

REPORT ON EXAMINATION
OF
MULTINATIONAL LIFE INSURANCE COMPANY
AMENDED
AS OF
DECEMBER 31, 2010
NAIC CODE 72087

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	6
History	6
Capital Stock	7
Dividends to Stockholders.....	8
Investment Plan.....	10
Corporate Governance	11
Conflict of Interest.....	11
Corporate Records	12
Board of Directors and Committee Minutes	13
Fidelity Bonds and Other Insurance	13
Pension and Insurance Plans.....	13
Defined Benefits Plan	13
Intercompany Agreements	14
Growth of the Company	16
Insurance Products and Related Practices.....	16
Territory and Plan of Operations.....	16
Statutory Deposits.....	17
Unclaimed Funds	18
Reinsurance.....	18
Reinsurance Assumed	18
Reinsurance Ceded	18
Financial Statements	20
Comments on the Financial Statements.....	26
Subsequent Events	28
Summary of Examination Recommendations	29
Conclusion	31



GOVERNMENT OF PUERTO RICO
OFFICE OF THE INSURANCE COMMISSIONER

June 27, 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 the Order Number EX-2011-017 dated December 6, 2011, and the Puerto Rico Insurance Laws and Regulations, a comprehensive risk-focused examination and financial affairs examination was made of the books, records, and financial condition of

Multinational Life Insurance Company
510 Muñoz Rivera Avenue
San Juan, PR 00918

hereinafter referred to as MLife or the Company.

Scope of Examination

The current examination was conducted at the home office of the Company located at 510 Muñoz Rivera Ave., San Juan, Puerto Rico. This examination covered 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, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, as applicable to the Puerto Rico Insurance Laws and Regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

Summary of Significant Findings

Current Examination Findings

The following is a summary of material adverse findings, significant non-compliance findings, or material changes in the financial statements noted during the examination.

Company Insolvency

On January 23, 2012, the Company issued a restated 2010 annual statement, which indicated MLife was insolvent with capital and surplus totaling (\$96,219)¹.

Company Failed to Obtain Adequate Fidelity Bond Coverage

The Company failed to obtain adequate fidelity bond coverage as recommended by the NAIC Financial Examiners Handbook.

Company Failed to Hold Annual Stockholder Meeting

During 2010, the Company held its annual stockholder meeting on May 19 rather than on a date in April as required by the Company's bylaws Article I Section 1 - Regular Annual Meetings. The Company was not in compliance with its bylaws or with Section 29.140 of the Insurance Code of Puerto Rico, which requires that the annual meeting of stockholders be held according to the Company's bylaws².

¹ On December 2011, and as a direct result of the change in control, additional \$15,000,000 of capital was issued in the form of convertible preferred stock. Upon the capital infusion the Company was able to meet the minimum risk based capital requirements.

² The Company has indicated that since this exam it has implemented such a procedure to comply with Section 29.140 of Insurance Code. After the exam, the new Company's Management and Board of Directors will ascertain compliance with the Insurance Code of Puerto Rico.

Insufficient Number of Directors

During the period under examination, it was noted that the board of directors contained only five directors. The Company was not in compliance with Article II Section 1 of its bylaws which requires ten directors³.

No Evidence of Required Committees

The Company did not provide any minutes of an Executive Committee or Finance Committee or any other evidence that these two committees ever met during the period under examination. The bylaws require that the Company have both an executive committee and finance committee.

Company Failed to Properly Report Uncollectible Reinsurance Recoverables

The reinsurance recoverable amounts, reported in the 2010 annual statement, included a balance of \$1,081,010 due from Munich Re. Of this balance, \$751,010 has been in dispute with Munich Re since 2007. SSAP No. 61 states, "The ceding and assuming companies must determine if reinsurance recoverable amounts are collectible. If it is probable that reinsurance recoverables on paid or unpaid claims or benefit payments will be uncollectible, consistent with SSAP No. 5 - Liabilities, Contingencies, and Impairments of Assets, these amounts should be written off through a charge to the Statement of Operations utilizing the same accounts which establish the reinsurance recoverable." A financial adjustment totaling \$751,010 will be made as part of this examination.

