

Report of Examination of

Integrity Life Insurance 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
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

Integrity 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, 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.

Name	Principal Occupation
Edward J. Babbitt	Vice President and Senior Counsel Western & Southern Financial Group
John F. Barrett	Chairman of the Board, President and Chief Executive Officer, Western & Southern Financial Group
Jill T. McGruder	President and Chief Executive Officer, Integrity Life Insurance Company
Robert L. Walker	Senior Vice President and Chief Financial Officer, Western & Southern Financial Group
Donald J. Wuebbeling	Secretary and Counsel 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
Jill T. McGruder	President and Chief Executive Officer
Edward J. Babbitt	Secretary
Mark E. Caner	Senior Vice President
Daniel J. Downing	Senior Vice President
Clint D. Gibler	Senior Vice President
Kevin L. Howard	Senior Vice President
Constance M. Maccarone	Senior Vice President
Nora E. Moushey	Senior Vice President and Chief Actuary
Nicholas P. Sargen	Senior Vice President
Scott W. Edblom	Vice President
Brian A. Eichhold	Vice President

Name	Title
Daniel W. Harris	Vice President
D. Todd Henderson	Vice President
Bradley J. Hunkler	Vice President and Chief Accounting Officer
Phillip E. King	Vice President and Auditor
Paul M. Kruth	Vice President
Michael R. Moser	Vice President and Chief Compliance Officer
Denise L. Sparks	Vice President
Richard K. Taulbee	Vice President
James J. Vance	Vice President and Treasurer
Terrie A. Wiedenheft	Vice President
Patricia J. Wilson	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 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 fixed, variable and income annuities. The Company's products are sold through a distribution channel of broker-dealers, independent agents and financial institutions. The Company is licensed in all states except Maine, New Hampshire, New York and Vermont.

During 2012, the largest states in terms of direct premium written allocable by state were as follows: Pennsylvania, \$32.8 million (10.7%); Ohio, \$27.7 million (9.0%); Florida, \$22.6 million (7.3%); New Jersey, \$20.0 million (6.5%); and Illinois, \$15.8 million (5.2%).

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	\$ 729	\$ 109	\$ 378	\$ 460	0.2
Ordinary individual annuities	<u>306,343</u>	<u>-</u>	<u>4,631</u>	<u>301,712</u>	<u>99.8</u>
Totals	<u>\$307,072</u>	<u>\$ 109</u>	<u>\$ 5,009</u>	<u>\$302,172</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 annuity risks to its immediate parent, The Western and Southern Life Insurance Company, according to terms of a modified coinsurance agreement.

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	\$ 2,562,985,174
Common stocks	473,720,620
Mortgage loans on real estate	43,729,944
Cash and short term investments	60,401,083
Contract loans	119,013,710
Other invested assets	78,174,696
Receivable for securities	3,436,623
Securities lending reinvested collateral assets	<u>15,086,289</u>
Subtotal, cash and invested assets	3,356,548,139
Investment income due and accrued	30,780,100
Amounts recoverable from reinsurers	13,329,099
Other amounts receivable under reinsurance contracts	9,417,530
Net deferred tax asset	22,881,421
Guaranty funds receivable or on deposit	20,077
Health care and other amounts receivable	305,022
Corporate owned life insurance	<u>1,878,874</u>
Total assets excluding Separate Accounts	3,435,160,262
From Separate Accounts	<u>2,553,103,827</u>
Total assets	<u>\$ 5,988,264,089</u>

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

Liabilities

Aggregate reserve for life contracts	\$2,321,750,591
Liability for deposit-type contracts	299,710,189
Life contract claims	109,000
Other amounts payable on reinsurance	21,297,898
Interest maintenance reserve	8,747,113
Commissions to agents due or accrued	685,829
General expenses due or accrued	306,304
Transfers to Separate Accounts due or accrued	(19,717,380)
Taxes licenses and fees due or accrued	2,950,006
Current federal income taxes	3,714,126
Unearned investment income	24
Amounts withheld or retained by company as agent or trustee	13,588
Remittances and items not allocated	7,651,109
Asset valuation reserve	67,437,918
Payable to parent, subsidiaries and affiliates	9,569,397
Derivatives	48,525
Payable for securities	10,419,922
Payable for securities lending	89,827,415
Aggregate write-ins for liabilities	<u>10,947,871</u>
Total liabilities excluding Separate Accounts	2,835,469,445
From Separate Accounts	<u>2,553,103,827</u>
Total liabilities	<u>5,388,573,272</u>

