

COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION
DIVISION OF INSURANCE

REPORT OF EXAMINATION OF THE
COMMONWEALTH ANNUITY AND LIFE INSURANCE COMPANY

Southborough, Massachusetts

As of December 31, 2014

NAIC GROUP CODE 3891

NAIC COMPANY CODE 84824

EMPLOYER ID NUMBER 04-6145677

COMMONWEALTH ANNUITY AND LIFE INSURANCE COMPANY

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COMMONWEALTH OF MASSACHUSETTS
Office of Consumer Affairs and Business Regulation
DIVISION OF INSURANCE

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COMMISSIONER OF INSURANCE

May 27, 2016

The Honorable Daniel R. Judson
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, MA 02118-6200

Honorable Commissioner:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 175, Section 4, an examination has been made of the financial condition and affairs of

COMMONWEALTH ANNUITY AND LIFE INSURANCE COMPANY

at its home office located at 132 Turnpike Road, Suite 210, Southborough, MA, 01772. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Commonwealth Annuity and Life Insurance Company ("Company" or "CwA") was last examined as of December 31, 2009 by the Massachusetts Division of Insurance ("Division"). The current examination was also conducted by the Division and covers the five-year period from January 1, 2010 through December 31, 2014, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The examination was conducted in accordance with standards and procedures established by the National Association of Insurance Commissioners ("NAIC") Financial Condition (E) Committee and prescribed by the current NAIC *Financial Condition Examiners Handbook*, the examination standards of the Division and with Massachusetts General Laws. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as mentioned in the Massachusetts General Laws, Chapter 175, Section 4, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

The Company is audited annually by PricewaterhouseCoopers, LLP ("PwC"), an independent certified public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2010 through 2014. A review and use of the Certified Public Accountants' work papers was made to the extent deemed appropriate and effective. Representatives from the firm of Risk & Regulatory Consulting, LLC ("RRC") were retained by the Division to assist in the examination by performing certain examination procedures at the direction and under the overall management of the Division's examination staff. The assistance included a review of accounting records, information systems, investments and actuarially determined loss and loss adjustment expense reserves.

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

There were no significant findings of fact identified during the examination.

COMPANY HISTORY

General

CwA was incorporated on July 26, 1974, under the laws of the State of Delaware under the name American Variable Annuity Life Assurance Company, Inc. Effective with the close of business, December 31, 1974, a merger agreement was entered into between American Variable Annuity Life Assurance Company of Little Rock, Arkansas, initially incorporated in January 1967, and the American Variable Annuity Life Assurance Company, Inc. of Dover, Delaware. As a result of the merger, American Variable Annuity Life Assurance Company, Inc. became the surviving and continuing company, operating under the laws of the State of Delaware. The surviving company assumed the name American Variable Annuity Life Assurance Company under the terms of the merger agreement.

On October 7, 1981, a Certificate of Amendment to the Certificate of Incorporation was filed with the State of Delaware, changing the Company's name to SMA Life Assurance Company, effective January 1, 1982. Effective October 1, 1995, the Company's name was changed to Allmerica Financial Life Insurance and Annuity Company ("AFLIAC").

Effective July 1, 1999, the subsidiaries of Allmerica Financial Corporation (name changed to The Hanover Insurance Group, Inc. ("THG") on February 1, 2006) engaged in an "unstacking transaction," which involved several changes in THG holding company infrastructure. This unstacking transaction was accomplished by first having an affiliate of the Company, known as Allmerica Asset Management, Inc., merge into an affiliate known as SMA Financial Corp., which was the surviving entity in the transaction, and SMA Financial Corp. then changed its name to Allmerica Asset Management, Inc. ("AAM"). AAM contributed certain subsidiaries that had been owned by SMA Financial Corp. (i.e., Allmerica Investments, Inc., Allmerica Investment Management Company, Inc., Allmerica Financial Investment Management Services, Inc. and Allmerica Financial Services Insurance Agency, Inc.) to the Company in exchange for one share of the Company's common stock. AAM then distributed the Company and another subsidiary, Allmerica Trust Company, N.A., to First Allmerica Financial Life Insurance Company ("FAFLIC"), and FAFLIC distributed AAM to THG.