³ The Company has indicated that since this exam it has implemented such a procedure to comply with its bylaws. After the exam, the Board of Directors is comprised of ten (10) directors which is in compliance with the Company's bylaws.

Late Filing of Audited Financial Report

The Company was required by Rule XIV-A of the Regulations of the Insurance Code of Puerto Rico to file an audited financial report for the year ending December 31, 2010, on or before June 1, 2011. The Company asked for and was granted two extensions, June 30, 2011 and July 31, 2011, by the Office of the Insurance Commissioner (OCS). All further extension requests were denied. The Company filed its audited financial report on January 20, 2012. The Company was not in compliance with Rule XIV-A of the Regulations of the Insurance Code of Puerto Rico.

Actuarial Review Recommendations

Based upon the examination actuarial review of the reserves as of December 31, 2010, the following findings and recommendations were noted:

- i. Reserves for term plans were not determined in compliance with Actuarial Guideline 32 and do not reflect provisions for immediate payment of claims. It is recommended that MLife either include an adjustment to curtail reserves or calculate reserves on a continuous payment of claims basis.
- ii. For ten and twenty year term contracts, MLife calculates reserves using incorrect valuation interest rates. It is recommended that MLife use the proper valuation interest rates required for contracts with guaranteed durations of more than twenty years.

Compliance with Prior Examination Findings

The following is a summary of material adverse findings, significant non-compliance findings, or material changes in the financial statements noted and adjusted during the prior examination.

Company Failed to Obtain Prior Approval of a Permitted Practice

Real estate reported as \$11,726,723, was reduced by \$2,765,986, as the Company did not obtain prior approval from the Commissioner to capitalize the home office real estate investment.

Company Improperly Reported Agents' Balances

Agents' balances in the course of collection reported as \$13,233,644, were reduced by \$3,038,082, which represented premiums receivable over 90 days old. The Company failed to comply with SSAP No. 4 of the NAIC Accounting Practices and Procedures Manual, which only permits receivables less than 90 days old as admitted assets.

Company Failed to Report a Subsequent Event

Aggregate write-ins for liabilities reported as \$1,966,055 were increased by \$2,540,000, corresponding to the settlement of a legal claim agreed to by the parties on March 19, 2010. The financial adjustment was made prior to the issuance of the annual statement.

History

The Company was originally incorporated as National Life Insurance Company on May 8, 1969, and began business on July 3, 1969, under the provisions of the Insurance Code of Puerto Rico. The Company was authorized to write life and disability insurance

pursuant to Chapter 4 of the Insurance Code of Puerto Rico. The Company was licensed to write business in Puerto Rico and Florida.

At December 31, 2010, the Company was 48.81% owned by its affiliate, National Insurance Company (NIC), and 46.64% by its parent company, National Promoters and Services, Inc. (National Promoters). The remaining shares were owned by directors, officers and other individuals. The Company also held an 18.90% interest in NIC with the remaining ownership of NIC held by National Promoters.

Subsequent events: On June 29, 2011, the Florida Office of Insurance Regulation issued an order suspending the license of the Company.

On October 11, 2011, and November 10, 2011, Aseguradora Ancon S.A., an insurance company authorized to do business in Puerto Rico, received OCS approval to purchase the Company through a series of transactions.

On December 14, 2011, the OCS approved a change in name from National Life Insurance Company to Multinational Life Insurance Company.

Capital Stock

As of December 31, 2010, the Company had 250,291 common stock shares authorized, issued, and outstanding with a par value of \$10 per share. Majority ownership was held between National Promoters with 116,746 shares and NIC with 122,158 shares. The remaining shares were held by individuals including, the following directors, in compliance with Section 29.150(1) of the Insurance Code of Puerto Rico:

- Carlos Manuel Benítez, Jr.
- Edgardo Van Rhyn
- Edgar Rodríguez
- Fernando Rivera Munich
- Juan B. Soto

Subsequent events: The ownership of the Company changed following the November 2011 sale of MLife.

