Commonwealth of Puerto Rico
OFFICE OF THE COMMISSIONER OF INSURANCE

SPENCER RE, I.I.

As of December 31, 2013

Case Number EX-2014-35

Gregg S. Bealuk, CFE
Examiner-In-Charge
INSRIS-PR, LLC

TABLE OF CONTENTS

SCOPE OF EXAMINATION 1

HISTORY 2

MANAGEMENT AND CONTROL 5

CAPITAL STOCK 6

DIVIDENDS TO STOCKHOLDERS 7

AUTHORIZATION REQUIREMENTS 7

SEGREGATION OF BOOKS AND RECORDS 7

MINIMUM CAPITAL AND SURPLUS 12

DEPOSIT IN PUERTO RICO 13

PREMIUM AND LIQUIDITY RATIO 13

ANNUAL REPORT 14

BUSINESS NAME 15

PRINCIPAL REPRESENTATIVE 16

INVESTMENTS PLAN 16

CONTRIBUTIONS AND FEES 16

- Statement of Balance Sheet 18
- Income Statement (GAAP Basis) 19
- Net Income Reconciliation (GAAP to Statutory) 20

SUMMARY OF NON-COMPLIANCE FINDINGS 21

CONCLUSION 21

Commonwealth of Puerto Rico
OFFICE OF THE COMMISSIONER OF INSURANCE

December 9, 2015

Ms. Ángela Weyne Roig
Commissioner of Insurance
Office of the Commissioner of Insurance of Puerto Rico
B5 Tabonuco Street–Suite 216
PMB 356
Guaynabo, PR 00968-3029

Dear Commissioner:

In compliance with your instructions and pursuant to the Exam Order EX-2014-35 dated September 23, 2014, and the Puerto Rico Insurance Laws and Regulations, a compliance focused examination was made of the books, records, and financial condition of

SPENCER RE, I.I.
802 Fernández Juncos Avenue
Corner La Paz Miramar
San Juan, Puerto Rico, 00907

hereinafter referred to as "the Insurer".

SCOPE OF EXAMINATION

The current examination was conducted remotely, however all applicable documentation was obtained from the home office of the Insurer. This examination covered the period of January 1, 2009 through December 31, 2013, including any material, relevant transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

The purpose of this examination is to evaluate the compliance of the Insurer with the provisions of Chapter 61 of the Insurance Code of Puerto Rico and its Rules 80, 81, and 82, as applicable. In addition, we will ascertain that the Insurer is in compliance with the Business Plan submitted to the Commissioner of Insurance ("the Commissioner") of Puerto Rico.

HISTORY

The Insurer was organized under the laws and provisions of the Insurance Code of Puerto Rico on August 11, 2005. The Insurer operates as an international insurer under the provisions of Law 399, "International Insurers and Reinsurers Act", and was authorized to start operations as a Class 3 International Insurer effective August 11, 2005.

In compliance with Article 29.200(1)[1] of the Insurance Code of Puerto Rico, the Insurer filed an application for a change in control on September 23, 2011. Subsequently, as approved by the OCS, on October 24, 2011, 100% of the Insurer's voting shares were sold to Spencer Capital Holdings, Ltd. ("Spencer Capital"), by Sciens Protective Holdings, Ltd. This sale included Stock Certificate #001, which included 899,989.33 shares with a $1 par value.

On November 16, 2011, the Insurer filed petition to change its name, in accordance with Article 29.070(2) of the Insurance Code of Puerto Rico. The Commissioner, on January 20, 2012, approved the amendment to the Insurer's articles of incorporation to change the Insurer's name from Oceanus Reinsurance, A.I. to Spencer Re. I.I.

[1] Article applicable to International Insurers under the provisions of Article 61.190 of the Insurance Code of Puerto Rico.

The Insurer reinsures insurance products, and contractual liability insurance for non-insurance products, sold primarily by automobile dealers or affiliates, in connection with the sale and financing of automobiles and other products, as approved by the Board of the Insurer. Such products may include vehicle service contracts, limited warranties, guaranteed automobile protection (GAP), vehicle protection products, and others as approved by the Board.

