

2011 ANNUAL REPORT



# RESILIENCE

*Strength and safety  
for the years ahead*



# LETTER FROM THE CHAIRMAN

To Our Valued Friends & Colleagues,

Looking back, 2011 marked a year of resilience for our Enterprise. We continued to build unmatched financial strength. Our capital position is nearly double the average of the 15 largest publicly traded U.S. life insurance companies. We continue to be well served by a powerful culture that emphasizes the long term and the pursuit of excellence in everything we do.

Technological advancements have dramatically changed virtually every business model and customer habit as we knew them. How we obtain, develop and foster client relationships coupled with the way we handle their financial needs will continue to evolve, but the unique promises behind our products and financial solutions — guaranteed income for life and/or guaranteed death benefits — remain constant.

Our industry is facing some strong headwinds driven by a weak economy, the lowest prolonged interest rates since the Great Depression and unrealistic product performance guarantees issued by our competitors in more robust financial times. Despite this environment, Western & Southern Financial Group continues to deliver solid financial results. Our family of companies has never been financially stronger, and our operations continue to get better every day. The year 2012 may well be our best year yet.

For 2011, Western & Southern earned \$280.6 million on operating revenue of \$2.94 billion, up from \$273.5 million earned on revenue of \$2.89 billion the previous year. At year-end, our owned assets of \$38 billion achieved a record high while total assets owned and managed grew to nearly \$53 billion, also a record.

Our GAAP (Generally Accepted Accounting Principles) net worth continued its upward climb to reach a record \$6.1 billion, an 8 percent increase over 2010 and 29 percent higher than year-end 2009. Our capital-to-asset ratio reached 16 percent, one of the absolute highest in

the life insurance industry. We remain one of the eight strongest life insurance groups in the world based on Standard & Poor's ratings. Total life, health and annuity benefits and dividends paid to our policyholders and their beneficiaries reached \$2.6 billion.

The diversification of our affiliated companies is the backbone of our success. It is key to our ability to adjust to



John F. Barrett standing in front of Cincinnati's redefined skyline and Western & Southern's campus on the left

change and recover from economic downturns and continued volatility. Highlights from some member companies that helped fuel our 2011 financial performance follow.

**Eagle Realty Group** started the year with the official opening of Cincinnati's tallest and greenest office tower, Great American Tower at Queen City Square. This 1-million-plus square-foot complex is over 90 percent

leased. In addition, in April 2011, Eagle opened downtown Cincinnati's first all-suites hotel, Residence Inn at the Phelps, now the top-rated Residence Inn out of 615 in the Marriott system.

**Fort Washington Investment Advisors** achieved nearly \$1 billion in gross inflows of new third-party assets under management.

**Touchstone Investments** ended the year with \$7.8 billion in assets under management, an 18 percent increase over 2010. This includes 11 new funds it launched during the Great Recession. Five of them ranked in the top third of their respective categories at year-end. Total sales nearly doubled to \$3.5 billion. It also announced agreements to purchase two additional fund families with assets in excess of \$3.4 billion. Since year-end, one has closed, and the other is expected to close later in 2012.

**Columbus Life Insurance Company** celebrated a 13 percent jump in life annualized target premium and a 15 percent increase in annuity sales.

**Fort Washington Savings Bank**, our wholly owned bank subsidiary with 10 branches in North Carolina, was shuttered at the end of 2011. This step was the result of new Dodd-Frank regulations, which significantly impacted the banking industry and negatively affected insurance companies with diverse lines of business like ours.

**Capital Analysts Incorporated**, our broker-dealer, will be acquired by Lincoln Investment Planning, Inc., by the end of June 2012. This is expected to help enhance Lincoln Investment's services to its independent advisors while enabling us to focus on our core businesses.

In addition to solid financial performance powered by the diversification of our member companies, the key to Western & Southern's success and resilience continues to be the culture we have built and refined since our founding in 1888.

Our culture defines who we are, what we value and how we operate. It is the foundation for our long-term focus and is reflected in the competencies that are central

We continue to be well served by a powerful culture that emphasizes the long term and the pursuit of excellence in everything we do.

**The Lafayette Life Insurance Company** flawlessly executed the relocation of its business operations and many of its associates from Lafayette, Ind., to Cincinnati while growing its business to achieve more than \$61.8 million in new individual life premium sales, the second-best year in its 106-year history, and \$257.3 million in annuity sales.

**W&S Financial Group Distributors** continued steady growth of assets under management with the introduction of the nation's first variable annuity funded by direct investments in exchange-traded funds for rollover only monies in early 2011.

**W&S Agency Group**, our Western & Southern Life field agent sales operation, continued to implement a new franchise business model to improve productivity and ensure a consistent customer experience across all Western & Southern Life offices nationwide, while enhancing field sales force careers.

to our ability to succeed and grow. Those competencies are consistently strong capital positions, continuous improvement in cost containment, dynamic risk-control procedures and an ongoing effort to get better, individually and collectively, at everything we do every single day.

We take seriously our commitment to helping our business partners and clients chart their financial futures. It is our mission to help them live the most financially secure lives possible. We respect this responsibility and all that is entrusted to us.

Sincerely,



**JOHN F. BARRETT**

*Chairman, President and  
Chief Executive Officer*

# 2011: A TUMULTUOUS YEAR

*Following a two-year stretch in which equities and other risk assets rallied significantly from the lows in March of 2009, markets encountered renewed turbulence in 2011.*

*The catalysts were economic and political developments on both sides of the Atlantic.*



In the United States, the political impasse over the extension of the federal debt ceiling resulted in the downgrading of the AAA status of U.S. Treasury debt by Standard & Poor's. Meanwhile, in Europe, the crisis in the eurozone spread from small coun-

tries in the periphery to larger ones such as Italy and Spain. These developments and disappointing economic news contributed to steep declines in U.S. and global equities, causing investors to fear a replay of the financial crisis.

## The Fed Takes Action

In an attempt to bolster financial markets, the Federal Reserve announced that it would not raise short-term interest rates until mid-2013 at the earliest (then revised to late 2014). The Fed subsequently unveiled a program called "Operation Twist," which was designed to lower long-term bond yields, as well. This environment proved challenging for investors, who had to navigate through highly volatile markets.

At Western & Southern Financial Group, our fixed income portfolios fared very well, as our portfolio managers adjusted to the lower interest rate environment and the twists and turns of the markets.

As of year-end, our GAAP net worth reached a record \$6.1 billion — \$0.5 billion above the end of 2010. At the same time, our capital-to-asset ratio reached 16 percent, which is one of the highest in our industry.

## Efforts to Stabilize Investment Income

While we are proud of these achievements, we are also mindful of the impact that the low interest rate environment is having on the insurance industry. Indeed, we have experienced a decline in the book yield on our fixed income portfolio.

However, we have also undertaken several initiatives to bolster investment income, including economizing on cash balances, implementing a private placement program, adding to income-oriented alternatives, and building a high-dividend equity portfolio. These steps have enabled us to stabilize investment income when book yields are declining throughout the insurance industry.

At the same time, we continue to refine and enhance our risk management procedures to ensure that the investment portfolios we manage on behalf of our family of companies and the clients we serve retain high credit quality and proper diversification. ▶

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**NICHOLAS P. SARGEN** is chief investment officer of Western & Southern and its investment management member company, Fort Washington Investment Advisors, Inc. He oversees all investment activity for the Western & Southern family of companies and frequently contributes research articles on global investing. Sargen appears regularly on national television and radio business programs, including Bloomberg TV, Fox Business Network and the "Insana Quotient with Ron Insana." He has appeared on "WealthTrack with Consuelo Mack" and was a regular panelist on "Louis Rukeyser's Wall Street Week."

# OUR CULTURE

At the heart of Western & Southern Financial Group's success is a strong, vibrant culture. Our company has prospered for 124 years because we combine a passion for our business with a commitment to creating value while balancing the needs of our businesses, associates, business partners and community.

We do business the right way. We care about one another and about those with whom we do business. We are disciplined in the way we design our products and services, and we build mutually beneficial relationships that endure.

use our business acumen to assess today's environment and developments on the horizon. This knowledge helps us position our organization — and our clients — for continued growth and financial security.

## About Western & Southern

Western & Southern Financial Group is a diversified, customer-oriented family of companies and a nationally recognized leader in consumer and business financial services. A *Fortune* 500 company since 2004, we provide millions of individuals, businesses and institutions with



Our company has prospered for 124 years because we combine a passion for our business with a commitment to creating value.

We take pride in our strong team. We employ people we can trust — individuals with integrity and strong collaborative skills who are excited about the opportunity to build something bigger than themselves and committed to moving forward. Our associates are our future, and we invest in them continuously through industry education, training and skills enhancement.