On December 28, 2011, MLife received approval from the OCS for a solicitation permit to issue 300,000 shares of convertible preferred stock, \$10 par value, at a \$67 purchase price. On December 28, 2011, 223,881 shares of the preferred stock were issued for a total issuance of \$15,000,027. The issuance had a favorable impact on capital and allowed the Company to meet the risk based capital requirements of the Insurance Code of Puerto Rico.

On January 23, 2012, the Company issued a restated 2010 annual statement, which indicated MLife was insolvent with capital and surplus totaling (\$96,219).

Dividends to Stockholders

The Company did not pay dividends during the period under examination.

Management and Control

Section 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 Section 29.150 of the Insurance Code of Puerto Rico and its own corporate bylaws.

During 2010, the Company held its annual stockholders' meeting on May 19 rather than on a date in April as required by the Company's bylaws Article I Section 1 - Regular Annual Meetings. The Company was not in compliance with its bylaws or with Section 29.140 of the Insurance Code of Puerto Rico, which requires that the annual meeting of stockholders be held according to the Company bylaws.

During the period under examination, it was noted that the board of directors contained only five directors. The Company was not in compliance with Article II Section 1 of its bylaws which requires ten directors.

As of the examination date, the directors of the Company, who were elected at the annual meeting of stockholders on May 19, 2010, were as follows:

<u>Directors</u>	<u>Principal Occupation</u>	<u>Residence</u>
Carlos Manuel Benítez, Jr.	Chairman	San Juan, Puerto Rico
Edgardo Van Rhyn	President	Carolina, Puerto Rico
Edgar Rodríguez Gómez	Senior Vice President	San Juan, Puerto Rico
Edgardo Betancourt	Senior Vice President	Guaynabo, Puerto Rico
Richardo Luis Reguero	Senior Vice President	San Juan, Puerto Rico

The officers of the Company, as appointed during the annual meeting of the board of directors on May 19, 2010, were the following:

<u>Name</u>	<u>Title</u>
Carlos M. Benítez, Jr.	Chairman of the Board
Edgardo Van Rhyn	President & Chief Executive Officer
Edgar Rodríguez	Senior Vice President - Operations
Manuel Julbe	Senior Vice President - Underwriting
Yadira Mercado	Senior Vice President - Finance
Ricardo Reguero	Senior Vice President - Individual
Edgardo Betancourt	Senior Vice President - Risk Management

Subsequent event: Directors serving after the sale of the Company on December 13, 2011 were:

<u>Directors</u>	<u>Principal Occupation</u>	<u>Resident</u>
Tobias Carrero-Nacar	President, MLife	Caracas, Venezuela
Carlos Iguina	Attorney	Carolina, Puerto Rico
Yelitza Cruz Melenda	Attorney	San Juan, Puerto Rico
Tobias Carrero Valentiner	Insurance Executive	Caracas, Venezuela
Luis Manuel Pimental	Executive Vice President and Chief Executive Officer, MLife	San Juan, Puerto Rico
Rafael Carrero Valentiner	Insurance Executive	Caracas, Venezuela
Miguel Vázquez Deynes	Retired	San Juan, Puerto Rico
Fernando Rivera-Muñoz	Retired	San Juan, Puerto Rico
Bartolome Gamundi	Management Consultant	San Juan, Puerto Rico
Juan Carlos Puig	Business Consultant	San Juan, Puerto Rico

Officers serving named after the sale of the Company on December 13, 2011 were:
justified

<u>Name</u>	<u>Title</u>
Tobias Carrero-Nacar	President
Luis Manuel Pimental	Executive Vice President & CEO
Richardo Luis Reguero	Senior Vice President - Sales
Yolanda Marquez	Vice President - Accounting
María Nelly Collazo	Vice President - Sales
Pedro Medina	Vice President - Sales
Luis Forteza	Manager - Finance & Accounting

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 ultimate parent company, National Promoters and Services, Inc. is not a publicly traded corporation and, therefore, is not subject to the Sarbanes-Oxley Act of 2002.

