

Report of Examination of

Central Reserve Life Insurance Company
Cincinnati, Ohio

As of December 31, 2011

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Columbus, Ohio
October 26, 2012

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”), the Ohio Department of Insurance (“Department”) conducted an examination of

Central Reserve Life Insurance Company

an Ohio domiciled, stock, life insurance company, hereinafter referred to as the “Company.”

Scope of Examination

The Department last examined the Company as of December 31, 2006. The Department’s current examination covers the period of January 1, 2007 through December 31, 2011.

The Department, as the coordinating state regulator of the insurance company subsidiaries of American Financial Group, Inc. (“AFG”), an affiliate, led the multi-state coordinated examination that included representatives from the states of California, Delaware, Illinois, New York, Ohio and Texas.

The examination was conducted in accordance with the National Association of Insurance Commissioners (“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 Ernst & Young 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
Christopher P. Miliano	Executive Vice President and Chief Financial Officer, Great American Financial Resources, Inc.
Mark F. Muething	Executive Vice President, General Counsel and Secretary, Great American Financial Resources, Inc.
Michael J. Prager	Executive Vice President, Chief Actuary and Chief Risk Officer, Great American Financial Resources, Inc.
Paul A. Severt	Executive Vice President and Chief Financial Officer, Great American Supplemental Benefits Group
Bradley A. Wolfram	President, Great American Supplemental Benefits Group

Officers

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

Name	Title
Bradley A. Wolfram	President
Paul A. Severt	Executive Vice President and Chief Financial Officer
Tracy E. Maples	Senior Vice President and Chief Actuary
James W Garvin, III	Vice President
Christopher P. Miliano	Vice President and Assistant Treasurer
Mark F. Muething	Vice President and Assistant Secretary
Byron K. Buescher	Chief Accounting Officer and Treasurer
Brenda W. Hardison	Secretary

Insurance Holding Company System

The Company is a member of a holding company system as defined in Section 3901.32 of the ORC. The Company is a wholly owned subsidiary of Ceres Group, Inc., domiciled in Delaware, and an indirect wholly owned subsidiary of AFG, the ultimate controlling person in the holding company system. Through its insurance company subsidiaries, AFG is engaged primarily in property and casualty insurance, focusing on specialized commercial products for businesses, and the sale of traditional fixed and indexed annuities and a variety of supplemental insurance products. The common stock of AFG is traded on the New York Stock Exchange.

Territory and Plan of Operations

The Company is licensed to transact business in thirty-four states. The Company's business in force includes life, annuity, Medicare supplement and other supplemental health insurance products. The Company is not actively writing new business at the present time.

The Company is a member of Great American Supplemental Benefits Group, a family of companies located in Austin, Texas, that offer Medicare supplement, hospital indemnity, specified disease, health and long-term care products.

Reinsurance

The Company cedes business to affiliated and unaffiliated reinsurers pursuant to the terms of various agreements. The maximum amount of exposure retained on any one life is \$50,000 on ordinary life and \$50,000 on group life risks. Reinsurance for group accident and health claims are reinsured 100% for individual claims in excess of \$500,000.

All contracts examined contained the necessary clauses to 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, 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, 2011**

Assets

Bonds	\$ 9,223,075
Common stocks	15,637,508
Cash and short-term investments	2,389,590
Contract loans	<u>41,319</u>
Subtotal, cash and invested assets	27,291,490
Investment income due and accrued	86,463
Uncollected premiums in course of collection	(1,033,085)
Deferred premiums and installments booked but deferred and not yet due	181,474
Amounts recoverable from reinsurers	617,240
Other amounts receivable under reinsurance contracts	227,891
Net deferred tax asset	1,475,000
Guaranty funds receivable or on deposit	934,938
Receivable from parent, subsidiaries and affiliates	<u>25,052</u>
Total assets	<u>\$ 29,806,463</u>

Statement of Assets, Liabilities, Surplus and Other Funds (continued)
December 31, 2011

Liabilities

Aggregate reserve for life contracts	\$ 5,582,513
Aggregate reserve for accident and health contracts	1,250,535
Liability for deposit-type contracts	21,155
Life contract claims	81,500
Accident and health contract claims	622,873
Premiums and annuity considerations for life and accident and health contracts received in advance	84,590
Interest maintenance reserve	233,741
Commissions to agents due or accrued	66,158
General expenses due or accrued	39,667
Taxes, licenses and fees due or accrued	966,820
Current federal income taxes	77,127
Unearned investment income	291
Remittances and items not allocated	48,766
Asset valuation reserve	7,630
Payable to parent, subsidiaries and affiliates	1,011
Aggregate write-ins for liabilities	<u>99,821</u>
Total liabilities	<u>9,184,198</u>

Capital and Surplus

Common capital stock	2,500,000
Gross paid in and contributed surplus	49,862,110
Aggregate write-ins for other than special surplus funds	1,929,000
Unassigned funds	<u>(33,668,845)</u>
Total capital and surplus	<u>20,622,265</u>
Total liabilities, capital and surplus	<u>\$ 29,806,463</u>

