

Report of Examination of

Ohio National Life Assurance Corporation
Cincinnati, Ohio

As of December 31, 2010

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Columbus, Ohio
December 16, 2011

Honorable Joseph Torti, III, Chair
Financial Condition (E) Committee
National Association of Insurance Commissioners (“NAIC”)
Division of Insurance
Department of Business Regulation
State of Rhode Island
1511 Pontiac Avenue, Bldg. #69-2
Cranston, Rhode Island 02920

Honorable Mary Taylor
Lieutenant Governor/Director
State of Ohio
Department of Insurance
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”), the Ohio Department of Insurance (“Department”) conducted an examination of

Ohio National Life Assurance Corporation

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 One Financial Way, Cincinnati, Ohio.

Scope of Examination

The Department last examined the Company as of December 31, 2005. The Department’s current examination covers the period of January 1, 2006 through December 31, 2010.

The examination was conducted in accordance with the 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 KPMG 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
Ronald J. Dolan	Vice Chairman & Chief Risk Officer, Ohio National Financial Services, Inc.
Gary T. Huffman	Chairman, President & Chief Executive Officer, Ohio National Financial Services, Inc.
Michael F. Haverkamp	Senior Vice President & General Counsel, Ohio National Financial Services, Inc.

Officers

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

Name	Title
Gary T. Huffman	Chairman, President & Chief Executive Officer
Ronald J. Dolan	Vice Chairman & Chief Risk Officer
Thomas A. Barefield	Executive Vice President & Chief Marketing Officer, Institutional Sales
Christopher A. Carlson	Executive Vice President & Chief Investment Officer
Larry J. Adams	Senior Vice President & Chief Agency Officer
Lee E. Bartels	Senior Vice President, Underwriting
Howard C. Becker	Senior Vice President, & Chief Administrative Officer
Robert A. Bowen	Senior Vice President, Information Systems

Name	Title
Anthony G. Esposito	Senior Vice President, Human Resources & Administration
Diane S. Hagenbuch	Senior Vice President, Corporate Relations & Communications
Kristal E. Hambrick	Senior Vice President, Life Product Management
Michael F. Haverkamp	Senior Vice President, General Counsel & Assistant Secretary
Ronald G. Heibert	Senior Vice President & Chief Corporate Actuary
Stephen R. Murphy	Senior Vice President, Annuity Product Management
George B. Pearson, Jr.	Senior Vice President, PGA Marketing
Arthur J. Roberts	Senior Vice President & Chief Financial Officer
James C. Smith	Senior Vice President, Internal Audit & Compliance
Barbara A. Turner	Senior Vice President, Broker/Dealer Operations

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, 2010 (100% owned unless otherwise indicated):

Ohio National Mutual Holdings, Inc.
 Ohio National Financial Services, Inc.
 Sycamore Re, Ltd.
 ON Global Holdings, LLC
 Ohio National Sudamerica S. A. (1)
 Ohio National Seguros de Vida S. A. (2)
 Fiduciary Capital Management, Inc. (60.8%)
 The Ohio National Life Insurance Company
 National Security Life and Annuity Company (80.5%)
 Kenwood Re, Inc.
 Montgomery Re, Inc.
 Ohio National Life Assurance Corporation
 Ohio National Investments, Inc.
 Ohio National Fund, Inc. (3)
 Dow Target Variable Fund, LLC (3)
 Ohio National Equities, Inc.
 The O. N. Equity Sales Company
 Ohio National Insurance Agency, Inc.
 O. N. Investment Management Company
 Ohio National Insurance Agency of Alabama, Inc.
 ON Flight, Inc.
 Financial Way Realty, Inc.
 Suffolk Capital Management, LLC (81.5%)

(1) 1 share owned by Ohio National Financial Services, Inc.

(2) 1 share owned by ON Global Holdings, LLC

(3) Sponsored mutual fund advised by Ohio National Investments, Inc.

Reinsurance

Ceded

The Company maintains a number of reinsurance agreements with professional carriers. However, reinsurance has been used conservatively during the last several years, as evidenced by less than ten percent of its total in-force business being ceded. For individual disability income policies, the Company has various coinsurance agreements whereby it generally retains 20% of the risk. Maximum net retention on any one life is \$1,000,000.