Subsequent event:

On October 11, 2011 and November 10, 2011, Aseguradora Ancon S.A., an insurance company authorized to do business in Puerto Rico, received OCS approval to purchase the Company through a series of transactions. Aseguradora Ancon S.A. is not a publicly traded corporation and, therefore, is not subject to the Sarbanes-Oxley Act of 2002.

Conflict of Interest

On July 30, 2010, the OCS issued Examination Order Number: EX-2010-177, for the purpose of performing an examination of an administrative agreement entered into on April 26, 2006, between the Company and Option Healthcare Network (Option). The President of Option was Pedro Van Rhyn, brother of Edgardo Van Rhyn, who served as President of the Company during the period of 2006 through 2011. Edgardo Van Rhyn was the majority shareholder of Option.

The examination revealed the Company was in violation of Section 29.230(1) as it was clear that directors and officers of the Company had entered into the agreement with Option, which represented a conflict of interest. In addition, the Company was found

to be in violation of Section 29.240 of the Insurance Code of Puerto Rico as the agreement was not filed with the OCS for approval.

Subsequent event:

On December 8, 2011, the OCS issued an Order as follows:

- The Company, within a period of 90 days, from the notification of the Order, must amend, rescind, revoke, cancel or replace the current contract with Option, in order to comply with the Insurance Code of Puerto Rico. In addition, the Company must submit to the OCS, for approval, the amended contract.
- A fine of \$5,000 was imposed for violating Section 29.240 of the Insurance Code of Puerto Rico, the fine was to be paid within 20 days of the date of notice of the Order.

Corporate Records

The articles of incorporation, bylaws and all amendments thereto were reviewed for the period under examination. There were no changes made to the articles of incorporation or bylaws during the period under examination.

Subsequent event:

On December 14, 2011, the OCS approved a change in name from National Life Insurance Company to Multinational Life Insurance Company. The articles of incorporation and bylaws were amended to reflect the name change after receiving OCS approval.

Board of Directors and Committee Minutes

The recorded minutes of the meetings of the shareholders, board of directors and certain internal committees were reviewed for the period under examination. The Company did not provide minutes for an executive committee or finance committee or other evidence that these two committees ever met during the period under examination. The bylaws require that the Company have both an executive committee (Article VI Section 1 - Executive Committee) and finance committee (Article VI Section 2 - Finance Committee).

Fidelity Bonds and Other Insurance

The Company failed to obtain adequate fidelity bond coverage as recommended by the NAIC Financial Examiners Handbook. The Company is also a named insured on various other policies providing directors' and officers' and employment practices' liability, commercial property & liability, crime, and inland marine coverage.

Pension and Insurance Plans

Defined Benefits Plan

The Company provides a benefit plan which is considered to be a noncontributory defined benefit pension plan covering substantially all employees who have attained 21 years of age and completed 1,000 hours of service with Carlos M. Benítez, Inc., an affiliate until the purchase of the Company. The plan was organized in 1969 under the laws of the Commonwealth of Puerto Rico and is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). The Company is required to make annual contributions to the plan, as determined by consulting actuaries, that

should be at least the minimum funding requirement of ERISA. The Company charged to operations its annual contribution amounting to \$115,594 and \$103,061 for 2010 and 2009, respectively. Plan assets consist mainly of U.S. Government securities, bonds, stocks, cash and cash surrender values on life insurance policies.

Effective December 31, 2004, the Plan was amended as follows:

- Benefit accruals under the Plan were frozen as of December 31, 2004, with no increase in the accrued benefit to any participant after that date.
- Employees of any of the companies which participated in the Plan, who were employed after December 31, 2004, are not permitted to participate in the Plan. Notwithstanding, active participants of the Plan as of December 31, 2004, shall continue to accrue years of services of vesting service subsequent to December 31, 2004, for purposes of eligibility for benefits and vesting of accrued benefits under the Plan.

In addition, effective September 1, 2004, the Company established a qualified savings plan under section 1165(e) of Puerto Rico Internal Revenue Code of 1994, as amended. It covered substantially all employees who have completed three months of service and have reached the age of eighteen. For the years ended December 31, 2010 and 2009, the Company made matching contributions that amounted to \$43,974 and \$42,718, respectively.

