

Report of Examination of

Grange Life Insurance Company
Columbus, Ohio

As of December 31, 2009

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Columbus, Ohio
October 25, 2010

Honorable Alfred W. Gross
Chair, Financial Condition (E) Committee
National Association of Insurance Commissioners (“NAIC”)
Virginia State Corporation Commission
Bureau of Insurance
Post Office Box 1157
Richmond, Virginia 23218

Honorable Mary Jo Hudson
Director
State of Ohio
Department of Insurance (“Department”)
50 West Town Street
3rd Floor – Suite 300
Columbus, Ohio 43215

Dear Sir and Madam:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), an examination was made of

Grange Life Insurance Company

an Ohio domiciled, stock, life insurance company, hereinafter referred to as the “Company.” The examination was conducted at the Company’s home office, located at 671 South High Street, Columbus, Ohio.

A report of this examination is hereby respectfully submitted.

The Company was last examined as of December 31, 2008, by the Department. Representatives of the Department conducted the current examination covering the intervening period to and including December 31, 2009.

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 |
|--------------------|---|
| Douglas P. Buth | Retired Chairman, Appleton Papers |
| Glenn E. Corlett | Retired Dean, Ohio University |
| Elwood G. Gee | President, The Ohio State University |
| Robert J. O'Brien | Retired President, Aqua Perfect of Central Ohio |
| Michael V. Parrott | Chairman, Highmark Technologies, LLC |
| Mary M. Perry | Senior Vice President, Kroger Company |
| Melvin G. Pye, Jr. | President and Chief Executive Officer, Fairfax Place |
| Thomas S. Stewart | Retired Vice President and General Manager, WBNS-TV |
| Philip W. Stichter | Retired Partner, Vorys, Sater, Seymour & Pease |
| Philip H. Urban | President and Chief Executive Officer, The Company |
| Thomas H. Welch | Vice President and Chief Financial Officer, The Company |
| David C. Wetmore | Former Managing Director, Udata Capital, Inc. |

Officers

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

| Name | Title |
|------------------------|---|
| Michelle R. Benz | President |
| David T. Roark | Secretary |
| Thomas H. Welch | Treasurer |
| Martin J. Dinehart | Vice President – Life Operations |
| Kathleen A. Cunningham | Assistant Vice President – Life Marketing |
| Theresa M. Mason | Assistant Vice President – Life Finance |

Insurance Holding Company System

The Company is a member of a holding company system as defined in Section 3901.32 of the ORC. The following displays the chain of ownership of the insurance companies as of December 31, 2009:

- Grange Mutual Casualty Company – Ohio
 - Grange Life Insurance Company – Ohio (79%)
 - Trustgard Insurance Company – Ohio
 - Grange Indemnity Insurance Company – Ohio
 - Grange Insurance Company of Michigan – Ohio
 - Grange Property and Casualty Insurance Company – Ohio
 - Integrity Mutual Insurance Company – Wisconsin
 - Integrity Property and Casualty Insurance Company – Wisconsin
 - Grange Life Insurance Company – Ohio (21%)

Reinsurance

Ceded

The Company maintains various reinsurance treaties and facultative reinsurance contracts that cover the individual life insurance policies issued by the Company, and fully reinsures the amount of risk above the Company's retention of \$100,000. For group life insurance, the Company maintains a reinsurance treaty that limits its retention to \$20,000 per insured life.

All reinsurance contracts contained the required NAIC clauses.

Territory and Plan of Operations

The Company was licensed to transact business the states of Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Ohio, Pennsylvania, South Carolina, Tennessee, Virginia, and Wisconsin.

| <u>Description</u> | <u>Percentage of Net Business Written by Line</u> <u>2009</u> |
|----------------------|--|
| Ordinary Life | 87.9% |
| Individual Annuities | 9.1% |
| Group Life | 2.6% |
| Other | 0.4% |
| Total | <u>100.0%</u> |

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, 2009. 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 the year under examination, the Certified Public Accounting (CPA) firm of PriceWaterhouseCoopers, LLP, provided an unqualified opinion based on statutory accounting principles. Relevant work performed by the CPA firm, during its annual audit of the Company, was reviewed during the examination and incorporated into the examination work papers.

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

In addition, the following items were reviewed during the course of this examination:

1. Company history;
2. fidelity bonds and other insurance;
3. officers', employees', and agents' welfare and pension plans;
4. growth of Company;
5. pending litigation; and
6. Articles of Incorporation and Bylaws.

Financial Statements

The financial condition and the results of its operations for the one 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

December 31, 2009

Admitted assets

Cash and invested assets:

| | |
|--------------------------------|--------------------|
| Bonds | \$214,771,220 |
| Common Stocks | 781 |
| Cash | 9,927,963 |
| Contract loans | 8,618,809 |
| Receivable for securities | 1,813 |
| Total cash and invested assets | <u>233,320,586</u> |

| | |
|--|----------------------|
| Accrued investment income | 2,404,549 |
| Deferred premiums, agents' balances and installments booked but deferred and not yet due | 25,043,701 |
| Amounts recoverable from reinsurers | 5,024,111 |
| Other amounts receivable under reinsurance contracts | 1,209,076 |
| Current federal and foreign income tax recoverable | 356,923 |
| Electronic data processing equipment and software | 22,433 |
| Net deferred tax asset | 4,454,853 |
| Aggregate write-ins for other than invested assets | 21,116 |
| Total admitted assets | <u>\$271,857,348</u> |

