

Report of Examination of

**The Ohio National Life Insurance Company**  
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  
3<sup>rd</sup> 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

### **The Ohio National 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 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.

<b>Name</b>	<b>Principal Occupation</b>
Jack E. Brown	Retired Chairman, The BASES Group
Joseph A. Campanella	Retired Executive Vice President, U.S. Bank & U.S. Bancorp
Thomas G. Cody	Retired Vice Chairman, Macy's, Inc.
Ronald J. Dolan	Vice Chairman & Chief Risk Officer, Ohio National Financial Services, Inc.
Victoria B. Gluckman	Retired Chairman & Chief Executive Officer, United Medical Resources, Inc.
John W. Hayden	Retired Chief Executive Officer, The Midland Company
Gary T. Huffman	Chairman, President & Chief Executive Officer, Ohio National Financial Services, Inc.
James F. Orr	Retired Chairman & Chief Executive Officer, Convergys Corporation
John R. Phillips	Retired Chief Executive Officer, Jones Long LaSalle Americas, Inc.

<b>Name</b>	<b>Principal Occupation</b>
John M. Schlotman	Senior Vice President & Chief Financial Officer, The Kroger Company

## **Officers**

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

<b>Name</b>	<b>Title</b>
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
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 a coinsurance agreement whereby it 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 does not assume a material amount of outside business. It uses various agreements in order to assume material amounts of life, annuity and disability income business from affiliates.

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, Ohio National Life Assurance Corporation, 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  
Summary 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	\$4,288,839,447
Preferred stocks	277,967
Common stocks	305,268,223
Mortgage loans	880,039,137
Properties held for the production of income	296,501
Properties held for sale	3,297,163
Cash and short-term investments	335,452,566
Contract loans	239,227,614
Derivatives	10,497,905
Receivable for securities	614,124
Securities lending reinvested collateral assets	266,675,641
Total cash and invested assets	6,330,486,288
Accrued investment income	54,741,032
Uncollected premiums and agents' balances in course of collection	6,494,592
Deferred premiums, agents' balances and installments booked but deferred and not yet due	26,144,720
Amounts recoverable from reinsurers	9,183,437
Other amounts receivable under reinsurance contracts	23,458
Current federal and foreign income tax recoverable	57,811,862
Net deferred tax asset	73,126,665
Guaranty funds receivable or on deposit	2,238,385
Electronic data processing equipment and software	2,790,050
Receivables from parent, subsidiaries and affiliates	10,718,106
Aggregate write-ins for other than invested assets	65,013,808
Total assets excluding Separate Accounts	6,638,772,403
Separate Accounts	11,329,385,634
Total admitted assets	\$17,968,158,037

**December 31, 2010**

**Liabilities, capital and surplus**

Liabilities:

Aggregate reserve for life contracts	\$4,430,281,066
Aggregate reserve for accident and health contracts	91,282,202
Liability for deposit-type contracts	826,753,481
Life contract claims	8,656,779
Accident and health contract claims	630,149
Policyholders' dividends	1,059,921
Dividends apportioned for payment	40,783,484
Premiums and annuity considerations for life and accident and health contracts received in advance	853,105
Interest maintenance reserve	47,007,433
Commissions to agents due or accrued	5,012,831
General expenses due or accrued	10,227,748
Transfers to Separate Accounts due or accrued	(202,323,778)
Taxes, licenses and fees due or accrued	3,920,512
Unearned investment income	5,339,113
Amounts withheld or retained by company as agent or trustee	91,758,630
Amounts held for agents' account	3,599,328
Remittances and items not allocated	27,696,439
Asset valuation reserve	20,923,938
Payable to parent, subsidiaries and affiliates	94,832,561
Derivatives	2,372,271
Payable for securities lending	266,675,641
Aggregate write-ins for liabilities	1,451,588
Total liabilities excluding Separate Accounts	<u>5,778,794,442</u>
Separate Accounts	<u>11,328,662,695</u>
Total liabilities	<u>17,107,457,137</u>
Capital and surplus:	
Common capital stock	10,000,000
Aggregate write-ins for other than special surplus funds	22,744,388
Surplus notes	105,430,122
Gross paid in and contributed surplus	183,297,154
Unassigned funds	539,229,236
Total capital and surplus	<u>860,700,900</u>
Total liabilities, capital and surplus	<u><u>\$17,968,158,037</u></u>