Intercompany Agreements

The Company has the following written agreements with affiliates.

Claims Services Agreement

This agreement, entered into on February 1, 2007, between the Company and its affiliate Insurance Adjusters & Appraisers (IAA) was to provide claims management services. Services under the contract included receipt and processing of claims, claim evaluation and claim payment. Fees pursuant to the contract were based on a flat fee of \$100,000 per month.

Subsequent event: The contract was cancelled in November 2011 following the sale of the Company.

Intercompany Services Agreement

This agreement, entered into on January 15, 2007, is between the Company and its parent, National Promoters and Services, Inc., to provide certain services related to finance, accounting, reinsurance administration and human services. Fees pursuant to the contract were based on a flat fee of \$115,000 per month.

Subsequent event: The contract was cancelled in November 2011 following the sale of the Company.

Lease Agreement

The Company was party to a lease agreement, entered into on January 1, 2009, the Company leased office space owned by affiliate, National Insurance Company, at 510 Muñoz Rivera Ave, San Juan, Puerto Rico. Rent associated with the lease amounted to \$36,480 per month.

Subsequent event: The lease was cancelled in November 2011, following the sale of the Company and the purchasing of other assets of affiliate, National Insurance

Company, including the building in which the Company operates. The Company will continue to accrue rental expenses until the lease agreement has been completed.

Growth of the Company

The following data was obtained from the restated annual statements filed with the OCS:

Year	Admitted Assets	Liabilities	Company Capital Stock	Gross Paid Contributed Surplus	Surplus Notes	Unassigned Surplus
2010	\$135,458,610	\$135,554,829	\$2,502,910	\$3,860,873	\$5,000,000	(\$11,460,002)
2009	133,481,883	135,110,793	2,502,910	3,860,873	5,000,000	(12,992,693)

Insurance Products and Related Practices

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

	2010	2009
Ordinary Life Insurance	\$19,440,981	\$19,243,053
Ordinary Individual Annuities	570,043	966,797
Credit Life (Group & Individual)	3,219,209	3,993,680
Group Life Insurance	5,836,127	7,788,812
A&H - Group	49,384,895	44,753,138
A&H - Credit (Group & Individual)	483,536	383,220
A&H - Other	19,875,767	21,580,811
TOTAL	\$98,810,558	\$98,709,511

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 gross written premiums:

	2010	2009
Puerto Rico	\$98,259,910	\$98,305,910
Florida	550,648	403,601
TOTAL	\$98,810,558	\$98,709,511

Statutory Deposits

As of December 31, 2010, 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	Amortized Value
PR Commonwealth Bond	07/01/13	\$300,000	\$312,126
Employees Ret. System Government Bond	07/01/38	1,000,000	1,000,000
PR Commonwealth Bond	07/01/12	50,000	50,000
TOTAL		\$1,350,000	\$1,362,126

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 Company was in compliance with Section 3.151 of the Insurance Code of Puerto Rico as of December 31, 2010.

Section 3.090 of the Insurance Code of Puerto Rico requires the Company to maintain minimum paid-in capital of \$2,500,000 and statutory deposits of not less than \$1,250,000 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 fifty percent (50%) of the minimum paid in capital be in Puerto Rico securities. The Company maintained investments in Puerto Rico securities in excess of \$1,250,000 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 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 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 assumed certain risks under agreements that meet the Company's risk profile. During 2010, the Company reported assumed premiums of \$3,462,399.

Reinsurance Ceded

The Company ceded all risks in excess of \$250,000 on individual life insurance and \$75,000 for individual risks written under group life policies. For accident and health, the Company ceded 85% of the risk for all long-term disability (LTD) policies.

Presently, the Company is doing business with six reinsurance companies, one of which reinsures exclusively LTD. For the cancer business, the Company ceded 60% of the risk.