Effective December 30, 2002, the Company re-domiciled and became a Commonwealth of Massachusetts domiciled insurance company. Also effective December 31, 2002, the Division approved an extraordinary dividend of all of the Company's issued and outstanding stock to THG, and the contribution of all 500,001 shares of FAFLIC's common stock to the Company. As a result of these transactions, the Company became a direct subsidiary of THG, as well as the immediate parent of FAFLIC. Under the previous internal ownership structure, FAFLIC was the immediate parent of the Company and a direct subsidiary of THG.

Commonwealth Annuity and Life Insurance Company

On December 30, 2005, The Goldman Sachs Group, Inc. ("Goldman Sachs") acquired all outstanding shares of the Company from THG. THG made various representations, warranties and covenants in the AFLIAC acquisition agreement to Goldman Sachs. THG agreed to indemnify Goldman Sachs for breaches of such representations, warranties and covenants, although several of the representation and warranties have expired. THG also agreed to indemnify Goldman Sachs for certain litigation, regulatory matters and other liabilities relating to the pre-sale activities of the business being transferred. Similarly, THG has made various representations, warranties and covenants to the Company related to FAFLIC. THG agreed to indemnify the Company for breaches of such representations, warranties and covenants, although several of the representations and warranties have expired. THG has also agreed to indemnify the Company for certain litigation, regulatory matters and other liabilities relating to the pre-sale activities of the business being transferred.

Effective December 30, 2005, the Company reinsured 100% of the variable life insurance and annuity business of FAFLIC in a 100% coinsurance/modified coinsurance agreement. Effective September 1, 2006, the Company's name was changed to its current name of Commonwealth Annuity and Life Insurance Company.

On April 30, 2013, Goldman Sachs contributed several of its insurance subsidiaries, including the Company, to Global Atlantic Financial Group ("GAFG"), and sold approximately 78% of the ordinary shares of GAFG to third party investors. As a result of this transaction, the Company became a wholly-owned subsidiary of Global Atlantic (Fin) Company ("Finco"), a Delaware company, which is a wholly-owned indirect subsidiary of GAFG.

On April 30, 2013, Goldman Sachs waived payment by the Company of \$213 million of current taxes payable under a tax sharing agreement. This was accounted for as paid in capital.

On September 30, 2013, CwA purchased from Athene Holding Ltd. all outstanding shares of capital stock of Presidential Life Insurance Company-USA ("PLIC-USA"). PLIC-USA is an Iowa domiciled insurer.

Included in the purchase were the subsidiaries of PLIC-USA, four captive insurers to replace the captive insurers utilized previously by Aviva Life and Annuity Company, (Cape Verity L Inc. (an Iowa company), Cape Verity II, Inc. (an Iowa company), Cape Verity III, Inc. (an Iowa company), and Gotham Re, Inc. (a Vermont company), and two LLCs (Tapioca View, LLC (a Delaware company) and Gotham Issuer, LLC (a 90% owned Delaware company)). Effective October 25, 2013, PLIC-USA was renamed Accordia Life and Annuity Company ("Accordia").

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Effective October 1, 2013, CwA's subsidiary, Accordia, assumed on a coinsurance basis the life insurance business of Aviva Life and Annuity Company. Concurrently, CwA's subsidiary, FAFLIC, assumed primarily on a funds withheld basis the life insurance business of Aviva Life and Annuity Company of New York. In connection with these reinsurance assumptions, CwA contributed capital of \$285.3 million and \$12.2 million, respectively, to Accordia and FAFLIC.

On January 2, 2014, the direct parent of CwA, Finco, acquired Forethought Financial Group ("FFG"), a privately-held diversified financial services organization that owns life insurance entities. As part of this transaction, effective January 2, 2014 Finco restructured title ownership of certain subsidiaries which resulted in certain changes and transactions involving CwA. Regulatory approval was received for the transactions from the Massachusetts Division of Insurance, the Indiana Division of Insurance, the Texas Department of Insurance and the Iowa Department of Insurance.

