

# Western & Southern Financial Group®



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# CHAIRMAN'S LETTER

## To Our Valued Friends & Colleagues,

Thank you for your interest in our Company. The year 2006 was outstanding for Western & Southern Financial Group. In fact, it was our best year ever. We hope that this report gives you a more complete understanding of where we are and how we are positioning ourselves for continued prosperity in this era of increasingly competitive integrated financial services.

For the year ended Dec. 31, 2006, we achieved record GAAP financial results with net income of \$306.1 million on revenues of \$2.69 billion compared to net income of \$267.8 million on revenues of \$2.44 billion for 2005. This represents a 14 percent increase in net income. Pretax operating earnings of \$280.5 million (also a record) were up \$50.9 million, or 22 percent, over pretax operating earnings of \$229.6 million in 2005.

Full-year combined life insurance premium, annuity and mutual fund sales of \$5.4 billion also reached record proportions, as life insurance premium and annuity sales increased 6.6 percent to \$2.8 billion while mutual fund sales reached \$2.6 billion, up from \$1.1 billion the year before. Total assets owned, managed and under our care reached \$47 billion (corporate-owned assets totaled \$32.2 billion) and GAAP net worth was \$5.2 billion – all record year-end highs.

A number of strategic initiatives fueled our strong performance in 2006:

- The Lafayette Life Insurance Company completed its first full year as a member of the Western & Southern family;
- We successfully moved Integrity Life Insurance Company from Louisville, Ky., and integrated it into our Cincinnati operations (Integrity did not miss a beat, enjoying its best year ever);
- We acquired and consolidated the Constellation Funds Group into Touchstone Funds, pushing total mutual fund assets to \$8 billion;
- Eagle Realty Group opened downtown Cincinnati's first new office building in 14 years (now substantially rented); and,
- We commenced negotiations for the sale of Integrated Investment Services, our mutual fund servicing subsidiary, to JPMorgan Chase. The sale was completed during the first part of 2007.

Despite these initiatives, we continued to carefully manage expenses, keeping our five-year compound annual expense growth rate to 3 percent.

From a historical perspective, we have come a long way. From 1888 to 1982, we built a good business in the moderate- and middle-income markets, selling primarily smaller life insurance policies. But, the times changed and so did we. The key transition year for us was 1982 when we radically changed our business model. We stopped selling weekly premium policies and started selling larger universal life policies. Also in that same year, we purchased what is now Columbus Life Insurance Company. These changes were momentous and expanded our already solid customer base to include greater penetration in the middle market and gave us entrée into the upper middle-income and affluent markets.

The incredible changes brought about by technology improvements and lifestyle changes have impacted the markets we serve. In response, we have greatly diversified our product mix, adding investment, income and retirement

solutions to our individual portfolio, and we also entered the institutional investment business. We have worked hard to develop a unique culture that permeates all facets of our corporate headquarters. It is defined by hard work; disciplined, sensible decision making; teamwork; top-notch service; and, the continuous upgrading of our businesses. We favor the long-term outlook over the short term, and we are energized by our ever-improving financial and market performance. However, there is little room for ego, politics or complacency. Simply put, we are trying to create outstanding value for our policyholders and clients as well as the ideal place for a long-term career for our associates, who are the key to our success.

In the traditional life insurance world, innovation too often only means new products. We believe innovation means much more, and we will continue to push ourselves to find new and better ways to do more business with more and more clients.

We entered 2007 with a sharpened focus on our core businesses in order to take full advantage of market opportunities, particularly the burgeoning retirement market. As part of this focus, we made several executive management changes effective March 2007. Among those, Lawrence L. Grypp, who has served as president and chief executive officer of Columbus Life and Lafayette Life, is focusing his chief executive officer responsibilities on Lafayette Life while continuing to have responsibility for our affiliate, Capital Analysts Incorporated, in Radnor, Pa. J. J. Miller, CLU, ChFC, FSA, senior vice president who has held several senior positions at Western & Southern since joining us in 1970, has assumed the leadership of Columbus Life as president and chief executive officer.

Western & Southern has grown substantially through a combination of organic growth and acquisitions, the cultivation of small ideas into highly successful businesses, diversification, solid investment performance and strong expense management. We closed 2006 in the best financial condition in our history, positioning us well to weather any economic challenges which we may encounter.

Our impressive financial performance continues to make us one of the 10 highest rated life insurance groups in the world based on our Standard & Poor's rating. Our forward-thinking perspective positions us well for continued growth as we build this outstanding organization into an even more robust financial services powerhouse.