The reinsurance business thus generated is allocated either to the Insurer's protected cells ("Protected Cell Accounts") or to non-protected accounts in the general account ("Non-Protected Accounts"), or is held for the Insurer's own account in the Insurer's general account. The reinsurance business is linked in the Insurer's records either to the specific series of the Insurer's non-voting preferred stock held with a Preferred Shareholder (the Insurer has two overall classes of non-voting preferred shares: one for the protected cells and one for the non-protected accounts), or to that portion of the Insurer's General Account that is not linked to any non-protected accounts. Dividends on each series of preferred shares will be based on the benefits of the applicable Protected Cell Account or Non-Protected Account. Dividends on the Insurer's common shares will be based on the benefits of the Insurer's General Account.

The Insurer reinsures claims arising from Auto Vehicle Service and Ancillary Contracts sold in the U.S. for new and used cars. Policies are sold by automobile dealers and insured with U.S. licensed insurers ("Direct Writers"). The Direct Writers, are provided with the opportunity to participate as shareholders of The Insurer and thereby share in the underwriting profits and losses associated with the business generated by the Direct Writers in question. Once the Insurer enters into a reinsurance agreement with a Direct Writer, the Direct Writer refers interested participants to the Insurer. The Insurer provides them the information so they, along with their advisers, can make an informed decision on whether to become a Preferred Shareholder or not.

The Direct Writer cedes business to the Insurer on a quota share basis. Such reinsurance is subject to a ceding commission to cover the Direct Writer's acquisition expenses, including taxes, and to provide the Direct Writer with a profit for its role in the program. The Insurer secures its reinsurance obligations to the Direct Writer through the use of letters of credit, trust accounts and other acceptable securities.

Each holder or purchaser of the Insurer's non-voting preferred shares participates in the profits and losses associated with reinsurance business that he or she indirectly generates for the Insurer. Such business includes the reinsurance of (i) insurance products sold by the Preferred Shareholders or their affiliates, (ii) insurance of contractual liabilities under non-insurance products sold by a Preferred Shareholder or its affiliates, or (iii) insurance issued to the Preferred Shareholder or its affiliates for their own risks.

The Insurer has no current plans to underwrite business on a direct basis. Also, the Insurer's assumed reinsurance is generally limited to accepting treaty, as opposed to facultative placements. For these reasons, the Insurer is not engaged in underwriting individual risks. With respect to assumed treaty reinsurance, the Insurer's management is primarily responsible for the Insurer's underwriting activities, including review of pricing and negotiation of all reinsurance agreements. Also, as necessary to support management's review of the pricing for a particular reinsurance program, the Insurer would use consulting actuaries. For the period under examination, the Insurer utilized a recognized insurance consulting actuary, Amy P. Angell of Milliman, Inc., who was approved by the Board of Directors on November 9, 2005 and the Commissioner of Insurance. The approved actuary has issued the Company's actuarial opinion every year since 2005, including the year ending December 31, 2013.

Since the Insurer's business is limited to reinsurance, the Insurer relies on the Direct Writers, or their representatives, for claims administration and adjustment issues. Management is primarily responsible for reviewing ceding statements and other loss reports provided by the Direct Writers or their representatives. Management is supported in this function by a third party financial services provider, Kane Limited. Management, working with the third party financial services provider and with the insurance consulting actuary, is also responsible for reviewing the Insurer's reserves.

MANAGEMENT AND CONTROL

The Bylaws state that the Board of Directors shall consist of five (5) members who shall be elected at the annual meeting of the stockholders. Directors serve for a term of one to three years; however, a Director may serve for an unlimited number of terms. The Bylaws dictate that the Board will be responsible for the control and general management of the affairs and business of the Corporation.

