

Report of Examination of
Unity Financial Life Insurance Company
Cincinnati, Ohio

As of December 31, 2012

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Columbus, Ohio
June 14, 2013

Honorable Mary Taylor
Lt. Governor/Director
State of Ohio
Department of Insurance (“Department”)
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), an examination was made of

Unity Financial Life Insurance Company

an Ohio domiciled, stock, life insurance, hereinafter referred to as the “Company.” The examination was conducted at the Company’s home office, located at 4675 Cornell Road, Suite 160, Cincinnati, Ohio.

A report of this examination is hereby respectfully submitted.

The Company was last examined as of December 31, 2007, by the Pennsylvania Department of Insurance. Representatives of the Department conducted the current examination covering the intervening period to and including December 31, 2012.

Scope of Examination

One of the purposes of the examination was to make an assessment of the financial condition of the Company as of December 31, 2012. To substantiate the various items, tests were made either by complete audits of accounts or by sampling methods prescribed by the NAIC Examiner’s Handbook. In selecting the examination procedures used, due consideration was given to the importance of each account to overall solvency. Transactions occurring subsequent to the date of the examination were reviewed to the extent deemed necessary.

For each year during the period under examination, the Certified Public Accounting (“CPA”) firms of BKD LLP, ParenteBeard LLC and Beard Miller Company LLP provided an unqualified opinion based on statutory accounting principles. Relevant work performed by BKD LLP, during its annual audit of the Company, was reviewed during the examination and incorporated into the examination work papers.

The Department's actuary reviewed the relevant work performed by the opining actuary, to report on the adequacy of the carried reserves, and to comment on any other statutory matters relating to reserves.

Management and Control

Board of Directors:

Members of the board of directors elected and serving on December 31, 2012, were as follows:

Name	Principal Occupation
David B. Abraham	Partner, Monroe Securities, Inc
Alexander M. Clark	Investment Banker, Griffin Financial Group LLC
Jerry M. Gannon	Retired, General Counsel of Provident Life and Accident Insurance Company
Jay C. Hardy	Executive Vice President, The Company
Thomas C. Hardy	Chairman, President and Chief Executive Officer, The Company
John J. Waller	Investment Banker, Macquarie Capital
John B. Yanko	Retired, Chief Actuary of Forethought Life Insurance Company

Officers

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

Name	Title
Thomas C. Hardy	Chairman, President, and Chief Executive Officer
Jay C. Hardy	Senior Vice President
Janeen R. Rutherford	Secretary
Beth A. Adkins	Treasurer

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 100% owned by Unity Financial Insurance Group, LLC, which is 100% owned by Hardy, LLC. Thomas C. Hardy and his family own 100% of Hardy, LLC.

Reinsurance

Ceded

The Company ceded 100% of its block of final expense business to Columbian Mutual Life Insurance, Hannover Life Reassurance Company of America, Union Fidelity Life Insurance Company and Southern Financial Life Insurance Company. The block has been closed since July 1, 2011. The Company no longer sells final expense business.

All reinsurance agreements appear to transfer risk and have the National Association of Insurance Commissioners (“NAIC”) required clauses.

Assumed

The Company does not assume any reinsurance.

Territory and Plan of Operations

The Company is licensed to transact business in all states except Alaska, Hawaii, Michigan, New Hampshire, and New York.

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
Statement of Operations
Statement of Changes in the Capital and Surplus Account

Statement of Assets, Liabilities, Surplus and Other Funds

December 31, 2012

Admitted assets

Cash and invested assets:	
Bonds	\$139,548,925
Cash and short-term investments	1,796,269
Contract loans	73,087
Total cash and invested assets	141,418,281
Investment income due and accrued	1,675,888
Uncollected premiums and agents' balances in the course of collection	21,993
Deferred premiums, agents' balances and installment booked but deferred and yet due	2,185,980
Other amounts receivable under reinsurance contracts	55,132
Current federal and foreign income tax recoverable and interest thereon	115,924
Net deferred tax asset	1,258,000
Guaranty funds receivable or on deposit	31,678
Electronic data processing equipment and software	8,167
Total admitted assets	\$146,771,043