Sincerely,



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

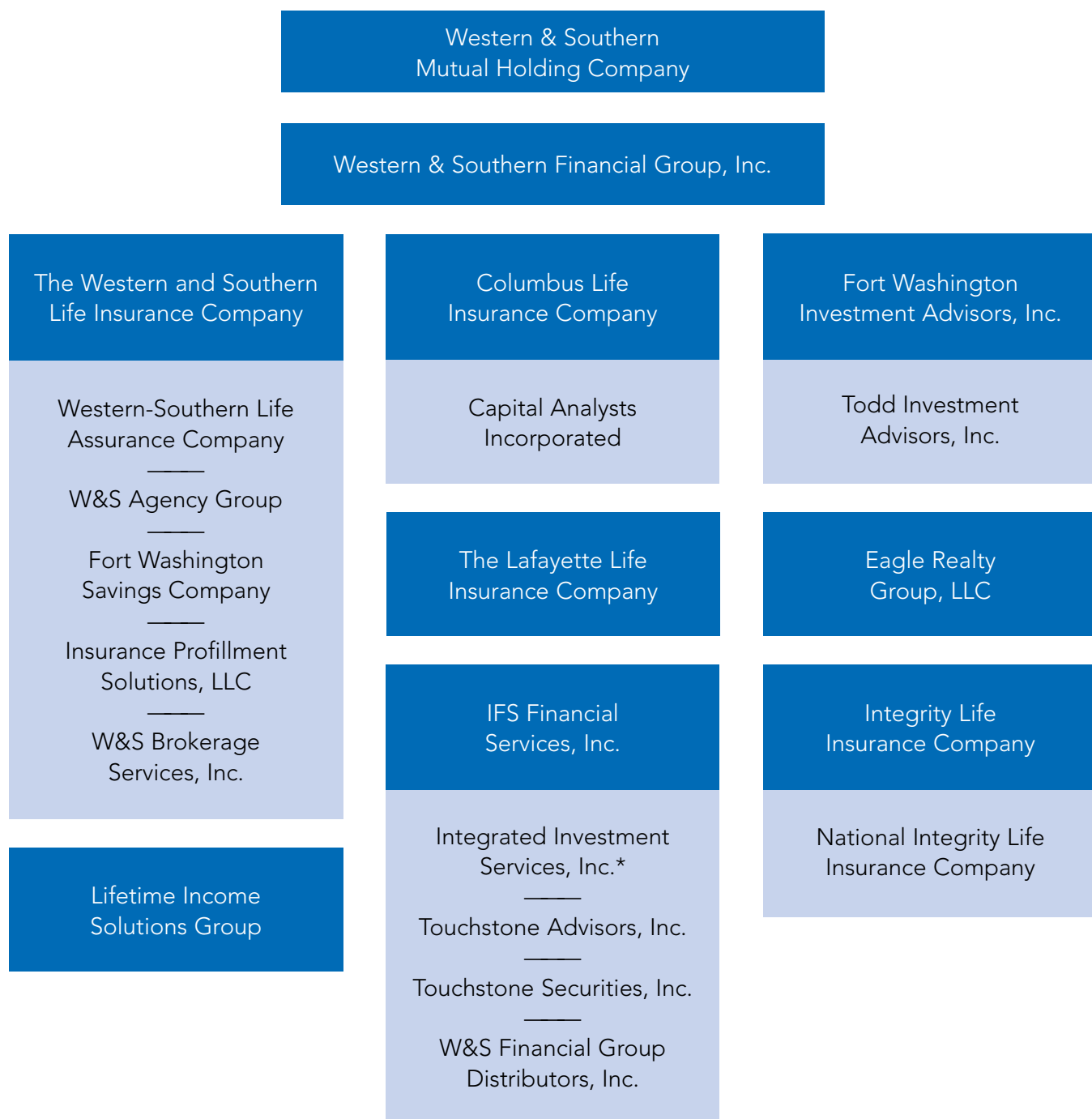


**John F. Barrett**

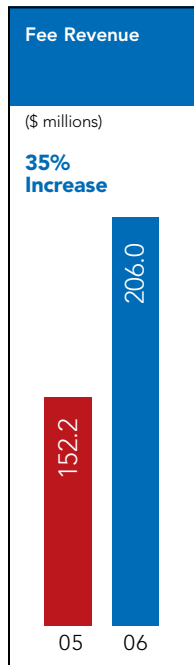
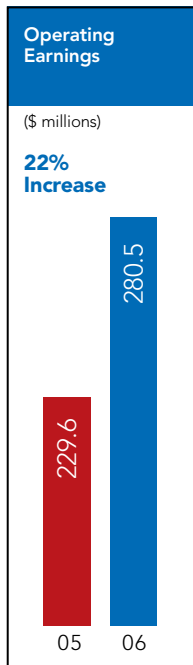
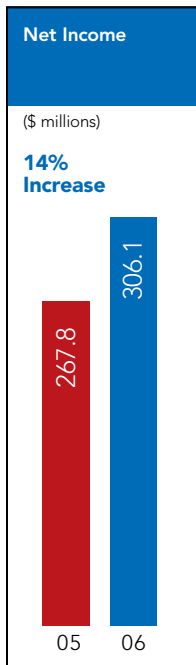
Chairman, President and Chief Executive Officer  
Western & Southern Financial Group

# FAMILY OF COMPANIES

We are **Western & Southern Financial Group®**, an innovative, rapidly growing, service-oriented family of companies. We are a Fortune 500 company. As a nationally recognized leader in consumer and business financial services, we provide life and health insurance, annuities, mutual funds and investment management for millions of people. Dedication to protecting and growing our customers' assets, as well as securing their futures, unites all our business units.



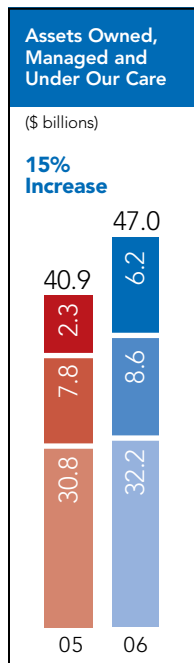
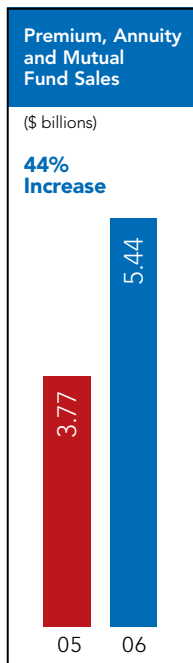
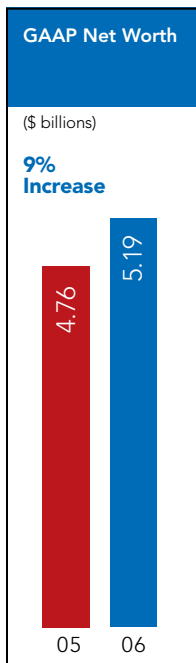
*\*Sold in early 2007*



## Record Year in 2006 Net Income up 14 Percent

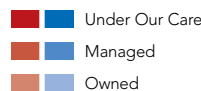
Western & Southern Financial Group achieved another record year in 2006 with net income of \$306.1 million on record revenues. This represents a 14 percent increase over \$267.8 million in 2005.

Our continued success in growing net income is the result of record operating earnings of \$280.5 million, up 22 percent over \$229.6 million in 2005, and solid investment performance. These achievements, combined with our successful integration of the Integrity Companies, the acquisition of the Constellation Funds Group, and the addition of Lafayette Life to our family of companies, underscore the value of the financial discipline that continues to guide our management team.



In 2006, Western & Southern's assets owned, managed and under our care grew 15 percent from \$40.9 billion to \$47 billion. Premium, annuity and mutual fund sales reached \$5.44 billion, up 44 percent from \$3.77 billion, including the Constellation fund family. Our non-life insurance fee revenue increased 35 percent from \$152.2 million in 2005 to \$206 million in 2006.

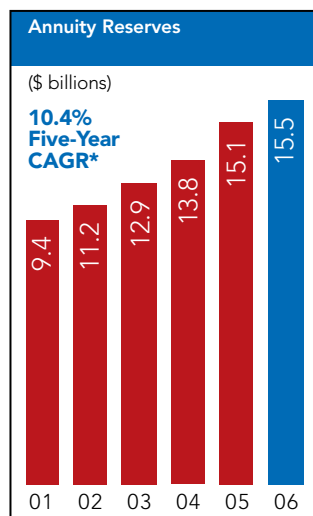
Our company remains very well capitalized as GAAP net worth reached a record \$5.19 billion in 2006, up \$428 million or a 9 percent increase over 2005. Our GAAP capital-to-asset ratio increased from 15.5 percent to 16.1 percent, which is among the strongest balance sheets in the industry.



Readying themselves for a financially secure retirement is a matter of increasing urgency for many Americans — especially the 78-million-strong baby boom generation, the first of whom turned 60 in 2006. Responding to that looming demand, Western & Southern Financial Group remains in the forefront with our efforts to provide wealth accumulation, distribution and preservation solutions for today’s and tomorrow’s retirees.

Closing out 2006, Western & Southern’s annuity account values were nearly \$15.5 billion, testifying to our continued achievements in providing products and services of significant and sustained value. As Americans take on more responsibility for their post-career well-being, they are embracing the advantages of annuities, among them tax-deferred growth, death benefit guarantees and income certainty at retirement.

The competition for success in the annuities market has never been more rigorous. Accordingly, our performance-based orientation enables us to satisfy those requirements by continuing to reinvigorate our product-and-service portfolio with ongoing introductions and improvements. Those efforts ultimately deliver the best value to customers, and our success is proven by our standing in the marketplace. According to LIMRA International, Western & Southern continues to rank among the



\*Compound Annual Growth Rate

30 largest individual annuity providers in the United States with nearly \$2 billion in sales.

The 2006 introduction of a living benefit rider to products in their variable annuity portfolios marked a key competitive advance for our member companies – **Integrity Life and National Integrity Life**. Guaranteed Return Plus, a guaranteed minimum accumulation benefit, unites two popular and powerful retirement wealth builders by safeguarding the principal of a variable annuity investment, while capturing the diversification and low-cost opportunity of exchange-traded fund (ETF) investing. The rider offers upside potential and downside protection in one simplified approach, providing investors added confidence to stay the course toward achieving their accumulation goals during unpredictable market conditions.