Liabilities, Surplus and Other Funds

December 31, 2009

Liabilities:

| | |
|--|--------------------|
| Aggregate reserve for life contracts | \$218,654,355 |
| Aggregate reserve for accident and health contracts | 340,688 |
| Liability for deposit-type contracts | 504,188 |
| Life contract claims | 2,840,927 |
| Accident and health contract claims | 39,037 |
| Policyholders' dividends | 115,968 |
| Dividends apportioned for payment | 50,995 |
| Premiums and annuity considerations for life and accident and health contracts received in advance | 143,886 |
| Other amounts payable on reinsurance | 1,947,701 |
| Commissions to agents due or accrued | 640,504 |
| Commissions and expense allowances payable | 23,141 |
| General expenses due or accrued | 934,637 |
| Taxes, licenses and fees due or accrued | 851,271 |
| Unearned investment income | 356,790 |
| Remittances and items not allocated | 133,265 |
| Asset valuation reserve | 1,046,553 |
| Payable to parent, subsidiaries and affiliates | 5,229,921 |
| Aggregate write-ins for liabilities | 92,930 |
| Total liabilities | <u>233,946,757</u> |

Capital and surplus:

| | |
|--|----------------------|
| Common capital stock | 1,893,750 |
| Gross paid in and contributed surplus | 7,031,250 |
| Unassigned funds | 28,985,591 |
| Total capital and surplus | <u>37,910,591</u> |
| Total liabilities, capital and surplus | <u>\$271,857,348</u> |

Statement of Operations

December 31, 2009

| | |
|--|--------------------|
| Premiums and annuity considerations for life and accident and health contracts | \$44,778,942 |
| Considerations for supplementary contracts with life contingencies | |
| Net investment income | 12,163,319 |
| Amortization of interest maintenance reserve | 44,755 |
| Commissions and expense allowances on reinsurance ceded | 6,699,279 |
| Aggregate write-ins for miscellaneous income | 12,283 |
| Total | <u>63,698,578</u> |
| Death benefits | 16,920,463 |
| Annuity benefits | 4,303,922 |
| Disability benefits | 197,135 |
| Surrender benefits and other fund withdrawals for life contracts | 6,348,352 |
| Increase in aggregate reserves | 11,719,358 |
| Total | <u>39,489,230</u> |
| Commissions on premiums, annuity considerations, and deposit-type contract funds | 6,696,709 |
| Commissions and expense allowances on reinsurance assumed | 243,144 |
| General insurance expenses | 11,307,061 |
| Insurance taxes, licenses and fees | 1,397,468 |
| Increase in loading on deferred and uncollected premiums | (391,944) |
| Total | <u>58,741,668</u> |
| Net gain from operations before dividends to policyholders before federal income taxes | <u>4,956,910</u> |
| Dividends to policyholders | <u>169,919</u> |
| Net gain from operations after dividends to policyholders but before federal income taxes | <u>4,786,991</u> |
| Federal income taxes | <u>1,220,629</u> |
| Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains | <u>3,566,362</u> |
| Net realized capital losses | <u>(670,307)</u> |
| Net income | <u>\$2,896,055</u> |

Statement of Changes in the Capital and Surplus Account

(In thousands)

| | |
|---------------------------------------|-----------------|
| Capital and surplus December 31, 2008 | <u>\$33,571</u> |
| Net income | 2,896 |
| Change in net deferred income tax | 394 |
| Change in nonadmitted assets | 1,308 |
| Change in asset valuation reserve | <u>(258)</u> |
| Net change in capital and surplus | 4,340 |
| Capital and surplus December 31, 2009 | <u>\$37,911</u> |

Notes to Financial Statements

Investments

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

Loss and Loss Adjustment Expense Reserves

The Company had an outside actuary, Thomas M. Hull, FSA, MAAA, certify the total reserves for the years covered by the examination. The Department's actuary, Pete Weber, FSA, MAAA, reviewed the detailed calculations for the reserves of the major lines of business as of December 31, 2009.

On the basis of the above-mentioned analysis, it was determined that the loss and loss adjustment expense reserves were reasonable as of December 31, 2009.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2009, and is summarized as follows:

| | |
|--|----------------------|
| Total Admitted Assets | <u>\$271,857,348</u> |
| Liabilities | \$233,946,757 |
| Surplus as Regards Policyholders | <u>37,910,591</u> |
| Total Liabilities and Surplus as Regards Policyholders | <u>\$271,857,348</u> |

Acknowledgement

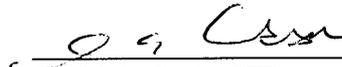
Appreciation is expressed for the assistance extended by the officers and employees of the Company during the course of this examination.

In addition to the undersigned, the following representatives of the Department participated in this examination: Jeff Ferris, CFE, AES; Dominic Ilc, CFE, AES; Floyd Meeks, CFE, CPA, AES; Jyotika V. Patel, CPA; Patricia Severs, CPA; and Peter Weber, FSA, MAAA.

Respectfully,



Donnie G. Wells, CFE
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, 2009.

[Signature]
Examiner-In-Charge

1/6/11
Date

[Signature]
Assistant Chief Examiner

1/6/11
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 6 day of January, 2011.

[Signature]
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2012
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 6 day of January, 2011.

[Signature]
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2012
My Commission Expires