

Report of Examination of

Loyal American Life Insurance Company
Cincinnati, Ohio

As of December 31, 2011

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Columbus, Ohio
October 26, 2012

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

Dear Lt. Governor/Director:

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

Loyal American Life Insurance Company

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

Scope of Examination

The Department last examined the Company as of December 31, 2006. The Department’s current examination covers the period of January 1, 2007 through December 31, 2011.

The Department, as the coordinating state regulator of the insurance company subsidiaries of American Financial Group, Inc. (“AFG”), an affiliate, led the multi-state coordinated examination that included representatives from the states of California, Delaware, Illinois, New York, Ohio and Texas.

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 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 Ernst & Young LLP provided an unqualified opinion on the Company’s financial statements based on Statutory Accounting Principles. The audited financial reports were reviewed during the examination.

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
S. Craig Lindner	Co-Chief Executive Officer, American Financial Group, Inc.
Christopher P. Miliano	Executive Vice President and Chief Financial Officer, Great American Financial Resources, Inc.
Mark F. Muething	Executive Vice President, General Counsel and Secretary, Great American Financial Resources, Inc.
Michael J. Prager	Executive Vice President, Chief Actuary and Chief Risk Officer, Great American Financial Resources, Inc.
Paul A. Severt	Executive Vice President and Chief Financial Officer, Great American Supplemental Benefits Group
Bradley A. Wolfram	President, Great American Supplemental Benefits Group

Officers

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

Name	Title
Bradley A. Wolfram	President and Chief Operating Officer
Mark F. Muething	Executive Vice President
Paul A. Severt	Executive Vice President and Chief Financial Officer
Tracy E. Maples	Senior Vice President and Chief Actuary
Malott W. Nyhart	Senior Vice President
David L. Chambers	Vice President, Sales and Marketing
James W Garvin, III	Vice President

Name	Title
John P. Gruber	Vice President and Secretary
Christopher P. Miliano	Vice President
Byron K. Buescher	Chief Accounting Officer and Treasurer
Brenda W. Hardison	Corporate Secretary

Insurance Holding Company System

The Company is a member of a holding company system as defined in Section 3901.32 of the ORC. The Company is a wholly owned subsidiary of Loyal American Holding Corporation, domiciled in Ohio, and an indirect wholly owned subsidiary of AFG, the ultimate controlling person in the holding company system. Through its insurance company subsidiaries, AFG is engaged primarily in property and casualty insurance, focusing on specialized commercial products for businesses, and the sale of traditional fixed and indexed annuities and a variety of supplemental insurance products. The common stock of AFG is traded on the New York Stock Exchange.

Territory and Plan of Operations

The Company is licensed to transact business in forty-nine states, the District of Columbia and the U.S. Virgin Islands. The Company markets Medicare supplement and guaranteed renewable limited benefit health insurance products. The Company's business in force includes closed blocks of life and annuity policies.

The Company is a member of Great American Supplemental Benefits Group, a family of companies located in Austin, Texas, that offer Medicare supplement, hospital indemnity, specified disease, health and long-term care products.

Reinsurance

Ceded

The Company cedes business to various affiliated and unaffiliated reinsurers pursuant to the terms of various agreements. The maximum amount of exposure retained on any one ordinary life is \$150,000.

All contracts examined contained the necessary clauses to meet the guidelines prescribed by the NAIC.

Assumed

The Company assumes business from two unaffiliated insurers. Generally, both agreements have been in place for some time and activity is minimal from year-to-year.