Change is not only inevitable, it is also the basis of future opportunities. We take the long-term view and

life and health insurance, annuities, mutual funds, and a variety of other investment management products and services through 13 member companies and several companies that provide support to others in the financial services industry.

We employ 3,900 associates nationwide who are united by a commitment to deliver financial solutions that protect and grow our clients' assets to help them achieve lifetime financial security. ▶

## THE WESTERN & SOUTHERN WAY

We have developed a unique culture that permeates all facets of our corporate headquarters. It is defined by hard work, sensible decision making, teamwork, collegiality, top-notch performance of our responsibilities and the continuous upgrading of our businesses and our competencies. We stress quality in all that we do, and we favor the long-term outlook over the short term.

While we are proud of our ever-improving financial and market performance, there is little room for arrogance, greed or ego. Simply put, we are passionate about our business and believe in getting better every day. We will continue to create outstanding value for our policyholders and clients and continue to be the ideal place for a long-term career for our colleagues.

# LIFE & HEALTH

*Since its founding in 1888, Western & Southern Financial Group's focus has been on meeting the changing needs of its customers — and 2011 was a year of resilience and reinvention in a changing environment.*

## WESTERN & SOUTHERN LIFE

As the traditional foundation of the Western & Southern family of companies, The Western and Southern Life Insurance Company proudly serves America's middle market through a career agent sales force, a robust Client Relationship Center (home office call center), and award-winning online support accessible at WSLife.com.

### Delivering a Superior Customer Experience

Career agents are associates of Western & Southern Life who live across the United States and serve individuals and businesses in their own communities.

They provide solutions to the changing financial challenges of the middle market. They also form the foundation of the superior customer experience these customers want and deserve.

### Concern in an Underserved Market

America's evolving middle market comprises 52 million households.<sup>1</sup> Social, economic and lifestyle changes have

resulted in this market being underserved with regard to financial services. A 2011 survey by LIMRA, a worldwide research, consulting and professional development organization for the insurance and financial services industry, reports that half of the people in this group believe they are underinsured.<sup>2</sup>

The company's diverse portfolio of solutions is driven by a middle market with diverse needs. Some examples:

*Busy women who can only contact a service center on a Saturday.* During 2011, Western & Southern Life's sales to women totaled 54 percent of placed policies and 58 percent of placed premium.

*Spanish-speaking families who prefer to use a website with relevant content that caters to their needs.* Sales to the multicultural market continued to grow in 2011, constituting 12 percent of the company's overall sales.

*Dual-income families with decision-makers who prefer to speak with their agent in the evening about a wide range of financial options.* The company's registered agents and its in-house broker-dealer, W&S Brokerage Services, Inc.,<sup>3</sup> achieved record sales at \$42.4 million in 2011.

### TOTAL LIFE & HEALTH INSURANCE ASSETS

| (\$ billions) | 2.7% Five-Year CAGR* |
|---------------|----------------------|
| 06            | 7.67                 |
| 07            | 7.81                 |
| 08            | 7.84                 |
| 09            | 7.96                 |
| 10            | 8.46                 |
| 11            | 8.77                 |

### TOTAL LIFE & HEALTH PREMIUMS

| (\$ millions) | 4.1% Five-Year CAGR* |
|---------------|----------------------|
| 06            | 805.3                |
| 07            | 827.6                |
| 08            | 828.3                |
| 09            | 820.4                |
| 10            | 904.0                |
| 11            | 984.6                |

\*Compound Annual Growth Rate



**BRYAN C. DUNN**

President and Chief Marketing Officer,  
W&S Agency Group

*Young parents who prefer to explore the company online before contacting an agent.* In 2011, DALBAR ranked WSLife.com No. 10 among the top 25 technology-based firms within the insurance, annuity and mutual fund industry. The Customer Respect Group ranked WSLife.com among the top three websites with an “excellent” rating.

*Widowed grandparents who seek daytime contact with an agent to help establish a financial legacy for*

1 Is There Magic in the Middle Market?, Retzloff/LIMRA, 2010.  
 2 Trillion Dollar Baby—Growing Up, Retzloff/LIMRA, 2011.  
 3 Securities products offered through W&S Brokerage Services, Inc. Member FINRA/SIPC.

*the next generation.* Legacy Master®, a single premium whole life policy issued by Western-Southern Life Assurance Company, achieved record sales in 2011 at \$28.8 million in placed premium, which contributed to the company’s \$420.6 million in record total life sales revenue.

**Decisive, Bold Action**

As customers’ lives, wants and needs have changed, Western & Southern Life has continued to recognize the need to be nimble to change as well.

With a backdrop of worldwide economic pressures and an evolving marketplace, the company boldly changed its business model from an entrepreneurial approach to an invigorated franchise business model for its career agent sales force in late 2010.

Implementation of the new model across all Western & Southern Life offices nationwide was its primary focus throughout 2011. Through the new strategy, the existing business model was enhanced to allow Western & Southern Life career agents to better respond to the expectations of the middle market.

**Enhancing Agent Careers**

The company began by revalidating its commitment to its agent associates through an updated agent job profile.

Through an award-winning training program, standards were then established to ensure a consistent customer experience with Western & Southern Life agents across the country.

Finally, the company took steps to help its career agents improve their ability to connect with the right customer at the right time with the right solutions, which ranged from risk protection to accumulation to post-retirement solutions.



America's evolving middle market comprises 52 million households. Social, economic and lifestyle changes have resulted in this market being underserved with regard to financial services.

These changes combined for an exciting cultural shift in Western & Southern Life's relationship with all its customers and stakeholders. Careers have become even more rewarding for its agents while improving the customer experience and contributing to sustainable, long-term, profitable growth for the company. In addition, Western & Southern Life has witnessed solid improvement in customer retention and agent productivity.

#### Industry Leaders in the Middle Market

Western & Southern Life has a unique ability to provide the underserved middle market with the financial needs analysis, planning and solutions they deserve.

From income replacement to preparing for retirement to transferring hard-earned dollars to the next generation, Western & Southern Life offers simple solutions to meet a variety of complex needs now and into the future. ▶

## COLUMBUS LIFE

Columbus Life Insurance Company continues to reinforce its reputation as a strong, reliable insurance carrier no matter the economic climate.

#### Solid Financial Performance

The year 2011 was a solid one for Columbus Life, which experienced growth in several areas of the business. Life annualized target premium rose 13 percent over 2010, from \$10.6 million to \$12 million. Annuity sales grew to \$84.4 million at year-end, a 15 percent increase over \$73.3 million the prior year.

Additionally, premium sales of Columbus Life's indexed universal life product spiked more than 65 percent over 2010.

Overall premium sales for all Columbus Life products finished 22 percent over prior year. Statutory premium grew from \$201.5 million in 2010 to \$246.3 million in 2011.

#### Innovative Solutions

In 2011, consumers faced uncertainty in tax rates, employment, the real estate market and rising health care costs. Providing products that eased those fears was key to

the company maintaining its presence in the affluent market. Columbus Life delivered flexible family and business insurance protection, wealth transfer and other planning solutions.

Also during 2011, the company introduced a new capital transfer rider to address the wealth transfer needs of clients and an income rider designed to help younger workers prepare for retirement.

Both riders were developed in response to growing producer and client demand.

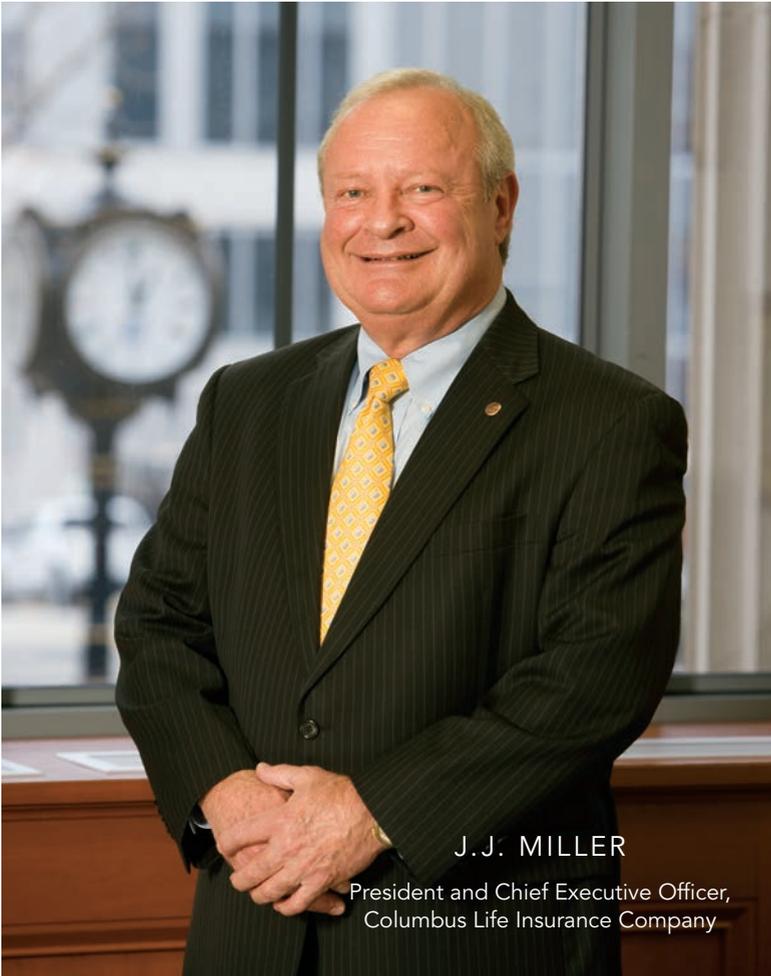
#### Enhancing Partnerships

Columbus Life's independent producers are key to the company's growth. The firm continued to offer a mix of products, personal service, sales tools and a competitive compensation package to support independent producer success.

