$15 million of ultimate net losses per loss occurrence. The reinsurers assume the next \$485 million of ultimate net losses per loss occurrence.

RLA entered into a three-layer Per Risk Excess of Loss Reinsurance Agreement with multiple subscribing reinsurers for liability losses occurring between January 1, 2015 and December 31, 2015. The Company retains the first \$1 million of ultimate net losses per occurrence while the reinsurers assume the next \$19 million of ultimate net losses per occurrence.

RLA entered into a Catastrophe Excess of Loss Funded Cover Reinsurance Agreement with multiple subscribing reinsurers for personal and commercial property losses occurring from April 1, 2013 to March 31, 2016. The Company retains the first \$7.5 million of ultimate net losses per loss occurrence. The reinsurers assume the next \$7.5 million of ultimate net losses per loss occurrence, subject to an annual aggregate of \$15 million and a three-year term aggregate of \$22.5 million. The agreement provides for an experience refund upon commutation of the agreement.

RLA entered into a Reinstatement Premium Protection Reinsurance Agreement with multiple subscribing reinsurers to pay for 100% of the reinstatement premium that

may become payable by the Company under the four layers of the Catastrophic Excess of Loss Agreement from April 1, 2015 to March 31, 2016.

RLA entered into a Property Quota Share Reinsurance Agreement with multiple subscribing reinsurers for personal and commercial property losses occurring in the United States Virgin Islands between April 1, 2015 and March 31, 2016. The reinsurer assumes a 46% share of \$3 million per risk on each covered property policy. The agreement provides for a ceding commission and a profit commission.

RLA entered into an Equipment Breakdown Reinsurance Agreement with Hartford Steam Boiler Insurance Company for losses occurring after July 1, 2004 and shall renew automatically every year. The reinsurer will cede 100% of the new and renewal policies up to \$25,000 per risk.

RLA entered into a Property Facultative Reinsurance Agreement with Zurich American Insurance Company for equipment breakdown losses occurring between June 15, 2014 and June 15, 2015. The reinsurer will accept up to \$100 million of total equipment breakdown cessions.

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

ACCOUNTS AND RECORDS

The accounts and records review included an assessment of the Company's risk management process for identifying and controlling risks in key operational areas. In

making the assessment for each key area, processes were reviewed, risks were identified and controls were identified and tested. The Company's methodology for assessing the effectiveness of the established mitigation factors was also evaluated.

INS Services, Inc. performed a review and assessment of the Company's information systems and the related control environment. There were no reportable examination findings with respect to the Company's information technology systems and controls.

FINANCIAL STATEMENTS

The following financial statements are based on the amended statutory financial statements filed by Company with the OCI and present the financial condition of the Company for the period ending December 31, 2015. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

REAL LEGACY ASSURANCE COMPANY, INC.
ASSETS
DECEMBER 31, 2015

	<u>Per Company</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Bonds	\$85,164,177	\$0	\$85,164,177
Common stocks (Note 1)	(9,377,105)		(9,377,105)
Cash, cash equivalents and short-term investments	28,402,653		28,402,653
Investment income due and accrued	555,246		555,246
Uncollected premiums and agents' balances in course of collection (Note 2)	27,683,367		27,683,367
Amounts recoverable from reinsurers	4,290,006		4,290,006
Other amounts receivable under reinsurance contracts	7,500,000		7,500,000
Current federal and foreign income tax recoverable	139,153		139,153
Net deferred tax asset	43,550		43,550
Electronic data processing equipment and software	1,571,244		1,571,244
Receivables from parent, subsidiaries and affiliates	414,761		414,761
Aggregate write-ins for other than invested assets	923,100		923,100
Total Assets	<u>\$147,310,152</u>	<u>\$0</u>	<u>\$147,310,152</u>

REAL LEGACY ASSURANCE COMPANY, INC.
LIABILITIES, SURPLUS AND OTHER FUNDS
DECEMBER 31, 2015

	<u>Per</u>	<u>Examination</u>	<u>Per</u>
	<u>Company</u>	<u>Adjustments</u>	<u>Examination</u>
Losses (Note 3)	\$16,959,478	\$0	\$16,959,478
Loss adjustment expenses (Note 3)	3,814,770		3,814,770
Commissions payable, contingent commissions and other similar charges	97,234		97,234
Other expenses	1,421,983		1,421,983
Taxes, licenses and fees	109,589		109,589
Unearned premiums	51,411,433		51,411,433
Advance premiums	12,620,469		12,620,469
Ceded reinsurance premiums payable	5,417,911		5,417,911
Amounts withheld or retained by company for account of others	339,339		339,339
Provision for reinsurance	210,945		210,945
Payable to parent, subsidiaries and affiliates	265,134		265,134
Aggregate write-ins for liabilities	6,263,718		6,263,718
Total liabilities	\$98,932,003	\$0	\$98,932,003
Aggregate write-ins for special surplus funds	\$44,042,417		\$44,042,417
Common capital stock	3,000,000		3,000,000
Unassigned funds (surplus)	1,335,732		1,335,732
Surplus as regards policyholders (Note 4)	48,378,149	\$0	48,378,149
Total liabilities, surplus and other funds	147,310,152	\$0	147,310,152

