

Report of Examination of

Ohio Motorists Life Insurance Company
Independence, Ohio

As of December 31, 2009

Table of Contents

Subject	Page
Salutation	1
Description of Company.....	1
Scope of Examination.....	1
Management and Control:	
Board of Directors	2
Officers	2
Insurance Holding Company System	2
Territory and Plan of Operations	3
Reinsurance.....	3
Significant Operating Results.....	3
Financial Statements:	
Statement of Assets, Liabilities, Surplus and Other Funds	4
Summary of Operations.....	5
Statement of Changes in the Capital and Surplus Account	5
Notes to Financial Statements:	
Investments.....	6
Loss and Loss Adjustment Expense Reserves.....	6
Conclusion.....	6
Subsequent Events.....	7
Acknowledgement.....	7

Columbus, Ohio

April 18, 2011

Honorable Mary Taylor
Lt. Governor/Director
Ohio Department of Insurance
50 West Town Street
3rd Floor – Suite 300
Columbus, Ohio 43215

Dear Ms. Taylor:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

Ohio Motorists Life Insurance Company

an Ohio domiciled, stock, life and accident and health insurance company, hereinafter referred to as the “Company.”

Scope of Examination

The Department last examined the Company as of December 31, 2004. The Department’s current examination covers the period of January 1, 2005 through and including December 31, 2009.

The Department conducted the examination in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that the Department plan and perform the examination to evaluate the Company’s financial condition and identify prospective risks including corporate governance, identify and assess inherent risks and evaluate 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 when applicable to domestic state regulations.

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

For all years under examination, the Certified Public Accounting firm of Maloney + Novotny LLC (“M+N”) (formerly known as Hausser + Hausser + Taylor LLC) provided an unqualified opinion on the financial statements based on statutory accounting principles.

Management and Control

Board of Directors

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date.

Name	Principal Occupation
Richard Hamilton	President, AAA East Central
Michael R. Pratt	Senior Vice President & Chief Financial Officer, AAA East Central
Gary S. Cowling	Retired
Peter E. Shimrak	Retired
Mary Lynn Laughlin	Senior Vice President, Northern Trust Corporation

Officers

As of the examination date, the following officers were serving in the designated position.

Name	Title
Richard Hamilton	President
Michael R. Pratt	Treasurer
Ray Komichak	Secretary
Kenneth Friedel	Vice President

Insurance Holding Company System

The Company is a member of an insurance holding company system as defined in ORC Section 3901.32. The Company is wholly owned by Ohio Motorists Holding Company, an Ohio domiciled holding company. Ohio Motorists Holding Company is a wholly owned subsidiary of AAA East Central, a Pennsylvania corporation.

Territory and Plan of Operations

The Company is licensed to operate only in the State of Ohio. The Company wrote group life and group accident and health business, however they are currently not marketing any products.

The following schedule illustrates the Company's premium written in 2009 by line of business:

<u>Line of Business</u>	<u>Direct</u>	<u>Assumed</u>	<u>Ceded</u>	<u>Net Premium</u>
Group Life Insurance	\$ 114,667	\$ 16,018	\$ 93,258	\$ 37,427
Group Accident and Health	<u>178,559</u>	<u>7,969</u>	<u>151,776</u>	<u>34,752</u>
Totals	<u>\$ 293,226</u>	<u>\$ 23,987</u>	<u>\$ 245,034</u>	<u>\$ 72,179</u>

Reinsurance

The Company maintains several reinsurance agreements for the ceding of life and accident and health business. The Company retains 20% of all term life policies issued. 85% of all accidental death policies are ceded.

Certain premiums and benefits are assumed from other insurance companies under various reinsurance agreements. The Company assumes 15% of certain birthday life and graded benefit life policies. Additional group accident and health business is assumed by the Company.

All contracts contained an insolvency clause, errors and omissions clause, and an arbitration clause, which meet the guidelines prescribed by the NAIC.

Significant Operating Results

The Company reported the following net gains from operations after federal income taxes by line of business during the examination period.

