

Report of Examination of

Ohio Motorists Life Insurance Company
Independence, Ohio

As of December 31, 2014

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Columbus, Ohio
March 3, 2016

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 of Insurance last examined the Company as of December 31, 2009. The Department’s current examination covers the period of January 1, 2010 through December 31, 2014.

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 identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company’s financial statements.

This examination report includes significant findings of fact, as mentioned in the ORC Section 3901.07 and general information about the insurer and its financial condition.

There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination reports but separately communicated to other regulators and/or the Company.

For financial years 2010 through 2013, the Certified Public Accounting firms of Maloney + Novotny LLC (“M+N”) and Ernst & Young LLP (“E&Y”) provided an unqualified opinion on the 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
Gary S. Cowling	Retired
Mary Lynn Laughlin	Retired
James E. Lehman	President, AAA East Central
Peter E. Shimrak	Retired

Officers

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

Name	Title
James E. Lehman	President
Raymond M. Komichak	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 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. Effective May 21, 2010, the Company’s parent, AAA East Central, merged with Automobile Club of Southern

California. As a result of the merger, Automobile Club of Southern California became the controlling parent of the Company.

Territory and Plan of Operations

The Company is licensed to operate only in the State of Ohio. The Company writes group life and group accident and health business.

The following schedule illustrates the Company's premium written in 2014 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	\$ 92,959	\$ 6,450	\$ 75,202	\$ 24,207
Group Accident and Health	<u>90,692</u>	<u>5,419</u>	<u>77,090</u>	<u>19,021</u>
Totals	<u>\$ 183,651</u>	<u>\$ 11,869</u>	<u>\$ 152,292</u>	<u>\$ 43,228</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. 100% of all accidental death policies are ceded, as are 85% of personal accident and health policies.

Certain premiums and benefits are assumed from other insurance companies under various reinsurance agreements. The Company assumes 100% 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.

	2014	2013	2012	2011	2010
Group life	\$ 123,874	\$ 152,605	\$ 133,641	\$ 139,176	\$ 164,007
Group accident & health	<u>122,663</u>	<u>127,842</u>	<u>126,400</u>	<u>121,146</u>	<u>148,017</u>
Total	<u>\$ 246,537</u>	<u>\$ 280,447</u>	<u>\$ 260,041</u>	<u>\$ 260,322</u>	<u>\$ 312,024</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 Changes in the Capital and Surplus Account

**Statement of Assets, Liabilities, Surplus and Other Funds
December 31, 2014**

Bonds	\$ 9,863,928
Cash, cash equivalents, and short term investments	<u>159,263</u>
Subtotal, cash and invested assets	10,023,191
Investment income due and accrued	99,426
Uncollected premiums in course of collection	623
Other amounts receivable under reinsurance contracts	8,795
Current income tax recoverable and interest thereon	1,842
Net deferred tax assets	<u>3,087</u>
Total assets	<u>\$ 10,136,964</u>
Aggregate reserve for life contracts	\$ 76,747
Aggregate reserve for accident and health contracts	5,194
Contract Claims: Life	22,137
Contract Claims: Accident & Health	3,105
Premiums received in advance	667
Remittances and items not allocated	16,355
Asset valuation reserve	<u>15,222</u>
Total liabilities	<u>139,427</u>
Common capital stock	1,000,000
Gross paid in and contributed surplus	2,000,000
Unassigned funds	<u>6,997,537</u>
Total capital and surplus	<u>9,997,537</u>
Total liabilities, capital and surplus	<u>\$ 10,136,964</u>

**Summary of Operations
As of December 31, 2014**

Premiums and annuity considerations for life and A&H contracts	\$ 43,229
Net investment income	305,246
Commissions and expense allowances on reinsurance ceded	13,203
Miscellaneous income	<u>2,771</u>
Total	<u>364,449</u>
Death benefits	53,172
Disability benefits and benefits under A&H contracts	315
Increase in aggregate reserves for life and A&H contracts	<u>(15,707)</u>
Total	37,780
Commissions on premiums	15,533
Commissions and expense allowances on reinsurance assumed	5,645
General insurance expenses	10,008
Insurance taxes, licenses and fees	<u>2,267</u>
Total	<u>71,233</u>
Net gain from operations before dividends and taxes	293,216
Federal income taxes incurred	<u>46,679</u>
Net income	<u>\$ 246,537</u>

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Surplus at December 31, prior year	<u>\$9,757</u>	<u>\$9,484</u>	<u>\$9,219</u>	<u>\$8,954</u>	<u>\$8,637</u>
Net income	247	280	260	260	312
Change in net deferred income tax	5	51	9	-	-
Change in nonadmitted assets	(6)	(51)	(6)	-	-
Change in AVR	<u>(6)</u>	<u>(7)</u>	<u>2</u>	<u>5</u>	<u>5</u>
Net change in surplus for the year	<u>240</u>	<u>273</u>	<u>265</u>	<u>265</u>	<u>317</u>
Surplus, December 31, current year	<u>\$9,997</u>	<u>\$9,757</u>	<u>\$9,484</u>	<u>\$9,219</u>	<u>\$8,954</u>

Notes to Financial Statements

Investments

The Company's investment portfolio consists primarily of investment grade bonds and cash. The bonds were not in compliance with ORC Section 3907.14. Approximately \$5.9 million dollars invested in the Federal Farm Credit Bank and the Federal Home Loan Bank exceeded the amount allowed by ORC 3907.14(S)(7). The Company indicated it will be merging into another life insurance company by December 31, 2016 and at that time will ensure all investments will be in compliance with applicable statutes.

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, 2014.

Jason B. Wade, 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 2014 annual statement are consistent with requirements of Ohio law.

Subsequent Events

The Company's plan is to merge with and into another affiliated life insurance company by December 31, 2016.

Conclusion

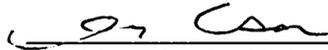
The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2014, and is summarized as follows:

Total Assets	<u>\$ 10,136,964</u>
Liabilities	\$ 139,427
Surplus and Other Funds	<u>9,997,537</u>
Total Liabilities, Surplus and Other Funds	<u>\$ 10,136,964</u>

Acknowledgement

In addition to the undersigned, Methuselah E. Nyangoro, AES, CFE, CISA, 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, 2014.

 3/3/14
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 3 day of March, 2016.


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

Notarized

I, the undersigned, do hereby certify that the foregoing is a true and correct copy of the original as shown to me by the person presenting the same for notarization.

March 3

Elizabeth Chase
ELIZABETH CHASE
NOTARY PUBLIC STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2017