

Report of Examination of

The Lafayette Life Insurance Company
Cincinnati, Ohio

As of December 31, 2012

Table of Contents

Subject	Page
Salutation	1
Description of Company	1
Scope of Examination	1
Management and Control:	
Board of Directors	2
Officers	3
Insurance Holding Company System	3
Territory and Plan of Operations	4
Reinsurance.....	4
Financial Statements:	
Statement of Assets, Liabilities, Surplus and Other Funds	5
Statement of Operations	7
Statement of Changes in the Capital and Surplus Account	8
Notes to Financial Statements:	
Investments	8
Policy Reserves and Related Actuarial Items	8
Conclusion	9
Acknowledgement	9

Columbus, Ohio
August 9, 2013

Honorable Mary Taylor
Lieutenant Governor/Director
State of Ohio
Department of Insurance
50 West Town Street
3rd 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 Department last examined the Company as of December 31, 2011. The Department’s current examination covers the period of January 1, 2012 through December 31, 2012.

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 the year 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
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
Bryan C. Dunn	President The Lafayette Life Insurance Company
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	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:

Name	Title
John F. Barrett	Chairman of the Board
Jerry B. Stillwell	Chief Executive Officer
Bryan C. Dunn	President
Donald J. Wuebbling	Secretary and Counsel
Clint D. Gibler	Senior Vice President
Noreen J. Hayes	Senior Vice President
Constance M. Maccarone	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
Kevin L. Howard	Vice President and Associate General Counsel
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

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 2012, the largest states in terms of direct premium written allocable by state were as follows: California, \$51.5 million (9.5%); Texas, \$41.4 million (7.6%); Pennsylvania, \$34.2 million (6.3%); Virginia, \$28.3 million (5.2%); and Florida, \$25.5 million (4.7%).

The table below illustrates the Company's 2012 direct and net premiums written, in thousands, by line of business:

Line of Business	Direct	Assumed	Ceded	Net	Net %
Ordinary life insurance	\$418,260	\$ -	\$ 28,209	\$390,051	69.5
Ordinary individual annuities	161,702	-	1,018	160,684	28.6
Group life insurance	85	-	5	80	0.0
Group annuities	10,487	-	-	10,487	1.9
Other accident and health	<u>373</u>	<u>-</u>	<u>373</u>	<u>-</u>	<u>0.0</u>
Totals	<u>\$590,907</u>	<u>\$ -</u>	<u>\$ 29,605</u>	<u>\$561,302</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 one-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, 2012

Assets

Bonds	\$ 2,528,698,545
Common stocks	41,938,211
Mortgage loans on real estate	248,263,510
Real estate held for sale	726,219
Cash and short term investments	22,853,308
Contract loans	301,408,137
Derivatives	31,357,174
Other invested assets	22,340,009
Receivable for securities	<u>1,546,265</u>
Subtotal, cash and invested assets	3,199,131,378
Investment income due and accrued	35,913,273
Uncollected premiums in course of collection	6,987,711
Deferred premiums and installments booked but deferred	37,443,261
Amounts recoverable from reinsurers	9,016,334
Net deferred tax asset	31,341,006
Guaranty funds receivable or on deposit	1,320,167
Health care and other amounts receivable	<u>899,481</u>
Total assets	<u><u>\$ 3,322,052,611</u></u>

Statement of Assets, Liabilities, Surplus and Other Funds
December 31, 2012

Liabilities

Aggregate reserve for life contracts	\$2,798,326,940
Aggregate reserve for accident and health contracts	850,824
Liability for deposit-type contracts	226,561,615
Life contract claims	5,807,610
Policyholders' dividends and coupons due and unpaid	1,428,216
Dividends apportioned for payment	44,598,970
Premiums received in advance	1,026,981
Other amounts payable on reinsurance	8,781,253
Interest maintenance reserve	6,020,179
Commissions to agents due or accrued	673,693
Commissions and expense allowances on reinsurance assumed	420
General expenses due or accrued	139,767
Taxes licenses and fees due or accrued	2,412,134
Current federal income taxes	2,930,868
Remittances and items not allocated	6,700,953
Liability for benefits for employees and agents	3,872,346
Asset valuation reserve	23,335,695
Payable to parent, subsidiaries and affiliates	1,632,982
Derivatives	20,598,141
Payable for securities	4,406,217
Aggregate write-ins for liabilities	<u>1,216,626</u>
Total liabilities	<u>3,161,322,430</u>