Fixed annuity production meanwhile attained record levels for Integrity and National Integrity in 2006. The features and flexibility of the products, combined with competitive interest rates, generated an enthusiastic response among customers. The result was a 29 percent increase in sales year over year and the first year in the history of the Integrity Companies for sales to exceed \$1 billion.

In 2006, the financial press repeatedly endorsed the value of immediate income annuities in providing for retirement security. That trend, combined with the confidence that comes with a stream of retirement income guaranteed to last for life, is prompting growing numbers of people to purchase immediate annuities. Sales of our IncomeSource® immediate annuity increased by 36 percent in 2006. Nationally, the Integrity Companies ranked among the top 12 providers of income annuities for the year.

Distributing annuities through financial institutions is a long-established strength of Western & Southern. For five consecutive years, we have ranked among the top 10 life insurers for fixed annuity sales through our bank distribution channel. Continued leadership is never assumed, but instead secured by remaining focused on accelerating responsiveness through the products and services we offer and enhancing the distribution relationships we support.

In response to continuing low interest rates and a flat yield curve, we enhanced our most popular fixed annuity product to allow buyers the opportunity to divide their premium among five guarantee periods for duration and diversification.



Jill T. McGruder (forefront, black coat), President and Chief Executive Officer of IFS Financial Services, Inc., Integrity Life Insurance Company and National Integrity Life Insurance Company, stands with IFS associates (left to right) Jay P. Maurer, Mary L. Hill, James W. Loveridge and Catherine A. Becker.

As a means of distinguishing our organization as a financial services powerhouse and helping our distribution partners solve their specific business challenges, Western & Southern makes the provision of value-added programs a point of emphasis. Among them are Social Security and Identity Theft Prevention seminars that have been enthusiastically received by our distribution channels where introduced, as well as a series of financial planning programs targeted specifically to women. The year saw further affirmation of our ongoing commitment to value-added support as we earned financial services industry awards for various communications initiatives for the fifth consecutive year.



Mark E. Caner, President of W&S Financial Group Distributors, Inc.

Our life and health insurance companies provide individuals, families and businesses with the advantage of insurance and financial products and services that provide peace of mind.

**The Western and Southern Life Insurance Company**, founded in 1888, continues to deliver a superior customer experience to middle-market individuals, families and businesses by integrating the activities of W&S Agency Group (our career agency force), the Client Relationship Center (CRC) and eBusiness.

Building on the disciplined methodologies emphasized in our industry-leading training programs, our career agents focus on providing the best possible solutions to meet customer needs. Tools, such as our state-of-the-art contact management system along with our CRC, have helped our agents strengthen relationships with their customers and contributed to the sale of nearly 81,500 policies with nearly \$54 million in annualized premium placed in 2006.

Our CRC and field clerical associates support the activities of our career agents, helping them manage in-force business and alert clients to potential policy lapses. As a result, our policy lapse rates improved 7.5 percent. CRC associates converted 12.9 percent of all inbound service calls into sales opportunities and conserved more than \$3.8 million in annuity investments.

Our Web site, WSLife.com, was consistently ranked among the top ten life insurance and annuity Web sites by DALBAR, the nation's leading financial services market research firm. The Customer Respect Group, an international research and consulting firm, ranked WSLife.com fourth out of 50 life insurance companies, based on overall customer experience.

Our assets under management continued to grow to more than \$5.4 billion in 2006. We also managed expenses aggressively and generated nearly \$4.3 million in savings through various internal initiatives.

**Columbus Life Insurance Company** provides life insurance, annuity products and financial solutions to affluent individuals, families and businesses across the country. Our retirement, estate planning and advanced business planning solutions are available to this market through a national network of independent producers, advisors and registered representatives.

In 2006, Columbus Life celebrated a heritage of 100 years with a 9.9 percent increase in operating gain and fixed annuity sales up more than 60.9 percent over 2005. Life sales were down in 2006 as our company was one of the first to take action to prevent underwriting questionable investor-initiated life insurance schemes permeating the marketplace. Viewed over the long term, we believe this action was both necessary and prudent to protect our cornerstone financial strength and integrity.

Our exceptional ratings and comprehensive suite of financial products continued to attract highly qualified producers to our company. In 2006, more than 500 new producers added Columbus Life to their financial services and product offerings. We updated our Mainsail Universal Life product and introduced a version of our flagship Explorer II Universal Life product for fee-based financial planners. We also developed a marketing kit to help producers, bank trustees and their clients understand and implement the placement of life insurance in irrevocable trusts for estate planning purposes.

**The Lafayette Life Insurance Company** provides life insurance and annuity products to individuals and small businesses through multiple distribution channels. We serve small- to medium-size businesses by offering qualified plan products and administrative services.

### Industry Ratings

The Western and Southern Life Insurance Company, Western-Southern Life Assurance Company, Columbus Life Insurance Company, The Lafayette Life Insurance Company, Integrity Life Insurance Company and National Integrity Life Insurance Company hold **A.M. Best's A++ Superior** rating for financial strength, operating performance and market profile (highest of 16 ratings; rating held since May 1991, May 1991, June 2005, June 2006, June 2005 and June 2005, respectively).

All six companies hold **Standard & Poor's AA+** for **Very Strong** financial security characteristics (second highest of 21 ratings; rating held since August 2005) and **Fitch AA+** for **Very Strong** insurer financial strength (second highest of 21 ratings). The Western and Southern Life Insurance Company, Western-Southern Life Assurance Company, Columbus Life Insurance Company,

Integrity Life Insurance Company and National Integrity Life Insurance Company have held this rating since September 2002. The Lafayette Life Insurance Company has held it since June 2005.

The Western and Southern Life Insurance Company, Western-Southern Life Assurance Company, Columbus Life Insurance Company, Integrity Life Insurance Company and National Integrity Life Insurance Company hold **Moody's Aa2 Excellent** rating for insurance financial strength (third highest of 21 ratings; rating held since September 1996, September 1996, September 1996, March 2000 and March 2000, respectively). The Lafayette Life Insurance Company is not rated by Moody's.

All companies hold a **Comdex** ranking (a composite of all the ratings a company has received) of 98 out of 100.



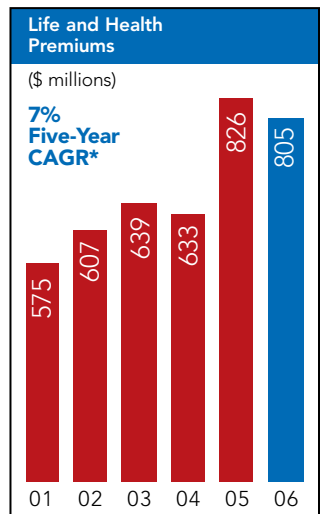
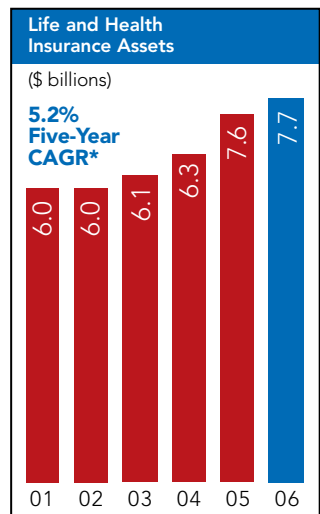


Left to right: Lawrence L. Grypp, President and Chief Executive Officer of The Lafayette Life Insurance Company; J. J. Miller, President and Chief Executive Officer of Columbus Life Insurance Company; and Bryan C. Dunn, President and Chief Marketing Officer of W&S Agency Group.