Summary of Operations
For the Year Ended December 31, 2011

Premiums and annuity considerations	\$ 9,632,973
Net investment income	301,830
Amortization of interest maintenance reserve	102,193
Commissions and expense allowances on reinsurance ceded	1,033,596
Aggregate write-ins for miscellaneous income	<u>1,614</u>
Total	<u>11,072,206</u>
Death benefits	244,551
Annuity benefits	52,075
Disability benefits	6,356,187
Surrender benefits and other fund withdrawals for life contracts	247,426
Interest and adjustments on contract or deposit-type contracts	(1,193)
Payments on supplementary contracts with life contingencies	24,910
Increase in aggregate reserves	<u>313,108</u>
Total	7,237,064
Commissions on premiums, annuity considerations and deposit-type contract funds	1,434,221
General insurance expenses	698,028
Insurance taxes, licenses and fees	222,184
Increase in loading on deferred and uncollected premiums	(5,693)
Aggregate write-ins for deductions	<u>281</u>
Total	<u>9,586,085</u>
Net gain from operations before dividends to policyholders and before federal income taxes	1,486,121
Dividends to policyholders	<u>1,340</u>
Net gain from operations after dividends to policyholders but before federal income taxes	1,484,781
Federal income taxes	<u>271,753</u>
Net income	<u>\$1,213,028</u>

Statement of Changes in the Capital and Surplus Account
(In thousands)

	2007	2008	2009	2010	2011
Capital and surplus, beginning of year	<u>\$24,969</u>	<u>\$17,389</u>	<u>\$14,622</u>	<u>\$16,716</u>	<u>\$19,069</u>
Net income	92	793	(532)	2,688	1,213
Change in net unrealized capital gains (losses)	(4,663)	(1,783)	(798)	413	2,749
Change in net deferred income tax	489	(346)	148	242	(152)
Change in nonadmitted assets	1,359	66	49	(389)	259
Change in asset valuation reserve	25	22	1	-	3
Cumulative effect of changes in accounting principles	-	-	-	1,871	-
Surplus paid in	-	-	2,500	(2,000)	(2,500)
Change in surplus from reinsurance	43	(1,518)	(773)	(708)	(213)
Dividends to stockholders	(13,500)	-	-	-	-
Aggregate write-ins	<u>(1,425)</u>	<u>-</u>	<u>1,498</u>	<u>237</u>	<u>194</u>
Net change in capital and surplus	<u>(7,580)</u>	<u>(2,766)</u>	<u>2,093</u>	<u>2,354</u>	<u>1,553</u>
Capital and surplus, end of year	<u>\$17,389</u>	<u>\$14,622</u>	<u>\$16,716</u>	<u>\$19,069</u>	<u>\$20,622</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 Contracts

The Company's Board of Directors appointed Mark E. Alberts, FSA, MAAA, Consulting Actuary, to render the Company's Statement of Actuarial Opinion ("Opinion"). Mr. Alberts prepared an Actuarial Report supporting the Opinion in connection with the preparation of the Company's December 31, 2011, Annual Statement.

Peter A. Weber, ASA, MAAA, the Department's Life and Annuity Actuary, reviewed the Actuarial Memorandum and performed other procedures as considered necessary to evaluate the Company's reserves. On the basis of his analysis, Mr. Weber determined that the reserves presented in the December 2011 Annual Statement are consistent with requirements in Ohio law, and furthermore, that the reserves and related items held by the Company are adequate and appropriate.

Subsequent Events

On May 10, 2012, Great American Financial Resources, Inc. and certain of its subsidiaries, including the Company, American Retirement Life Insurance Company (“ARLIC”), Continental General Insurance Company (“CGIC”), Great American Life Insurance Company (“GALIC”), Loyal American Life Insurance Company (“LALIC”), Provident American Life & Health Insurance Company (“PALHIC”), United Benefit Life Insurance Company (“UBLIC”) and United Teacher Associates Insurance Company (“UTAIC”) entered into an agreement (the “Agreement”) to sell their Medicare supplement and other supplemental health insurance policies to Cigna Health and Life Insurance Company (“Cigna”). Pursuant to the Agreement, Cigna acquired all of the outstanding common stock of the Company, ARLIC, LALIC, PALHIC, and UBLIC (collectively, the “Targets”). Immediately prior to the sale, the Targets reinsured the life and annuity business they held to GALIC and GALIC, CGIC and UTAIC reinsured all Medicare supplement and other supplemental health policies they held to LALIC. The Department approved the transaction on August 30, 2012. CGIC and UTAIC have agreed to continue writing Medicare supplement and other supplemental health business for up to two years following completion of these transactions, with all business written during that period being reinsured by LALIC.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2011, and is summarized as follows:

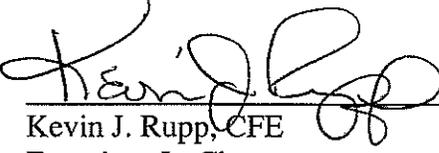
Total Admitted Assets	<u>\$29,806,463</u>
Liabilities	\$9,184,198
Surplus as Regards Policyholders	<u>20,622,625</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$29,806,463</u>

Acknowledgement

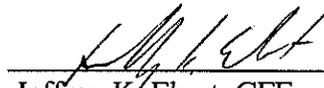
Appreciation is expressed for the assistance extended by the officers and employees of the Company during the course of this examination.

In addition to the aforementioned and undersigned, the following representatives of the Department participated in this examination: Mohammad A. Arif, AES, CFE, CISA, CIDM, CISSP; Ryan S. Gibson, CFE, FLMI; Aaron R. Hibbs, CFE, ChFC, CPA, FLMI; James H. Luke, CFE, CPA; Larry G. Rice, AES, CFE, CISA, CPA; and Zachary L. Wheatley, 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, 2011.

Kevin J. Rupp 12/21/12 Jeffrey K. Ebert 12/21/12
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 21 day of December, 2012.

Elizabeth Chase
Notary **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, 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 21 day of December, 2012.

Elizabeth Chase
Notary **ELIZABETH CHASE**
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2017
My Commission Expires