REAL LEGACY ASSURANCE COMPANY, INC.
SUMMARY OF OPERATIONS
DECEMBER 31, 2015

Underwriting Income

Premiums earned \$ 53,550,230

Deductions

Losses incurred 23,988,183

Loss adjustment expenses incurred 4,578,257

Other underwriting expenses incurred 24,977,762

Total underwriting deductions 53,544,202

Net underwriting gain (loss) \$ 6,028

Investment Income

Net investment income earned \$ 2,394,713

Net realized capital gains (losses) less capital gains tax (8,384,061)

Net investment gain (loss) \$ (5,989,348)

Other Income

Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes \$ (5,983,320)

Federal and foreign income taxes incurred 108,720

Net income \$ (6,092,040)

REAL LEGACY ASSURANCE COMPANY, INC.
CAPITAL AND SURPLUS ACCOUNT
DECEMBER 31, 2015

Surplus as regards policyholders, December 31 prior year	\$ 50,518,789
Net Income	(6,092,040)
Change in net unrealized capital gains or (losses) less capital gains tax	(813,396)
Change in net deferred income tax	(2,690,444)
Change in non-admitted assets	2,160,023
Change in provision for reinsurance	319,742
Aggregate write-ins for gains and losses in surplus	<u>4,975,475</u>
Change in surplus as regards policyholders for the year	\$ (2,140,640)
Surplus as regards policyholders, December 31 current year	<u>\$ 48,378,149</u>

REAL LEGACY ASSURANCE COMPANY, INC.
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS
DECEMBER 31, 2015

Surplus as Regards Policyholders
December 31, 2015, Per Annual Statement \$48,378,149

	<u>PER</u> <u>COMPANY</u>	<u>PER</u> <u>EXAM</u>	<u>INCREASE</u> <u>(DECREASE)</u> <u>IN SURPLUS</u>
ASSETS	\$147,310,152	\$147,310,152	\$ -
LIABILITIES	\$ 98,932,003	\$ 98,932,003	\$ -
Net Change in Surplus			<u>\$ -</u>

Surplus as Regards Policyholders
December 31, 2015, Per Examination \$48,378,149

NOTES ON FINANCIAL STATEMENTS

NOTE 1: COMMON STOCKS

Common Stock \$(9,377,105)

The Company's common stock holdings are comprised largely of owned affiliates as follows:

Island Heritage Insurance	\$ 1,508,750
Overseas Insurance Agency, Inc.	(12,099,800)
First Puerto Rico Tax Exempt Mutual Funds	1,213,939

Approximately 96 percent of OIA's business was placed with the Company in 2015. OIA received a capital contribution of \$3 million from the Company in 2015.

NOTE 2: UNCOLLECTED PREMIUMS AND AGENTS' BALANCES IN COURSE OF COLLECTION

Uncollected premiums and agents' balances in course of collection \$ 1,508,750

The Company reported the following significant agency balances from agents with OIS accounting for 60% of the total balance:

Overseas Insurance Agency, Inc.	\$ 16,494,483
Arieta & Son - Government Business	3,958,452
Global Government	3,103,815
Arieta & Son Assurance	1,467,452
J. Jaramillo Insurance Inc.	1,023,728

NOTE 3: LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

Losses	\$16,959,478
Loss adjustment expenses	3,814,770

The OCI retained the services of INS Consultants, Inc. (INS), to conduct an independent review of the Company's reserves as of December 31, 2015. The consulting actuary's analysis was performed using a risk-focused approach according to the guidelines contained in the NAIC Handbook. The conclusions set forth in the consulting actuary's report were based on information provided by the Company, including the

2015 Amended Annual Statement. The Statement of Actuarial Opinion for 2015 was prepared and signed by the appointed actuary, Ms. Martha A. Winslow, FCAS, MAAA, of Willis Towers Watson. The Actuarial Opinion was prepared and submitted in accordance with Rule 96 and Article 5.100 of the Insurance Code of Puerto Rico.

Based on the procedures performed, INS determined that the Company's loss and loss adjustment expense reserves as of December 31, 2015 appear reasonably stated and have been accepted for the purpose of this report.

NOTE 4: TOTAL CAPITAL AND SURPLUS

The total capital and surplus of the Company at December 31, 2015, as determined by this examination, is the same as the amount reported by the Company on its 2015 Amended Annual Statement.