In 2006, we experienced outstanding life premium results – the best in our 101-year history. Adding to our strong product portfolio, we introduced The Marquis Centennial Indexed Annuity series. These fixed annuity products address consumers’ long-term accumulation needs, including retirement income. To provide the highest level of sales support and service to our producers, we created the Sales Development Center in Individual Marketing.

We relaunched our company Web site at [www.llic.com](http://www.llic.com) with expanded content, fresh design and user-friendly navigation to better serve our policyholders, field and home office associates.

As we forge ahead in our second century, we remain focused on our founding principles: financial strength, serving our customers and maintaining a strong relationship with policyholders and producers – our *Partners in Success*. Continued strong leadership, clear vision and commitment to excellence are reflected in our industry and community efforts. The new Lafayette Life Foundation provides grants to many local nonprofit organizations that serve the needs of our citizens and enhance the quality of life in the Lafayette, Ind., area.



\*Compound Annual Growth Rate

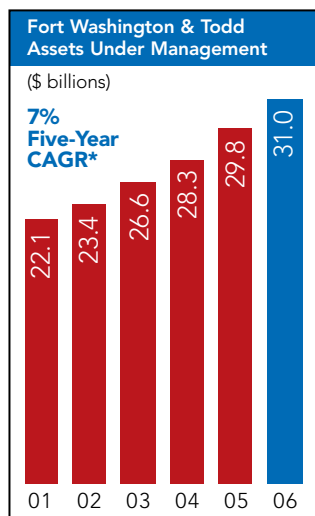
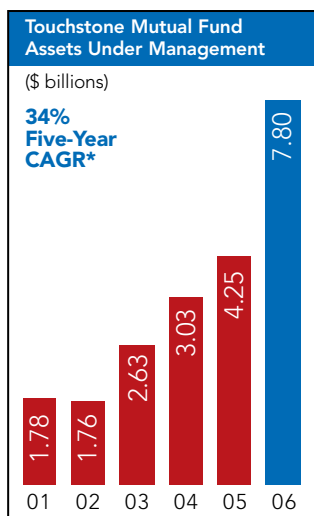
The ratings published in this report are correct as of December 31, 2006, and are subject to change. Ratings refer to the financial strength of the insurance company and do not reflect the performance or safety of any investment product.

Despite volatile markets, a slowing economy and Fed tightening through the first half of the year, the investment arm of Western & Southern Financial Group, which provides mutual funds, and institutional, individual and corporate investment management, showed solid resilience in 2006.

**Touchstone Investments** concluded the year showing remarkable growth with the expansion of our fund lineup as a result of our acquisition and integration of the Constellation Funds Group. Now offering 39 funds, Touchstone provides a broad range of investment styles and asset classes for both individual and institutional investors.

The acquisition created a larger and more diverse organization of proven institutional money managers who act in a sub-advisory capacity. It added eight new sub-advisors to an already prominent roster of eight, accelerating our business strategy. Touchstone is dedicated to offering investment solutions through financial intermediaries, including broker/dealers, financial planners, registered investment advisors, family offices, private banks, consultants and 401(k) alliances.

In the midst of the integration, Touchstone accomplished a number of strategic objectives. We launched the Touchstone Large Cap Value Fund, sub-advised by JS Asset Management, and the Touchstone Diversified Small Cap Growth Fund, sub-advised by Fort Washington Investment Advisors, Inc., to further strengthen our position in the equity sector. Touchstone also repositioned the Emerging Growth Fund and changed its name to the Mid Cap Growth Fund to better reflect its



\*Compound Annual Growth Rate

investment strategies and portfolio holdings. We also refined our process for monitoring our sub-advisors, which resulted in Westfield Capital Management being named sub-advisor to the Growth Opportunities Fund.

Sustaining our momentum, Touchstone sales grew a record 137 percent<sup>1</sup> while assets under management increased to \$7.8 billion as of Dec. 31, 2006, representing an 84 percent growth rate for the year<sup>1</sup>. The Touchstone Large Cap Growth Fund and the Touchstone Mid Cap Growth Fund, which increased 20 percent and 14 percent, respectively, were major contributors to the growth in assets as were the funds sub-advised by Sands Capital Management, whose assets grew 46 percent since our acquisition of Constellation Funds Group. Distribution was further accelerated when we added more than 3,000 financial professionals to our selling group, representing a 22 percent increase for the year<sup>2</sup>.

**Fort Washington Investment Advisors, Inc.**, a registered investment advisor, seeks to deliver sound investment management strategies for building portfolios that maximize returns and control levels of risk while protecting principal for our clients. We offer a broad range of investment management strategies to public and private institutions, corporations and high-net-worth individuals.

Our solid reputation is built on a strong client service orientation, discipline, focus and innovation. Serving clients since 1990, we manage nearly \$26.9 billion in assets<sup>3</sup> through a broad array of investment styles ranging from equity and fixed income to private equity limited partnerships and advisory services.

As we expand, we strive to become a world-class investment manager regionally and to compete nationally with all of our strategies. Among our accolades in 2006, *Pensions & Investments (P&I)* ranked Fort Washington 110th out of 778 of the largest managers of domestic institutional assets based upon year-end 2005 total assets under management<sup>4</sup>. Additionally, for the sixth consecutive year, Fort Washington was named a top manager by *iMoneyNet* with the receipt of *iMoneyNet's* Money Fund Report™ Top Manager Award for our results in cash management.

Fort Washington's large cap equity value strategy was merged into Todd Investment Advisors' Relative Value Equity strategy because both strategies focus on high-quality undervalued large cap stocks that seek to outperform their benchmarks over a full market cycle.

Our high yield strategy continued to attract attention. We added four new clients with \$143 million in assets for high yield fixed income. Our private equity business continued to grow and build upon an established track record with more than 15 years of experience in managing both national fund of



Left to right: Nicholas P. Sargen, Chief Investment Officer of Fort Washington Investment Advisors, Inc.; and Maribeth S. Rahe, President and Chief Executive Officer of Fort Washington Investment Advisors, Inc.

funds and customized programs for our clients. A joint venture between Fort Washington and Peppertree Partners, LLC, of Cleveland closed The Ohio Capital Fund with \$150 million in commitments. The Fund was oversubscribed by \$25 million, exceeding expectations.

**Todd Investment Advisors, Inc.**, a wholly owned subsidiary of Fort Washington Investment Advisors, Inc., based in Louisville, Ky., is one of the region's oldest and largest money management firms. With nearly \$4.5 billion in assets under management, our client base includes public and private institutions, mutual funds, high-net-worth individuals and broker-sponsored separately managed accounts.

In total, Todd raised more than \$400 million in new assets during 2006. Our International Equity strategy (an American Depository Receipts (ADR) portfolio) completed its first year with more than \$350 million in assets. Performance exceeded both the MSCI EAFE and S&P ADR indices. In April 2006, we launched our newest strategy, Intrinsic Value Opportunity, which features an aggressive, long-only strategy that complements our existing Relative Value Equity strategy using the same underlying discipline.

Touchstone's series of lifestyle fund of funds, sub-advised by Todd and using exchange traded funds as their primary investments for asset allocation, grew to more than \$100 million<sup>2</sup>.



James H. Grifo, President of Touchstone Investments.