On January 2, 2014, CwA issued a \$300 million surplus note to its direct parent, Finco, and issued an intercompany loan to FFG. Finco, in turn, contributed 79% of the common stock of CwA to FFG. Subsequently, FFG repaid 95% of the loan with the transfer of 95% of its investment in common stock of two insurance subsidiaries, Forethought Life Insurance Company ("FLIC"), an Indiana domiciled insurer, and Forethought National Life Insurance Company ("FNLIC"), a Texas domiciled insurer. CwA then paid a dividend of approximately \$39 million to its shareholders. The dividend to FFG retired the remaining balance of the intercompany loan. The dividend was recorded as a return of capital. All of these transactions were approved by the Massachusetts Division of Insurance. FFG then contributed all of its ownership in CwA to its subsidiary, Forethought Financial Services ("FFSI"). As a part of the restructuring, CwA became a wholly owned indirect subsidiary of Finco.

On September 19, 2014, CwA received aggregate capital contributions of \$105 million which was comprised of \$22 million from Finco and \$83 million from FFSI.

Dividends

The Company issued the following dividends to policyholders during the period under examination:

2014	\$1,803,873
2013	1,456,143
2012	85,700
2011	(25,150)
2010	148,050

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MANAGEMENT AND CONTROL

Board of Directors Minutes

The minutes of meetings of the Board of Directors and its Committees for the period under examination were read, and they indicated that all meetings were held in accordance with the Company's bylaws and the Laws of the Commonwealth of Massachusetts. Activities of the Committees were ratified at meetings of the Board of Directors ("the Board").

Articles of Organization and Bylaws

The articles of organization and bylaws of the Company were reviewed. The bylaws state that annual meetings of the stockholders are to be held, whereby, among other things, election of directors is to take place. There were no changes to the bylaws during the exam period.

Board of Directors

According to the bylaws, the Company's business shall be managed by or under a Board of Directors which may exercise all of the powers of the Company, except as otherwise provided by the articles of organization or by law. The number of directors shall consist of five or more members. Directors need not be stockholders. Each director shall hold office until the next annual meeting and until his or her successor is duly elected and qualified. As of December 31, 2014, the Board was comprised of the following seven individuals, which is in compliance with the Company's bylaws.

<u>Name of Director</u>	<u>Title</u>
Allan Steven Levine	Chairman of the Board and Chief Executive Officer, Global Atlantic Financial Group
Gilles Maurice Dellaert	Executive Vice President and Chief Investment Officer
Hanben Kim Lee	Executive Vice President and Chief Risk Officer*
Nicholas Helmuth von Moltke	President and Chief Executive Officer, Commonwealth Annuity and Life Insurance Company
Michael Anthony Reardon	Head of Product Strategy
Kathleen Marie Redgate	Chief Administrative Officer
Richard Vaughn Spencer	Audit Committee Chairman

*In 2015 Peter Cai became Chief Risk Officer.

Commonwealth Annuity and Life Insurance Company

Officers

The bylaws of the Company provide that the officers of the Company shall consist of a President, Treasurer and a Secretary, and it may, if it so determines, elect from among its members, a Chairman of the Board and Vice Chairman of the Board. The Board may also elect a Chief Executive Officer, Chief Operating Officer, one or more Senior Vice Presidents, one or more Assistant Secretaries, one or more Assistant Treasurers and such other officers as the directors may, from time to time in their discretion, elect or appoint. Any officer may be, but need not be, a director or stockholder.

The elected senior officers and their respective titles as of December 31, 2014 were as follows:

<u>Name of Officer</u>	<u>Title</u>
Nicholas H. von Moltke	President and Chief Executive Officer, Commonwealth Annuity and Life Insurance Company
Samuel Ramos	Executive Vice President, General Counsel and Secretary
Scott D. Silverman	Senior Vice President and Assistant Secretary
John J. Fowler	Senior Vice President, Treasurer and Chief Financial Officer
H. Kim Lee	Executive Vice President and Chief Risk Officer
Gilles M. Dellaert	Executive Vice President and Chief Investment Officer
Joel Volcy	Senior Vice President and Chief Operating Officer
Brian M. Hendry	Senior Vice President
Jonathan Hecht	Senior Vice President
Robert E. Winawer	Senior Vice President
Jane S. Grosso	Senior Vice President and Controller
Deva R. Mishra	Senior Vice President
Philip W. Sherrill	Senior Vice President
Robert J. Eagan	Vice President, Chief Actuary and Valuation Actuary
Margot K. Wallin	Vice President, Special Investigative Unit Officer, Chief Compliance Officer and Anti-Money Laundering Officer
Elizabeth L. Gioia	38a-1 Chief Compliance Officer