Recognizing the desire for ongoing training among independent producers, Columbus Life offered several opportunities to new and veteran producers to build their businesses.

13%  
INCREASE

*life annualized  
target premium*



J.J. MILLER

President and Chief Executive Officer,  
Columbus Life Insurance Company

**The Voyage of Discovery Program** is an introduction to Columbus Life for newly appointed producing general agents (PGAs). The company hosted three of these classes in its Cincinnati home office in 2011. The classes helped PGAs jump-start their relationship and business with Columbus Life.

**Advanced Sales Academies** are in-depth training schools that focus on specific sales concepts such as business succession planning and wealth transfer techniques. In

2011, Columbus Life hosted two sessions focused on business succession.

The advanced markets sales team presented **Smart Talk Webinars** five times over the course of the year. These webinars highlighted sales ideas — along with tax and legislative updates on matters of interest to producers — to help them build their practices.

**Columbus Life Regional Universities** took product enhancements, new sales concepts and advanced markets presentations “on the road” to producers in their own backyard. In 2011, Columbus Life held 11 of these regional meetings in cities across the country.

### **Solid Market Growth**

The company experienced significant growth throughout the year in the southwest United States. Of particular note is the growth of its Asian-American market sales in Southern California, attributed in part to the flexibility of Columbus Life’s indexed universal

life product and the personal support provided by the company to producers and their customers in the market.

### **Leveraging Technology**

Columbus Life prides itself as a company that is easy to do business with. The company will soon introduce a fully automated electronic sales platform that aims to streamline the life insurance application process and cut down on the time it takes to underwrite and issue a policy.

Leveraging technology will augment — not replace — the personal relationships that are at the core of Columbus Life’s approach to business.

The company currently provides producers and consumers with online sales concept presentations and videos. In the near future, it expects to launch a number of mobile applications to provide instant information to clients on tablets and smart phones, as well as enhanced, real-time sales presentations and answers for producers.

All these developments add up to a robust digital experience from sales presentation to product delivery in the future. Leveraging technology will augment — not replace — the personal relationships that are at the core of

Columbus Life's approach to business.

Independent producers continue to seek only the strongest, most stable and resilient financial services organizations. Columbus Life consistently attracts new PGAs who want personal attention, competitive products, training and marketing materials necessary for success in their businesses.

Columbus Life and its independent producers are poised for continued growth and success in 2012. ▶

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## LAFAYETTE LIFE

The Lafayette Life Insurance Company continues its tradition of outstanding performance after transitioning its operations to Cincinnati, home of parent company Western & Southern Financial Group, in 2011.

### Extraordinary Performance

Lafayette Life's new individual life premium sales surpassed \$61.8 million — the company's second-best year ever. Total direct individual life statutory premium rose 11.8 percent in 2011 to \$384.5 million, nearly double the premium level five years earlier.

Annuity sales exceeded \$200 million for the second straight year — and only the third year ever — at \$257.3 million. GAAP assets climbed 16.4 percent to \$3.4 billion.

Lafayette Life attributes its 2011 success to a number of factors, beginning with "focus." The firm focuses on three core lines of business: dividend-paying whole life insurance, indexed annuities and retirement services. Valuing collaboration, the company continues to cultivate

strong service-oriented relationships with its independent producers, their clients and policyholders. Since its founding in 1905, the company and its associates have continued to be performance driven.

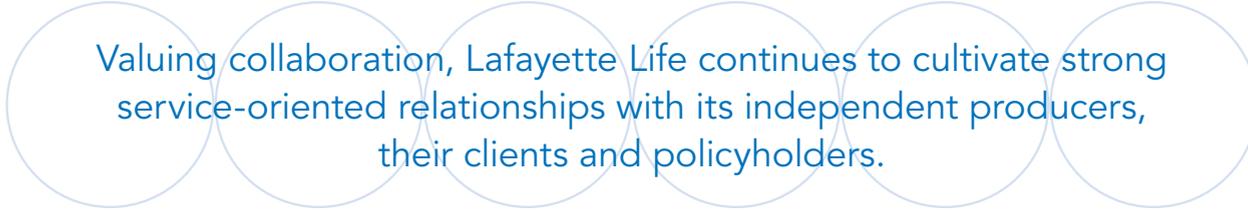
### Enduring Culture

The Lafayette Life culture doesn't allow outside, uncontrollable events to affect company and associate performance. Instead, the team focuses on what it can control — service and responsiveness to its producers and their clients. It is an approach that continues to serve the company well.

### Foundation for Growth

Lafayette Life's transition to Cincinnati from Lafayette, Ind., was vital to positioning the company for continued success well into the future. In some ways, this was a true test of the company's resilience.

The transition needed to be completed seamlessly and with no disruption to ongoing operations, customer service and financial performance. All levels of management at



Valuing collaboration, Lafayette Life continues to cultivate strong service-oriented relationships with its independent producers, their clients and policyholders.

Lafayette Life worked closely to develop a transition plan based on several critical success factors. These factors included goals to continue to meet all customer needs,

be responsive to field associates and policyholders, maintain excellent service levels and maintain a high level of financial performance throughout the transition.

Implementation of the plan also required that Lafayette Life management and associates partner with Western & Southern associates in Cincinnati to address

logistical, legal and operational needs of the company to ensure a smooth transition. This cross-divisional team of associates worked tirelessly to ensure the transition was completed without interruption or delay.

**\$61.8  
MILLION**

*new individual life  
premium sales*

In July 2011, Lafayette Life completed its move to Cincinnati with all critical success factor goals having been achieved. Going forward, Lafayette Life is now fully engaged in leveraging Western & Southern's resources and systems to further enhance its level of service to its producers and policyholders.

### **Leveraging Technology**

Over the next few months, the company expects to introduce to independent producers a newly enhanced producer website that offers improved navigation, enhanced content and 24/7 online access.

In addition, Lafayette Life is in the early stages of developing a fully automated online platform that will make its life insurance application and underwriting processes quicker and easier. ▶



# ANNUITIES

*Amid an era of unprecedented challenges to retirement confidence, Western & Southern Financial Group provides what Americans desire most: guarantees. Those guarantees come in annuities backed by a legacy of strength, stability and credibility.*

Today, as always, guarantees underpin the annuities issued by Western & Southern member companies. The relationship between annuity ownership and retirement security — intrinsic and enduring — forms a foundation of confidence. The reason is twofold: Annuities provide for the future and protect against uncertainty.

## A Changing Landscape

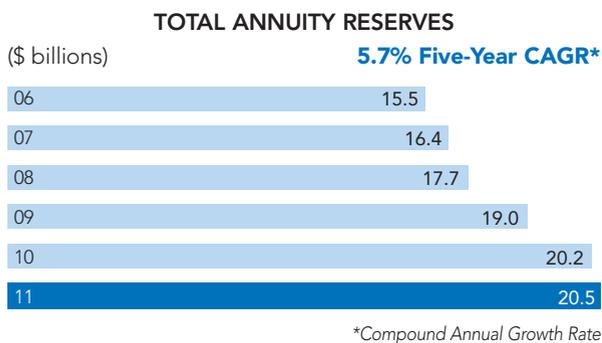
After three consecutive years of sales in excess of \$2 billion, falling interest rates and drifting equity valuations held Western & Southern's total annuity premium to \$1.83 billion in 2011.

Despite those headwinds, annuity reserves reached an all-time high of \$20.5 billion at year-end, up from \$20.2 billion in 2010. While economic forces alternately wax and wane, the need for risk management financial solutions steadily expands. Formidable challenges, ones arising from the increased responsibility individuals bear for their personal financial well-being, create vast opportunities. The compelling advantages annuities offer in protecting retirement assets and income remain a cornerstone of our success.