<sup>1</sup> Includes the Constellation Funds Group acquisition.

<sup>2</sup> There are risks involved with mutual fund investing. For a prospectus containing complete information about a Touchstone Fund, visit [www.touchstoneinvestments.com](http://www.touchstoneinvestments.com). Please read the prospectus before investing or sending money.

<sup>3</sup> As of 12/31/06 does not include Todd Investment Advisors, Inc., a wholly owned subsidiary, with \$4.5 billion in assets; or Fort Washington Capital Partners Group, a division of Fort Washington Investment Advisors, Inc., with more than \$1.2 billion in commitments under management and/or advisement.

<sup>4</sup> As of 12/31/05 P&I Report includes \$3.7 billion in assets from Todd Investment Advisors, Inc., a wholly owned subsidiary.

## 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</b>	Life insurance and personalized needs analysis.
<b>Western-Southern Life Assurance Company</b>	Interest-sensitive life insurance, fixed annuities, retirement strategies and personalized needs analysis.
<b>W&amp;S Agency Group</b>	Life insurance, annuities, mutual funds, retirement strategies and health insurance products.
<b>Fort Washington Savings Company</b>	FDIC-insured checking accounts for beneficiaries of The Western and Southern Life Insurance Company upon payment of a death benefit; certificates of deposit and money market savings accounts for policyholders in North Carolina.
<b>Insurance Profillment Solutions, LLC</b>	Comprehensive call center services for insurance brokers, including insurance application completion, underwriting submission, case management, policy placement and payment procurement.
<b>W&amp;S Brokerage Services, Inc.*</b>	Mutual funds, variable annuities, equity-indexed annuities and variable universal life insurance.
<b>Columbus Life Insurance Company</b>	Life insurance (universal life, variable universal life, survivor universal life and term), annuities, retirement planning and personalized needs analysis.
<b>Capital Analysts Incorporated* **</b>	Investments, wealth management, charitable giving, retirement planning and tax-advantaged investment strategies.
<b>Eagle Realty Group, LLC</b>	Real estate investment management encompassing asset management, real estate investment advisory services, co-investments and real estate development; commercial property management; and multi-family property management.
<b>Fort Washington Investment Advisors, Inc.**</b>	Broad selection of investment management strategies, including fixed income (core, active core, high yield and cash management); public equities (small and large cap growth, and traditional all cap value); private equity national fund of funds; and customized limited partnerships.
<b>Todd Investment Advisors, Inc.**</b>	Investment management strategies based on intrinsic value that include large cap equity relative value, international equity American Depository Receipts and balanced portfolios for both taxable and tax-exempt clients, and lifestyle funds.
<b>IFS Financial Services, Inc.</b>	Fixed and variable annuities, mutual funds, fund administration, life insurance and wealth preservation programs.
<b>Integrated Investment Services, Inc.***</b>	Administration, accounting, financial reporting, shareholder service, compliance and distribution services for investment management complexes.
<b>Touchstone Investments</b>	Mutual funds sub-advised by proven institutional money managers.
<b>W&amp;S Financial Group Distributors, Inc.</b>	Fixed, variable and income annuities, mutual funds and life insurance.
<b>Integrity Life Insurance Company</b>	Fixed, variable and income annuities.
<b>National Integrity Life Insurance Company</b>	Fixed, variable and income annuities.
<b>Lifetime Income Solutions Group</b>	Guaranteed income products, low-cost annuity products and fee-based products.
<b>The Lafayette Life Insurance Company</b>	Whole life, term life, universal life, indexed annuity products, indexed universal life, pension products and services, and group life, disability and dental.

# ENTERPRISE AT A GLANCE

## Markets Served and Distribution Channels

Individuals, families and businesses in the middle-income market. 181 field offices nationwide, plus WSLife.com and Client Relationship Center. Licensed in 43 states and the District of Columbia.

Individuals, families and businesses in the middle-income market. 181 field offices nationwide, plus WSLife.com and Client Relationship Center. Licensed in 45 states, the District of Columbia and Guam.

Individuals, families and businesses in the middle-income market. 181 field offices, plus WSLife.com and Client Relationship Center.

Life insurance beneficiaries, as well as Western & Southern Life policyholders.

Insurance brokers selling term insurance through the Internet or direct marketing channels.

Middle-income market through W&S Agency Group registered representatives.

Nationwide network of independent producers distributes products to individuals, families and businesses in the middle- and upper-income markets. Licensed in 49 states and the District of Columbia.

Affluent and emerging affluent individuals, families, professionals and closely held corporations. More than 400 registered representatives.

Corporations, financial institutions, pension funds, real estate investment trusts and individual real estate investors.

Corporate cash management; corporate pension plans; hospitals; insurance companies; mutual fund sub-advisory; public and private institutions, including religious orders, universities, foundations and endowments; and high-net-worth individuals and their businesses.

Public and private institutions, corporations, mutual funds, broker-sponsored separately managed accounts and high-net-worth individuals.

Broker/dealers, financial planners, brokerage firms, wirehouses, independent agents, financial institutions and mutual fund complexes.

Investment management organizations, mutual funds and diversified financial services organizations.

Individuals, broker/dealers, financial planners, registered investment advisors, private banks, consultants, 401(k) alliances and institutions.

Broker/dealers, independent agents and financial institutions.

Broker/dealers, independent agents and financial institutions.

Broker/dealers, independent agents and financial institutions in Maine, New Hampshire, New York and Vermont.

Retirement planning markets, individuals and groups, as well as technology-based distribution channels.

Middle- and upper-middle income individuals, and small- and medium-size businesses. Licensed in 48 states and the District of Columbia.

Our diversified portfolio of non-traditional financial services – including mutual fund services, automated insurance policy fulfillment, banking and broker/dealer support, real estate investment and property management services, and retirement solutions – continued to deliver client value in 2006.

**Integrated Investment Services, Inc.\*** (Integrated), is a customized, flexible and responsive provider of services to the investment management and mutual fund industries. Services include management and administration, accounting and financial reporting, shareholder servicing and recordkeeping, as well as distribution and underwriting.

With innovative pricing strategies, Integrated continued to break new ground with client-focused servicing that aligns our interests with those of our customers. While other service providers offer a standard package of sales and management reports, we offer enhanced reporting products that provide clients additional flexibility and delivery options.

Among our 2006 accomplishments, we broadened the scope of our product offering beyond mutual fund services to include the provision of services to non-SEC-registered products, thereby increasing the scope and reach of our services to the entire spectrum of diversified financial services organizations engaged in the investment management business. The expansion and diversification of our service offering include the provision of variable annuity/life asset unit values for more than 1,800 such products on a daily basis. We successfully added more than 20 mutual funds, representing in excess of \$3.0 billion in total net assets, to our client base as a result of the integration of the Constellation Funds into Touchstone Investments. At year end, we surpassed \$16 billion in total assets serviced, representing approximately 400,000 individual shareholder accounts.

On the technology front, we partnered with Charles River Development, a leading provider of financial software and services to the global investment management community, to implement our new automated post-trade compliance product as part of our regulatory administration services to mutual funds. We also added Gainskeeper to our financial reporting services to enhance our ability to provide accurate tax, capital gain calculations and trade decision tools to our clients and their shareholders. In addition, we introduced a number of

new trade reporting and cash projection products designed to increase operational efficiencies as well as client access to important information. All of these new products and services represent significant value-added features and enhance our overall technology commitment to the markets we serve.

