

Report of Examination of
Cincinnati Equitable Insurance Company
Cincinnati, Ohio

As of December 31, 2013

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Columbus, Ohio

November 6, 2014

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

Cincinnati Equitable Insurance Company

an Ohio domiciled, for-profit property and casualty insurance company, hereinafter referred to as the “Company.”

Scope of Examination

The Department last examined the Company as of December 31, 2008. The Department’s current examination covers the intervening period through December 31, 2013.

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 corporate governance, identify and assess current and prospective risks and evaluate the Company’s system of 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 Statements of Statutory Accounting Principles (“SSAPs”) 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.

The Certified Public Accounting firm of BKD, LLP provided an unqualified opinion on the Company’s financial statements based on Statutory Accounting Principles as of December 31, 2013. The Department reviewed the independent auditors’ report and supporting work papers 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

<u>Name</u>	<u>Principal Occupation</u>
Peter A. Alpaugh Cincinnati, Ohio	Cincinnati Equitable Companies, Inc., Owner and Chairman of the Board
Gregory A. Baker Burlington, Kentucky	Cincinnati Equitable Companies, Inc., President, Chief Executive Officer, Chief Financial Officer, and Treasurer
Andrea Kessel Rancho Santa Fe, California	Cincinnati Equitable Companies, Inc., Owner
James W. Ketring Tucson, Arizona	Cincinnati Equitable Companies, Inc., Retired
Drew F. Knowles Boulder, Colorado	Berkley Square Capital Management, Partner

Officers

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

<u>Name</u>	<u>Title</u>
Peter A. Alpaugh	Chairman of the Board
Gregory A. Baker	President, Chief Executive Officer, Chief Financial Officer, and Treasurer
Linda S. Bales	Secretary

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 a subsidiary of Cincinnati Equitable Life Company, a wholly-owned subsidiary of Cincinnati Equitable Companies. The ultimate controlling persons in the holding company system are Peter Alpaugh and Andrea Kessel.

The following displays the chain of ownership of the insurance companies as of December 31, 2013.

Peter Alpaugh and Andrea Kessel – (Individuals)

Alpha Investment Partnership (AIP)

Alpha 2 Investments LLC (A2I)

Cincinnati Equitable Companies, Inc. [89.6% owned by AIP 10.4% owned by A2I]

Cincinnati Equitable Life Insurance Company (Ohio)

Cincinnati Equitable Insurance Company (Ohio)

Territory and Plan of Operations

Effective January 1, 2008, the Company exited all property and casualty lines of business and the Company began to non-renew all policies. As of December 31, 2013, the Company had one policy in-force. The Company is licensed to transact business in the states of Illinois, Indiana, Kentucky, Ohio, and Pennsylvania.

Reinsurance

Ceded

The Company does not currently cede any business.

Assumed

The Company does not assume any business.

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

	<u>December 31, 2013</u>
Admitted assets	
Cash and invested assets:	
Bonds	\$3,789,244
Preferred stocks	326,300
Common Stocks	3,934
Cash	100,783
Total cash and invested assets	<u>4,220,261</u>
Accrued investment income	62,562
Electronic data processing equipment and software	5,883
Total admitted assets	<u>\$4,288,706</u>

	<u>December 31, 2013</u>
Liabilities, capital and surplus	
Liabilities:	
Losses	\$10,000
Loss adjustment expenses	3,509
Other expenses	74,006
Taxes, licenses and fees	250
Current federal and foreign income taxes	1,000
Ceded reinsurance premiums payable	428
Amounts withheld or retained for account of others	340
Payable to parent, subsidiaries and affiliates	4,681
Total liabilities	<u>94,214</u>
Capital and surplus:	
Common capital stock	1,000,000
Gross paid in and contributed surplus	3,199,915
Unassigned funds	(5,423)
Total capital and surplus	<u>4,194,492</u>
Total liabilities, capital and surplus	<u>\$4,288,706</u>

Statement of Operations

December 31, 2013

Premiums earned	
Losses incurred	\$(4,498)
Loss expenses incurred	11,134
Aggregate write-ins for underwriting deductions	148,732
Underwriting loss	<u>(155,368)</u>
Net investment income earned	187,248
Net realized capital gains	31,535
Net investment gain	<u>218,783</u>
Income before dividends to policyholders and before federal and foreign income taxes	<u>63,415</u>
Dividends to policyholders	<u>0</u>
Income after dividends to policyholders but before federal and foreign income taxes	<u>63,415</u>
Federal income taxes	650
Net income	<u><u>\$62,765</u></u>

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

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Capital and surplus December 31, previous year	<u>\$5,705</u>	<u>\$5,602</u>	<u>\$5,296</u>	<u>\$4,883</u>	<u>\$4,699</u>
Net income	115	444	169	340	63
Net unrealized capital gains (losses)	364	(87)	(42)	7	(71)
Change in net deferred income tax	(99)	(131)	(35)	(50)	(124)
Change in nonadmitted assets	217	(32)	(5)	19	128
Paid in surplus			(5,648)	(406)	(500)
Surplus transferred from capital			5,648	406	500
Dividends to stockholders	<u>(700)</u>	<u>(500)</u>	<u>(500)</u>	<u>(500)</u>	<u>(500)</u>
Net change in capital and surplus	<u>(103)</u>	<u>(306)</u>	<u>(413)</u>	<u>(184)</u>	<u>(504)</u>
Capital and surplus December 31, current year	<u>\$5,602</u>	<u>\$5,296</u>	<u>\$4,883</u>	<u>\$4,699</u>	<u>\$4,195</u>

Notes to Financial Statements

Investments

The Company's investments were in compliance with Section 3925.08 of the ORC.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2013, and is summarized as follows:

Total Admitted Assets	<u>\$4,288,706</u>
Liabilities	\$94,214
Surplus as Regards Policyholders	<u>4,194,492</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$4,288,706</u>

Acknowledgement

In addition to the undersigned, the following representatives of the Department participated in this examination: Patricia Severs, CPA.

Respectfully,



Donnie G. Wells, CFE
Examiner-In-Charge
Ohio Department of Insurance



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

THE UNIVERSITY OF CHICAGO

PHYSICS DEPARTMENT

1950

PHYSICS 551

PROFESSOR

ASSISTANT PROFESSOR

LECTURER

1950

PHYSICS DEPARTMENT

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PHYSICS DEPARTMENT

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PHYSICS DEPARTMENT

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PHYSICS DEPARTMENT

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, 2013

[Signature] 12/8/14 [Signature] 12/8/14
Examiner-In-Charge Date Assistant Chief Examiner Date

State of Ohio
County of Franklin

Personally appeared before me the above named, Donnie G. Wells, 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 8 day of December, 2014.

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, 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 8 day of December, 2014.

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