

Report of Examination of

**The Lafayette Life Insurance Company**  
Cincinnati, Ohio

As of December 31, 2011

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Columbus, Ohio  
May 3, 2013

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 Lieutenant Governor/Director:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

**The Lafayette Life Insurance Company**

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

**Scope of Examination**

The Indiana Department of Insurance last examined the Company as of December 31, 2006. The Company redomesticated from Indiana to Ohio on July 1, 2011. The Department’s current examination covers the period of January 1, 2007 through December 31, 2011.

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.

<b>Name</b>	<b>Principal Occupation</b>
John F. Barrett	Chairman of the Board, President and Chief Executive Officer, Western & Southern Financial Group
James N. Clark	Former Secretary, Executive Vice President and Chief Financial Officer, Western & Southern Financial Group
J.J. Miller	President and Chief Executive Officer, Columbus Life Insurance Company
James K. Risk III	President and Chief Executive Officer, Kirby Risk Corporation
Joseph H. Seaman	President and Chief Executive Officer, Greater Lafayette Chamber of Commerce
Jerry B. Stillwell	President and Chief Executive Officer, The Lafayette Life Insurance Company
Robert B. Truitt	President and Chief Executive Officer, Ash Access Technology, Inc. and HemoCleanse, Inc.
Robert L. Walker	Senior Vice President and Chief Financial Officer, Western & Southern Financial Group

## **Officers**

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

<b>Name</b>	<b>Title</b>
John F. Barrett	Chairman of the Board
Jerry B. Stillwell	President and Chief Executive Officer
Clint D. Gibler	Senior Vice President
Noreen J. Hayes	Senior Vice President
Constance M. Maccarone	Senior Vice President
Gregory L. Mitchell	Senior Vice President
Nora E. Moushey	Senior Vice President and Chief Actuary
Jonathan D. Niemeyer	Senior Vice President
Lawrence J. O'Brien	Senior Vice President
Nicholas P. Sargen	Senior Vice President
Robert L. Walker	Senior Vice President
Keith W. Brown	Vice President
Michael F. Donahue	Vice President
Daniel W Harris	Vice President
D. Todd Henderson	Vice President
Bradley J. Hunkler	Vice President
Cheryl A. Jorgenson	Vice President
Phillip E. King	Vice President
Michael R. Moser	Vice President
Mario J. San Marco	Vice President
Larry R. Silverstein	Vice President
James J. Vance	Vice President
Deborah J. Vargo	Vice President and 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 Western & Southern Financial Group, Inc., which is a wholly owned subsidiary of Western & Southern Mutual Holding Company, the ultimate controlling person in the holding company system. The Company owns 100% of the outstanding stock of LLIA, Inc., an Ohio domiciled insurance agency.

## Territory and Plan of Operations

The Company's main product offerings include whole life, term life, fixed and indexed annuity products, indexed universal life and pension products and services. The Company's products are sold through a distribution channel of over 4,500 independent producers and are tailored towards middle and upper-middle income individuals and small and medium-sized businesses. The Company is licensed in the District of Columbia and in all states except Alaska and New York.

During 2011, the largest states in terms of direct premium written allocable by state were as follows: Texas, \$62.1 million (10.4%); California, \$53.8 million (9.0%); Virginia, \$33.8 million (5.7%); Pennsylvania, \$32.6 million (5.5%); and Florida, \$32.0 million (5.4%).

The table below illustrates the Company's 2011 direct and net premiums written, in thousands, by line of business:

Line of Business	Direct	Assumed	Ceded	Net	Net %
Ordinary life insurance	\$384,523	\$ 13	\$ 27,244	\$357,292	58.3
Ordinary individual annuities	243,543	-	950	242,593	39.6
Group life insurance	94	-	61	33	0.0
Group annuities	12,663	-	-	12,663	2.1
Other accident and health	<u>956</u>	<u>-</u>	<u>625</u>	<u>331</u>	<u>0.0</u>
Totals	<u>\$641,779</u>	<u>\$ 13</u>	<u>\$ 28,880</u>	<u>\$612,912</u>	<u>100.0</u>

## Reinsurance

The Company cedes business to various affiliated and unaffiliated reinsurers pursuant to the terms of various agreements. Most of the Company's cessions are existing ordinary life risks. The maximum amount of exposure retained on any one life is \$2,000,000 on ordinary life risks.

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 Indiana Department of Insurance and 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	\$ 2,258,976,992
Common stocks	46,526,949
Mortgage loans on real estate	230,877,635
Real estate held for sale	726,219
Cash and short term investments	34,736,062
Contract loans	252,801,486
Derivatives	26,003,622
Other invested assets	22,369,030
Receivable for securities	<u>332,866</u>
Subtotal, cash and invested assets	2,873,350,861
Investment income due and accrued	34,499,580
Uncollected premiums in course of collection	1,796,326
Deferred premiums and installments booked but deferred	34,666,059
Amounts recoverable from reinsurers	15,063,928
Other amounts receivable under reinsurance contracts	285,056
Net deferred tax asset	34,006,282
Guaranty funds receivable or on deposit	1,633,757
Health care and other amounts receivable	<u>803,466</u>
Total assets	<u>\$ 2,996,105,315</u>