Commonwealth Annuity and Life Insurance Company

Affiliated Companies

As stated in the Insurance Holding Company System Form B as filed with the Division, the Company is a member of a holding company system and is subject to the registration requirements of Massachusetts General Laws ("M.G.L."), Chapter 175, Section 206C and 211 CMR 7.00.

Organizational Chart

At December 31, 2014, the Company is a member of the following organizational structure:

- Global Atlantic Financial Group Limited
 - Ariel Re (Holdings) Limited
 - Ariel R&C Midco
 - ACRC Limited
 - AFCL Inc.
 - Ariel Financial Company Limited
 - Ariel Re Bda Limited
 - Arrow Corporate Member Holdings
 - Ariel Indemnity Limited
 - Ariel Re Property & Casualty
 - Ariel Corporate Member Limited
 - Syndicate 1910
 - Ariel Re UK Limited
 - Global Atlantic Financial Life Limited
 - Commonwealth Re Modco Limited
 - *Commonwealth Annuity and Life Reinsurance Company Limited
 - Global Atlantic (Fin) Company
 - Global Atlantic Financial Company
 - Global Atlantic Risk Services, LLC
 - GA Risk Advisors, Inc.
 - Global Atlantic Risk Advisors, LP
 - **Epoch Securities, Inc.
 - Forethought Financial Group Inc.
 - Forethought Capital Funding Inc.
 - Forethought Investment Advisors LLC
 - **Forethought Distributors LLC

Commonwealth Annuity and Life Insurance Company

Forethought Services LLC

ForeLife Agency Inc.

***Commonwealth Annuity and Life Insurance Company

***Forethought Life Insurance Company

FLIC Properties LLC

***Forethought National Life Insurance Company

Forethought Holdings LLC

First Allmerica Financial Life Insurance Company

Accordia Life and Annuity Company

Tapioca View LLC

Gotham Re Inc

Cape Verity I Inc.

Cape Verity II Inc.

Cape Verity III Inc.

****Gotham Issuer LLC

*Commonwealth Annuity and Life Reinsurance Company Limited was renamed Global Atlantic Re Limited in April 2016.

**In December 2015 Epoch Securities, Inc was merged into Forethought Distributors LLC.

***Commonwealth Annuity and Life Insurance Company is 79% owned by Forethought Services LLC and 21% by Global Atlantic (Fin) Company. Commonwealth Annuity and Life Insurance Company owns 95% of Forethought Life Insurance Company and Forethought National Life Insurance Company. The remaining 5% is owned by Forethought Services LLC.

****Gotham Issuer LLC is owned 90% by Accordia Life and Annuity Company and 10% by Global Atlantic (Fin) Company.

Transactions and Agreements with Subsidiaries and Affiliates

The Company has entered into several management, service and cost sharing arrangements with FAFLIC and other affiliates within Goldman Sachs. All such agreements were submitted for prior review of the Division pursuant to the requirements of M.G.L., Chapter 175, Section 206C. These agreements include the following:

The Company entered into an Omnibus Amendment Agreement with Goldman Sachs, THG and FAFLIC to amend a number of agreements that were executed in connection with the acquisition in 2005 of the Company by Goldman Sachs from THG. The Omnibus Amendment revised the terms of various agreements to reflect the re-affiliation of the Company and FAFLIC that resulted from the acquisition of FAFLIC on January 2, 2009.

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The agreements that were amended are: the Stock Purchase Agreement, dated August 22, 2005, between Goldman Sachs and THG; the Core Coinsurance Agreement, the Core Administrative Services Agreement and the Non-Core Administrative Services Agreement, each dated December 30, 2005, and each between the Company and FAFLIC; and the Non-core Coinsurance Agreement, dated May 30, 2006, between the Company and FAFLIC.