Financial Statements

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

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

**Statement of Assets, Liabilities, Surplus and Other Funds
December 31, 2011**

Assets

Bonds	\$ 387,381,174
Common stocks	16,748,695
Cash and short-term investments	195,647
Contract loans	18,128,986
Receivable for securities	<u>32,702</u>
Subtotal, cash and invested assets	422,487,204
Accrued investment income	4,465,240
Uncollected premiums in course of collection	(643,533)
Deferred premiums and installments booked but deferred and not yet due	1,105,880
Amounts recoverable from reinsurers	1,756,045
Other amounts receivable under reinsurance contract	1,178,120
Net deferred tax asset	8,027,000
Guaranty funds receivable or on deposit	522,379
Receivable from parent, subsidiaries and affiliates	<u>29,310</u>
Total assets	<u>\$ 438,927,645</u>

Statement of Assets, Liabilities, Surplus and Other Funds (Continued)
December 31, 2011

Liabilities

Aggregate reserve for life contracts	\$ 222,238,520
Aggregate reserve for accident and health contracts	19,119,979
Liability for deposit-type contracts	13,418,246
Life contract claims	3,476,412
Accident and health contract claims	8,892,643
Dividends apportioned for payment	40,000
Premiums and annuity considerations received in advance	1,229,805
Other amounts payable on reinsurance ceded	1,768,929
Commissions to agents due or accrued	770,491
General expenses due or accrued	451,138
Taxes, licenses and fees due or accrued	1,278,292
Current federal income taxes	548,579
Unearned investment income	522,037
Amounts withheld or retained by company as agent or trustee	60,707
Amounts held for agents' accounts	19,093
Remittances and items not allocated	703,044
Asset valuation reserve	1,178,762
Funds held under reinsurance treaties	120,842,629
Payable to affiliates	222,496
Aggregate write-ins for liabilities	<u>1,338,510</u>
Total liabilities	<u>398,120,312</u>

Capital and Surplus

Common capital stock	5,640,000
Gross paid in and contributed surplus	27,937,739
Aggregate write-ins for other than special surplus funds	2,682,565
Unassigned funds	<u>4,547,029</u>
Total capital and surplus	<u>40,807,333</u>
Total liabilities, capital and surplus	<u>\$ 438,927,645</u>

Summary of Operations
For the Year Ended December 31, 2011

Premiums and annuity considerations	\$ 103,290,042
Net investment income	24,262,766
Amortization of interest maintenance reserve	310,083
Commissions and expense allowances on reinsurance ceded	6,261,735
Aggregate write-ins for miscellaneous income	<u>652,669</u>
Total	<u>134,777,295</u>
Death benefits	1,786,789
Matured endowments	8,173
Annuity benefits	7,736,500
Disability benefits and benefits under accident & health contracts	71,823,164
Coupons, guaranteed annual endowments and similar benefits	1,167
Surrender benefits and withdrawals for life contracts	20,603,132
Interest and adjustments on contract or deposit-type contract funds	400,939
Payments on supplementary contracts with life contingencies	74,565
Increase in aggregate reserves	<u>(18,589,971)</u>
Total	83,844,458
Commissions on premiums, annuity considerations and deposit-type contract funds	21,987,004
Commissions and expense allowances on reinsurance assumed	1,560
General insurance expenses	12,257,028
Insurance taxes, licenses and fees	3,019,974
Increase in loading on deferred and uncollected premiums	(83,727)
Aggregate write-ins for deductions	<u>6,962,624</u>
Total	<u>127,988,921</u>
Net gain from operations before dividends to policyholders and before federal income taxes	6,788,374
Dividends to policyholders	<u>36,575</u>
Net gain from operations after dividends to policyholders and before federal income taxes	6,751,799
Federal income taxes	<u>3,231,574</u>
Net gain from operations after federal income taxes and before realized capital losses	3,520,225
Net realized capital losses	<u>(692,460)</u>
Net income	<u>\$ 2,827,765</u>

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

	2007	2008	2009	2010	2011
Capital and surplus, beginning of year	<u>\$45,354</u>	<u>\$41,795</u>	<u>\$37,698</u>	<u>\$33,330</u>	<u>\$37,884</u>
Net income	4,904	(4,721)	2,253	10,622	2,828
Change in net unrealized capital gains (losses)	(529)	1,381	332	1,034	77
Change in net deferred income tax	(259)	523	1,972	(269)	851
Change in nonadmitted assets	47	(606)	(2,277)	1,463	268
Change in asset valuation reserve	445	1,650	412	(400)	92
Cumulative effect of changes in accounting principles	-	-	(619)	(1,280)	-
Surplus paid in	-	-	-	5,936	-
Change in surplus from reinsurance	(3,867)	753	(1,749)	(12,876)	(1,419)
Dividends to stockholders	(4,300)	(4,900)	(5,000)	-	-
Aggregate write-ins	<u>-</u>	<u>1,823</u>	<u>308</u>	<u>324</u>	<u>226</u>
Net change in capital and surplus	<u>(3,559)</u>	<u>(4,097)</u>	<u>(4,368)</u>	<u>4,554</u>	<u>2,923</u>
Capital and surplus, end of year	<u>\$41,795</u>	<u>\$37,698</u>	<u>\$33,330</u>	<u>\$37,884</u>	<u>\$40,807</u>