**JILL T. MCGRUDER**

President and Chief Executive Officer, Integrity Life Insurance Company and National Integrity Life Insurance Company; Chief Executive Officer, W&S Financial Group Distributors and Touchstone Investments.



## Emerging Solutions

New dynamics, in turn, demand new thinking. Proof is evidenced in IRA rollovers, a market expected to generate an asset pool of \$7 trillion by 2015.<sup>1</sup> Recognizing and embracing this opportunity, W&S Financial Group Distributors launched VAROOM® (Variable Annuity for Roll Over Only Money) in 2011.<sup>2,3</sup>

Solely for rollovers and consolidation of IRAs, 401(k)s and 403(b)s, this flexible premium variable annuity



MARK E. CANER (right), President, W&S Financial Group Distributors, with CHARLES E. WHITE (left), Senior Vice President, Financial Institution Distribution; and DANIEL J. DOWNING, Senior Vice President, Independent Agent Distribution.

## Enduring Leadership

Equipping representatives of banks, broker-dealers and independent marketing organizations with products of unquestioned quality and unsurpassed service represents a winning proposition.

For the 13th consecutive year, Western & Southern ranked among the top 10 providers nationally of fixed annuities purchased in banks.<sup>4</sup> And 2011 marked another milestone — the 20th anniversary of the first sale of a Western-Southern Life Assurance Company annuity through a bank.

**\$20.5**  
BILLION  
*record annuity reserves*

Because Western & Southern takes the financial security of our customers seriously, we remain squarely in the annuity business year after year. We recognize individual responsibility for retirement is only going to grow. We bring perspective dating to 1888 to managing risk and delivering on promises. Our hard-earned reputation for competitiveness, sustainability and consistency sets us apart. ▶

from Integrity Life and National Integrity Life earned widespread recognition for its innovative use of subaccounts investing in individual exchange-traded funds, an industry first. The companies marked another advance with the January 2012 introduction of MultiVantage<sup>SM</sup> — a single premium deferred annuity.<sup>2</sup>

1 McKinsey and Company, 2011.

2 Issued by Integrity Life Insurance Company, Cincinnati, OH, and National Integrity Life Insurance Company, Goshen, NY. Integrity operates in Washington, DC, and all states except ME, NH, NY and VT, where National Integrity operates.

3 Distributed by Touchstone Securities, Inc.

4 Kehler-LIMRA, April 2012.

The compelling advantages annuities offer in protecting retirement assets and income remain a cornerstone of our success.

# INVESTMENTS

*Fort Washington Investment Advisors, Inc., guides its clients through economic volatility with investment strategies that focus on the long term, yet remain flexible to respond to short-term opportunities.*

Fort Washington is Western & Southern Financial Group's multi-strategy investment management firm with expertise in public equity, fixed income and private equity. It serves a wide range of institutional and high-net-worth individual investors throughout the Greater Cincinnati region and across the United States.

## Record Growth and Performance

Fort Washington achieved new milestones in 2011. As of year-end, the firm managed a total of \$39.9 billion in assets and commitments, which included a new record of non-affiliated assets and commitments of \$7.5 billion.<sup>1</sup>



\$39.9  
BILLION  
assets under  
management

The firm's non-affiliated business has grown an average of 15 percent per year since 2006. Even during the financial crisis of 2008–2009, when many segments of the financial markets experienced significant losses, Fort Washington was able to continue to consistently grow its non-affiliated assets.

## Long-term Focus

This resilience and growth are attributed to the firm's long-term focus and commitment to exceed clients' expectations, provide associates with challenging and rewarding career opportunities, and consistently invest in its business and operational resources.

Western & Southern has provided Fort Washington with an incredibly strong backbone of both financial and operational resources that enable the firm to remain focused on its long-term business plan to become a leading

investment advisory firm locally and nationwide. Four factors played an important role in Fort Washington's resilience and growth in 2011.

## Competitive Investment Performance

Volatility in the financial markets has increased substantially since 2006, with a 300 percent increase in daily market volatility, measured by days when the S&P 500 moves more than 1 percent in a day.<sup>2</sup> Fort Washington continued to help its clients navigate this volatility with investment strategies that share a common focus on the long term yet remain flexible to respond to short-term opportunities. As a result, nearly three-quarters of the firm's major institutional investment strategies remained in the top quartile of their peer groups on a five-year basis.<sup>3</sup>

## New Capabilities for Clients

Fort Washington has increased its speed-to-market of new investment capabilities to be more responsive to clients' needs. New capabilities introduced to clients since 2008 include Corporate Investment Grade Private Placements, Fixed Income Structured Opportunities, Dividend Income,

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1 As of Dec. 31, 2011, includes assets under management by Fort Washington Investment Advisors, Inc., of \$37.8 billion and \$2.1 billion in commitments managed by Fort Washington Capital Partners Group, a division; and Peppertree Partners LLC, a subsidiary.

2 Bloomberg, Fort Washington, Dec. 31, 2011.

3 As of Dec. 31, 2011, eVestment Alliance LLC Peer Group Analysis by Fort Washington, and includes Fort Washington's High Yield, Core Fixed Income, Focused Equity and Dividend Income strategies. Past performance is not indicative of future results. Please see the Composite Performance Disclosures for each investment strategy for complete performance information. Visit [www.fortwashington.com/inst/](http://www.fortwashington.com/inst/).



**MARIBETH S. RAHE**

President and Chief Executive Officer, Fort Washington Investment Advisors, Inc.

**NICHOLAS P. SARGEN**

Senior Vice President and Chief Investment Officer, Fort Washington Investment Advisors, Inc.

Short Duration High Yield, Structured and Secondary Private Equity, and Financial Planning (for high-net-worth individuals).

**Innovative Sales and Marketing**

Beyond new investment capabilities, Fort Washington is also growing by entering new market segments.

By leveraging its roots of managing insurance assets for Western & Southern, the firm experienced notable

growth by managing general account and surplus assets for other insurance companies in the life, property and casualty, and specialty liability industries. Non-affiliated insurance business accounted for nearly 15 percent of the firm’s total new business results in 2011.

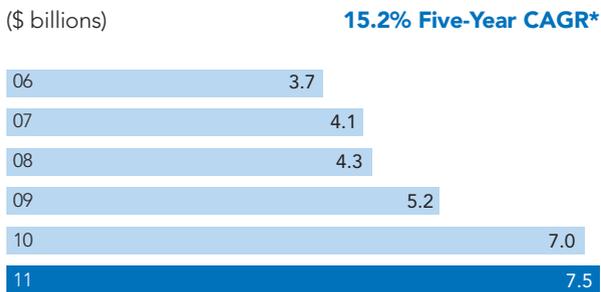
**Investing in Resources and Staff**

Fort Washington has maintained nearly all of its institutional and high-net-worth clients over the past three years. The firm attributes this to its ongoing commitment to invest in its resources and professional staff.

Continuous improvement in compliance, operations, marketing and relationship management enable Fort Washington to maintain its commitment to meet clients’ investment expectations while providing excellence in the delivery of its services.

Western & Southern’s financial strength has been and will continue to be a significant advantage to allow the firm to make these investments across all market environments. ▀

**FORT WASHINGTON NON-AFFILIATED ASSETS UNDER MANAGEMENT**



\*Compound Annual Growth Rate

# ENTERPRISE AT A GLANCE

| Company Information  | Products and Services  |
|--|--|
| <b>Western &amp; Southern Mutual Holding Company</b>                                 | Mutual insurance holding company; sole shareholder of Western & Southern Financial Group.  |
| <b>Western &amp; Southern Financial Group, Inc.</b>                                  | Holding company; sole shareholder of The Western and Southern Life Insurance Company and The Lafayette Life Insurance Company.   |
| <b>The Western and Southern Life Insurance Company (Western &amp; Southern Life)</b> | Whole life, juvenile term life, critical illness, accident insurance and personalized needs analysis.  |
| <b>Western-Southern Life Assurance Company (Western &amp; Southern Life)</b>         | Universal life, fixed annuities, term life, single premium life, retirement strategies and personalized needs analysis.  |
| <b>W&amp;S Agency Group (Western &amp; Southern Life)</b>                            | Life insurance, annuities, mutual funds, retirement strategies and health insurance products.  |
| <b>Insurance Profillment Solutions, LLC</b>  | Comprehensive fulfillment services for banks and insurance direct marketers.   |
| <b>W&amp;S Brokerage Services, Inc.<sup>1</sup></b>                                  | Registered broker-dealer for Western & Southern Life career agents selling mutual funds, variable and indexed annuity products, and variable universal life.   |
| <b>Capital Analysts Incorporated *<sup>1,2</sup></b>                                 | Wealth management services, including investment planning, advanced planning and life planning.  |
| <b>Columbus Life Insurance Company</b>   | Universal life, variable universal life, survivorship universal life, indexed universal life, term life, annuities, and retirement and business planning.  |
| <b>Eagle Realty Group, LLC</b>   | Real estate investment management (asset management, real estate investment advisory services, mortgage loans, equity investments, co-investments and real estate development); commercial property management; and multifamily property management. |
| <b>Fort Washington Investment Advisors, Inc.<sup>2</sup></b>                         | Investment management capabilities, including fixed income, public equities, private equity and balanced portfolio management.   |
| <b>IFS Financial Services, Inc.</b>  | Fixed, variable and income annuities; mutual funds; life insurance; and wealth preservation programs.  |
| <b>Integrity Life Insurance Company</b>  | Fixed, variable and income annuities.  |
| <b>National Integrity Life Insurance Company</b>                                     | Fixed, variable and income annuities and life insurance.   |
| <b>Touchstone Investments</b>  | Mutual funds subadvised by seasoned institutional asset managers.  |
| <b>W&amp;S Financial Group Distributors, Inc.</b>                                    | Fixed, variable and income annuities and life insurance.   |
| <b>The Lafayette Life Insurance Company</b>  | Whole life, term life, fixed and indexed annuity products, indexed universal life, and pension products and services.  |

