

Report of Examination of

Grange Life Insurance Company
Columbus, Ohio

As of December 31, 2014

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Columbus, Ohio
October 30, 2015

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”, 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.

Scope of Examination

The Department last examined the Company as of December 31, 2009. This examination covers the intervening period through December 31, 2014.

The Department, as the lead regulator of the Grange Insurance Group, led the multi-state coordinated examination. In addition to the Department, the Wisconsin Department of Insurance also participated in the examination. 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 financial condition, assess corporate governance, identify current and prospective risks of the Company 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 Section 3901.07 of the ORC 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 report, but separately communicated to other regulators and/or the Company.

For all years under examination, the Certified Public Accounting firm of PricewaterhouseCoopers, LLP provided an unqualified opinion on the Consolidated Financial Statements of the Company based on Statutory Accounting Principles. Representatives of the Department reviewed the independent auditors’ reports 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.

Directors

Name:	Principal Occupation
John Ammendola	President and Chief Executive Officer, Grange Insurance
Mark L. Boxer	Global Chief Information Officer, Cigna
Douglas P. Buth	Retired
Glenn E. Corlett	Retired
Robert E. Hoyt	Professor and Department Head of Risk Management and Insurance, Terry College of Business University of Georgia
John P. McCaffrey	Executive Vice President and Chief Financial Officer, Grange Insurance
Mary M. Perry	Senior Vice President, Kroger Company
Melvin G. Pye, Jr.	President and Chief Executive Officer, Fairfax Place
Thomas S. Stewart	Retired
David C. Wetmore	Retired
Christiana Wood	President and Chief Executive Officer, Gore Creek Capital

Officers

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

Name	Title
Michele R. Benz	President
John P. McCaffrey	Executive Vice President and Treasurer
LaVawn D. Coleman	Executive Vice President, Secretary and General Counsel

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, 2014:

<u>Company Name</u>	<u>Domicile</u>	<u>Owned</u>
Grange Mutual Casualty Company	OH-14060	
Trustgard Insurance Company	OH- 40118	100%
Grange Indemnity Insurance Company	OH- 10322	100%
Grange Insurance Company of Michigan	OH- 11136	100%
Grange Property & Casualty Insurance Company	OH- 11982	100%
Grange America Corporation	(Inactive)	100%
Grange Life Insurance Company	OH- 71218	79.21%
Northview Insurance Agency	(Inactive)	100%
Grange Life Reinsurance Company	VT-14917	100%
Integrity Mutual Insurance Company	WI-14303	Affiliate
Integrity Property & Casualty Insurance Company	WI- 12986	100%
Grange Life Insurance Company	OH- 71218	20.79%

Territory and Plan of Operations

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

The Company writes individual life and annuity products through independent agents.

Reinsurance

Ceded

The Company maintains various reinsurance treaties and facultative reinsurance contracts that cover the individual life insurance policies issued by the Company above the Company's retention of \$200,000. For group life insurance, the Company maintains a reinsurance treaty that limits its retention to \$20,000 per insured life.

In September 2012 the Company created a Special Purpose Financial Captive in the State of Vermont called Grange Life Reinsurance Company (GLRE). GLRE was formed to assume, on an indemnity reinsurance basis, a portion of the Company's liability in specified universal and term life insurance policies. GLRE is 100% owned by the Company.

Financial Statements

The financial condition and the results of 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 Capital and Surplus Account

Statement of Assets, Liabilities, Surplus and Other Funds

December 31, 2014

Admitted assets

Cash and invested assets:

Bonds	\$ 283,577,555
Common Stocks	6,725,681
Cash	13,812,770
Contract loans	10,731,332
Receivable for securities	875
Securities lending reinvested collateral assets	<u>7,723,467</u>
Total cash and invested assets	<u>322,571,680</u>

Investment income due and accrued	2,661,387
Deferred premiums, agents' balances and installments booked but deferred and not yet due	34,984,847
Amounts recoverable from reinsurers	2,250,000
Other amounts receivable under reinsurance contracts	1,334,309
Current federal and foreign income tax recoverable	991,490
Net deferred tax asset	4,222,157
Electronic data processing equipment and software	2,092
Aggregate write-ins for other than invested assets	<u>1,637,115</u>
Total admitted assets	<u>\$370,655,077</u>

December 31, 2014

Liabilities, capital and surplus

Liabilities:

Aggregate reserve for life contracts	\$278,488,825
Aggregate reserve for accident and health contracts	341,393
Liability for deposit-type contracts	601,231
Life contract claims	2,372,686
Accident and health contract claims	40,493
Policyholders' dividends	294,720
Dividends apportioned for payment	55,889
Premiums and annuity considerations for life and accident and health contracts received in advance	307,710
Other amounts payable on reinsurance	2,152,283
Interest Maintenance Reserve	1,828,210
Commissions to agents due or accrued	1,283,642
General expenses due or accrued	2,510,384
Taxes, licenses and fees due or accrued	1,605,277
Unearned investment income	433,574
Remittances and items not allocated	66,250
Asset valuation reserve	2,630,117
Payable to parent, subsidiaries and affiliates	10,646,540
Funds held under coinsurance	1,142,131
Payable for securities lending	7,723,467
Total liabilities	<u>314,524,822</u>