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

Directors	Principal Occupation
Joseph K. Taussig	Chairman of the Board
Ken Shubin Stein	President
Kofi Domfeh	Executive Vice President
Ralph J. Rexach	Secretary

The Insurer maintained four Directors as of the December 31, 2013 examination date, in violation of its Bylaws, which dictate that there should be five members in the Board of Directors. As such; it is required that the Insurer comply with its Bylaws regarding to the number of Directors on the Board. This can be accomplished by electing an additional Director or by amending the Bylaws.

The Bylaws of the Insurer indicate that the Board of Directors may elect the officers of the Insurer, including Chairman of the Board and President, along with additional officers that it feels is desirable for the conduct of the Insurers business. As of December 31, 2013, the Officers of the Insurer, as appointed by the Board of Directors during meeting held on August 15, 2013, were as follows:

Officers	Position
Joseph K. Taussig	Chairman of the Board
Ken Shubin Stein	President
Brian Feldman	Executive Vice President
Ralph J. Rexach	Secretary

CAPITAL STOCK

As of December 31, 2013, the Insurer had 10,000,000 common stock shares authorized at $1 par value with 899,989.33 issued and outstanding, for a total paid in capital of $899,989.33. The Insurer is 100% owned by Spencer Capital. Spencer Capital is the Insurer's direct and ultimate parent.

DIVIDENDS TO STOCKHOLDERS

The Insurer paid dividends to stockholders of $6,311,324, $10,061,466, $2,160,901, $4,037,000 and $2,600,000 during the fiscal years ended 2013, 2012, 2011, 2010 and 2009, respectively. The dividends were paid to the various cells and the amount paid to each cell was determined on a cell by cell basis depending on the cell's specific results from operations in a given year. All payments were approved by the Commissioner of Insurance and were in compliance with Article 61.120 of the Insurance Code of Puerto Rico.

AUTHORIZATION REQUIREMENTS

Article 61.050 of the Puerto Rico Insurance Code requires the Insurer to provide certain information to the Commissioner in order to be authorized as an International Insurer. These requirements include the payment of a fee for the examination, investigation and processing of the authorization application. The information required has to be filed for initial authorization and thereafter every year for renewal of the Certificate of Authority issued by the Commissioner.

The information filed by the Insurer to comply with the requirements was reviewed for the period under examination. The Insurer was in compliance with Article 61.050 of the Puerto Rico Insurance Code.

SEGREGATION OF BOOKS AND RECORDS

As part of the approval from the Commissioner for the business combination of The Insurer and the 17 Segregated Asset Plans ("SAPs"), it was required that the accounting books and records be kept separated in order to identify the specific income and expenses related to each company, and also identify the assets available for the payment of insurance liabilities. As of the review date, the Insurer was in compliance with this requirement by properly maintaining separate accounting books for the identification of revenues, expenses and assets corresponding to each company.

Most of the Insurer's assets are held in master trust accounts in highly rated financial institutions. The assets and liabilities of each of the Insurer's Protected Cell Accounts, as well as each Non-Protected Account in the Insurer's General Account, are established on the books of the Insurer in separate entries or through the use of subaccounts.

The Insurer secures its reinsurance obligations to the Direct Writer, with trust accounts or letters of credit issued under a letter of credit facility whereby each Protected Cell Account, Non-Protected Account or assumed business held in the General Account is listed on the applicable letter of credit that is providing security for the reinsurance liabilities attributable to that Protected Cell Account, Non-Protected Account in the General Account, or for the General Account. The terms of the Insurer's reinsurance agreement with each Direct Writer prohibit the Direct Writer from drawing down on the assets of any trust account or on a letter of credit except with respect to reinsurance liabilities attributable to the related Protected Cell Account, Non-Protected Account in the General Account, or the General Account. Please note that each master trust or letter of credit agreement will not involve more than one Direct Writer.

