

Report of Examination of

Ohio Bar Liability Insurance Company
Columbus, Ohio

As of December 31, 2013

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Columbus, Ohio
May 23, 2014

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

Ohio Bar Liability Insurance Company

an Ohio domiciled, stock, property and casualty insurance company, hereinafter referred to as the “Company.” The examination was conducted at the Company’s home office, located at 1650 Lake Shore Drive, Columbus, Ohio.

Scope of Examination

The Company was last examined by the Department as of December 31, 2008. The current examination covers the period of January 1, 2009 through and including December 31, 2013.

The Department conducted the examination in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners 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 years covered by the examination, the certified public accounting firm of Crowe Horwath, LLP (“CPAs”) provided an unqualified opinion based on statutory accounting principles. Relevant work performed by the CPAs during its annual audit of the

Company was reviewed during the examination and incorporated into the examination work papers.

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. loss experience;
6. pending litigation; and
7. Articles of Incorporation and Bylaws.

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>
Paula Louise Brooks	Commissioner: Franklin County
Pariss Michael Coleman, II	Attorney: Cooper & Kowalski
Barbara Jean Howard	Attorney: Barbara J. Howard Co.
James Robert Jeffery	Attorney: Spengler Nathanson
Thomas Dean Lammers	Attorney: Purdy, Lammers & Schiavone
Doloris Fincher Learmonth	Attorney: Dinsmore & Shohl
Jordan Austin Miller, Jr.	President, Fifth Third Bank, Columbus
Martin Edward Mohler	Attorney: Shindler, Neff, Worline & Mohler
Frederick Leonard Oremus	Retired, Attorney
Denny L. Ramey	Retired, Executive Director of the Ohio State Bar Association
Carmen Vincent Roberto	Attorney: Niekamp, Weisensell, Mutersbaugh & Mastrantonio
Heather Gay Sowald	Attorney: Sowald, Sowald, Anderson & Hawley
John Stephen Stith	Attorney: Porter Wright
Joseph Thomas Svete	Attorney: Svete & McGee Co., L.P.A.

Thomas Michael Taggart	Attorney: Vorys, Sater, Seymour & Pease
Robin Geoffrey Weaver	Attorney: Squire Sanders
Linde Hurst Webb	Attorney: Lydy & Moan
James M Wiles	Attorney: Isacc, Wiles, Burkholder & Teetor, LLC

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>
Steven Craig Couch	President and Chief Executive Officer
Frederick Hunker	Vice President
Denny L Ramey	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 Ohio State Bar Association is the ultimate controlling party of the insurance holding company system.

Territory and Plan of Operations

The Company transacts business in the State of Ohio. The Company writes professional liability coverage for attorneys and is primarily written on a claims-made basis.

Significant Operating Results

The Company reported the following net underwriting results, reported in thousands, during the examination period:

	2013	2012	2011	2010	2009
Premiums earned	<u>\$ 5,387</u>	<u>\$ 4,892</u>	<u>\$ 4,427</u>	<u>\$ 4,190</u>	<u>\$ 4,203</u>
Losses incurred	1,435	1,784	2,264	1,388	1,383
Loss adjustment expenses incurred	1,362	941	1,376	1,395	947
Other underwriting expenses incurred	<u>2,094</u>	<u>2,006</u>	<u>1,536</u>	<u>1,520</u>	<u>1,293</u>
Total underwriting deductions	<u>4,891</u>	<u>4,731</u>	<u>5,176</u>	<u>4,303</u>	<u>3,623</u>
Net underwriting gain	\$ 496	\$ 161	(\$ 749)	(\$ 113)	\$ 580
Loss ratio	26.6%	36.5%	51.1%	33.1%	32.9%
Loss adjustment expense ratio	<u>25.3%</u>	<u>19.2%</u>	<u>31.1%</u>	<u>33.3%</u>	<u>22.5%</u>
Loss and LAE ratio	51.9%	55.7%	82.2%	66.4%	55.4%
Other underwriting expense ratio	<u>36.8%</u>	<u>41.0%</u>	<u>33.3%</u>	<u>35.5%</u>	<u>30.3%</u>
Combined ratio	<u>88.7%</u>	<u>96.7%</u>	<u>115.5%</u>	<u>101.9%</u>	<u>85.7%</u>

Reinsurance

The Company has retention of \$200,000 and a first excess of loss agreement provides coverage of 75% of \$800,000. The second and third excess of loss layer provides 100% coverage of \$4 million excess \$1 million and a fourth excess of loss layer provides 85% coverage of \$1 million excess \$5 million.

The contract contained an insolvency clause, intermediary clause, errors and omission clause and an arbitration clause, which meet the guidelines prescribed by the NAIC.