**Lifetime Income Solutions Group** (LISG) is a research and development unit focused on the retirement income market. LISG develops products, services and tools and seeks new distribution channels and delivery systems for the Enterprise to enhance and expand the organization's ability to meet the needs of retirees. Over the last four years, our sales of income products for the Enterprise have increased at a compound annual growth rate of more than 50 percent.

**Insurance Profillment Solutions, LLC** (IPS), was founded in 2005 to provide the insurance industry with one of the first end-to-end automated insurance policy fulfillment solutions. Leveraging skill sets learned in our Cincinnati-based contact center with our proven formula of optimizing people, process and technology, IPS offers national direct marketers of insurance products an automated fulfillment system that would not be economically feasible for them to build on their own. Our automated policy fulfillment processes deliver shorter policy placement cycle times as well as higher policy placement rates for IPS clients.

Our services include completing insurance applications over the phone using online state-specific forms, scheduling paramed visits, electronically submitting applications to the appropriate carrier, securing missing client or medical information, collecting payment information and placing issued policies.

**Capital Analysts Incorporated** (CAI), a full-service broker/dealer and registered investment advisor providing wealth management services for independent financial advisors, experienced revenue growth of 17 percent in 2006. Our financial advisors supervised \$8.1 billion of client assets, a record and a 19 percent increase over 2005. Capital Analysts Asset Management Services, our distinguished suite of asset management programs, topped \$1.4 billion in 2006.

*Investment News* ranked CAI 34th among the top 50 independent broker/dealers nationwide based upon year-end 2005 gross revenues of \$57.8 million. The same publication also ranked CAI 18th for total fee revenue and 50th for representatives producing over \$100,000.



Left to right: Roy E. Rogers, President of Integrated Investment Services, Inc.; Mario J. San Marco, President of Eagle Realty Group, LLC; John R. Lindholm, President and Chief Executive Officer of Lifetime Income Solutions Group; and Robert S. Cogan, President of Capital Analysts Incorporated. Not pictured: Robert J. DalSanto, President of Insurance Profillment Solutions, LLC.

**Eagle Realty Group, LLC** (ERG), a full-service real estate investment and property management company, concentrated on refining its blueprint on which it will focus in the future. Our Investment Management area added several new clients that have participated with us in equity and mezzanine loan transactions. The 303 Broadway building in downtown Cincinnati, completed in 2006, made significant progress with leasing. It is projected that the building will be over 90 percent leased or committed by the second quarter of 2007.

Eagle Realty Group achieved significant capital gains through the sale of six properties from the W&SFG real estate portfolio resulting in an overall capital gain of \$71.1 million. Additional

investments have been made and more are being evaluated to replace those that have been sold.

Our Multi-Family Property Management and Commercial Property Management Divisions both increased new unaffiliated property management assignments during the year. The Multi-Family Property Management area added 2,553 units of new management assignments, achieving a total of 5,700 units under management while the Commercial Property Management Division added 300,000 square feet of new assignments.



Left to right: Donald J. Wuebbing, Senior Vice President and General Counsel; Constance M. Maccarone, Senior Vice President of Insurance Operations; Nora E. Moushey, Senior Vice President and Chief Actuary; Clint D. Gibler, Senior Vice President and Chief Information Officer; Herbert R. Brown, Senior Vice President of Public Relations and Corporate Communications; and Noreen J. Hayes, Senior Vice President of Human Resources.

Western & Southern Financial Group's road to greatness is being forged by vision, knowledge, expertise and ethics. In 2006, the associates and leadership of Shared Services embraced these qualities while meeting the needs of our individual business units. Collectively, the Shared Services divisions strive to provide the valuable expertise and high-quality service that will ensure the Enterprise's continued excellence while effectively managing corporate expenses.

**Actuarial** provides risk management services to Western & Southern and our member companies by modeling, analyzing and managing the financial risk exposures. This includes designing and pricing competitive life and annuity products, financial projections and reporting, valuation, experience studies, and trend and risk analysis.

**Human Resources** recruits, develops and retains first-class associates and manages our associate benefits programs. Food services and security are also provided to our associates under the Human Resources umbrella.

With a focus on operational efficiency and process capability, **Information Services** proactively leverages information technology for increased profitability and sustainable competitive advantage.

**Insurance Operations** positively impacts policyholder satisfaction and sales force productivity and profitability by providing the highest-quality back-office services for insurance and annuity products. Life Office Management Association (LOMA) surveys confirm that Insurance Operations' time service consistently beats the national averages. Additionally, the Underwriting Department was nationally recognized in 2005 and 2006 at the annual A.M. Best E-Fusion Awards for our proprietary automated underwriting solutions.

While maintaining the unwavering ethics that root our company, **Law** provides and obtains expert legal counsel and representation for a wide range of legal disciplines required by Western & Southern and our member companies.

**Public Relations and Corporate Communications** leads our internal and external outreach efforts in sharing Western & Southern's story, and supports member companies through the following divisions: Corporate Conference Planning, Events & Travel; Corporate Purchasing; Document Services; and Corporate Communications.



For well more than a century, Western & Southern Financial Group has called Cincinnati home and supported the community through charitable endeavors and sponsorships. Western & Southern Financial Group and Western & Southern Financial Fund address our region's human needs — especially those in the areas of health and education — through major community fund-raising campaigns and support for respected nonprofit institutions.

Each year, we consistently rank among the top business donors to the United Way of Greater Cincinnati. In 2006, Western & Southern Financial Fund raised nearly \$1.08 million for United Way, building on the success established in 2005 when we ranked number one in new dollars raised among local pacesetter campaigns.

We also contributed more than \$190,000 to the Cincinnati Fine Arts Fund and provided significant resources to internationally renowned institutions such as the Cincinnati Art Museum, Taft Museum of Art, Cincinnati Opera, May Festival and Playhouse in the Park.

We have funded medical research, education and the development of leading-edge medical technology in our community.

- In cooperation with the University of Cincinnati and University Hospital, Western & Southern provided support to the Charles M. Barrett Cancer Center, a unique facility with a long-standing reputation for providing the most advanced cancer services in the region. Ranked in *U.S. News and World Report's* guide to "America's Best Hospitals," it is home to the world's first high-precision radiotherapy/radiosurgery technology for treatment of tumors.
- We provided funding in 2006 for the da Vinci Surgical System, allowing Good Samaritan Hospital to improve patient outcomes and to become a leader in the field of robotic patient surgery.
- We helped fund Mercy Hospital Anderson's new cardiovascular unit by again serving as presenting sponsor for the hospital's major fund-raiser, the Charles M. Barrett Golf Outing.



Left to right: Western & Southern Financial Group Chairman, President and Chief Executive Officer John F. Barrett poses for post-tournament photographs with Western & Southern Financial Group Masters tennis tournament runner-up Juan Carlos Ferrero and tournament champion Andy Roddick.

The generosity of Western & Southern Financial Fund benefits the community at large.

- Western & Southern Financial Fund helped keep 24 swimming pools in Cincinnati neighborhoods open during summer months by providing emergency funding to the Cincinnati Recreation Commission when public funding was exhausted.
- Western & Southern Financial Fund continued to invest in the revitalization of the Over-the-Rhine neighborhood by helping to fund construction of a new public School for Creative and Performing Arts. W&SFG has been a consistent supporter of the redevelopment of Over-the-Rhine, where we pioneered the development of low- and moderate-income housing almost 15 years ago.
- Our title sponsorship of the 2006 Western & Southern Financial Group Masters and Women's Open tennis tournaments attracted nearly 208,000 attendees and more than 18.8 million television viewers in 189 countries. These world-class sporting events generate charitable contributions as well as more than \$25 million in annual economic impact to the Southwest Ohio region.