The Company is party to several agreements concerning shared services and expenses. All prior agreements were replaced effective April 30, 2013, by a Services and Expense Agreement by and among CwA, FAFLIC, Finco, Global Atlantic Financial Company ("GAFC") and Epoch Securities, Inc. ("Epoch") setting forth terms whereby parties will second their employees and provide various administrative, legal, compliance, technology, operations, financial reporting, human resources, risk management and other functions to each other as the parties may agree to from time to time.

The Company, on its own behalf and on behalf of its separate investment accounts (the "Accounts"), entered into an Underwriting and Administrative Services Agreement with Epoch, a registered broker-dealer with the Securities and Exchange Commission ("SEC"). To the extent that the Company and the Accounts issue certain variable annuity contracts or variable annuity policies (the "Contracts") which may be deemed to be securities under the Securities Act of 1933, Epoch acts as principal underwriter for the Accounts. Under this Agreement, Epoch promotes the Contracts in states in which the Company has variable contract authority and in which the Contracts are for sale under state law. The Company bears the costs of all services, expenses and fees in connection with Epoch offering the Contracts.

In connection with the Underwriting and Administrative Services agreement with Epoch, CwA, on its own behalf and on behalf of each of its Accounts, entered into a Shared Services Agreement with Epoch. Certain services are provided by the parties to each other in addition to services related to the Variable Contracts, including but not limited to providing management services, administrative support, the use of facilities, offices and employees and such other additional services as the parties may agree from time to time.

The Company entered into an Administrative Services Agreement with Goldman Sachs Asset Management, L.P. ("GSAM") whereby the Company will assist GSAM with the provision of certain administrative services to Goldman Sachs Variable Insurance Trust ("GSVIT") or GSAM relating to investments in shares of funds of GSVIT by the separate accounts of the Company. GSAM will pay the Company a fee equal to a fixed percentage rate of the average aggregate net asset value.

The Company entered into a Shared Services and Expense Agreement whereby it provides support to Arrow Corporate Member Holdings LLC and its subsidiaries, Arrow Capital Re, Arrow Capital Risk Services Limited and Arrow Re in administrative, legal, compliance,

Commonwealth Annuity and Life Insurance Company

technology, operations, financial reporting, human resources, risk management and other areas.

CwA and GSAM entered into a Discretionary Advisory Agreement, dated December 28, 2005, whereby GSAM provides investment management services to CwA. CwA pays GSAM an annual investment management fee based upon the market value of assets under management. This fee is consistent with the arms-length rates GSAM charges to non-affiliates, including other third party insurance companies. This agreement was replaced with a new agreement in 2013; the primary change is in the fee structure and in the terms of the agreement.

CwA entered into a Participation Agreement with GSAM and GSVIT, whereby the separate accounts of CwA may purchase shares of funds of GSVIT for the contracts supported by such separate accounts. CwA will not pay any fees under this agreement.

CwA has entered into a Delivery Versus Payment Broker Dealer Agreement dated December 19, 2008, whereby Goldman, Sachs & Company ("GS") acts as executing broker for equity and/or fixed income securities and other non-prime broker institution acts as a custodian for cash and securities.

In connection with a reinsurance transaction CwA and Arrow Capital Re entered into a Trust Agreement, providing CwA additional reinsurance collateral supporting the segregated accounts obligations in excess of the modco balance in the form of a trust account funded with amounts borrowed by Arrow Capital Re from Goldman Sachs. Arrow Capital Re was renamed Ariel Capital Reinsurance Company Ltd ("Ariel") in April 2012.

Effective April 1, 2013, the Company recaptured 100% of its variable annuity business ceded under a modified coinsurance agreement to Ariel Capital Reinsurance Company Ltd.

Effective April 1, 2013, the Company entered into a funds withheld coinsurance and modified coinsurance agreement with Commonwealth Re, whereby it ceded 100% of its variable annuity business. The Company and Commonwealth Re entered into a new Trust Agreement.