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, Capital and Surplus
- Statement of Income
- Statement of Changes in the Capital and Surplus Account

**Statement of Assets
December 31, 2013**

Admitted assets

Bonds	\$ 26,051,934
Common stocks	7,400,589
Cash and short-term investments	<u>1,507,694</u>
Total cash and invested assets	34,960,217
Investment income due and accrued	263,516
Uncollected premiums and agents' balances in the course of collection	478,376
Current federal and foreign income tax recoverable and interest thereon	141,069
Aggregate write-ins for other than invested assets	
Prepaid postage	<u>1,225</u>
Total admitted assets	<u>\$ 35,844,403</u>

**Statement of Liabilities, Capital and Surplus
December 31, 2013**

Liabilities

Losses	\$ 4,549,789
Loss adjustment expenses	1,445,145
Other expenses	7,626
Taxes, licenses and fees	1,466
Current federal and foreign income taxes	126,456
Unearned premiums	2,453,095
Advance premium	226,527
Ceded reinsurance premiums payable	345,868
Payable to parent, subsidiaries and affiliates	433,104
Aggregate write-ins for liabilities	
CLE coupon	<u>160,000</u>
Total liabilities	9,749,076

Capital and Surplus

Common capital stock	1,000,000
Gross paid in and contributed surplus	1,000,000
Unassigned funds	<u>24,095,327</u>
Surplus as regards policyholders	<u>26,095,327</u>
Total liabilities, capital and surplus	<u>\$ 35,844,403</u>

Statement of Income
As of December 31, 2013

Premiums earned	<u>\$ 5,387,398</u>
Losses incurred	1,434,937
Loss adjustment expenses	1,362,400
Other underwriting expenses	<u>2,094,249</u>
Net underwriting gain	495,812
Net investment income earned	795,327
Net realized capital gain less capital gains tax	<u>577,479</u>
Net investment gain	<u>1,372,806</u>
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	<u>1,868,618</u>
Federal and foreign income taxes incurred	<u>135,615</u>
Net income	<u>\$ 1,733,003</u>

Statement of Changes in the Capital and Surplus Account

<u>Capital and Surplus</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Capital & surplus, prior year end	<u>\$25,162,860</u>	<u>\$23,782,683</u>	<u>\$25,033,224</u>	<u>\$25,150,188</u>	<u>\$25,037,142</u>
Net income	1,733,003	1,241,351	272,777	977,594	890,581
Change in net unrealized capital gains	1,103,974	156,076	(167,599)	77,596	888,409
Change in net deferred income tax	(445,553)	(192,836)	72,910	(241,825)	(260,933)
Change in non-admitted assets	522,381	448,363	(451,629)	(40,329)	(405,011)
Net remittances to home office	(981,338)	-	-	-	-
Dividends to stockholders	<u>(1,000,000)</u>	<u>(272,777)</u>	<u>(977,000)</u>	<u>(890,000)</u>	<u>(1,000,000)</u>
Net change in capital and surplus	<u>932,467</u>	<u>1,380,177</u>	<u>(1,250,541)</u>	<u>(116,964)</u>	<u>113,046</u>
Capital and surplus, current year end	<u>\$26,095,327</u>	<u>\$25,162,860</u>	<u>\$23,782,683</u>	<u>\$25,033,224</u>	<u>\$25,150,188</u>

Notes to Financial Statements

Investments

The Company's investment portfolio consists of bonds and stocks. The Company was not in compliance with Section 3925.08 (D)(2) of the ORC and is currently working on becoming compliant. There were no financial adjustments made. The investments were valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

Loss and Loss Adjustment Expense Reserves

The Company's Board of Directors appointed Steven J. Groeschen, FCAS, MAAA, of Demotech, Inc. to render a Statement of Actuarial Opinion ("Opinion") on the total reserves. Mr. Groeschen prepared an Actuarial Report supporting the Opinion in conjunction with the preparation of the Company's December 31, 2013 Annual Statement.

Thomas Botsko, ACAS, MAAA, the Department's Chief Property and Casualty Actuary, reviewed the Actuarial Report and performed other procedures as considered necessary to evaluate the loss and loss adjustment expense ("LAE") reserves. Mr. Botsko concluded the reserves fall within a reasonable range of reserve estimates at December 31, 2013.

Subsequent Events

There are no material subsequent events.

Conclusion

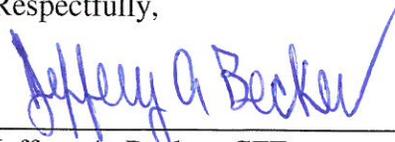
The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2013, and is summarized as follows:

Total Admitted Assets	<u>\$ 35,844,403</u>
Liabilities	9,749,076
Surplus as Regards Policyholders	<u>26,095,327</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$ 35,844,403</u>

Acknowledgement

In addition to the aforementioned and undersigned, the following representatives of the Department participated in this examination: Edward Nagorny, CFE, CPA; Kim Somogyi, CPA, AES and Bradley Schroer.

Respectfully,



Jeffery A. Becker, CFE
Examiner-In-Charge
Office of Risk Assessment
Ohio Department of Insurance



David Cook, CFE
Assistant Chief Examiner
Office of Risk Assessment
Ohio Department of Insurance

Verification

As required by Section 3901.07 of the ORC, 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.

Jeffery A Becker 7/8/2014 [Signature] 7/8/14
Examiner-In-Charge Date Assistant Chief Examiner Date

State of Ohio

County of Franklin

Personally appeared before me the above named, Jeffery A. Becker, 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 8 day of July, 2014.

[Signature] 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 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 knowledge and belief.

Subscribed and sworn to before me this 8 day of July, 2014.

[Signature] ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2017
My Commission Expires