The reinsurance recoverable amounts, reported in the 2010 annual statement, included a balance of \$1,081,010 due from Munich Re. Of this balance, \$751,010 has been in dispute with Munich Re since 2007. SSAP No. 61 states, "The ceding and assuming companies must determine if reinsurance recoverable amounts are collectible. If it is probable that reinsurance recoverables on paid or unpaid claims or benefit payments will be uncollectible, consistent with SSAP No. 5 - Liabilities, Contingencies, and Impairments of Assets, these amounts should be written off through a charge to the Statement of Operations utilizing the same accounts which establish the reinsurance recoverable." A financial adjustment totaling \$750,010 will be made as part of this examination.

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

The Company was required by Rule XIV-A of the Regulations of the Insurance Code of Puerto Rico to file an audited financial report for the year ending December 31, 2010, on or before June 1, 2011. The Company asked for and was granted two extensions, June 30, 2011 and July 31, 2011, by the OCS. All further extension requests were denied. The Company filed its audited financial report on January 20, 2012. The Company was not in compliance with Rule XIV-A of the Regulations of the Insurance Code of Puerto Rico.

The actuarial study and opinion for the period under examination was prepared by William R. Horbatt, FSA, MAAA.

Financial Statements

Below are the financial statements of the Company:

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

Multinational Life Insurance Company
Assets

As of December 31, 2010

	Annual Statement	Examination Adjustments	Examination Balance
Bonds	\$95,125,776		\$95,125,776
Preferred stocks	143,240		143,240
Common stocks	40,642		40,642
Properties occupied by the Company	12,659,033		12,659,033
Properties held for the production of income	484,500		484,500
Cash and short-term investments	1,654,356		1,654,356
Contract loans	3,172,437		3,172,437
Investment income due and accrued	803,858		803,858
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	6,421,084		6,421,084
Deferred premiums, agents' balances and installments booked but deferred and not yet due	5,321,261		5,321,261
Reinsurance:			
Amounts recoverable from reinsurers	3,255,835	(\$751,010)	2,504,825
Other amounts receivable under reinsurance contracts	2,790,922		2,790,922
Aggregate write-ins for other than invested assets	3,585,666		3,585,666
Total Assets	<u>\$ 135,458,610</u>	<u>(\$751,010)</u>	<u>\$ 134,707,600</u>

Multinational Life Insurance Company
Liabilities, Surplus and Other Funds

As of December 31, 2010

	Annual Statement	Examination Adjustments	Examination Balance
Aggregate reserve for life contracts	\$ 88,534,834		\$ 88,534,834
Aggregate reserve for accident and health contracts	12,339,568		12,339,568
Contract claims:			
Life	4,892,072		4,892,072
Accident and health	16,235,996		16,235,996
Interest maintenance reserve	951,078		951,078
Commissions to agents due or accrued – life and annuity contracts	328,001		328,001
General expenses due or accrued	1,422,157		1,422,157
Taxes, licenses and fees due or accrued	220,099		220,099
Current federal and foreign income taxes	39,251		39,251
Unearned investment income	114,198		114,198
Amounts withheld or retained by Company as agent	400,789		400,789
Amounts held for agents' account	1,550,118		1,550,118
Remittances and items not allocated	299,351		299,351
Asset valuation reserve	1,341,403		1,341,403
Payable for securities lending	15,835		15,835
Aggregate write-ins for liabilities	6,870,079		6,870,079
Total Liabilities	\$135,554,829		\$135,554,829
Common capital stock	\$2,502,910		\$2,502,910
Surplus notes	5,000,000		5,000,000
Gross paid in and contributed surplus	3,860,873		3,860,873
Unassigned funds (surplus)	(11,460,002)	(\$751,010)	(12,211,012)
Total Surplus	(\$96,219)	(\$751,010)	(\$847,229)
Total Liabilities and Surplus	\$ 135,458,610	(\$751,010)	\$ 134,707,600

