

Report of Examination of

Cincinnati Equitable Life Insurance Company
Cincinnati, Ohio

As of December 31, 2013

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Columbus, Ohio

November 16, 2014

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

Cincinnati Equitable Life Insurance Company

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

Scope of Examination

The Department last examined the Company as of December 31, 2008. The Department’s current examination covers the intervening period through December 31, 2013.

The Department conducted the examination 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 corporate governance, identify and assess current and prospective risks and evaluate the Company’s system of 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 Statements of Statutory Accounting Principles (“SSAPs”) 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.

The Certified Public Accounting firm of BKD, LLP provided an unqualified opinion on the Company’s financial statements based on Statutory Accounting Principles as of December 31, 2013. The Department reviewed the independent auditors’ report 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

<u>Name</u>	<u>Principal Occupation</u>
Peter A. Alpaugh Cincinnati, Ohio	Cincinnati Equitable Companies, Inc. Owner and Chairman of the Board
Gregory A. Baker Burlington, Kentucky	Cincinnati Equitable Companies, Inc. President, Chief Executive Officer, Chief Financial Officer, and Treasurer
Andrea Kessel Rancho Santa Fe, California	Cincinnati Equitable Companies, Inc. Owner
James W. Ketring Tucson, Arizona	Cincinnati Equitable Companies, Inc. Retired
Drew F. Knowles Boulder, Colorado	Berkley Square Capital Management, Partner

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>
Peter A. Alpaugh	Chairman of the Board
Gregory A. Baker	President, Chief Executive Officer, Chief Financial Officer, and Treasurer
Linda S. Bales	Secretary
Tonya G. Crawford	Vice President - Sales & Marketing

Insurance Holding Company System

The Company is a member of an insurance holding company system as defined in ORC Section 3901.32. The Company is a wholly-owned subsidiary of Cincinnati Equitable Companies, Inc. The ultimate controlling persons in the holding company system are Peter Alpaugh and Andrea Kessel.

The following displays the chain of ownership of the insurance companies as of December 31, 2103.

Peter Alpaugh and Andrea Kessel – (Individuals)
 Alpha Investment Partnership (AIP)
 Alpha 2 Investments LLC (A2I)
 Cincinnati Equitable Companies, Inc. [89.6% owned by AIP 10.4% owned by A2I]
 Cincinnati Equitable Life Insurance Company (Ohio)
 Cincinnati Equitable Insurance Company (Ohio)

Territory and Plan of Operations

The Company offers a portfolio of pre-need, traditional whole life, individual term and annuity products. The Company's operations are conducted in the states of Georgia, Indiana, Kentucky, Ohio and Tennessee. The Company's products are sold through independent agents most of whom are licensed funeral directors.

Significant Operating Results

The Company reported the following net premiums written by line of business during 2013:

Line of Business	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Life	98.47%	98.88%	97.43%	97.26%	97.88%
Annuity			1.98%	2.37%	1.81%
Accident & Health	1.53%	1.12%	0.59%	0.37%	0.31%

Reinsurance

Ceded

The Company reinsures part of its ordinary life block of business. The amount ceded in 2013 was less than \$200,000.

Assumed

The Company does not assume any business.

All contracts contained an insolvency clause, intermediary clause, errors and omission clause, arbitration clause and a service of suit clause applicable to foreign reinsurers, which meet the guidelines prescribed by the NAIC.

Financial Statements

The following financial statements are based on the audited statutory financial statements filed by the company with the Department and present the financial condition of the Company for the period ending December 31, 2013 as reported by the company and audited by the Company's external auditors are reflected in the following areas.

Statement of Assets, Liabilities, Capital and Surplus

Statement of Revenue and Expenses

Statement of Changes in the Capital and Surplus Account

Statement of Assets, Liabilities, Surplus and Other Funds

December 31, 2013

Admitted assets

Cash and invested assets:

Bonds	\$53,919,419
Preferred Stocks	4,148,939
Common Stocks	7,245,872
Cash	2,084,456
Contract loans	65,592
Other invested assets	684,302
Securities lending reinvested collateral assets	
Total cash and invested assets	<u>68,148,580</u>

Accrued investment income	548,038
Uncollected premiums and agents' balances in course of collection	2,501
Deferred premiums, agents' balances and installments booked but deferred and not yet due	751,034
Current federal and foreign income tax recoverable	1,180,000
Electronic data processing equipment and software	7,625
Aggregate write-ins for other than invested assets	187,541
Separate accounts	
Total admitted assets	<u>\$70,825,319</u>

December 31, 2013

Liabilities, capital and surplus

Liabilities:

Aggregate reserve for life contracts	\$59,258,060
Aggregate reserve for accident and health contracts	13,064
Liability for deposit-type contracts	283,423
Life contract claims	256,339
Accident and health contract claims	16,066
Dividends apportioned for payment	900
Coupons and similar benefits	3,650
Premiums and annuity considerations for life and accident and health contracts received in advance	353,166
Interest Maintenance Reserve	395,606
Commissions to agents due or accrued	56,779
General expenses due or accrued	322,691
Taxes, licenses and fees due or accrued	158,648
Current federal and foreign income taxes	27,368
Unearned investment income	1,254
Asset valuation reserve	646,861
Payable to parent, subsidiaries and affiliates	2,299
Total liabilities	<u>61,796,174</u>

Capital and surplus:

Common capital stock	1,000,000
Gross paid in and contributed surplus	6,280,231
Unassigned funds	1,748,914
Total capital and surplus	<u>9,029,145</u>
Total liabilities, capital and surplus	<u>\$70,825,319</u>

Statement of Operations

December 31, 2013

Premiums and annuity considerations for life and accident and health contracts	\$27,903,380
Net investment income	2,502,592
Aggregate write-ins for miscellaneous income	88,214
Total	<u>30,494,186</u>
Death benefits	9,570,396
Annuity benefits	111,832
Disability benefits and benefits under A&H contracts	62,291
Coupons, guaranteed annual pure endowment and similar benefits	4,080
Surrender benefits and other fund withdrawals for life contracts	16,458
Interest and adjustment on contracts or deposit-type contracts	214
Increase in aggregate reserves for life and A&H contracts	14,973,731
Total	<u>24,739,002</u>
Commissions on premiums, annuity consideration and deposit-type contracts funds	3,503,736
General insurance expenses	1,918,528
Insurance taxes, licenses and fees (excluding federal income taxes)	501,357
Increase in loading on deferred and uncollected premiums	153,757
Aggregate write-ins for deductions	(107,548)
Total	<u>30,708,832</u>
Net gain from operations before dividends to policyholders before federal income taxes	<u>(214,646)</u>
Dividends to policyholders	<u>905</u>
Net gain from operations after dividends to policyholders but before federal income taxes	<u>(215,551)</u>
Federal income taxes incurred	<u>71,992</u>
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains	<u>(287,543)</u>
Net realized capital gains	<u>32,676</u>
Net loss	<u>\$(254,867)</u>

Statement of Changes in the Capital and Surplus Account

(In thousands)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Capital and surplus December 31, previous year	<u>\$8,904</u>	<u>\$8,651</u>	<u>\$8,518</u>	<u>\$8,423</u>	<u>\$9,431</u>
Net income	(283)	109	498	604	(255)
Net unrealized capital gains (losses)	79	(246)	(470)	(94)	(305)
Change in net deferred income tax	224	54	225	256	(122)
Change in nonadmitted assets	(122)	(29)	(439)	(59)	327
Change in reserve on account of change in valuation basis	<u>(150)</u>	<u>(21)</u>	<u>91</u>	(262)	<u>(47)</u>
Cumulative effect of changes in accounting principles				<u>563</u>	
Net change in capital and surplus	<u>(252)</u>	<u>(134)</u>	<u>(95)</u>	<u>1,008</u>	<u>(402)</u>
Capital and surplus December 31, current year	<u>\$8,651</u>	<u>\$8,518</u>	<u>\$8,423</u>	<u>\$9,431</u>	<u>\$9,029</u>

Notes to Financial Statements

Investments

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

Aggregate Reserve for Life Contracts

The Company had an outside actuary, James M. Merwald, FSA, MAAA; certify the total reserves for the years covered by the examination. The Department's actuary, Peter Weber, FSA, MAAA, reviewed the detailed calculations for the reserves of the major lines of business as of December 31, 2013.

On the basis of the above-mentioned analysis, it was determined that aggregate reserve for life contracts was reasonable as of December 31, 2013.

Conclusion

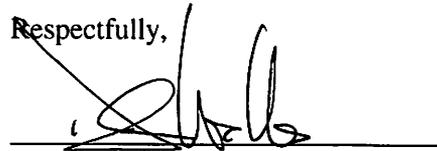
The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2013, and is summarized as follows:

Total Admitted Assets	<u>\$70,825,319</u>
Liabilities	\$61,796,174
Surplus as Regards Policyholders	<u>9,029,145</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$70,825,319</u>

Acknowledgement

In addition to the undersigned, the following representatives of the Department participated in this examination: Patricia Severs, CPA.

Respectfully,



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



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

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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, 2013.

[Signature] 12/8/14 [Signature] 12/8/14
Examiner-In-Charge Date Assistant Chief Examiner 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/her knowledge and belief.

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

Elizabeth Chase
(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/her knowledge and belief.

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

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2017
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