**Statement of Assets, Liabilities, Surplus and Other Funds**  
**December 31, 2011**

**Liabilities**

Aggregate reserve for life contracts	\$2,475,892,168
Aggregate reserve for accident and health contracts	1,023,221
Liability for deposit-type contracts	222,515,481
Life contract claims	4,282,710
Policyholders' dividends and coupons due and unpaid	1,690,607
Dividends apportioned for payment	44,937,115
Premiums received in advance	1,420,675
Other amounts payable on reinsurance	85,855
Interest maintenance reserve	5,221,007
Commissions to agents due or accrued	1,111,072
Commissions and expense allowances on reinsurance assumed	455
General expenses due or accrued	3,417,389
Taxes licenses and fees due or accrued	2,642,340
Current federal income taxes	4,697,318
Amounts withheld or retained by company as agent or trustee	1,563,733
Amounts held for agents' account	160,126
Remittances and items not allocated	5,809,191
Liability for benefits for employees and agents	4,969,621
Borrowed money and interest thereon	10,019,250
Asset valuation reserve	17,387,477
Payable to parent, subsidiaries and affiliates	16,246,609
Derivatives	18,070,342
Modco adjustment on reinsurance	<u>606,056</u>
Total liabilities	<u>2,843,769,818</u>

**Capital and Surplus**

Common capital stock	2,500,000
Surplus notes	10,000,000
Gross paid in and contributed surplus	40,825,285
Surplus from additional deferred tax asset	10,354,894
Unassigned funds	<u>88,655,318</u>
Total capital and surplus	<u>152,335,497</u>
Total liabilities, capital and surplus	<u>\$ 2,996,105,315</u>

**Summary of Operations**  
**For the Year Ended December 31, 2011**

Premiums and annuity considerations	\$ 612,911,680
Considerations for supplementary contracts	803,281
Net investment income	143,818,061
Amortization of interest maintenance reserve	1,294,745
Commissions and expense allowances on reinsurance ceded	1,269,635
Aggregate write-ins for miscellaneous income	<u>1,019,771</u>
Total	<u>761,117,173</u>
Death benefits	16,861,245
Matured endowments	168,950
Annuity benefits	16,171,873
Benefits under accident and health contracts	1,159,640
Surrender benefits and withdrawals for life contracts	176,154,002
Interest and adjustments on contracts	9,948,817
Payments on supplementary contracts	2,471,263
Increase in aggregate reserves	<u>370,884,908</u>
Total	593,820,698
Commissions on direct business written	80,124,472
Commissions and expense allowances on reinsurance assumed	6,092
General insurance expenses	24,672,755
Taxes, licenses and fees, excluding federal income taxes	6,332,587
Increase in loading on deferred and uncollected premiums	(906,335)
Aggregate write-ins for deductions	<u>2,194,579</u>
Total	<u>706,244,848</u>
Net gain before policyholder dividends and federal income taxes	54,872,325
Dividends to policyholders	<u>43,537,602</u>
Net gain after policyholder dividends but before federal taxes	11,334,723
Federal income taxes	<u>6,066,171</u>
Net gain before realized capital gains	5,268,552
Net realized capital gains	<u>404,011</u>
Net income	<u>\$ 5,672,563</u>

**Statement of Changes in the Capital and Surplus Account**  
**As of and For the Year Ended December 31**  
(In thousands)

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Capital and surplus, prior year end	\$112,040	\$115,750	\$102,895	\$118,208	\$117,423
Net income (loss)	5,673	3,339	221	(9,627)	(640)
Change in net unrealized capital gains (losses)	(2,555)	319	1,604	(1,630)	39
Change in net deferred income tax	2,972	772	3,662	6,050	4,895
Change in nonadmitted assets	2,289	(1,964)	(2,281)	(3,891)	(1,199)
Change in asset valuation reserve	(3,952)	(5,616)	1,531	5,670	(1,441)
Change in surplus notes	-	-	-	(10,000)	-
Surplus paid in	37,000	-	-	-	-
Aggregate write-ins	<u>(1,132)</u>	<u>(560)</u>	<u>8,118</u>	<u>(1,885)</u>	<u>(869)</u>
Net change in capital and surplus	<u>40,295</u>	<u>(3,710)</u>	<u>12,855</u>	<u>(15,313)</u>	<u>785</u>
Capital and surplus, current year end	<u>\$152,335</u>	<u>\$112,040</u>	<u>\$115,750</u>	<u>\$102,895</u>	<u>\$118,208</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.

**Policy Reserves and Related Actuarial Items**

The Company's Board of Directors appointed Nora E. Moushey, FSA, MAAA, Senior Vice President and Chief Actuary of the Company, to render the Company's Statement of Actuarial Opinion ("Opinion"). Ms. Moushey prepared an Actuarial Memorandum 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 policy reserves and related actuarial items. On the basis of his analysis, Mr. Weber determined that the policy reserves and related actuarial items presented in the December 31, 2011 Annual Statement are consistent with requirements in Ohio law, and furthermore, that the policy reserves and related actuarial items held by the Company are adequate and appropriate.

### 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>\$2,996,105,315</u>
Liabilities	\$ 2,843,769,818
Capital and Surplus	<u>152,335,497</u>
Total Liabilities, Capital and Surplus	<u>\$2,996,105,315</u>

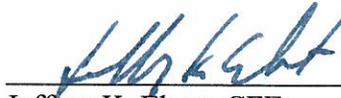
### Acknowledgement

In addition to the aforementioned and undersigned, the following representatives of the Department participated in this examination: Jeffrey J. Ferris, AES, CFE, CISA; Ryan S. Gibson, CFE, FLMI; Aaron R. Hibbs, CFE, ChFC, CPA, FLMI; Leroy J. Moster, 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  
Examiner-In-Charge

5/8/13  
Date

Michael Ebert  
Assistant Chief Examiner

5/8/13  
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 8 day of May, 2013.

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 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 8 day of May, 2013.

Elizabeth Chase

(Notary Public)

ELIZABETH CHASE

NOTARY PUBLIC, STATE OF OHIO

MY COMMISSION EXPIRES MAY 22, 2017

My Commission Expires