The following is the detail of total income and expenses before income taxes segregated by each operation for 2012 and 2013:

SPENCER RE, I.I- CONSOLIDATED		
Year Ending December 31,	Net Income	Capital & Surplus
2012	$5,830,213	$ 24,515,833
2013	6,517,412	24,721,918

SWDS, LLC- DAC1501		
Year Ending December 31,	Net Income	Cell Equity
2012	$ 809,538	$817,538
2013	251,673	259,673

PJ WARRCHEST, LLC- DAC1503		
Year Ending December 31,	Net Income	Cell Equity
2012	$ 86,292	$ 94,292
2013	395,867	403,867

SBSP, LLC- DAC1508		
Year Ending December 31,	Net Income	Cell Equity
2012	$ (17,918)	$ (9,918)
2013	(8,673)	(673)

SURECAP INTERNATIONAL, LLC- DAC1515		
Year Ending December 31,	Net Income	Cell Equity
2012	$ 158,307	$ 166,307
2013	214,466	222,466

MCCALL, LLC- ZUR1102		
Year Ending December 31,	Net Income	Cell Equity
2012	$ 423,858	$ 596,301
2013	508,182	680,355

CAMPWOOD, LLC- ZUR1104		
Year Ending December 31,	Net Income	Cell Equity
2012	$ 428,614	$ 436,614
2013	260,144	268,144

ROSAD0- ZUR1107		
Year Ending December 31,	Net Income	Cell Equity
2012	$ 62,579	$ 448,269
2013	346,540	732,230

HEALEY RE, LLC- ZUR1110		
Year Ending December 31,	Net Income	Cell Equity
2012	$ 343,426	$ 471,883
2013	359,340	487,747

764 INVESTMENTS, LLC- ZUR1121		
Year Ending December 31,	Net Income	Cell Equity
2012	$ 1,467,569	$ 1,620,875
2013	1,327,428	1,480,734

FOGARTY FAMILY REINSURANCE COMPANY, LLC- ZUR1123		
Year Ending December 31,	Net Income	Cell Equity
2012	$ 741,025	$ 749,025
2013	295,904	303,904

PFLP F&I, LLC- ZUR1124		
Year Ending December 31,	Net Income	Cell Equity
2012	$ 860,928	$ 1,598,364
2013	1,209,671	1,947,107

ROD RYAN BAVARIAN PROPERTIES, LLC- ZUR1127		
Year Ending December 31,	Net Income	Cell Equity
2012	$ 225,623	$ 233,623
2013	894,865	902,396

WARRANTY HOLDINGS, LLC- ASSUR100		
Year Ending December 31,	Net Income	Cell Equity
2012	$ (802,423)	$ (785,358)
2013	(1,356,727)	(1,339,662)

DIT HOLDINGS, LLC- ZUR1113		
Year Ending December 31,	Net Income	Cell Equity
2012	$ 131,413	$ 1,602,739
2013	251,799	1,723,125

DSIC, LLC- ZUR1101		
Year Ending December 31,	Net Income	Cell Equity
2012	$ 64,455	$ 72,455
2013	36,519	44,519

ZEIGLER INSURANCE, LLC- ZUR1125		
Year Ending December 31,	Net Income	Cell Equity
2012	$ 1,406,489	$ 1,414,489
2013	0	0

NWD, LLC- ZUR1132		
Year Ending December 31,	Net Income	Cell Equity
2012	$ 82,009	$ 90,009
2013	0	0

Two of the Protected Cells (SBSP, LLC- DAC1508 and Warranty Holdings, LLC-ASSUR100) reported negative equity as of December 31, 2013. The Insurer's Bylaws, in its Article 9 allows for the establishment of a loss fund as a way of addressing a negative equity situation.

A percentage of all reinsurance premiums received by the Insurer, whether for Protected Cell Accounts or Non-Protected Account business, is placed in a loss fund (the "Loss Fund") established by a book entry in the Insurer's General Account. The percentage of premiums allocated in the book entry of the Loss Fund is determined by the Board from time to time.