Liabilities and capital and surplus

Liabilities:

Aggregate reserve for life contracts	\$130,144,284
Life contract claims	960,332
Premiums and annuity considerations received in advance	14,928
Other amounts payable on reinsurance	687,353
Interest maintenance reserve	1,197,727
General expenses due and accrued	392,755
Taxes, licenses and fees due or accrued, excluding federal income taxes	438,377
Amounts withheld or retained by company as agent or trustee	125,221
Amounts held for agents' account	849,933
Remittances and items not allocated	558,045
Asset valuation reserve	397,202
Funds held under reinsurance treaties with unauthorized and certified	34,370
Total liabilities	135,800,527

Capital and surplus:

Common capital stock	2,524,500
Gross paid in and contributed surplus	2,584,370
Unassigned surplus	5,861,646
Total capital and surplus	10,970,516
Total liabilities and capital and surplus	\$146,771,043

Statement of Operations

**For the Year Ended
December 31, 2012**

Premium and other revenues:	
Life and accident and health certificates	\$44,150,043
Net investment income	5,601,153
Amortization of Interest Maintenance Reserve	211,190
Commissions and expense allowance on reinsurance ceded	4,931,088
Total premiums and other revenues	54,893,474
Benefits paid or provided:	
Death benefits	16,922,680
Surrender benefits and withdrawals for life contracts	193,676
Interest and adjustment on deposit-type contracts	1,994
Increase in aggregate reserves for life and accident and health contracts	20,628,690
Total benefits paid or provided	37,747,040
Commission on premiums and deposit-type contracts	10,823,263
General insurance and fraternal expenses	2,777,388
Insurance taxes, licenses, and fees	1,648,886
Increase in loading on deferred and uncollected premiums	151,153
Total insurance expense and other deductions	53,147,730
Net gain from operations after refunds to members and before federal income taxes	1,745,744
Federal and foreign income taxes incurred	(49,600)
Net income	1,696,144

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

	2012	2011	2010	2009	2008
Capital and surplus December 31, previous year	\$ 10,785	\$10,180	\$8,113	\$6,751	\$6,747
Net income from operations	1,696	1,402	1,314	1,380	278
Change in net deferred income tax	(380)	133	246	43	307
Change in non-admitted assets	674	(849)	(124)	(69)	(450)
Change in reserve on account of change in valuation	(409)	-	-	-	-
Change in asset valuation reserve	(71)	(81)	(78)	8	(41)
Dividends to stockholders	(725)	-	-	-	(90)
Aggregate write-ins for gains and losses in surplus	(600)	-	709	-	-
Net change in capital and surplus	185	605	2,067	1,362	4
Surplus, December 31, current year	\$ 10,970	\$10,785	\$10,180	\$ 8,113	\$6,751

Notes to Financial Statements

Investments

At December 31, 2012, the Company'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	98.68%	95.08%
Cash and short-term investments	1.27%	1.22%
Contract loans	0.05%	0.04%
Totals	<u>100.00%</u>	<u>96.34%</u>

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

Aggregate Reserves for Life Certificates and Claims

Glenn A. Tobleman, 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, 2012.

On the basis of the above-mentioned analysis, it was determined that the aggregate reserves for life contracts and claims were reasonable as of December 31, 2012.

Subsequent Events

Effective January 1, 2013, the Company entered into an assumption reinsurance agreement with Pine Belt Life Insurance Company, whereas the Company assumes 100% of the contractual liabilities for all policies issued by Pine Belt Life Insurance Company with a face amount greater than \$500 as of January 1, 2013.

Conclusion

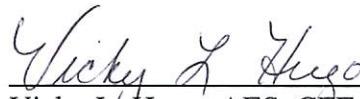
The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2012, and is summarized as follows:

Total Admitted Assets	<u>\$146,771,043</u>
Liabilities	\$135,800,527
Unassigned funds	<u>10,970,516</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$146,771,043</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 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, 2012.

Vicky Hugo
Examiner-In-Charge

7/29/2013
Date

[Signature]
Assistant Chief Examiner

7/29/13
Date

State of Ohio

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 29 day of July, 2013.

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

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 29 day of July, 2013.

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