

Report of Examination of

**Western-Southern Life Assurance Company**  
Cincinnati, Ohio

As of December 31, 2012

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Columbus, Ohio  
August 9, 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

**Western-Southern Life Assurance 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, 2007. The Department’s current examination covers the period of January 1, 2008 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 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
Donald A. Bliss	Former Vice President, U.S. West Communications; Former Chief Executive Officer, Northwestern Bell
James N. Clark	Former Secretary, Executive Vice President and Chief Financial Officer, Western & Southern Financial Group
Jo Ann Davidson	Former Speaker, Ohio House of Representatives
Eugene P. Ruehlmann	Of Counsel, Vorys, Sater, Seymour and Pease; Former Mayor of Cincinnati
George V. Voinovich	Former United States Senator and Ohio Governor
George H. Walker III	Former United States Ambassador to Hungary; Former Chairman, Stifel Financial Corp. and Stifel Nicolaus and Company, Inc.
Thomas L. Williams	President, North American Properties

## 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, President and Chief Executive Officer
Donald J. Wuebbeling	Secretary and Counsel
Kim R. Chiodi	Senior Vice President
Anthony M. Garcia	Senior Vice President and Chief Marketing Officer
Clint D. Gibler	Senior Vice President and Chief Information Officer
Noreen J. Hayes	Senior Vice President
Constance M. Maccarone	Senior Vice President
Jill T. McGruder	Senior Vice President
J.J. Miller	Senior Vice President
Nora E. Moushey	Senior Vice President and Chief Actuary
Jonathan D. Niemeyer	Senior Vice President and General Counsel
Nicholas P. Sargen	Senior Vice President and Chief Investment Officer
Robert L. Walker	Senior Vice President and Chief Financial Officer
Edward J. Babbitt	Vice President and Senior Counsel
Troy D. Brodie	Vice President
Keith W. Brown	Vice President & Chief Underwriter
Keith T. Clark	Vice President and Medical Director
Robert J. DalSanto	Vice President
James J. DeLuca	Vice President
Lisa B. Fangman	Vice President
Stephen P. Hamilton	Vice President
Daniel W. Harris	Vice President
D. Todd Henderson	Vice President and Chief Risk Officer
Kevin L. Howard	Vice President and Associate General Counsel
Bradley J. Hunkler	Vice President and Chief Accounting Officer
Robert S. Kahn	Vice President
Phillip E. King	Vice President and Auditor
Richard A. Krawczeski	Vice President
Michael J. Laatsch	Vice President
Harold V. Lyons	Vice President
Michael R. Moser	Vice President and Chief Compliance Officer
Gene A. Patterson	Vice President

<b>Name</b>	<b>Title</b>
Keith M. Payne	Vice President
Douglas I. Ross	Vice President and Chief Technical Officer
Mario J. San Marco	Vice President
Luc P. Sicotte	Vice President
Denise L. Sparks	Vice President
Jeffrey L. Stainton	Vice President and Associate General Counsel
Thomas M. Stapleton	Vice President
Richard K. Taulbee	Vice President
David E. Theurich	Vice President
James J. Vance	Vice President and Treasurer

### **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 The Western and Southern Life Insurance Company, which 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.

### **Territory and Plan of Operations**

The Company's main product offerings include universal life, fixed annuities, term life, single premium life, retirement strategies and personalized needs analysis. The Company's products are sold through a captive agent distribution channel from 181 offices nationwide, plus an internet channel and a home office Client Relationship Center. Products are tailored towards individuals, families and businesses in the middle income markets. The Company is licensed in the District of Columbia and in all states except Alaska, Maine, New Hampshire, New York and Rhode Island.

During 2012, the largest states in terms of direct premium written allocable by state were as follows: Ohio, \$103.2 million (13.7%); Illinois, \$68.2 million (9.1%); Michigan, \$47.9 million (6.4%); Louisiana, \$47.4 million (6.3%); and Indiana, \$44.6 million (5.9%).