| Markets Served and Distribution Channels  | Contact Information                         |
|---|---|
|   | westernsouthern.com<br>(877) FOR-WSFG       |
| More than 49,500 individuals nationwide are licensed to sell products and services from Western & Southern member companies.  | westernsouthern.com<br>(877) FOR-WSFG       |
| Individuals, families and businesses in the middle-income market. 181 field offices nationwide, plus WSLife.com and Client Relationship Center. Licensed in the District of Columbia and all states except AK, CT, ME, MA, NH, NY and VT.                       | wslife.com<br>(800) 936-1212                |
| Individuals, families and businesses in the middle-income market. 181 field offices nationwide, plus WSLife.com and Client Relationship Center. Licensed in the District of Columbia and all states except AK, ME, NH, NY and RI.                               | wslife.com<br>(800) 936-1212                |
| Individuals, families and businesses in the middle-income market. 181 field offices, plus WSLife.com and Client Relationship Center.  | wslife.com<br>(800) 936-1212                |
| Insurance brokers selling life insurance through bank branches, the Internet or direct marketing channels.  | iprofillment.com<br>(866) 590-0161          |
| Middle-income market through W&S Agency Group career agents.  | wslife.com<br>(513) 629-1055                |
| Affluent individuals, families, professionals and closely held corporations. Approximately 325 registered representatives.  | capitalanalysts.com<br>(800) 685-7515       |
| Individuals, families and businesses in the middle- and upper-income markets through a nationwide network of independent producers. Licensed in the District of Columbia and all states except NY.  | columbuslife.com<br>(800) 677-9696          |
| Corporations, financial institutions, pension funds, real estate investment trusts, investment funds, individual real estate investors and not-for-profit organizations.  | eagle Realty Group.com<br>(800) 361-7040    |
| Public and corporate pension plans, corporate operating and development funds, insurance companies, mutual fund subadvisory, religious orders, universities, Taft Hartley plans, foundations and endowments, and high-net-worth individuals and their families. | fortwashington.com<br>(888) 244-8167        |
| Broker-dealers, financial planners, independent agents and financial institutions.  | (513) 362-8000                              |
| Broker-dealers, independent agents and financial institutions. Licensed in all states except ME, NH, NY and VT.   | wsfinancialpartners.com<br>(888) 644-2300   |
| Broker-dealers, independent agents and financial institutions in ME, NH, NY and VT.   | wsfinancialpartners.com<br>(888) 644-2300   |
| Broker-dealers, financial planners, registered investment advisors, consultants, retirement plan sponsors, institutions, wealth managers and private banks.   | touchstoneinvestments.com<br>(800) 638-8194 |
| Broker-dealers, independent agents and financial institutions.  | wsfinancialpartners.com<br>(800) 285-2858   |
| Middle- and upper-middle income individuals, and small- and medium-size businesses. Licensed in the District of Columbia and all states except AK and NY.   | lafayettelife.com<br>(800) 243-6631         |

1 Member FINRA and SIPC.

2 Registered Investment Advisor.

\* Sale announced in early 2012.

# MUTUAL FUNDS

*With several strategic initiatives to bolster its fund lineup and expand its market presence, Touchstone Investments is well-positioned to compete and prosper in the years ahead.*

In 2011, Touchstone continued to help investors achieve their financial goals with a growing variety of strategically focused mutual funds across numerous investment styles and asset classes.

## Experienced Asset Management

The funds provide access to a distinctive selection of institutional asset managers known and respected for proficiency in their specific area of expertise and whose strategies are typically not available to the average investor.

Touchstone selects and monitors the subadvisors using a rigorous due diligence process — commensurate with the standards and guidelines typically used by sophisticated institutional investors.

The firm's goal is to maximize performance over the long term and build a results-oriented product line that strives to deliver solid performance over time and across varying economic climates.

## Robust Product Lineup

Touchstone's fund lineup includes U.S. equity, international equity, U.S. fixed income, international fixed income, and alternative investments.

Touchstone entered into a definitive agreement with Old Mutual Asset Management (OMAM) to acquire selected assets of OMAM's U.S. mutual fund business. The acquisition, which closed in April 2012, increased Touchstone's assets under management to nearly \$12 billion and added several new subadvisors and funds to its roster.

The company also enhanced its product offerings by expanding relationships with three existing subadvisors. It launched the Touchstone Emerging Markets Equity Fund II subadvised by AGF Investments America, Inc.,

and the Touchstone Merger Arbitrage Fund subadvised by Longfellow Investment Management.

Touchstone also adopted the EARNEST Partners Fixed Income Fund and merged it into the Touchstone Total Return Bond Fund.

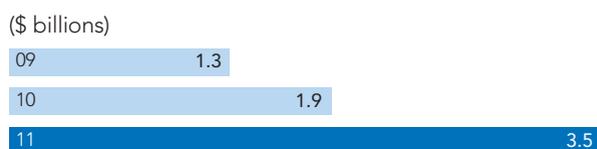
## Standout Performance

Several Touchstone Funds achieved standout performance in 2011.

As of year-end, the Touchstone Premium Yield Equity Fund (Y shares) ranked No. 1 of 289 in the Lipper Equity Income category and No.1 out of 1,258 in the Morningstar Large Cap Value category. The Fund received five stars overall and for the three-year period from Morningstar. The Touchstone Sands Capital Institutional Growth Fund ranked No. 1 of 660 funds in the Lipper Large Cap Growth category. It received five stars overall and for the three- and five-year periods from Morningstar.

At the end of 2011, 58 percent of all Touchstone Funds outperformed their respective category average for

### TOUCHSTONE MUTUAL FUND SALES



### TOUCHSTONE MUTUAL FUND ASSETS UNDER MANAGEMENT





STEVEN M. GRAZIANO  
President, Touchstone Investments

the year. Eight funds were rated four and five stars overall by Morningstar, and 11 were ranked in the top quintile by Lipper Analytical Services.

### Breakthrough Sales

Touchstone serves as a partner to financial professionals by delivering product solutions and providing programs and tools to help them cultivate, build and manage their businesses. At year-end 2011, the firm's gross sales nearly doubled to \$3.5 billion, and assets under management increased 18 percent over 2010 to \$7.8 billion. This growth included the 11 funds Touchstone

291%  
INCREASE  
net sales

launched in 2009 during the financial crisis, which collectively achieved \$1 billion in sales as of year-end 2011.

Growing and enhancing Touchstone's sales team enabled it to develop strong roots within key business development territories across the country. Touchstone net sales for its equity and fixed income funds increased 291 percent year over year, while the industry declined nearly 70 percent for the same period.<sup>1</sup>

By focusing on major metropolitan areas, participating in important industry conferences and firm events, and distributing white papers to demonstrate thought leadership, the company has become more significant to many of its partner firms.

Supplementing its outstanding sales story, Touchstone and its funds garnered significant national media attention in 2011, including mentions in *The Wall Street Journal*, *Investment News*, *Bloomberg Businessweek* and *CNBC*, among others.

### Future Opportunities

Touchstone anticipates continuing its momentum of growth into 2012 and beyond. A key driver is Touchstone's recent selection of BNY

Mellon Asset Servicing to provide back-office mutual fund accounting and administration and other services for its mutual funds.

BNY Mellon's robust technology and strong network of broker-dealer relationships better position Touchstone to connect with key distribution partners.

Touchstone remains dedicated to its subadvised mutual fund approach and is committed to offering investment products that leverage and build upon its partnerships with premier asset managers who serve as subadvisors to its funds. ▶

<sup>1</sup> FUSE Research Industry Overview, January 2012.