Multinational Life Insurance Company
Statement of Income

As of December 31, 2010

Premiums and annuity considerations for life and accident and health contracts	\$74,726,786
Net investment income	5,423,162
Amortization of interest maintenance reserve	170,812
Aggregate write-ins for miscellaneous income	605,249
Total	\$80,926,009
Death benefits	\$9,435,706
Annuity benefits	391,270
Disability benefits and benefits under accident and health contracts	26,705,966
Surrender benefits and withdrawals for life contracts	5,518,588
Group conversions	288
Interest and adjustments on contract or deposit-type contract funds	1,800
Decrease in aggregate reserves for life and accident and health contracts	(1,005,586)
Total	\$41,048,032
Commissions on premiums, annuity considerations and deposit-type contract funds	\$10,989,862
Commissions on expense allowances on reinsurance assumed	1,046,635
General insurance expense	26,043,382
Insurance taxes, licenses and fees	616,851
Increase in loading on deferred and uncollected premiums	(33,637)
Total	\$79,711,125
Net gain from operations	\$1,214,884
Net realized capital gain	73,764
Net (Loss)/Income	\$1,288,648

Multinational Life Insurance Company
Capital and Surplus Account

As of December 31, 2010

Capital and surplus, December 31, prior year (Restated)	<u>(\$1,628,910)</u>
Net income (loss)	\$1,288,648
Change in net unrealized capital gains or (losses)	2,343,141
Change in non-admitted assets	(1,875,593)
Change in asset valuation reserve	(208,331)
Aggregate write-ins for gains and losses in surplus	<u>(15,174)</u>
Net change in capital and surplus for the year	<u>\$1,532,691</u>
Capital and surplus, December 31, current year	<u><u>(\$96,219)</u></u>

**Multinational Life Insurance Company
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 (\$96,219)

		<u>PER COMPANY</u>		<u>PER EXAM</u>		<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:						
Reinsurance Recoverable	\$	3,255,835	\$	2,504,825	\$	(751,010)
LIABILITIES:						
No adjustments proposed	\$	-	\$	-	\$	-
Net Change in Surplus:						<u>(751,010)</u>
Capital and Surplus Account December 31, 2010, Per Examination						<u><u>(\$847,229)</u></u>

Comments on the Financial Statements

Amounts Recoverable from Reinsurers \$751,010

Unassigned Surplus

The reinsurance recoverable amount, reported in the 2010 annual statement, included a balance of \$751,010, which has been in dispute with Munich Re since 2007. The Company should have written off the recoverable amount pursuant to SSAP No. 61 and SSAP No. 5.

Aggregate Reserve for Life Contracts

Aggregate Reserve for Accident and Health Contracts

Contract Claims: Life

Contract Claims: Accident and Health

Uncollected Premiums and Agents' Balances in Course of Collection

An independent review of aggregate reserves was performed by INS Consultants, Inc. (INS), Philadelphia, Pennsylvania.

INS identified the risks related to reserve determination procedures and methodologies associated with each product segment and in some cases with certain product types within the product segment. The risk assessment process included consideration of the likelihood that the reserve for a particular product group would fall below statutory requirements, the likelihood that the reserve would fail to provide for future cash flow demands and the potential impact on surplus if the reserve established failed to meet its goals. INS also took into account its knowledge of MLife in particular and the insurance industry in general and applied professional judgment in assessing the risks.

For each product type, examination procedures were performed by INS depending on the residual risk assessments as determined by INS.

INS' examination procedures called for sample reserve calculations, where appropriate, and reserves for sample contracts were calculated by INS in accordance with standard actuarial practice. INS concluded that sample reserve testing was not warranted for certain product groups and liability items with a residual risk assessment of low. For these items, INS relied on general analyses and/or a review of the trend analysis.

The balance sheet items enumerated in the examination scope appear to be calculated using valuation parameters, which appear to be free of any material error and valuation files that appear to be complete. INS concluded that the December 31, 2010, balance sheet items covered in the examination scope appear fairly stated.

The actuarial report included the following recommendations:

- Reserves for term plans were not determined in compliance with Actuarial Guideline 32 and do not reflect provisions for immediate payment of claims. It is recommended that MLife either include an adjustment to curtate reserves or calculate reserves on a continuous payment of claims basis.
- For ten and twenty year term contracts, MLife calculates reserves using incorrect valuation interest rates. It is recommended that MLife should use the proper valuation interest rates required for contracts with guaranteed durations more than twenty years.