## Summary of Operations

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

Premiums and annuity considerations for life and accident and health contracts	\$1,836,156,219
Net investment income	350,962,881
Amortization of interest maintenance reserve	4,972,308
Commissions and expense allowances on reinsurance ceded	5,377,715
Income from fees associated with Separate Accounts	128,623,640
Aggregate write-ins for miscellaneous income	<u>139,940,367</u>
Total	<u>2,466,033,130</u>
Death benefits	46,447,709
Matured endowments	864,487
Annuity benefits	336,482,779
Disability benefits	8,322,798
Surrender benefits and other fund withdrawals for life contracts	809,679,210
Interest and adjustments on contract or deposit-type contracts	43,551,626
Payments on supplementary contracts with life contingencies	569,598
Increase in aggregate reserves for life and accident and health contracts	<u>(133,505,957)</u>
Total	<u>1,112,412,250</u>
Commissions on premiums, annuity considerations, and deposit-type contract funds	147,633,431
Commissions and expense allowances on reinsurance assumed	10,165,052
General insurance expenses	75,173,472
Insurance taxes, licenses and fees	9,524,632
Increase in loading on deferred and uncollected premiums	835,928
Net transfers to or (from) Separate Accounts net of reinsurance	938,110,370
Aggregate write-ins for deductions	<u>13,141,550</u>
Total	<u>2,306,996,685</u>
Net gain from operations before dividends to policyholders before federal income taxes	159,036,445
Dividends to policyholders	<u>39,409,561</u>
Net gain from operations after dividends to policyholders but before federal income taxes	119,626,884
Federal income taxes incurred	<u>(44,317,599)</u>
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains	163,944,483
Net realized capital gains (losses)	<u>(20,336,004)</u>
Net income	<u>\$143,608,479</u>

## Statement of Changes in the Capital and Surplus Account

(In thousands)

	2006	2007	2008	2009	2010
Capital and surplus December 31, previous year	\$749,816	\$791,304	\$794,948	\$757,192	\$816,716
Net income (loss)	76,111	36,883	(129,622)	80,833	143,608
Net unrealized capital gains (losses)	3,294	12,092	70,397	10,982	(30,517)
Change in net unrealized foreign exchange capital	-	-	-	225	420
Change in net deferred income tax	(2,251)	13,010	15,527	23,674	(65,026)
Change in nonadmitted assets	1,920	(9,637)	20,422	(22,320)	46,396
Change in reserve on account of change in valuation basis	(4,182)	-	-	-	-
Change in asset valuation reserve	(4,529)	(9,200)	19,774	(5,663)	(3,633)
Surplus withdrawn from Separate Accounts	(87)	(6,315)	-	443	6,481
Other changes in surplus	549	6,646	(3,651)	1,347	(5,597)
Changes in surplus notes	22	5,749	36	36	36
Surplus paid in	-	-	24,334	-	-
Dividends to stockholders	(30,000)	(49,000)	(62,000)	(35,000)	(48,000)
Aggregate write-ins	641	3,416	7,027	4,967	(183)
Net change in capital and surplus	41,488	3,644	(37,756)	59,524	43,985
Capital and surplus December 31, current year	\$791,304	\$794,948	\$757,192	\$816,716	\$860,701

### Notes to Financial Statements

#### Investments

The Company's investments were in compliance with Section 3917.14 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:

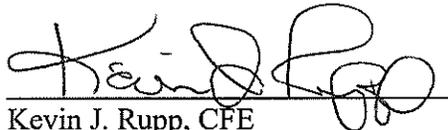
Total Admitted Assets	<u>\$17,968,158,037</u>
Liabilities	\$17,107,457,137
Surplus as Regards Policyholders	<u>860,700,900</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$17,968,158,037</u>

### Acknowledgement

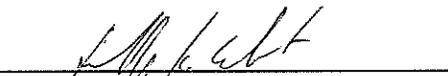
Appreciation is expressed for the assistance extended by the officers and employees of the Company during the course of this examination.

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.

[Signature]  
Examiner-In-Charge

1/17/12  
Date

[Signature]  
Assistant Chief Examiner

1/17/12  
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.

[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 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 knowledge and belief.

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

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