Capital and Surplus

Common capital stock	2,500,000
Surplus notes	10,000,000
Gross paid in and contributed surplus	40,825,285
Unassigned funds	<u>107,404,896</u>
Total capital and surplus	<u>160,730,181</u>
Total liabilities, capital and surplus	<u>\$ 3,322,052,611</u>

Summary of Operations
For the Year Ended December 31, 2012

Premiums and annuity considerations	\$ 561,302,450
Considerations for supplementary contracts	743,360
Net investment income	158,022,486
Amortization of interest maintenance reserve	1,116,372
Commissions and expense allowances on reinsurance ceded	1,185,896
Aggregate write-ins for miscellaneous income	<u>951,231</u>
Total	<u>723,321,795</u>
Death benefits	17,385,044
Matured endowments	184,398
Annuity benefits	18,192,973
Benefits under accident and health contracts	1,153,366
Surrender benefits and withdrawals for life contracts	180,731,217
Interest and adjustments on contracts	10,129,830
Payments on supplementary contracts	2,192,890
Increase in aggregate reserves	<u>324,692,667</u>
Total	554,662,385
Commissions on direct business written	71,167,773
Commissions and expense allowances on reinsurance assumed	5,665
General insurance expenses	21,930,561
Taxes, licenses and fees, excluding federal income taxes	7,815,133
Increase in loading on deferred and uncollected premiums	(475,082)
Aggregate write-ins for deductions	<u>1,750,618</u>
Total	<u>656,857,053</u>
Net gain before policyholder dividends and federal income taxes	66,464,742
Dividends to policyholders	<u>43,347,528</u>
Net gain after policyholder dividends but before federal taxes	23,117,214
Federal income taxes	<u>8,127,913</u>
Net gain before realized capital gains	14,989,301
Net realized capital gains	<u>1,331,492</u>
Net income	<u>\$ 16,320,793</u>

**Statement of Changes in the Capital and Surplus Account
As of and For the Year Ended December 31, 2012**

Capital and surplus, prior year end	\$ <u>152,335,497</u>
Net income	16,320,799
Change in net unrealized capital gains (losses)	6,915,439
Change in net deferred income tax	(2,727,875)
Change in nonadmitted assets	614,709
Change in reserve on account of change in valuation basis	8,470,490
Change in asset valuation reserve	(5,948,218)
Cumulative effect of changes in accounting principles	751,784
Dividends to stockholders	(15,233,550)
Aggregate write-ins for gains and losses in surplus	<u>(768,894)</u>
Net change in capital and surplus	<u>8,394,684</u>
Capital and surplus, current year end	<u><u>160,730,181</u></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, 2012 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, 2012 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

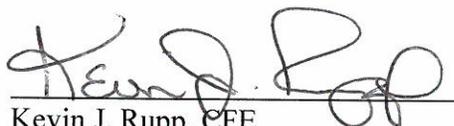
The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2012, and is summarized as follows:

Total Admitted Assets	<u>\$3,322,052,611</u>
Liabilities	\$3,161,322,430
Capital and Surplus	<u>160,730,181</u>
Total Liabilities, Capital and Surplus	<u>\$3,322,052,611</u>

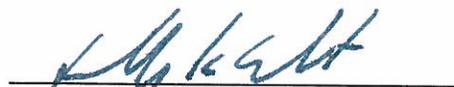
Acknowledgement

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 8/20/13
Examiner-In-Charge Date

W. K. Ebert 8/20/13
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 20 day of August, 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 20 day of August, 2013.

Elizabeth Chase
(Notary Public)

ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
~~MY COMMISSION EXPIRES MAY 22, 2017~~
My Commission Expires