Capital and surplus:

Common capital stock	1,893,750
Gross paid in and contributed surplus	7,031,250
Unassigned funds	47,205,255
Total capital and surplus	<u>56,130,255</u>
Total liabilities, capital and surplus	<u><u>\$370,655,077</u></u>

Statement of Income

December 31, 2014

Premiums and annuity considerations for life and A&H contracts	\$49,924,009
Considerations for supplementary contracts with life contingencies	100,262
Net investment income	11,979,593
Amortization of interest maintenance reserve	649,763
Commissions and expense allowances on reinsurance ceded	14,419,533
Aggregate write-ins for miscellaneous income	17,783
Total	77,090,944
Death benefits	23,045,580
Annuity benefits	4,954,267
Disability benefits	53,636
Surrender benefits and withdrawals for life contracts	5,831,602
Increase in aggregate reserves	13,686,606
Total	47,571,691
Commissions on premiums, annuity considerations, and deposit type contract funds	9,386,572
Commissions and expense allowances on reinsurance assumed	180,877
General insurance expenses	15,614,445
Insurance taxes, licenses and fees	1,825,118
Increase in loading on deferred and uncollected premiums	(781,157)
Total	73,797,546
Net gain from operations before dividends to policyholders before federal income taxes	3,293,398
Dividends to policyholders	351,551
Net gain from operations after dividends to policyholders but before federal income taxes	2,941,847
Federal and Foreign income taxes incurred	802,698
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains	2,139,149
Net realized capital losses	(142,551)
Net income	\$1,996,598

Statement of Changes in the Capital and Surplus Account

(In thousands)

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Capital & Surplus, Beginning of Period	\$ 37,911	\$ 39,807	\$ 42,377	\$ 49,127	\$ 51,015
Net Income	2,849	2,201	1,310	2,987	1,997
Net Unrealized Capital Gains		0	2,983	222	1,671
Change in deferred tax asset	12	340	(61)	35	66
Change in nonadmitted assets	(901)	156	598	(1,267)	(31)
Change in Asset Valuation Reserve	(64)	(126)	(1,328)	11	(77)
Change in Surplus as a Result of Reinsurance		0	3,247	(284)	(174)
Aggregate write-ins for Gains and Losses in Surplus	<u>0</u>	<u>0</u>	<u>0</u>	<u>184</u>	<u>1,663</u>
Change in Surplus as Regards Policyholders	<u>1,896</u>	<u>2,570</u>	<u>6,750</u>	<u>1,888</u>	<u>5,115</u>
Capital & Surplus, Current Period Ended	<u>\$ 39,807</u>	<u>\$ 42,377</u>	<u>\$ 49,127</u>	<u>\$ 51,015</u>	<u>\$ 56,130</u>

Notes to Financial Statements

Investments

The Company's investments were in compliance with ORC Section 3907.14 and valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

Aggregate Reserve for Life Insurance Contracts

The Company had an outside actuary, Robert P. Stone, FSA, MAAA, of Milliman, certify the total reserves for the years covered by the examination. The Department's actuary, Peter Weber, FAS, MAAA, reviewed the detailed calculations for the reserves of the major lines of business as of December 31, 2014.

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, 2014.

Conclusion

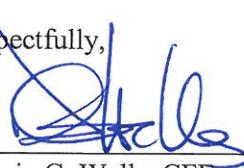
The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2014, and is summarized as follows:

Total Admitted Assets	<u>\$370,655,077</u>
Liabilities	\$314,524,822
Surplus as Regards Policyholders	<u>56,130,255</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$370,655,077</u>

Acknowledgement

In addition to the undersigned, the following representatives of the Department participated in this examination: Edward Nagorny, CPA, CFE, CISA, Patricia Severs, CPA, and Aaron R. Hibbs, CPA, CISA.

Respectfully,



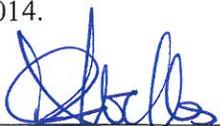
Donnie G. Wells, CFE
Examiner-In-Charge
Ohio Department of Insurance



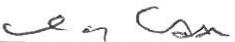
David A. Cook, CFE
Assistant Chief Examiner
Ohio Department of Insurance

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, 2014.


Examiner-In-Charge

11/24/15
Date


Assistant Chief Examiner

11/24/15
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 knowledge and belief.

Subscribed and sworn to before me this 24 day of November, 2015.


(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 knowledge and belief.

Subscribed and sworn to before me this 24 day of November, 2015.


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