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

<b>Line of Business</b>	<b>Direct</b>	<b>Assumed</b>	<b>Ceded</b>	<b>Net</b>	<b>Net %</b>
Ordinary life insurance	\$213,772	\$326,096	\$ 11,444	\$528,424	34.0
Ordinary individual annuities	<u>540,685</u>	<u>484,237</u>	<u>2</u>	<u>1,024,920</u>	<u>66.0</u>
Totals	<u>\$754,457</u>	<u>\$810,333</u>	<u>\$ 11,446</u>	<u>\$1,553,344</u>	<u>100.0</u>

## **Reinsurance**

The Company entered into a retrocession agreement with an unaffiliated third party (“ceding company”) effective October 1, 2012 whereby the Company assumed risks from the ceding company that were previously ceded to it by various direct writers. The Company assumed three blocks of business with total statutory reserves of \$784 million. The ceding company paid the Company a consideration equal to the statutory reserve ceded while the Company paid the ceding company an initial ceding allowance of \$150 million. Additionally, the ceding company withheld \$634 million on behalf of the Company. Under terms of the quarterly settlements, the ceding company pays the Company ongoing reinsurance premium, investment income on the funds withheld and a risk charge. The Company pays the ceding company reinsured benefits and an expense allowance. The Company expects to recover the ceding commission from future profits from the underlying business within five years. Excess profits are returned to the ceding company via an experience refund. Concurrently, the Company entered into a stop loss reinsurance agreement with another unaffiliated third party to limit potential losses on the business up to a cap of \$25 million per quarter.

The Company also cedes business to various other 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 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	\$ 10,221,039,102
Preferred stocks	2,121,638
Common stocks	162,917,912
Mortgage loans on real estate	783,939,708
Properties held for the production of income	24,356,091
Cash and short term investments	138,256,904
Contract loans	43,562,924
Derivatives	4,020,446
Other invested assets	133,473,739
Receivable for securities	3,860,770
Securities lending reinvested collateral assets	<u>15,645,187</u>
Subtotal, cash and invested assets	11,533,194,421
Investment income due and accrued	101,890,952
Uncollected premiums in course of collection	1,113,459
Deferred premiums and installments booked but deferred	19,784,815
Amounts recoverable from reinsurers	652,888
Funds held by or deposited with reinsured companies	634,109,669
Current federal income tax recoverable and interest thereon	39,190,812
Net deferred tax asset	6,410,460
Guaranty funds receivable or on deposit	3,968,383
Health care and other amounts receivable	508,886
Aggregate write-ins for other than invested assets	<u>7,826,708</u>
Total assets excluding Separate Accounts	12,348,651,453
From Separate Accounts	<u>39,231,640</u>
Total assets	<u>\$ 12,387,883,093</u>

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

**Liabilities**

Aggregate reserve for life contracts	\$ 9,845,765,533
Liability for deposit-type contracts	1,038,343,322
Life contract claims	19,626,862
Premiums received in advance	372,996
Other amounts payable on reinsurance	1,341,796
Interest maintenance reserve	19,309,015
Commissions to agents due or accrued	1,201,550
General expenses due or accrued	5,000,983
Transfers to Separate Accounts due or accrued	(2,495,689)
Taxes licenses and fees due or accrued	6,593,739
Unearned investment income	1,217,351
Amounts withheld or retained by company as agent or trustee	806,517
Remittances and items not allocated	13,573,759
Asset valuation reserve	127,457,894
Payable to parent, subsidiaries and affiliates	29,945,170
Payable for securities	3,974,528
Payable for securities lending	205,150,350
Aggregate write-ins for liabilities	<u>5,741,157</u>
Total liabilities excluding Separate Accounts	11,322,926,833
From Separate Accounts	<u>39,231,640</u>
Total liabilities	<u>11,362,158,473</u>