Western & Southern Financial Group's Client Relationship Center (CRC) leads the industry in the areas of responsiveness and simplicity in servicing customer inquiries from WSLife.com, according to a Customer Respect Group study of 50 leading life insurance companies. Representing the CRC are (left to right) Edna M. McCoy; Robert J. DalSanto; Valerie A. Holmes; Joseph A. Lynch and Tonya Y. Mason.

Supported by the highest standards of ethics and an unyielding pursuit of excellence, Western & Southern Financial Group's disciplined culture continues to drive us from good to great – to fantastic.

Since 1888, our heritage and culture have fueled our strength and defined who we are as an organization. We are patient and focus on the long term when formulating financial solutions for our clients' needs. Our top priority is to provide our clients with an unparalleled experience, and we truly value the client relationships that have evolved over the years. We continue to cultivate our client relationships, which are rooted in strong principles and a drive for success.

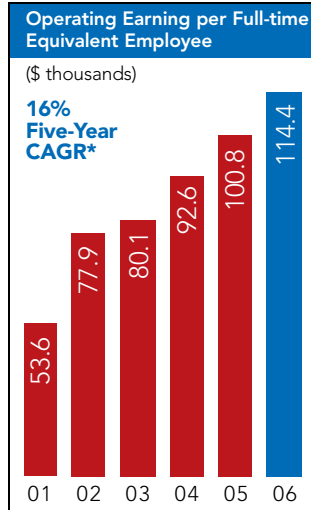
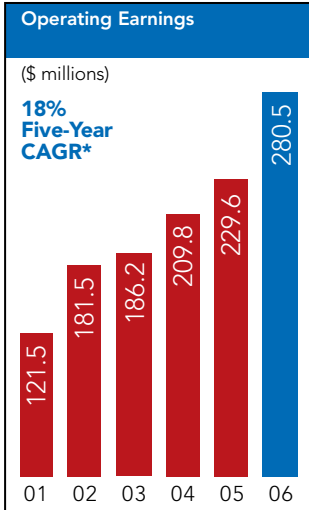
Our inherent value is evident through our traditions, leadership, teamwork and innovation. We stand by our commitment to provide high-quality products and services as a world-class financial services organization.

A financially solid enterprise, Western & Southern is a Fortune 500 company, and we celebrate our accomplishment of being one of only 10 life insurance groups worldwide to earn Standard & Poor's AA+ or higher rating. This is an advantage to you – our clients, our community and our associates – as we continue to build an enduring franchise.

By attracting a diverse team of highly skilled, knowledgeable and dedicated associates, we are positioned to deliver specialized services and comprehensive financial solutions to meet a variety of objectives throughout every level of the company.

As a cohesive team, we employ industry best practices, and we are passionate about achieving our goals. Our customer-centric work environment is characterized by mutual respect, determination, collaboration and the highest level of professionalism.

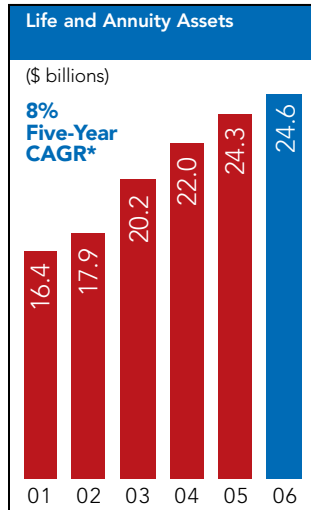
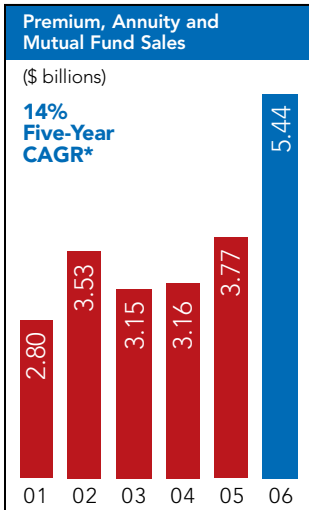
Double-digit Five-year Growth in Earnings



## Five-Year Performance Growth Trends Continue

In 2006, Western & Southern Financial Group continued our double-digit five-year growth trends as operating earnings reached \$280.5 million from \$121.5 million in 2001 for a compound annual growth rate (CAGR) of 18 percent.

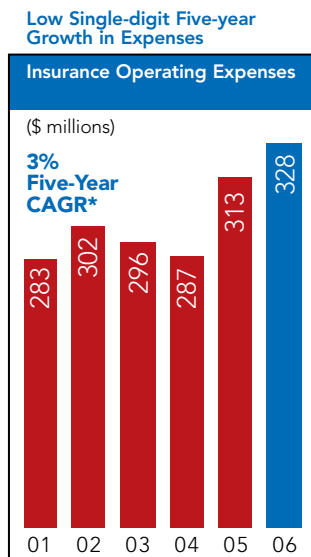
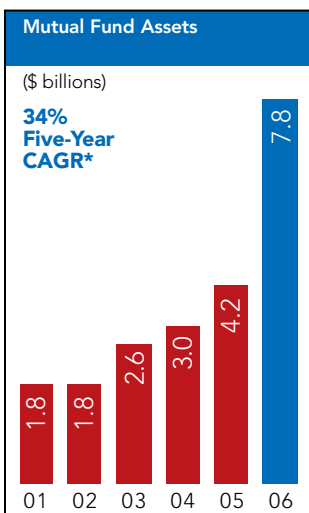
Our operating earnings per full-time equivalent employee – our primary efficiency measure – reached \$114,400 in 2006, up from \$53,600 in 2001, which represents a 16 percent five-year CAGR.



Our five-year growth rate for premium, annuity and mutual fund sales was 14 percent and reached a record \$5.44 billion in 2006. Life and annuity assets reached \$24.6 billion for a five-year CAGR of 8 percent, while mutual fund assets reached \$7.8 billion (including the acquisition of Constellation) for a five-year CAGR of 34 percent.

We achieved these double-digit growth trends while managing expenses to a conservative 3 percent growth rate over the same five-year period.

Building upon the positive momentum of our previous five years, Western & Southern continued the growth of our businesses and performance in 2006. These solid financial results along with the fruition of our long-term business strategies position us to continue growing into a financial services powerhouse.