All contracts reviewed contained the necessary clauses that meet the guidelines prescribed by the NAIC.

Assumed

The Company assumes outside business from three separate insurers under coinsurance agreements.

All contracts reviewed contained the necessary clauses that meet the guidelines prescribed by the NAIC.

Territory and Plan of Operations

The Company and its affiliate, The Ohio National Life Insurance Company, together have a business profile which consists of three distinct product lines: individual life insurance, individual disability income insurance and individual and group annuity products. Each product is offered to serve a specific market segment and consumer need. They use a diversified distribution platform that consists of traditional life agents and institutional channels.

The Company is licensed to transact business in all states except Alaska, Hawaii and New York. The Company is also licensed to transact business in the District of Columbia and Puerto Rico.

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, 2010

Admitted assets

Cash and invested assets:	
Bonds	\$2,015,841,229
Preferred stocks	7,561
Common stocks	4,580
Mortgage loans	399,059,777
Cash and short-term investments	21,422,576
Contract loans	81,202,029
Other invested assets	1,921,484
Receivable for securities	411,917
Securities lending reinvested collateral assets	105,514,618
Total cash and invested assets	<u>2,625,385,771</u>
Accrued investment income	25,034,292
Uncollected premiums and agents' balances in course of collection	9,344,450
Deferred premiums, agents' balances and installments booked but deferred and not yet due	97,914,865
Amounts recoverable from reinsurers	7,661,254
Other amounts receivable under reinsurance contracts	129,733
Net deferred tax asset	67,157,122
Guaranty funds receivable or on deposit	2,743,186
Receivables from parent, subsidiaries and affiliates	85,755,008
Aggregate write-ins for other than invested assets	706,178
Total assets excluding Separate Accounts	<u>2,921,831,859</u>
Separate Accounts	<u>247,758,736</u>
Total admitted assets	<u>\$3,169,590,595</u>

December 31, 2010

Liabilities, capital and surplus

Liabilities:

Aggregate reserve for life contracts	\$2,471,705,325
Aggregate reserve for accident and health contracts	47,988,034
Liability for deposit-type contracts	1,325,868
Life contract claims	7,188,492
Accident and health contract claims	308,457
Premiums and annuity considerations for life and accident and health contracts received in advance	811,923
Interest maintenance reserve	8,738,879
Commissions to agents due or accrued	5,169,265
General expenses due or accrued	880,564
Transfers to Separate Accounts due or accrued	(11,226,572)
Taxes, licenses and fees due or accrued	6,386,228
Current federal and foreign income taxes	1,420,878
Unearned investment income	2,866,078
Remittances and items not allocated	12,676,187
Asset valuation reserve	8,729,018
Payable for securities lending	105,514,618
Aggregate write-ins for liabilities	171,332
Liabilities excluding Separate Accounts	<u>2,670,654,574</u>
Separate Accounts	<u>247,758,736</u>
Total liabilities	<u>2,918,413,310</u>
Capital and surplus:	
Common capital stock	9,600,005
Aggregate write-ins for other than special surplus funds	34,995,294
Gross paid in and contributed surplus	87,976,286
Unassigned funds	<u>118,605,700</u>
Total capital and surplus	<u>251,177,285</u>
Total liabilities, capital and surplus	<u><u>\$3,169,590,595</u></u>