	2009	2008	2007	2006	2005
Group life	\$ 156,298	\$ 150,168	\$ 180,696	\$ 72,048	\$ 60,222
Group accident & health	<u>153,946</u>	<u>170,167</u>	<u>175,954</u>	<u>211,279</u>	<u>346,988</u>
Total	<u>\$ 310,244</u>	<u>\$ 320,335</u>	<u>\$ 356,650</u>	<u>\$ 283,327</u>	<u>\$ 407,210</u>

Financial Statements

The financial condition and the results of its operations for the period under examination as reported and filed by the Company with the Department are reflected in the following:

Statement of Assets, Liabilities, Surplus and Other Funds
Summary of Operations

Statement of Assets, Liabilities, Surplus and Other Funds December 31, 2010

Bonds	\$ 8,490,185
Cash, cash equivalents, and short term investments	<u>231,766</u>
Subtotal, cash and invested assets	8,721,951
Investment income due and accrued	115,265
Uncollected premiums in course of collection	<u>2,745</u>
Total assets	<u>\$ 8,839,961</u>
Aggregate reserve for life contracts	\$ 140,044
Aggregate reserve for accident and health contracts	10,072
Contract Claims: Life	27,341
Contract Claims: Accident & Health	7,229
Premiums received in advance	1,509
General expenses due or accrued	1,200
Asset valuation reserve	12,805
Net reinsurance settlement	<u>2,263</u>
Total liabilities	<u>202,463</u>
Common capital stock	1,000,000
Gross paid in and contributed surplus	2,000,000
Unassigned funds	<u>5,637,498</u>
Total capital and surplus	<u>8,637,498</u>
Total liabilities, capital and surplus	<u>\$ 8,839,961</u>

**Summary of Operations
As of December 31, 2009**

Premiums and annuity considerations for life and A&H contracts	\$ 72,179
Net investment income	364,651
Commissions and expense allowances on reinsurance ceded	26,307
Miscellaneous income	<u>2,266</u>
Total	<u>465,403</u>
Death benefits	31,895
Disability benefits and benefits under A&H contracts	4,430
Increase in aggregate reserves for life and A&H contracts	<u>(13,984)</u>
Total	22,341
Commissions on premiums	30,949
Commissions and expense allowances on reinsurance assumed	11,181
General insurance expenses	25,620
Insurance taxes, licenses and fees	<u>3,068</u>
Total	<u>93,159</u>
Net gain from operations before dividends and taxes	372,244
Federal income taxes incurred	<u>62,000</u>
Net income	<u>\$ 310,244</u>

**Statement of Changes in the Capital and Surplus Account
(in thousands)**

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Surplus at December 31, prior year	<u>\$8,327</u>	<u>\$8,007</u>	<u>\$7,650</u>	<u>\$7,367</u>	<u>\$6,996</u>
Net income	310	320	357	283	374
Change in AVR	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(3)</u>
Net change in surplus for the year	<u>310</u>	<u>320</u>	<u>357</u>	<u>283</u>	<u>371</u>
Surplus, December 31, current year	<u>\$8,637</u>	<u>\$8,327</u>	<u>\$8,007</u>	<u>\$7,650</u>	<u>\$7,367</u>

Notes to Financial Statements

Investments

The Company's investment portfolio consists primarily of investment grade bonds and cash. The bonds were in compliance with ORC Section 3907.14 and valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

Loss and Loss Adjustment Expense Reserves

Gary D. Lake, FSA, MAAA, of Lake Consulting, Inc. analyzed the reserves for Ohio Motorists Life Insurance Company and provided an actuarial opinion on the Company's reserves for the year ended of December 31, 2009.

Peter A. Weber, ASA, MAAA, Life Actuary with the Department, reviewed the work performed by the Company's appointed actuary and determined that the reserves presented in the Company's 2009 annual statement appear to be reasonably stated.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2009, and is summarized as follows:

Total Assets	<u>\$ 8,839,961</u>
Liabilities	\$ 202,463
Surplus and Other Funds	<u>8,637,498</u>
Total Liabilities, Surplus and Other Funds	<u>\$ 8,839,961</u>

Subsequent Events

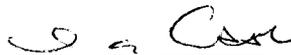
Effective May 1, 2010, the Company's controlling parent, AAA East Central, merged with Automobile Club of Southern California. As a result of the merger, Automobile Club of Southern California became the ultimate controlling parent of the Company.

Acknowledgement

Appreciation is expressed for the assistance extended by the officers and employees of the Company and its affiliates during the course of this examination.

In addition to the undersigned, David T. Finkler, CPA and Peter A. Weber, ASA, MAAA of the Department participated in this examination.

Respectfully,



David A. Cook, CFE
Assistant Chief Examiner
Office of Risk Assessment
Ohio Department of Insurance

Verification

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2009.

David A. Cook 4/19/11
Assistant Chief Examiner Date

State of Ohio

County of Franklin

Personally appeared before me the above named David A. Cook personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 19 day of April, 2011.

Elizabeth Chase
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2012
My Commission Expires