SUBSEQUENT EVENTS

Effective July 1st, 2016, RLA became a member of a newly formed insurance holding company named Grupo Cooperativo Seguros Múltiples (Grupo). Grupo was incorporated in the Government of Puerto Rico and is now the ultimate controlling party of the holding company. Grupo replaced CSM as the ultimate controlling party of the holding company. There were no changes to the downstream intercompany ownership of RLA or the other affiliates in the holding company. The holding company was created as part of a reorganizational business plan approved and ratified by a majority of the 161 members who owned CSM at the time of vote. The holding company is now privately held by the 161 members.

During April 2017, the Company filed the Annual Statement report for the year ended December 31, 2016 with the Office of the Insurance Commissioner of Puerto Rico that reported a correction of an error in the Company's previously filed statements. The Company become aware of an accounting error during 2016 that related to unrecorded reinsurance premium adjustment payments that occurred in previous years. The accounting error resulted in a reduction in the surplus of approximately \$4.6 million and was presented in the Annual Report of Real Legacy as of December 31, 2016 in accordance with SSAP No. 3.

In addition, the December 31, 2016 Annual Statement, as filed by the Company, reported a reduction in total capital and surplus of \$11,946,356 and a net loss for the period of \$5,434,328. The Company noted as operational matters that a Puerto Rico power outage, a major fire and severance costs during the period resulted in the reported net loss. During 2016, the Company's parent, CSM, contributed \$7,000,000 of capital resources to the Company resulting in total reported capital and surplus of \$36,413,797 as of December 31, 2016.

SUMMARY OF RECOMMENDATIONS

Retention of Committee Minutes

It is recommended that the Company comply with Section 1 of Rule XII of Puerto Rico Insurance Code regarding the retention of business records.

Actuarial Opinion Filing

It is recommended that the Company comply with Article 5.100 of Puerto Rico Insurance Code regarding the timely filing of the opinion of a qualified actuary.

Certification of investments

It is recommended that the Company comply with Article 6.040(2) of the Puerto Rico Insurance Code regarding the certification of investment transaction by the Board of Directors.

Listing of Shareholders

It is recommended that the Company comply with Ruling Letter No. N-E-2-83-97 which requires a listing of stockholders be filed annually on March 31 and contain the previous year end's list of stockholders.

Contingent Commission Payments

It is recommended that the Company comply with Section III of Rule No. 84 of Puerto Rico Insurance Code which establishes limitations on the payments of contingent commissions.

Elected Officers

It is recommended that the Company comply with Article 29.210(1) of the Puerto Rico Insurance Code and Section 1 of Article III of its Bylaws regarding the requirement to elect a Treasurer in 2013 and a Vice President in 2014 and 2015.

Required Reserves for Catastrophic Insurance Losses

It is recommended that the Company comply with Article 25.030(4) and 25.030(7) and Section 10 of Rule No. 72 regarding the calculation of required reserves for catastrophic insurance losses.

Unclaimed Funds

It is recommended that the Company comply with the sections 26.040(1), 26.050(1) and 26.060(1) of Chapter 26 of the Puerto Rico Insurance Code regarding unclaimed funds reporting and remittance.

Articles of Incorporation Amendment

It is recommended that the Company comply with Article 29.070(3) of the Insurance Code of Puerto Rico regarding filing amendments to its Articles of Incorporation.

Dividend Payments

It is recommended that the Company comply with Article 44.050(e) of the Insurance Code of Puerto Rico regarding dividends declaration notification.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Real Legacy Assurance Company, Inc. as of December 31, 2015, consistent with the insurance laws of the OCI.

The examiners wish to express their appreciation for the cooperation extended by the officers and employees of the Company during the course of the examination.

In addition to the undersigned, Donald W. Sirois, CFE, Examination Manager, and Marty Warns, CFE, Staff Examiner, all of INSRIS-PR, LLC participated in this examination. Additionally, Michael W. Morro, ACAS, MAAA, of INS Consultants, Inc. participated in the actuarial portion of the examination. Paul L. Berkebile, CISA, CFSA, CRISC, and Joe Dobias, CISA, of INS Services, Inc. participated in the Information

Technology General Controls portion of the examination. Rafael Ruffat Pastoriza, an Examiners with the Office of the Commissioner of Insurance, participated in the compliance portion of the examination.

Respectfully submitted,



Peter Bliss, CFE
Examiner-in-Charge
INSRIS-PR, LLC
Representing the Office of the
Commissioner of Insurance of Puerto
Rico



Carla M. Colón León, CPA
Supervisor, Examiners Division
Office of the Commissioner of Insurance of
Puerto Rico