# FINANCIAL SERVICES

*Western & Southern Financial Group continues to provide a wide range of non-traditional financial services to support brokerages, investment advisory firms and institutional real estate investors in delivering maximum value to their clients and business partners.*

**Capital Analysts Incorporated**, an independent broker-dealer and registered investment advisor, provides a comprehensive hybrid platform for both brokerage and investment advisory businesses.

The firm delivers a broad range of services to independent advisors serving the investment, advanced and life planning needs of affluent clients nationwide.

With a strong interest in leveraging Capital Analysts' expertise in servicing independent wealth management advisory firms, Lincoln Investment Planning, Inc., announced the acquisition of the firm, which is expected to close by the end of June 2012.

At year-end 2011, Capital Analysts Asset Management Services (CAAMS), the firm's suite of asset management solutions, exceeded \$2.2 billion in assets under management. This represents more than a 15 percent increase in new assets, with a significant portion of that growth coming from new wealth management firms that Capital Analysts began serving in 2011.

CAAMS continued to expand its offerings in response to changing market conditions and client expectations. The platform has proved resilient during the volatile economic conditions of recent years.

Capital Analysts continued to build a strong national reputation as a thought leader and innovator with its executives serving as frequent sources for interviews and comments about the firm as well as regulatory and financial issues, featured speakers at financial conferences, and advisors to industry organizations throughout the year.

**Eagle Realty Group, LLC**, a real estate investment and property management



MARIO  
SAN MARCO  
President,  
Eagle Realty Group, LLC

ROBERT J.  
DAL SANTO  
President, Insurance  
Profillment Solutions

company serving Western & Southern affiliates, individuals, associations, corporations and other institutional real estate investors, delivers services in the Midwest, Southeast and Southwest through three core businesses: investment management, commercial property management and multifamily property management. The firm provides real estate services nationwide for more than 26 million square feet of properties valued at more than \$1.8 billion.

In 2011, Eagle committed to or closed eight new equity investments totaling \$111 million. In addition, Eagle oversaw development and construction activity on nine projects with overall development and construction costs in excess of \$773 million.

Office space build-out for two major tenants and leasing continued at Great American Tower at Queen City Square, which officially opened Jan. 11, 2011. In addition to being the first major office building constructed in

relative value in its mortgage loan investments. Total loan production volume reached \$203.7 million on behalf of Western & Southern affiliates in 2011 at an average yield of 5.68 percent. In addition to the startup and daily operations of Great American Tower, Commercial Property Management maintained its third-party management assignments, and Multifamily Property Management added assignments for 1,200 apartment units.

The Residence Inn at the Phelps, which opened in March 2011 following extensive renovation to the historic Phelps apartment building owned by Eagle's parent company Western & Southern in downtown Cincinnati, has become the top-rated Residence Inn out of 615 in the Marriott system.

**\$203.7**  
MILLION  
*loan production*

Eagle oversaw development and construction activity on nine projects with overall development and construction costs in excess of \$773 million.

downtown Cincinnati in approximately 20 years, it is also Cincinnati's largest, tallest and greenest office tower. Tenant relocations into Great American Tower, overseen by Eagle's Commercial Property Management division, culminated in a building population of approximately 2,500 office workers at the end of 2011.

Two additional leases were signed, one with Vorys, Sater, Seymour and Pease LLP and one with a Western & Southern member company, The Lafayette Life Insurance Company. These brought the tower's office space leased

to 90 percent by year-end 2011. Long-term leases were also signed with three retail tenants to deliver banking, food and beverage, and casual dining services in the tower's main lobby promenade.

Eagle continued to seek high institutional quality and excellent

**Insurance Profillment Solutions, LLC (IPS)**, provides comprehensive life insurance sales and fulfillment services for banks and other financial services partners. Utilizing an industry-leading call center with sales representatives and case managers available 80 hours each week and policy fulfillment technologies, IPS provides life insurance solutions to help bank customers, both branch and online, protect the financial assets they have built.

Leveraging the telephony, operations and underwriting expertise of Western & Southern, IPS offers a multi-carrier insurance solution that allows customers to complete a comprehensive health and insurance needs assessment over the phone. This process helps ensure every customer gets the right life insurance coverage to meet his or her needs.

IPS's automated case management processes help shorten policy placement time to ensure a positive customer experience start to finish. ▀

**\$111**  
MILLION  
*in new equity investments*

# SHARED SERVICES

*Western & Southern Financial Group's member companies avoid redundant operating expenses and enjoy the innovations and resources of much larger organizations by taking a shared approach to several service areas common to our businesses.*

**Actuarial** provides risk management to Western & Southern and its member companies. This includes designing and pricing life and annuity products, financial projections and reporting, valuation, and risk analysis.

**Corporate Financial Planning** guides Western & Southern's long-term financial strength through financial planning, asset management and control, and risk management services.

**eBusiness** fulfills Western & Southern's electronic business needs through a wide range of award-winning online services, including strategic planning, project management, digital marketing, user interface design and development, and website monitoring and analysis.

**Human Resources** recruits, develops and retains first-class associates, and manages associate benefits programs. On-site food services and security teams also deliver highly valued services under the Human Resources umbrella.

**Information Services** leverages technology with a focus on service, efficiency and adaptability for increased customer satisfaction, profitability and a sustainable competitive advantage. This includes development of innovative business processes, such as electronic applications and automated underwriting, voice signatures for call center sales, and online insurance fulfillment services.

**Insurance Operations** positively impacts policyholder and contract holder satisfaction, and sales force





**CONSTANCE M. MACCARONE**

Senior Vice President,  
Insurance Operations

**PHILLIP E. KING**

Vice President  
and Auditor

**NORA E. MOUSHEY**

Senior Vice President  
and Chief Actuary

**JONATHAN D. NIEMEYER**

Senior Vice President  
and General Counsel

productivity and profitability by providing the highest-quality back-office services for insurance and annuity products.

**Internal Audit** provides independent, objective assurance and consulting services and brings a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

**Law** provides and obtains expert legal counsel and representation for a wide range of legal disciplines, including insurance, mergers and acquisitions, litigation, real estate, human resources and securities law. Through its insurance compliance and government relations groups, Law provides compliance and regulatory advice.

**Public Relations and Corporate Communications** delivers meeting planning, travel and event management; purchasing, contract and vendor relationship management; document development and administration; printing and mail services; corporate reputation management, media relations and internal/external communications; audio-visual multimedia and photography; and advertising, branding and creative services. ▶

## Managing Expenses

Efficient expense management is standard practice at Western & Southern. Following are 2011 highlights:

- ▶ Saved \$250,000 annually by revising the procedures for IFS new business premium handling.
- ▶ Saved nearly \$100,000 annually in software licensing fees through the relocation of Lafayette Life and consolidation of systems.
- ▶ Increased back-office support to six insurance companies with the same number of associates that in the past supported five.
- ▶ Saved more than \$3 million annually in mortality costs, maintaining an 80 percent usage rate of the Intelligent New Business (iNB) processing system.
- ▶ Saved approximately \$180,000 in outside costs by creating the tennis-themed “Western & Southern: The Experience” publicity campaign for the Western & Southern Open and then executing the campaign entirely with an in-house promotions team.

# CORPORATE CITIZENSHIP

*Western & Southern Financial Group promotes Greater Cincinnati's resilience through focused philanthropy and energized corporate citizenship.*

With today's challenging economy and volatile financial markets, many U.S. cities seem to lack the resiliency necessary to be the vibrant commercial and cultural centers they once were. Through energized corporate citizenship, Western & Southern seeks to help chart a different course for Cincinnati, our home for 124 years and the city closest to our heart.

In 2011, our company, our associates and our corporate foundation enhanced Greater Cincinnati's resilience and its reputation as a great place to live, work and play by channeling more than \$12 million in donations and community sponsorships into the city and its surrounding region.

Each year, Western & Southern associates help infuse area nonprofit organizations with energy and ideas by serving as board members, mentors, fundraisers and volunteers.

## Health & Human Services

Helping to enhance Greater Cincinnati's healthcare network and strengthening the area's nonprofit safety net are our strongest areas of focus as corporate citizens.

- Our corporate foundation donated more than \$4 million to healthcare institutions, helping to keep the level of care in our home city advancing.



Cincinnati Public Schools Superintendent Mary Ronan and 2011 Dr. Lawrence C. Hawkins Educator of the Year Award recipient Barbara J. James with Western & Southern Chairman, President and Chief Executive Officer John F. Barrett.

- Our associates and corporate foundation combined for the region's sixth largest corporate United Way campaign, raising \$1,340,759.

- We continued as the title sponsor of the National Multiple Sclerosis Society's largest fundraiser, Walk MS. Our 1,400-member "Willie's Walkers" team was the largest in the nation. In total, our corporate match and associate-generated donation totaled \$67,272.