If an amount is owed to any Direct Writer with respect to one or more Protected Cell Accounts or Non-Protected Accounts with a negative balance, the Insurer will reduce the book entry allocated to the Loss Fund: (i) to pay the applicable Direct Writer in full if there are sufficient funds available in the Loss Fund; or (ii) if there are not sufficient funds available in the Loss Fund, to pay the applicable Direct Writer in full, to equitably allocate (at the discretion of the Insurer's Board of Directors) and pay the remaining Loss Fund to the applicable Direct Writer. If there are no funds remaining in the Loss Fund, it is also the Insurer's intent that any surplus in the Insurer's General Account that is not allocated to any Non-Protected Account or Accounts will be available to pay amounts owed to the Direct Writer with respect to a negative balance in either a Protected Cell Account or a Non-Protected Account. The Insurer's Board of Directors has the discretion to determine how such surplus is allocated to pay such amounts owed to Direct Writers.

Subsequent to the December 31, 2013 examination date, the two cells with reported negative equity, as discussed above, have funds from the Loss Fund and they no longer report negative equity.

MINIMUM CAPITAL AND SURPLUS

Article 61.080 of the Puerto Rico Insurance Code requires the Insurer to maintain a minimum capital and surplus depending on the Class of International Insurer for which it is authorized to transact business. The requirements of capital and surplus for a Class 3 authority insurer is an amount not less than $1,500,000, in addition to the requirements for other classes of authority. As such, the Insurer was required to maintain a total capital and surplus of not less than $1,500,000.

In respect to the amount mentioned on the paragraph above, the Insurer, being a Class 3 International Insurer, is required to maintain a minimum capital of $1,500,000. The following data was obtained from the audited financial statements filed in the Commissioner's Office:

Year	Capital	Surplus	Total Capital and Surplus
2009	$ 899,989	$14,949,125	$ 15,849,114
2010	899,989	14,455,691	15,355,680
2011	899,989	15,871,099	16,771,088
2012	899,989	23,615,844	24,515,833
2013	899,989	23,821,929	24,721,918

As shown on the table above, the Insurer was in compliance with Article 61.080 (1-5) of the Insurance Code of Puerto Rico for the period under review.

DEPOSIT IN PUERTO RICO

Article 61.080(6) of the Puerto Rico Insurance Code requires the Insurer to maintain an amount on deposit in Puerto Rico of whichever is less between the capital and surplus required on the referred article, or $5,000,000. In the case of the Insurer, the amount to be maintained in Puerto Rico would be $1,500,000. For the period reviewed, the Insurer complied with the requirement maintaining bonds from the Government of Puerto Rico and cash deposits in banks of Puerto Rico in the amount of $2,131,970.

PREMIUM AND LIQUIDITY RATIO

The Insurer is required by Section 9 of Rule 80 and Article 61.090 of the Puerto Rico Insurance Code to maintain, at all times, sufficient liquid assets (as defined by Rule

80) and capital and surplus to satisfy the premium and liquidity ratios established by the Puerto Rico Insurance Code.

For international insurers with Class 3 Authority, one of the requirements is that the Insurer shall maintain admitted assets in excess of liabilities of $1,500,000 or 33% of the net premiums written for the actual fiscal year, whichever is greater. In the case of the Insurer, for all of the fiscal years reviewed, the corresponding threshold according to Class 3 Authority would be $1,500,000 of required excess of admitted assets over liabilities. The Insurer complied with this provision for the period reviewed.

Section 9 of Rule 80, requires that all international insurers maintain an amount of liquid assets not less than 80% of their total amount of liabilities. The following data was obtained and recalculated from the financial figures presented in the audited financial statements of the Insurer, to adjust them to the definition of "Liquid Assets" as per Rule 80:

Year End	Total Liquid Assets as defined by Rule 80	80% of Total Liabilities
2009	$ 57,845,710	$ 33,597,275
2010	61,464,497	37,322,207
2011	64,689,827	38,334,991
2012	71,286,706	37,416,698
2013	70,496,124	36,619,364

As presented in the table above, the Insurer was in compliance with Section 9 of Rule 80 and Article 61.090 of the Insurance Code of Puerto Rico.

