

Report of Examination of
Alliance of Transylvanian Saxons
Parma, Ohio

As of December 31, 2011

Table of Contents

Subject	Page
Salutation.....	1
Description of Society.....	1
Scope of Examination.....	1
Management and Control:	
Board of Directors.....	2
Officers.....	3
Insurance Holding Company System.....	3
Reinsurance.....	3
Territory and Plan of Operations.....	3
Financial Statements:	
Statement of Assets, Liabilities, Surplus and Other Funds.....	5
Statement of Operations.....	6
Statement of Changes in the Capital and Surplus Account.....	7
Notes to Financial Statements:	
Investments.....	7
Aggregate Reserve for Life Certificates and Claims.....	7
Conclusion.....	8
Acknowledgement.....	8
Verification.....	9

Columbus, Ohio
May 16, 2013

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

Dear Madam:

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

Alliance of Transylvanian Saxons

an Ohio domiciled, fraternal benefit society, hereinafter referred to as the “Society.”

Scope of Examination

The Department last examined the Society as of December 31, 2008. The Department’s current examination covers the period January 1, 2009 to and including December 31, 2011.

The examination was conducted 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 Society’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 instruction when applicable to domestic state regulations.

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

For all years under examination, the Certified Public Accounting firm of James G. Zupka, C.P.A., Inc. (“JGZ”) provided an unqualified opinion on the Society’s financial statements based on Statutory Accounting Principles. The audited financial statements were reviewed during the examination.

Management and Control

Board of Directors:

Members of the board of directors elected and serving on December 31, 2011, were as follows:

Name	Principal Occupation
Ronald Benedict Edinburg, Pennsylvania	Retired
John Boehm, Jr. Alliance, Ohio	Adjunct Professor, Youngstown State University
Barbara Brayn Salem, Ohio	Office Manager, Career Assessment Systems, Inc.
Denise A. Crawford, CPA Alliance, Ohio	Controller, Todd's Enviroscape, Inc.
Robert B. Cunningham, III Brooklyn, Ohio	Home Office Secretary, The Society
Hanz G. Hermann Westlake, Ohio	Production Planner and Scheduler, Norman Noble, Inc.
Peter Karsti, II Canfield, Ohio	Retired
Thomas J Manning Erie, Pennsylvania	Retired
Joan A. Miller-Malue Cleveland, Ohio	Home Office Manager, The Society
Jacob F. Spor New Castle, Pennsylvania	Job Superintendent, Stevens Masonry Construction, Inc.
Monica M. Weber, MSN, RN, CIC Rocky River, Ohio	Magnet Program Manager/Nursing Patient Safety, Cleveland Clinic

Officers

As of the examination date, the following officers were elected and serving in accordance with the Society's Bylaws:

Thomas J. Manning	National President
Robert B. Cunningham, III	National First Vice President
Joan A. Miller-Malue	National Second Vice President
John Boehm, Jr.	National Third Vice President
Monica M. Weber, MSN, RN, CIC	National Secretary
Denise A. Crawford, CPA	National Treasurer
Peter Karsti, II	National Trustee
Ronald Benedict	National Trustee
Hanz G. Hermann	National Trustee
Jacob F. Spor	National Trustee
Barbara Brayn	National Trustee

Insurance Holding Company System

The Society is not a member of a holding company system as defined by ORC 3901.32.

Territory and Plan of Operations

The Society is licensed to transact business in Illinois, Indiana, Michigan, Ohio, and Pennsylvania and offers life and annuity products. During 2011, the top two states in terms of direct written premiums were Ohio and Pennsylvania. These states accounted for approximately 90% of the 2011 direct written premium.

Reinsurance

The Society has reinsurance contracts whereby it cedes the excess of ordinary life benefits in excess of retention amounts on various criteria such as the insurance amount, insurance type, and issue age. The Society is not relieved of its primary liability to the policyholder as a result of these contracts.

Financial Statements

The financial condition and the results of its operations for the three-year period under examination as reported and filed by the Society with the Department and audited by the Society's external auditors, are reflected in the following:

Statement of Assets, Liabilities, Surplus and Other Funds
Statement of Operations
Statement of Changes in the Capital and Surplus Account

Statement of Assets, Liabilities, Surplus and Other Funds

December 31, 2011

Admitted assets

Cash and invested assets:	
Bonds	\$55,327,051
Preferred stocks	500,000
Common Stocks	880,487
Property occupied by the company	3,967
Cash and short-term investments	14,888,656
Contract loans	166,062
Other invested assets	2,082,619
Total cash and invested assets	<u>73,848,842</u>
Investment income due and accrued	1,026,635
Deferred premium, agents' balances and installments	4,580
Electronic data processing equipment	7,768
Total admitted assets	<u>\$74,887,825</u>

Liabilities and capital and surplus

Liabilities:

Aggregate reserve for life contracts	\$58,565,584
Liability for deposit-type contracts	5,104,679
Life contract claims	999,638
Provision for refunds payable not yet apportioned	55,000
Premium and annuity consideration received in advance	1,898
Interest maintenance reserve	136,478
Commission to fieldworkers due or accrued	1,063
General expenses due or accrued	21,167
Taxes, licenses and fees due or accrued	2,764
Amounts withheld or retained by Society as agent or trustee	3,001,401
Asset valuation reserve	629,554
Payroll withholdings	5,104
Scholarship fund	430,601
Total liabilities	<u>68,954,931</u>

Capital and surplus:

Unassigned surplus	5,932,894
Total capital and surplus	<u>5,932,894</u>
Total liabilities and capital and surplus	<u>\$74,887,825</u>

Statement of Operations

For the Year Ended
December 31, 2011

Premium and other revenues	
Premium and annuity consideration for life contracts	\$2,183,458
Net investment income	3,852,328
Amortization of Interest Maintenance Reserve	31,746
Aggregate write-ins for miscellaneous income	22,503
Total premiums and other revenues	<u>6,090,035</u>
Benefits paid or provided:	
Death benefits	174,771
Matured endowments	1,900
Annuity benefits	2,873,420
Surrender benefits and withdrawals for life contracts	37,000
Interest and adjustments, contract or deposit-type contract funds	287,576
Increase in life, annuity, accident and health reserves	1,519,652
Total benefits paid or provided	<u>4,894,319</u>
Commission on premiums, annuity consideration and deposit-type contract funds	10,179
General insurance expense and fraternal expenses	740,461
Insurance taxes, licenses and fees	16,539
Increase in loading on deferred and uncollected premiums	(1,481)
Total expenses	<u>5,660,017</u>
Net gain from operations before refunds to members	430,018
Refunds to members	<u>52,135</u>
Net gain from operations after refunds to members and before realized capital gains	377,883
Net realized capital gains	391,879
Net income	<u>\$ 769,762</u>

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

	2011	2010	2009
Capital and surplus December 31, previous year	\$5,446	\$4,974	\$4,669
Net income from operations	769	473	(305)
Change in net unrealized capital gain (losses)	(53)	7	480
Change in asset valuation reserve	(229)	(9)	130
Net change in capital and surplus	<u>487</u>	<u>472</u>	<u>305</u>
Surplus, December 31, current year	<u>\$5,933</u>	<u>\$5,446</u>	<u>\$4,974</u>

Notes to Financial Statements

Investments

At December 31, 2011, the Society's investments, as measured by statement valuations, were composed of:

<u>Invested Assets</u>	<u>Ratio to Total</u>	
	<u>Investments</u>	<u>Assets</u>
Bonds	74.9%	73.9%
Stocks	1.9%	1.8%
Cash and short-term investments	20.2%	19.9%
Contract loans	0.2%	0.2%
Other invested assets	2.8%	2.8%
Totals	<u>100.00%</u>	<u>98.6%</u>

The Society's investments were in compliance with Section 3907.14 of the ORC.

Aggregate Reserves for Life Certificates and Claims

Howard Heirdon, FCA, MAAA, certified the total reserves for the years covered by the examination. The Department's actuary, Peter Weber, ASA, MAAA, reviewed the calculations for the reserves as of December 31, 2011.

On the basis of the above-mentioned analysis, it was determined that the Aggregate Reserves for Life Certificates and Claims were reasonable as of December 31, 2011.

Conclusion

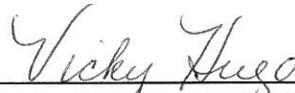
The balance sheet contained in this Report of Examination reflects the financial condition of the Society as of December 31, 2011, and is summarized as follows:

Total Admitted Assets	<u>\$74,887,826</u>
Liabilities	\$68,954,932
Unassigned funds	<u>5,932,894</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$74,887,826</u>

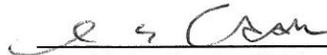
Acknowledgement

In addition to the aforementioned and the undersigned, the following representative of the Department participated in the examination: Methuselah E. Nyangoro, CFE, CPA and Patricia A. Severs, CPA.

Respectfully,



Vicky L. Hugo, AES, CFE, CISA, CPA
Examiner-In-Charge
Ohio Department of Insurance



David A. Cook, CFE
Assistant Chief Examiner
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, 2011.

Vicky Hugo 5/23/13 J. Coan 5/23/13
Examiner-In-Charge Date Assistant Chief Examiner Date

State of Oh: O

County of Franklin

Personally appeared before me the above named, Vicky L Hugo, 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 23 day of May, 2013.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
~~MY COMMISSION EXPIRES MAY 22, 2017~~
My Commission Expires

State of Oh: O

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 23 day of May, 2013.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
~~MY COMMISSION EXPIRES MAY 22, 2017~~
My Commission Expires