\*Compound Annual Growth Rate

# G A A P   B A L A N C E   S H E E T

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## Consolidated and Condensed Financial Statements

Amounts in thousands

Assets	December 31, 2006	December 31, 2005
Debt securities	\$ 19,644,526	\$ 19,128,659
Equity securities	3,597,560	3,316,811
Other invested assets	3,594,414	3,031,452
Total invested assets	26,836,500	25,476,922
Other general account assets	2,861,024	2,949,036
Total general account assets	29,697,524	28,425,958
Assets held in separate accounts	2,460,154	2,357,079
Total assets	\$ 32,157,678	\$ 30,783,037
Liabilities and equity		
Future policy benefits and claims	\$ 20,770,981	\$ 20,374,226
Long-term debt	516,567	516,961
Other general account liabilities	3,066,881	2,651,916
Total general account liabilities	24,354,429	23,543,103
Liabilities related to separate accounts	2,460,154	2,357,079
Total liabilities	26,814,583	25,900,182
Minority interest in net assets of consolidated partnerships	152,060	120,012
Total equity	5,191,035	4,762,843
Total liabilities and equity	\$ 32,157,678	\$ 30,783,037

# GAAP STATEMENT OF INCOME

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## Consolidated and Condensed Financial Statements

Amounts in thousands

	Year Ended December 31, 2006	Year Ended December 31, 2005
Revenue		
Insurance premiums, product charges and other considerations	\$ 857,792	\$ 730,163
Net investment income	1,366,239	1,276,093
Net realized investment gains	169,941	188,449
Net other income	296,922	242,311
Total revenue	<u>2,690,894</u>	<u>2,437,016</u>
Benefits and expenses		
Policy benefits	627,179	550,584
Interest credited	682,242	661,466
Dividends to policyholders	98,333	79,669
Minority interest in net gain of consolidated partnerships	26,240	20,620
Other operating expenses	827,888	730,481
Total benefits and expenses	<u>2,261,882</u>	<u>2,042,820</u>
Income before income tax expense and cumulative effect of change in accounting principle	429,012	394,196
Income tax expense	122,874	120,468
Net income before cumulative effect of change in accounting principle	306,138	273,728
Cumulative effect of change in accounting principle, net of taxes	—	5,904
Net income	<u>\$ 306,138</u>	<u>\$ 267,824</u>
Additional statements of income performance measures		
Operating earnings*	\$ 280,467	\$ 229,650

\*Operating earnings are defined as net income excluding federal income tax, net realized investment gains or losses, minority interest relating to capital gains, one-time restructuring charges, and cumulative effect of change in accounting principle.

# BOARD OF DIRECTORS

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Seated left to right: Elizabeth A. Smith, William J. Williams, John F. Barrett, Jo Ann Davidson and The Honorable George H. Walker, III.  
Standing left to right: Lawrence C. Hawkins, Ed.D., Thomas L. Williams, Jack Twyman, James N. Clark, Eugene P. Ruehlmann and J. Harold Kotte, M.D. Not pictured: Donald A. Bliss.

**John F. Barrett**

Chairman of the Board; President and Chief Executive Officer, Western & Southern Financial Group

**Donald A. Bliss**

Former Vice President, U.S. West Communications; Former Chief Executive Officer, Northwestern Bell

**James N. Clark**

Secretary; Former Executive Vice President and Chief Financial Officer, Western & Southern Companies

**Jo Ann Davidson**

Former Speaker, Ohio House of Representatives

**Lawrence C. Hawkins, Ed.D.**

Former Executive Vice President of Administration, University of Cincinnati

**J. Harold Kotte, M.D.**

Cardiologist; Former Medical Director of Western & Southern Life; Former President, Good Samaritan Hospital Medical Staff

**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, Ind.)

**Jack Twyman**

Former Chief Executive Officer, Super Food Services, Inc.

**The Honorable George H. Walker, III**

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

**Thomas L. Williams, Esq.**

President, North American Management and Development Company

**William J. Williams**

Chairman of the Executive Committee; Former Chief Executive Officer, Western & Southern Companies

*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.*

## Western & Southern Financial Group®

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

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

### Senior Vice Presidents:

<b>Herbert R. Brown</b>	<b>Constance M. Maccarone</b>
<b>Clint D. Gibler</b>	<b>J. J. Miller*</b>
<b>Noreen J. Hayes</b>	<b>Nora E. Moushey</b>
<b>Edward S. Heenan</b>	<b>Robert L. Walker</b>
<b>Carroll R. Hutchinson</b>	<b>Donald J. Wuebbling</b>

### Vice Presidents:

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

## W&S Agency Group

**Bryan C. Dunn**, President

### Fort Washington Savings Company

**Robert J. DalSanto**, President

### Insurance Profillment Solutions, LLC

**Robert J. DalSanto**, President

### W&S Brokerage Services, Inc.

**Bryan C. Dunn**, President

## Columbus Life Insurance Company

**J. J. Miller**, President and Chief Executive Officer\*

**Mark A. Wilkerson**, Chief Marketing Officer\*\*

### Capital Analysts Incorporated

**Robert S. Cogan**, President

**Janice W. Maggetti**, Chief Operating Officer

## Eagle Realty Group, LLC

**Mario J. San Marco**, President

## Fort Washington Investment Advisors, Inc.

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

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

### Todd Investment Advisors, Inc.

**Bosworth M. Todd**, Chairman Emeritus

**Robert P. Bordogna**, Chairman

**Curtiss M. Scott**, President and Chief Executive Officer

## IFS Financial Services, Inc.

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

### Integrated Investment Services, Inc.\*\*\*

**Roy E. Rogers**, President

### Touchstone Investments

**James H. Grifo**, President

## W&S Financial Group Distributors, Inc.

**Mark E. Caner**, President

## Integrity Life Insurance Company

### National Integrity Life Insurance Company

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

## Lifetime Income Solutions Group

**John R. Lindholm**, President and Chief Executive Officer

**Dennis L. Carr**, Chief Actuary

## The Lafayette Life Insurance Company

**Lawrence L. Grypp**, President and Chief Executive Officer

**William F. Olds**, Chief Operating Officer

\*J. J. Miller became President and Chief Executive Officer of Columbus Life Insurance Company effective March 2, 2007.

\*\*Retired March 2, 2007.

\*\*\*Sold in early 2007.

# FAMILY OF COMPANIES

## **Western & Southern Financial Group, Inc.**

www.westernsouthern.com  
(800) 333-5222

## **The Western and Southern Life Insurance Company**

www.wslife.com  
(800) 936-1212

## **Western-Southern Life Assurance Company**

www.wslife.com  
(800) 936-1212

## **W&S Agency Group**

www.wslife.com  
(800) 936-1212

## **Fort Washington Savings Company**

www.fwsavings.com  
(866) 819-4263

## **Insurance Profillment Solutions, LLC**

(866) 590-0161

## **W&S Brokerage Services, Inc.\***

www.wslife.com  
(513) 629-1055

## **Columbus Life Insurance Company**

www.columbuslife.com  
(800) 677-9696

## **Capital Analysts Incorporated\* \*\***

www.capitalanalysts.com  
(800) 685-7515

## **Eagle Realty Group, LLC**

www.eaglerealtygroup.com  
(800) 361-7040

## **Fort Washington Investment Advisors, Inc.\*\***

www.fortwashington.com  
(888) 244-8167

## **Todd Investment Advisors, Inc.\*\***

www.toddinvestment.com  
(888) 544-8633

## **IFS Financial Services, Inc.**

(513) 362-8000

## **Integrated Investment Services, Inc.\*\*\***

www.integratedinvestmentservices.com  
(513) 362-8000

## **Touchstone Investments**

www.touchstoneinvestments.com  
(800) 638-8194

## **W&S Financial Group Distributors, Inc.**

www.accessful.com  
(800) 285-2858

## **Integrity Life Insurance Company**

www.integritycompanies.com  
(888) 644-2300

## **National Integrity Life Insurance Company**

www.integritycompanies.com  
(888) 644-2300

## **Lifetime Income Solutions Group**

(502) 540-7471

## **The Lafayette Life Insurance Company**

www.lafayettelife.com  
(800) 243-6631

*\* Member NASD/SIPC*

*\*\* Registered Investment Advisor*

*\*\*\* Sold in early 2007*



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