ANNUAL REPORT

Section 10 of Rule 80 and Article 61.100 of the Puerto Rico Insurance Code require that all international insurers prepare an annual statement of their financial condition and business transactions for the closing of each fiscal year. The annual report shall be audited by an independent certified public accountant and shall be prepared using the generally accepted accounting principles (GAAP) with a reconciliation of the difference between the net profit and the capital and surplus based on statutory accounting principles (SAP) established herein. This report shall be filed with the Commissioner before the last day of the fourth month following the international insurer's preceding fiscal year. For the Insurer, the annual report deadline would be April 30. For the fiscal years 2009, 2011, 2012 and 2013, the Insurer filed the annual report in a timely manner.

In addition to the financial information mentioned above, Article 61.100 requires that the annual report be filed accompanied of an actuarial opinion with respect to the adequacy of the reserves for losses and adjustment expenses and a certification of its outstanding obligations with respect to the business transacted according to its Class 3 Authority. The Insurer complied with this requirement for the period reviewed.

Article 61.100 also requires the Insurer to file the annual report authenticated with a sworn statement of at least two of its principal officers. The Insurer complied with this requirement for the period reviewed.

BUSINESS NAME

As required by Subsection 1 of Section 7 of Rule 80, the designation of "International Insurer" or "I.I." shall appear as part of the official name of the Insurer and should be used on all policies, applications and other documents. The Insurer is in compliance with the referred section of Rule 80.

In addition, Subsection 2 of Section 7 requires that as part of any policy, binder, certificate or any other proof of insurance transacted by an international insurer or any other person acting on behalf of the insurer, the following notice should appear in a prominent place, in bold type, on the first page of any such documents:

[NAME OF THE INSURER], ORGANIZED UNDER CHAPTER 61 OF THE PUERTO RICO CODE. NO COVERAGE ISSUED BY THIS INSURER IS PROTECTED BY ANY GUARANTEE OR INSOLVENCY FUND IN PUERTO RICO.

The Insurer did not issue any direct policies, binders or certificates during the period under review. As such, compliance with subsection 2 of Section 7 of Rule 80 is not applicable.

PRINCIPAL REPRESENTATIVE

The Insurer has a Principal Representative which is a resident of Puerto Rico appointed to supervise the insurance business and oversee that is conducted pursuant to the provisions of the Insurance Code of Puerto Rico. As of the review date, Ralph J. Rexach, the Secretary for The Insurer, is the Principal Representative approved by the Commissioner. The Insurer was in compliance with Article 61.170 of the Insurance Code of Puerto Rico.

INVESTMENTS PLAN

Section 11 of Rule 80 and Article 61.110 of the Insurance Code of Puerto Rico provide, among other requirements, that the Insurer submit its Investment Plan to the Commissioner for review and approval. The Insurer was in compliance with Section 11 of Rule 80 during the period under review.

CONTRIBUTIONS AND FEES

Section 13 of Rule 80, requires all international insurers to pay on or before its Certificate of Authority renovation date, an annual contribution according to the volume of premiums written or assumed. In accordance with Section 13 of Rule 80, being the Insurer had a volume of premiums written under $25,000,000, contributed $5,000 for 2013. The following is a detail of the fees paid by The Insurer for the period under review pursuant to the premiums written for each of the five years ended December 31:

Year	Total Gross Premiums Written	Contribution Paid
2009	$ 1,721,618	$ 5,000
2010	21,125,236	5,000
2011	24,675,060	5,000
2012	12,898,943	5,000
2013	12,177,309	5,000

The following are the Balance Sheet and Income Statement of the Insurer in GAAP Basis, and the reconciliation to Statutory Accounting Principles as per Rule 80, for the fiscal years ended on December 31, 2013 and 2012:

SPENCER RE, I.I.
Statement of Balance Sheet
December 31, 2013 and 2012

		2013	2012
Cash		5,016,760	4,582,047
Investments		15,203,625	13,219,222
Receivables		348,060	358,067
Protected Cell assets		49,927,679	53,127,370
Total assets		70,496,124	71,286,706
Payables		260,112	81,130
Core Claim Reserves		1,893,275	0
Protected Cell liabilities		43,620,818	46,689,743
Total liabilities		45,774,205	46,770,873
Shareholders' equity			
Common shares			
Nominal capital		899,989	899,989
Share Premium		1,899,979	1,899,979
Additional paid in capital		25,225,000	25,225,000
Retained earnings attributable to common shares			
Restricted	2,865,337		
Unrestricted	(12,488,463)		
		(9,623,127)	(9,954,635)
Common shareholder's equity		18,401,841	18,070,333
Preferred shares			
Nominal capital		56,000	56,000
Share Premium		56,000	56,000
Additional Paid in Capital		1,546,077	3,009,403
Retained earnings attributable to preferred shares		4,662,000	3,324,097
Preferred shareholder's equity		6,320,077	6,445,500
Total shareholders' equity		24,721,918	24,515,834
Total liabilities and shareholders' equity		70,496,124	71,286,707

SPENCER RE, I.I

Income Statement (GAAP Basis)

December 31, 2013 and 2012

	Total 2013	Core 2013	Cells 2013	Total 2012
Premiums written	12,177,309	0	12,177,309	12,898,943
Movement in unearned premiums	2,401,304	0	2,401,304	3,643,529
Revenues - earned premiums	14,578,614	0	14,578,614	16,542,471
Cession realized gain	0	0	0	0
Acquisition costs	(709,572)	0	(709,572)	(892,499)
Adjustment on novations	0	0	0	0
Claims incurred	(11,328,847)	(1,893,275)	(9,435,572)	(11,230,943)
Loss fund contribution	0	255,124	(255,124)	0
Net underwriting income	2,540,195	(1,638,151)	4,178,345	4,419,031
Management fee	0	127,560	(127,560)	0
Asset management fee	0	822,306	(822,306)	0
Initial management fee	0	2,000	(2,000)	0
Operating expense	(2,548,894)	(2,548,894)	0	(1,624,541)
Statutory tax	(18,661)	0	(18,661)	0
Investment income	6,544,773	3,566,686	2,978,087	3,035,724
Net income	6,517,413	331,507	6,185,905	5,830,213
Retained earnings at beginning of period	(5,167,213)	(9,954,634)	4,787,421	(2,399,286)
Dividends paid	(6,311,324)	0	(6,311,324)	(10,061,466)
Retained earnings at end of period	(4,961,124)	(9,623,127)	4,662,003	(6,630,538)

SPENCER RE, I.I.

Net Income Reconciliation (GAAP to Statutory)

Accounting Principles as per Rule 80

December 31, 2013 and 2012

	2013	2012
Shareholders' Equity under GAAP	**$24,721,918**	**$24,515,834**
Deduct		
Non-Admitted Assets- Deferred Acquisition Costs	(1,995,489)	(1,821,249)
Capital & Surplus under Statutory Basis	**$22,726,429**	**$22,694,585**

SUMMARY OF NON-COMPLIANCE FINDINGS

The Insurer did not fail to comply with any sections of Chapter 61 of the Insurance Code of Puerto Rico, nor Rules 80, 81 and 82, during the period reviewed. The Insurer did fail to comply with its Bylaws as of the December 31, 2013 examination date. As of that date the Insurer maintained four Directors, in violation of its Bylaws, which dictate that there should be five members in the Board of Directors. As such; it is required that the Insurer comply with its Bylaws regarding to the number of Directors on the Board. This can be accomplished by electing an additional Director or by amending the Bylaws.

CONCLUSION

For the period reviewed, The Insurer is in compliance with Chapter 61 of the Insurance Code of Puerto Rico and Rules 80, 81, and 82, as applicable, without exception.

Gregg S. Bealuk

Gregg S. Bealuk, CFE
Examiner-In-Charge
INSRIS-PR, LLC
on behalf of the Puerto Rico OCS