CwA, GSAM and GS entered into Futures and Options Account Agreement whereby GS or any of its affiliates may execute, clear, and/or carry on CwA's behalf for the purchase or sale of futures contracts or options on futures contracts, and any customer accounts carried by GS in connection therewith.

Effective October 2, 2013 and January 2, 2014, under a joinder agreement, the Company became party to a Tax Allocation Agreement with various affiliates within the GAFG holding company system. This agreement provides for the filing of consolidated federal income tax returns by

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GAFG on behalf of the insurers and non-insurer affiliates in the holding company system, and the allocation of tax liabilities among those entities. Under the agreement, each party's respective obligation or benefit is calculated on a separate return basis.

Agreements with Third Party Administrators

In addition to the management and services arrangements with affiliates, the Company has outsourced policyholder administration to certain third party administrators. The Company has outsourced administration of the core block of variable life and variable annuity books (including variable product business reinsured from FAFLIC) to Se2, an affiliate of Security Benefit Corporation. Under the terms of a master third party administration agreement, Se2 provides customary administrative services, including operations of a call center, premium accounting, claims payments and disbursements ("Administrative Services"). Se2 does not market or underwrite new policies on behalf of the Company.

In connection with reinsurance transactions, the Company may from time-to-time enter into administrative services agreements with the ceding insurance companies. Administration of the reinsured blocks of fixed business are subcontracted to third party administrators, including Dell Perot Systems Corporation ("Perot"), Concentrix, and LOGiQ³, pursuant to the terms of third party administration agreements between the respective service providers and CwA and its affiliates.

Guarantees

On December 31, 2009, CwA ceded via coinsurance and modified coinsurance 100% of its variable annuity business to an affiliate, Ariel, and the Company implemented Actuarial Guideline 43, CARVM for Variable Annuities (the "VACARVM Reinsurance Transaction"). Because of the reduction in financial risk to the Company resulting from the VACARVM transaction, Goldman Sachs requested and received approval of an amended and restated Keepwell Agreement, which supersedes all prior Keepwell Agreements, to reduce the aggregate of Goldman Sachs' capital contributions to a maximum of \$250 million. The assurances under the Keepwell Agreement are not evidence of indebtedness or an obligation or liability of Goldman Sachs, and do not provide contract owners with any specific rights or recourse against Goldman Sachs.

Effective upon the transfer of 100% of the common shares of CwA by Goldman Sachs to GAFG on April 30, 2013, the existing Keepwell agreement described above was terminated.

Also effective on April 30, 2013, GAFG agreed to provide a Keepwell Agreement of up to \$250 million to CwA, as may be required to maintain either CwA's or FAFLIC's Risk Based Capital Ratio at a minimum of 100% of the Company Action Level. On the fifth anniversary date of this agreement Global Atlantic Financial Group Limited's ("GAFGL") commitment will expire. In addition, this agreement will terminate immediately if Goldman Sachs owns less than 10% of the voting securities of GAFG and a disclaimer of affiliation between Goldman Sachs and CwA and FAFLIC is not disapproved by the Division.

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On December 19, 2012, CwA entered into an agreement to guarantee the performance of FAFLIC, related to the reinsurance of a block of fixed annuities.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in 49 states, the District of Columbia and the U.S. Virgin Islands with the largest numbers of insurance risks written in Pennsylvania, Ohio, Texas and Massachusetts. The Company reported \$44 million of 2014 direct premium written in the Commonwealth of Massachusetts.

Key to the Company's growth strategy is the acquisition through reinsurance of in-force blocks of business. The Company reinsures blocks of variable and fixed annuities, universal life, variable universal life and traditional life insurance. The Company markets solutions to most major U.S. carriers across the life and annuity space, but focuses its coverage efforts on 50 of the largest companies.

Treatment of Policyholders – Market Conduct

During the financial examination of the Company, the Division's Market Conduct Department initiated a comprehensive market conduct examination of the Company as of December 31, 2014. The market conduct examination was called pursuant to authority in M.G.L. Chapter 175, Section 4. The market conduct examination was conducted at the direction of, and under the overall management and control of, the market conduct examination staff of the Division. Representatives from the firm The INS Companies were engaged to complete certain agreed upon procedures which were developed using the guidance and standards of the NAIC Market Regulation Handbook, the market conduct examination standards of the Division, and the Commonwealth of Massachusetts insurance laws, regulations and bulletins. The business areas that were reviewed under this comprehensive market conduct examination are Company Operations/Management; Complaint Handling; Marketing and Sales; Producer Licensing; Policyholder Services; Underwriting and Rating and Claims. Each business area reviewed includes the identification and evaluation of the insurer's internal controls.