**Capital and Surplus**

Common capital stock	2,500,000
Gross paid in and contributed surplus	791,308,064
Unassigned funds	<u>231,916,556</u>
Total capital and surplus	<u>1,025,724,620</u>
Total liabilities, capital and surplus	<u>\$ 12,387,883,093</u>

**Summary of Operations**  
**For the Year Ended December 31, 2012**

Premiums and annuity considerations	\$ 1,553,344,365
Considerations for supplementary contracts	1,839,223
Net investment income	578,145,668
Amortization of interest maintenance reserve	7,286,312
Income from fees associated with Separate Accounts	492,163
Charges and fees for deposit-type contracts	3,827
Aggregate write-ins for miscellaneous income	<u>9,264,041</u>
Total	<u>2,150,375,599</u>
Death benefits	117,738,579
Matured endowments	1,776,433
Annuity benefits	265,100,376
Benefits under accident and health contracts	2,833,655
Surrender benefits and withdrawals for life contracts	558,424,584
Interest and adjustments on contracts	34,290,918
Payments on supplementary contracts	3,266,386
Increase in aggregate reserves	<u>838,044,803</u>
Total	1,821,475,734
Commissions on direct business written	48,703,100
Commissions and expense allowances on reinsurance assumed	150,815,814
General insurance expenses	74,085,552
Taxes, licenses and fees, excluding federal income taxes	10,884,500
Increase in loading on deferred and uncollected premiums	524,572
Net transfers to (from) Separate Accounts	(10,074,393)
Aggregate write-ins for deductions	<u>15,052,018</u>
Total	<u>2,111,466,897</u>
Net gain before federal income taxes	38,908,702
Federal income taxes	<u>(2,398,921)</u>
Net gain before realized capital gains	41,307,623
Net realized capital (losses)	<u>(7,022,346)</u>
Net income	<u>\$ 34,285,277</u>

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Capital and surplus, prior year end	\$986,860	\$1,032,334	\$1,005,041	\$868,682	\$693,651
Net income	34,285	104,320	80,600	(57,389)	(109,123)
Change in net unrealized capital gains (losses)	26,282	(13,069)	20,381	35,272	(32,066)
Change in net deferred income tax	(11,790)	(7,798)	(6,262)	32,867	(19,833)
Change in nonadmitted assets	(4,326)	(4,428)	(1,650)	(4,998)	(2,732)
Change in reserve on account of change in valuation basis	-	-	-	(804)	15,473
Change in asset valuation reserve	(35,586)	(21,982)	(55,859)	(11,255)	53,429
Cumulative effects of changes in accounting principles	-	-	-	31,182	-
Surplus paid in	30,000	-	-	111,484	269,883
Dividends to stockholders	-	(100,000)	(25,000)	-	-
Aggregate write-ins	-	(2,517)	15,083	-	-
Net change in capital and surplus	<u>38,865</u>	<u>(45,474)</u>	<u>27,293</u>	<u>136,359</u>	<u>175,031</u>
Capital and surplus, current year end	<u>\$1,025,725</u>	<u>\$986,860</u>	<u>\$1,032,334</u>	<u>\$1,005,041</u>	<u>\$868,682</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

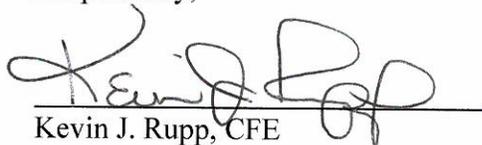
The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2012, and is summarized as follows:

Total Admitted Assets	<u>\$12,387,883,093</u>
Liabilities	\$11,362,158,473
Capital and Surplus	<u>1,025,724,620</u>
Total Liabilities, Capital and Surplus	<u>\$12,387,883,093</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  
8/20/13  
Date

Jeffrey K. Ebert  
Assistant Chief Examiner  
8/20/13  
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 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