### Education & Youth

The quality of education our young people receive will help determine the health and resiliency of our community.

- We continued our commitment to Cincinnati Public Schools (CPS) through partnerships with Withrow University High School and Evanston Academy and by awarding the fifth annual Dr. Lawrence C. Hawkins Educator of the Year Award to recognize excellence among CPS educators.

- We donated more than \$375,000 to local higher education institutions and contributed a total of \$47,000 to match our associates' gifts to colleges and universities throughout the country.

- We contributed to 36 organizations dedicated to the education and development of youth.

### Arts & Culture

Western & Southern recognizes the importance of the arts in increasing the resiliency of individuals and neighborhoods. Our corporate foundation and associates contributed \$228,000 to Greater Cincinnati's ArtsWave campaign in 2011, and our foundation donated more than \$1 million to major arts institutions communitywide.

### Community & Sports

More than 120 community sponsorships support worthy nonprofit organizations in Greater Cincinnati, although none is as significant as our title sponsorship of the Western & Southern Open tennis tournament, a world-class event that generates more than \$62.5 million annually in regional economic impact.

The 2011 tournament — the first played under the new name, Western & Southern Open, and the first to feature the world's top men and women players competing side by side — was an unqualified hit. Increased attendance, an expanded stadium complex and incredible "buzz" took the tournament to a new level.

As title sponsor, Western & Southern ensured that the tournament spotlight was also directed onto Greater

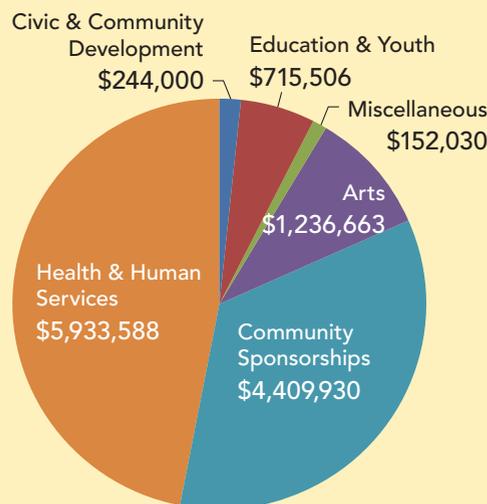


2011 Western & Southern Open women's champion Maria Sharapova with Western & Southern Chairman, President and Chief Executive Officer John F. Barrett.

Cincinnati and used to promote the city as a great place to live, work and play. This is the enduring theme of Western & Southern's corporate citizenship and a message the company promotes tirelessly, year after year. ▶

## \$12 MILLION IN DONATIONS AND SPONSORSHIPS IN 2011

This chart includes donations from Western & Southern's corporate foundation, associates, corporate charitable fundraising campaigns and corporate community sponsorships.



# FINANCIAL HIGHLIGHTS

*Amidst a slowly improving domestic economy and market volatility not seen since the financial crisis of 2008–2009, Western & Southern Financial Group delivers another excellent year of financial performance.*

Despite the challenging investment environment posed by historically low interest rates, Western & Southern continued to innovate and offer competitive products with first-rate customer service to generate top-line revenue growth while leveraging its operating synergies to limit expenses.

From the income statement to the balance sheet, Western & Southern had a solid 2011, delivering its

best results since the most recent recession. Year-end 2011 brought year-over-year increases in both operating earnings and net income. Additionally, total equity and assets owned and managed reached record highs.

Net income rose by \$7 million over the prior year, finishing 2011 at \$280.6 million. This year-over-year gain was largely due to strong revenue production by our life insurance and fee income businesses. Capital gains also



ROBERT L. WALKER (center), Senior Vice President and Chief Financial Officer, with (left to right) RICHARD K. TAULBEE, Vice President, Tax; JAMES J. VANCE, Vice President and Treasurer; DAVID T. HENDERSON, Vice President and Chief Risk Officer; and BRADLEY J. HUNKLER, Vice President and Chief Accounting Officer.

improved versus the prior year as a result of superior performance in fixed income and equity portfolios.

### Efficient Expense Management

Throughout 2011, Western & Southern increased scale and extended the influence of its shared service units to manage expenses. With its disciplined and efficient back office, Western & Southern has limited total expense

growth to a compound annual growth rate of 0.2 percent over the past five years while growing assets owned at a 3.4 percent compound annual growth rate.

Life and health premiums increased 8 percent year-over-year to \$984.6 million. An increasingly important component of our fee-based business, Touchstone Investments had a record year with \$3.5 billion in mutual fund sales, an increase of \$1.6 billion over the prior year. Due to the challenging interest rate environment, annuity premiums finished 2011 at \$1.83 billion, down slightly from the 2010 result of \$2 billion.

While corporations and governments have scrambled to deleverage in the wake of the financial crisis, Western & Southern has used its resilient balance sheet to drive sustainable growth. Having avoided the excessive risk taking that plagued many in the financial sector over the past several years, Western & Southern has been able to steadily grow its business while protecting its clients' financial security.

In 2011, Western & Southern grew total equity 7.8 percent, ending the year at a record \$6.1 billion. Assets owned rose \$525 million year-over-year to finish 2011 at a record \$38 billion. At year-end, assets owned and managed also achieved a record level at \$52.9 billion, a 4.3 percent increase over the previous year.

In a true reflection of Western & Southern's financial strength, the company's capital-to-asset ratio, an industrywide measure of capital adequacy, finished 2011 at 16 percent, nearly double the average of the 15 largest publicly traded U.S. life insurance companies.

After an impressive 2011 highlighted by record capital



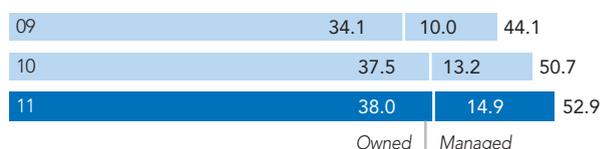
### OPERATING REVENUE

(\$ billions)



### ASSETS OWNED & MANAGED

(\$ billions)



### GAAP NET INCOME

(\$ millions)



### TOTAL EQUITY

(\$ billions)



### GAAP CAPITAL-TO-ASSET RATIO

(%)



### TOTAL EXPENSES

(\$ millions)



and asset positions and robust earnings, Western & Southern is uniquely positioned to capitalize on future growth prospects while delivering immense client value as a leader in financial strength. ▶

# FINANCIAL HIGHLIGHTS

## Consolidated and Condensed GAAP Balance Sheet

Amounts in thousands

|  | December 31, 2011    | December 31, 2010    |
|--|----------------------|----------------------|
| <b>Assets</b>                            |                      |                      |
| Debt securities                          | \$ 27,707,738        | \$ 26,415,715        |
| Equity securities                        | 1,502,197            | 1,466,640            |
| Other invested assets                    | 5,347,577            | 5,916,155            |
| Other general account assets             | 1,748,160            | 1,817,225            |
| Assets held in separate accounts         | 1,723,656            | 1,888,495            |
| Total assets                             | <u>\$ 38,029,328</u> | <u>\$ 37,504,230</u> |
| <b>Liabilities and equity</b>            |                      |                      |
| Future policy benefits and claims        | \$ 27,704,204        | \$ 26,880,470        |
| Long-term debt                           | 505,914              | 505,721              |
| Other general account liabilities        | 2,011,548            | 2,587,915            |
| Liabilities related to separate accounts | 1,723,656            | 1,888,495            |
| Total liabilities                        | <u>31,945,322</u>    | <u>31,862,601</u>    |
| Total equity                             | <u>6,084,006</u>     | <u>5,641,629</u>     |
| Total liabilities and equity             | <u>\$ 38,029,328</u> | <u>\$ 37,504,230</u> |

## Consolidated and Condensed GAAP Income Statement

|  | For the Year Ended |                   |
|--|--------------------|-------------------|
| Amounts in thousands                               | December 31, 2011  | December 31, 2010 |
| <b>Revenue</b>                                     |                    |                   |
| Insurance premiums and product charges             | \$ 1,075,989       | \$ 1,077,993      |
| Net investment income                              | 1,642,949          | 1,639,133         |
| Commissions, fees and other income                 | 219,968            | 169,622           |
| Total revenue                                      | <u>2,938,906</u>   | <u>2,886,748</u>  |
| <b>Benefits and expenses</b>                       |                    |                   |
| Policyholder benefits                              | 932,414            | 991,002           |
| Interest credited to policyholder account balances | 860,026            | 870,001           |
| Other operating expenses                           | 863,198            | 750,574           |
| Total benefits and expenses                        | <u>2,655,638</u>   | <u>2,611,577</u>  |
| Operating income*                                  | 283,268            | 275,171           |
| Investment gains and non-operating charges         | 115,559            | 106,773           |
| Income tax expense                                 | 118,229            | 108,436           |
| Net income   | <u>\$ 280,598</u>  | <u>\$ 273,508</u> |

\* Operating income is defined as net income excluding federal income tax, net realized investment gains or losses, non-controlling interest related to capital gains and one-time restructuring charges.