Capital and Surplus

Common capital stock	3,000,000
Gross paid in and contributed surplus	613,163,872
Unassigned funds	<u>(16,473,055)</u>
Total capital and surplus	<u>599,690,817</u>
Total liabilities, capital and surplus	<u>\$ 5,988,264,089</u>

Summary of Operations
For the Year Ended December 31, 2012

Premiums and annuity considerations	\$ 302,172,797
Considerations for supplementary contracts	5,921,717
Net investment income	147,131,738
Amortization of interest maintenance reserve	2,439,794
Commissions and expense allowances on reinsurance ceded	1,624,018
Reserve adjustments on reinsurance ceded	(108,699,054)
Income from fees associated with Separate Accounts	9,039,026
Aggregate write-ins for miscellaneous income	<u>2,995,293</u>
Total	<u>362,625,329</u>
Death benefits	7,249,835
Annuity benefits	118,814,950
Surrender benefits and withdrawals for life contracts	256,895,510
Interest and adjustments on contracts	13,272,287
Payments on supplementary contracts	3,049,487
Increase in aggregate reserves	<u>57,896,118</u>
Total	457,178,187
Commissions on direct business written	18,092,648
Commissions and expense allowances on reinsurance assumed	16,005
General insurance expenses	13,626,940
Taxes, licenses and fees, excluding federal income taxes	1,796,266
Net transfers to (from) Separate Accounts	(168,626,402)
Aggregate write-ins for deductions	<u>760,814</u>
Total	<u>322,844,458</u>
Net gain before federal income taxes	39,780,871
Federal income taxes	<u>6,877,856</u>
Net gain before realized capital gains	32,903,015
Net realized capital gains	<u>770,933</u>
Net income	<u>\$ 33,673,948</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	\$547,200	\$529,210	\$501,528	\$375,422	\$355,341
Net income (loss)	33,674	25,294	42,638	(12,397)	(27,410)
Change in net unrealized capital gains (losses)	35,840	6,143	46,284	21,647	(81,802)
Change in net deferred income tax	(6,854)	2,057	4,902	(690)	(7,369)
Change in nonadmitted assets	10,592	(11,505)	1,840	11,627	(12,497)
Change in reserve on account of change in valuation basis	-	-	(37,702)	(866)	13,145
Change in asset valuation reserve	(21,904)	(833)	(32,144)	(4,881)	42,664
Other changes in surplus in Separate Accounts	1,143	(2,598)	1,649	887	(14,322)
Cumulative effects of changes in accounting principles	-	-	-	5,563	-
Surplus paid in	-	-	-	105,197	102,172
Aggregate write-ins	-	(568)	215	19	5,500
Net change in capital and surplus	<u>52,491</u>	<u>17,990</u>	<u>27,682</u>	<u>126,106</u>	<u>20,081</u>
Capital and surplus, current year end	<u>\$599,691</u>	<u>\$547,200</u>	<u>\$529,210</u>	<u>\$501,528</u>	<u>\$375,422</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

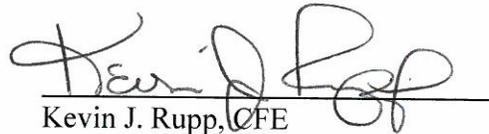
The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2012, and is summarized as follows:

Total Admitted Assets	<u>\$5,988,264,089</u>
Liabilities	\$5,388,573,272
Capital and Surplus	<u>599,690,817</u>
Total Liabilities, Capital and Surplus	<u>\$5,988,264,089</u>

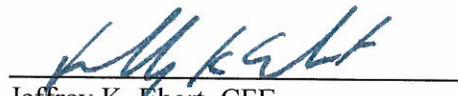
Acknowledgement

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