Summary of Operations

**For the Year Ended
December 31, 2010**

Premiums and annuity considerations for life and accident and health contracts	\$246,766,871
Net investment income	150,073,143
Amortization of interest maintenance reserve	890,223
Commissions and expense allowances on reinsurance ceded	27,914,801
Income from fees associated with Separate Accounts	1,507,575
Aggregate write-ins for miscellaneous income	24,587,294
Total	<u>451,739,907</u>
Death benefits	38,182,328
Matured endowments	15,788
Annuity benefits	6,651,566
Disability benefits	3,769,407
Surrender benefits and other fund withdrawals for life contracts	101,019,115
Interest and adjustments on contract or deposit-type contracts	1,171,469
Payments on supplementary contracts with life contingencies	201,128
Increase in aggregate reserves for life and accident and health contracts	176,406,160
Total	<u>327,416,961</u>
Commissions on premiums, annuity considerations, and deposit-type contract funds	55,729,281
Commissions and expense allowances on reinsurance assumed	163,946
General insurance expenses	44,672,106
Insurance taxes, licenses and fees	10,763,337
Increase in loading on deferred and uncollected premiums	(6,361,698)
Net transfers to or (from) Separate Accounts net of reinsurance	3,954,938
Aggregate write-ins for deductions	2,370,969
Total	<u>438,709,840</u>
Net gain from operations before federal income taxes	13,030,067
Federal income taxes incurred	(1,324,759)
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains	14,354,826
Net realized capital gains (losses)	(3,704,218)
Net income	<u><u>\$10,650,608</u></u>

Statement of Changes in the Capital and Surplus Account

(In thousands)

	2006	2007	2008	2009	2010
Capital and surplus December 31, previous year	\$164,446	\$169,415	\$188,621	\$267,465	\$277,843
Net income (loss)	(6,012)	7,295	(43,407)	(565)	10,651
Net unrealized capital gains (losses)	3,121	4,580	(5,299)	3,221	1,971
Change in net unrealized foreign exchange capital	100	629	15	(68)	(119)
Change in net deferred income tax	13,428	6,653	(11,177)	(2,874)	(2,692)
Change in nonadmitted assets	(13,009)	(6,799)	27,165	2,267	5,333
Change in reserve on account of change in valuation basis	2,588	-	-	-	-
Change in asset valuation reserve	(247)	(4,769)	4,590	951	(4,592)
Surplus paid in	5,000	11,000			
Change in surplus from reinsurance	-	-	76,867	37,616	-
Dividends to stockholders	-	-	-	(20,480)	(20,160)
Aggregate write-ins	-	617	30,090	(9,690)	(17,058)
Net change in capital and surplus	4,969	19,206	78,844	10,378	(26,666)
Capital and surplus December 31, current year	\$169,415	\$188,621	\$267,465	\$277,843	\$251,177

Notes to Financial Statements

Investments

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

Aggregate Reserves

The Company's Board of Directors appointed Ronald J. Dolan, FSA, MAAA, Vice Chairman and Chief Risk Officer, to render the Company's Statement of Actuarial Opinion in connection with the preparation of the Company's December 31, 2010 Annual Statement.

Peter Weber, ASA, MAAA, Life Actuary with the Department, reviewed the Company's Actuarial Memorandum supporting the Actuarial Opinion. In addition, Mr. Weber performed an independent analysis using supplemental procedures as he considered necessary. Based on his analysis, Mr. Weber determined that the reserves presented in the Company's 2010 Annual Statement are consistent with requirements in Ohio law.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2010, and is summarized as follows:

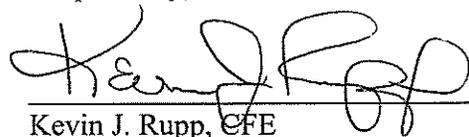
Total Admitted Assets	<u>\$3,169,590,595</u>
Liabilities	\$2,918,413,310
Surplus as Regards Policyholders	<u>251,177,285</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$3,169,590,595</u>

Acknowledgement

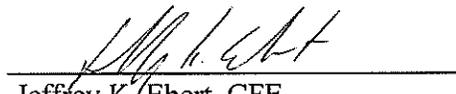
Appreciation is expressed for the assistance extended by the officers and employees of the Company during the course of this examination.

In addition to the aforementioned and undersigned, the following representatives of the Department participated in this examination: Mohammad A. Arif, AES, CFE, CIDM, CISA, CISSP; Aaron R. Hibbs, ChFC, CPA, FLMI; James H. Luke, CFE, CPA; and Leroy J. Moster, 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, 2010.~~

Kevin J. Rupp 1/17/12 Michael Ebert 1/17/12
Examiner-In-Charge Date Assistant Chief Examiner 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 17 day of January, 2012.

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

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/her knowledge and belief.

Subscribed and sworn to before me this 17 day of January, 2012.

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