# SENIOR MANAGEMENT

## Western & Southern Financial Group

(Senior officers may serve within one or more member companies.)

**John F. Barrett**, Chairman, President & Chief Executive Officer

### Senior Vice Presidents:

**Clint D. Gibler**, Chief Information Officer  
**Noreen J. Hayes**, Human Resources  
**Constance M. Maccarone**, Insurance Operations  
**Nora E. Moushey**, Chief Actuary  
**Jonathan D. Niemeyer**, General Counsel  
**Nicholas P. Sargen**, Chief Investment Officer  
**Robert L. Walker**, Chief Financial Officer

### Vice Presidents:

**Keith W. Brown**, Chief Underwriter  
**Keith T. Clark, M.D.**, Medical Director  
**David T. Henderson**, Chief Risk Officer  
**Bradley J. Hunkler**, Chief Accounting Officer  
**Phillip E. King**, Auditor  
**Michael J. Laatsch**, Public Relations  
**Michael R. Moser**, Chief Compliance Officer  
**Douglas Ross**, Chief Technology Officer  
**Richard K. Taulbee**, Chief Tax Officer  
**James J. Vance**, Treasurer

## W&S Agency Group

**Bryan C. Dunn**, President & Chief Marketing Officer

### Insurance Profillment Solutions, LLC

**Robert J. DalSanto**, President

### W&S Brokerage Services, Inc.

**Bryan C. Dunn**, President

## Capital Analysts Incorporated\*

**Maribeth S. Rahe**, Chairman

## Columbus Life Insurance Company

**J. J. Miller**, President & Chief Executive Officer

**Charles W. Wood, Jr.**, Chief Marketing Officer

## Eagle Realty Group, LLC

**Mario San Marco**, President

## Fort Washington Investment Advisors, Inc.

**Maribeth S. Rahe**, President & Chief Executive Officer

**Nicholas P. Sargen**, Chief Investment Officer

## IFS Financial Services, Inc.

**Jill T. McGruder**, President & Chief Executive Officer

## Touchstone Investments

**Steven M. Graziano**, President

## W&S Financial Group Distributors, Inc.

**Mark E. Caner**, President

## Integrity Life Insurance Company

## National Integrity Life Insurance Company

**Jill T. McGruder**, President & Chief Executive Officer

## The Lafayette Life Insurance Company

**Jerry B. Stillwell**, President & Chief Executive Officer

\*Sale announced in early 2012.

## IN MEMORIAM

**CARROLL R. HUTCHINSON**, senior vice president of special projects, passed away Dec. 23, 2011. A revered colleague for 57 years, Carroll contributed heavily to the Western & Southern family through his detailed knowledge of the insurance business, outstanding research skills and vast historical knowledge of Western & Southern.

He joined the company in 1954 and progressed to senior vice president and chief actuary in 1982. He served in that role until 1998 when he became special advisor to John F. Barrett, Chairman, President and Chief Executive Officer.



## BOARD OF DIRECTORS

### 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*



### HERBERT R. BROWN

*Former Senior Vice President, Western & Southern Financial Group*

### 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, ESQ.

*Of Counsel, Vorys, Sater, Seymour and Pease (Cincinnati); Former Mayor of Cincinnati*

### ELIZABETH A. SMITH, ESQ.

*Director of Philanthropy, The Nature Conservancy (Indiana Chapter); Former Partner, Ice, Miller (Indianapolis)*



### JACK TWYMAN

*Former Chief Executive Officer, Super Food Services, Inc.*

### THE HONORABLE GEORGE V. VOINOVICH

*Former United States Senator and Ohio Governor*

### THE HONORABLE GEORGE H. WALKER, III

*Former United States Ambassador to Hungary; Former Chairman, President and Chief Executive Officer of Stifel Financial Corp. and Stifel Nicolaus and Company, Inc. (St. Louis)*



### THOMAS L. WILLIAMS, ESQ.

*President, North American Properties*

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Donald J. Wuebbeling serves as Secretary and Counsel. • All board members serve on one or more of the boards of Western & Southern Mutual Holding Company, Western & Southern Financial Group, Inc., and The Western and Southern Life Insurance Company.

## IN MEMORIAM

**DR. J. HAROLD KOTTE** was a renowned Cincinnati cardiologist who joined the Western & Southern board in 1992 and served as a distinguished member until his passing Sept. 12, 2011. He joined the organization in 1988 as Associate Medical Director and served as an advisor to the underwriting department until June 2011.



## DISCLOSURES

VAROOM (Variable Annuity for Roll Over Only Money) is issued and guaranteed by Integrity Life Insurance Company, Cincinnati, OH, and National Integrity Life Insurance Company, Goshen, NY, and is distributed by Touchstone Securities, Inc.\* Guarantees are based on the claims-paying ability of the insurer. There is no guarantee of the investment performance or safety of the variable investment options. Integrity operates in all states except ME, NH, NY and VT where National Integrity operates. Variable annuities are suitable for long-term investing. Earnings and pre-tax payments are taxable at withdrawal. Withdrawals prior to age 59½ are generally subject to a 10 percent IRS penalty tax. Product approval, availability and features may vary by state. For use with contract series ICC10 INT-15 1011, INT-15 1011, ICC10 NIL-15 1011 and NIL-15 1011 and rider series ICC10 IR.32 1011, IR.32 1011, ICC10 IR.33 1011, IR.33 1011, ICC10 IR.34 1011, IR.34 1011, ICC10 NR.32 1011, NR.32 1011, ICC10 NR.33 1011, NR.33 1011, ICC10 NR.34 1011 and NR.34 1011. \*Member FINRA

MultiVantage is issued by Integrity Life Insurance Company, Cincinnati, OH, and National Integrity Life Insurance Company, Goshen, NY. Integrity operates in DC and all states except ME, NH, NY and VT, where National Integrity operates. An MVA applies to early transfers, withdrawals and annuitizations, if applicable. Contract series INT-16-1112, IR.36 1112, ICC11 INT-16-1112, ICC11 IR.36 1112, NI-16 1112, NI.36 1112, ICC11 NI-16 1112, ICC11 NI.36 1112, NI-16 1112 NY and NI.36 1112 NY.

**An investor should consider the investment objectives, risks, charges and expenses of a fund carefully before investing. The prospectus and the summary prospectus contain this and other information about the fund. To obtain a prospectus or a summary prospectus, contact your financial advisor or download and/or request one at [Touchstoneinvestments.com/home/formslit/](http://Touchstoneinvestments.com/home/formslit/) or call Touchstone at 800.638.8194. Please read the prospectus and/or summary prospectus carefully before investing.**

Investment return and principal value of an investment in a fund will fluctuate so that investor's shares, when redeemed, may be worth more or less than their original cost.

For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance placing more emphasis on downward variations and rewarding consistent performance. The top 10 percent of funds in each category receive 5 stars, the next 22.5 percent receive 4 stars, the next 35 percent receive 3 stars, the next 22.5 percent receive 2 stars and the bottom 10 percent receive 1 star. (Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages.) The Overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with its three-, five- and ten-year (if applicable) Morningstar Ratings metrics.

# RATINGS

Industry ratings from the four major rating agencies—A.M. Best, Standard & Poor's, Fitch and Moody's—are solid indicators of a company's financial strength and stability. Following are Western & Southern's ratings at the time this report was printed.

## A.M. Best

Superior ability to meet ongoing insurance obligations (second highest of 16 ratings; rating held since June 2009)

**A+**  
SUPERIOR

## Standard & Poor's

Very strong financial security characteristics (second highest of 21 ratings; rating held since August 2005)

**AA+**  
VERY STRONG

## Fitch

Very strong capacity to meet policyholder and contract obligations on a timely basis (third highest of 21 ratings; rating held since June 2009)

**AA**  
VERY STRONG

## Moody's

Excellent financial security (fourth highest of 21 ratings; rating held since February 2009)\*

**Aa3**  
EXCELLENT

## Comdex Ranking

The Comdex is a composite of all the ratings that a company has received. It ranks companies on a scale of 1 (lowest) to 100 (highest) in relation to other companies that have been rated by the services. The Comdex is a mathematical ranking used to consolidate financial strength ratings from the four major rating agencies because each rating service uses a different scale.

**97**  
OUT OF  
**100**

The ratings are correct as of April 30, 2012, and are subject to change. Ratings refer to the claims-paying ability of the insurance company and do not reflect the performance or safety of any investment product. The rating agencies listed above are independent of each other and use proprietary evaluation criteria and rating scales.

\* The Lafayette Life Insurance Company is not rated by Moody's.



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