Notes to Financial Statements

Investments

The Company's investments 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.

Aggregate Reserve for Life Contracts

The Company's Board of Directors appointed Mark E. Alberts, FSA, MAAA, Consulting Actuary, to render the Company's Statement of Actuarial Opinion ("Opinion"). Mr. Alberts prepared an Actuarial Report supporting the Opinion in connection with the preparation of the Company's December 31, 2011, Annual Statement.

Peter A. Weber, ASA, MAAA, the Department's Life and Annuity Actuary, reviewed the Actuarial Memorandum and performed other procedures as considered necessary to evaluate the Company's reserves. On the basis of his analysis, Mr. Weber determined that the reserves presented in the December 2011 Annual Statement are consistent with requirements in Ohio law, and furthermore, that the reserves and related items held by the Company are adequate and appropriate.

Subsequent Events

On May 10, 2012, Great American Financial Resources, Inc. and certain of its subsidiaries, including the Company, American Retirement Life Insurance Company (“ARLIC”), Central Reserve Life Insurance Company (“CRLIC”), Continental General Insurance Company (“CGIC”), Great American Life Insurance Company (“GALIC”), Provident American Life & Health Insurance Company (“PALHIC”), United Benefit Life Insurance Company (“UBLIC”) and United Teacher Associates Insurance Company (“UTAIC”) entered into an agreement (the “Agreement”) to sell their Medicare supplement and other supplemental health insurance policies to Cigna Health and Life Insurance Company (“Cigna”). Pursuant to the Agreement, Cigna acquired all of the outstanding common stock of the Company, ARLIC, CRLIC, PALHIC, and UBLIC (collectively, the “Targets”). Immediately prior to the sale, the Targets reinsured the life and annuity business they held to GALIC and GALIC, CGIC and UTAIC reinsured all Medicare supplement and other supplemental health policies they held to the Company. The Department approved the transaction on August 30, 2012. CGIC and UTAIC have agreed to continue writing Medicare supplement and other supplemental health business for up to two years following completion of these transactions, with all business written during that period being reinsured by the Company.

Conclusion

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

Total Admitted Assets	<u>\$438,927,645</u>
Liabilities	\$398,120,312
Surplus as Regards Policyholders	<u>40,807,333</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$438,927,645</u>

Acknowledgement

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

In addition to the aforementioned and undersigned, the following representatives of the Department participated in this examination: Mohammad A. Arif, AES, CFE, CISA, CIDM, CISSP; Ryan S. Gibson, CFE, FLMI; Aaron R. Hibbs, CFE, ChFC, CPA, FLMI; James H. Luke, CFE, CPA; and Larry G. Rice, AES, CFE, CISA, CPA.

Respectfully,



Kevin J. Rupp, CFE
Examiner-In-Charge
Ohio Department of Insurance



Jeffrey K. Ebert, 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.

Kevin J. Rupp
Examiner-In-Charge

12/21/12
Date

Jeffrey K. Ebert
Assistant Chief Examiner

12/21/12
Date

State of Ohio
County of Franklin

Personally appeared before me the above named, Kevin J. Rupp, 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 knowledge and belief.

Subscribed and sworn to before me this 21 day of December, 2012.

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

State of Ohio
County of Franklin

Personally appeared before me the above named, Jeffrey K. Ebert, 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 knowledge and belief.

Subscribed and sworn to before me this 21 day of December, 2012.

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