Subsequent Events

- On June 29, 2011, the Florida Office of Insurance Regulation issued an order suspending the license of the Company.
- On October 11, 2011 and November 10, 2011, Aseguradora Ancon S.A., an insurance company authorized to do business in Puerto Rico, received OCS approval to purchase the Company through a series of transactions.
- During November 2011, MLife cancelled the intercompany service agreement, the claims agreement and lease agreement following the sale of the Company.
- On December 8, 2011, the OCS issued an Order as follows:
 - The Company, within a period of 90 days, from the notification of the Order, must amend, rescind, revoke, cancel or replace the current contract with Option, in order to comply with the Insurance Code of Puerto Rico. In addition, the Company must submit to the OCS, for approval, the amended contract.
 - A fine of \$5,000 was imposed for violating Section 29.240 of the Insurance Code of Puerto Rico, the fine was to be paid within 20 days of the date of notice of the Order.
- On December 13, 2011, a new board of directors was established and officers were elected following the completion of the sale of the Company.
- On December 14, 2011, the OCS approved a change in name from National Life Insurance Company to Multinational Life Insurance Company. The articles of

incorporation and bylaws were amended to reflect the name change after receiving OCS approval.

- On December 28, 2011, MLife received approval from the OCS for a solicitation permit to issue 300,000 shares of convertible preferred stock, \$10 par value, at a \$67 purchase price. On December 28, 2011, 223,881 shares of the preferred stock were issued for a total issuance of \$15,000,027.
- On January 23, 2012, the Company issued a restated 2010 annual statement, which indicated MLife was insolvent with capital and surplus totaling (\$96,219).

Summary of Examination Recommendations

Company Failed to Obtain Adequate Fidelity Bond Coverage

We recommend the Company obtain fidelity bond coverage in the amount suggested on Exhibit R of the NAIC Financial Condition Examiners Handbook.

Company Failed to Hold Annual Stockholder Meeting

We recommend the Company comply with its bylaws and with Section 29.140 of the Insurance Code of Puerto Rico and hold an annual meeting of stockholders.

Insufficient Number of Directors

We recommend the Company comply with Article II Section 1 of its bylaws and appoint the appropriate number of directors to the board of directors.

No Evidence of Required Committees

We recommend the Company comply with its bylaws and establish the appropriate committees of the board of directors.

Company Failed to Properly Report Uncollectible Reinsurance Recoverables

We recommend the Company write-off uncollectible reinsurance recoverable amounts pursuant to SSAP No. 61 and SSAP No. 5.

Late Filing of Audited Financial Report

We recommend the Company comply with Rule XIV-A of the Regulations of the Insurance Code of Puerto Rico and file the audited financial report by June 1.

Actuarial Review Recommendations

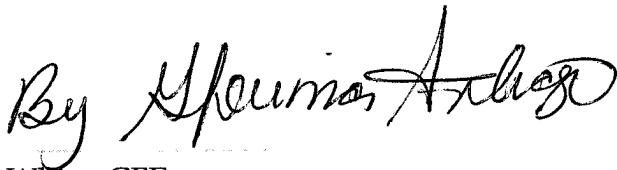
- We recommend the Company either include an adjustment to curtail reserves or calculate reserves on a continuous payment of claims basis.
- We recommend the Company use the proper valuation interest rates required for contracts with guaranteed durations more than twenty years.

Conclusion

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Multinational Life Insurance Company** as of December 31, 2010, consistent with the Insurance Code of Puerto Rico.

Per examination findings, on January 23, 2012, the Company issued a restated 2010 annual statement, which indicated MLife was insolvent with capital and surplus totaling (\$96,219).

In addition to the undersigned, Patricia Casey Davis, CPA, CFE, Manager; John V. Normile, CFE, Staff Examiner; Don Gaskill, CFE, Staff Examiner, all of InsRis-PR, LLC; Paul Berkebile, CFSA, CISA, Senior Manager; Claude Granese, CPA; and Terry Ryals, IT Specialist, all of INS Services, Inc.; and Frank Edwards, ASA, MAAA, Actuary, of INS Consultants, Inc. participated in the examination.



Patrick White, CFE
Examiner-in-Charge