REINSURANCE

The Company utilizes the assumption of business through indemnity reinsurance to support its growth strategy. As part of this strategy, the Company has acquired various blocks of businesses in recent years. Consistent with the general practice in the life insurance industry, the Company is also party to numerous reinsurance agreements as the ceding company, whereby the Company seeks to reduce net liability on individual risks, to provide protection against large losses and obtain diversification of risk. Historically, the Company utilized reinsurance to exit certain lines of business and facilitate its plans to discontinue a major operating unit.

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As the Company has a significant number of reinsurance agreements, which have been in place for many years, only those significant treaties entered into during the period covered by this examination will be noted below. A summary of the Company's reinsurance program is as follows.

Reinsurance Transactions

Effective April 1, 2010, the Company's treaty with Lincoln National Life Insurance Company ("Lincoln") was amended to reflect restructuring in Lincoln's reinsurance programs. As part of the change, the Company terminated a Yearly Renewable Term ("YRT") treaty with First Penn Pacific and Lincoln ceded this risk to First Penn Pacific. As a result of the changes, the treaty is reported following deposit accounting. Effective April 1, 2013, the Company entered into a funds withheld coinsurance agreement with its wholly-owned subsidiary, FAFLIC, whereby it retroceded universal life and variable universal life reserves on a 50% quota share.

Effective June 30, 2011, the Company entered into a coinsurance agreement with Transamerica Life Insurance Company ("TLIC") whereby it assumed fixed annuity reserves. Effective June 30, 2012, the Company increased the quota share coinsurance agreement with TLIC. Effective July 1, 2012, the Company entered into a funds withheld coinsurance agreement, whereby it retroceded 90% of the TLIC business to a segregated account of Arrow Re. Effective April 1, 2013, the Company recaptured the TLIC business from Arrow Re. Effective April 1, 2013, the Company entered into funds withheld coinsurance agreement with Commonwealth Re whereby it retroceded the TLIC business to Commonwealth Re on a 90% quota share.

Effective December 31, 2011 the Company ceded to Ariel on a yearly renewal term basis the quota share of mortality risks for single premium variable universal life contracts issued or assumed by the Company on or after November 1, 1998, both single life and second-to-die. Effective April 1, 2013 the reinsurance agreement with Ariel covering these mortality risks was novated and assigned to Commonwealth Re effective April 1, 2013.

Effective July 1, 2012 the Company recaptured the individual fixed universal life insurance business from John Hancock Life Insurance Company ("John Hancock"). Effective April 1, 2013, the Company entered into a funds withheld coinsurance agreement with Commonwealth Re whereby it retroceded the universal life business to Commonwealth Re on a 80% quota share basis.

Effective April 1, 2013 the Company recaptured the liabilities ceded to Columbia Capital, a previously affiliated company, (i) a reinsurance agreement dated November 7, 2006 covering liabilities of the Company under certain annuity contracts issued by the Company and (ii) a reinsurance agreement dated January 1, 2008 covering liabilities of the Company for certain life and annuity contracts acquired by the Company pursuant to an assumption reinsurance agreement with Fidelity Mutual Life Insurance Company. Effective April 1,

Commonwealth Annuity and Life Insurance Company

2013, the Company entered into a funds withheld coinsurance agreement with Commonwealth Re whereby it ceded these liabilities on a 80% quota share.

Effective April 1, 2013, the Company recaptured 100% of its variable annuity reserves ceded under a modified coinsurance agreement to Ariel. Effective April 1, 2013, the Company entered into a fund withheld and modified coinsurance agreement with Commonwealth Re, whereby it ceded 100% of its variable annuity reserves.

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FINANCIAL STATEMENTS

The following financial exhibits are based on the statutory financial statements prepared by management and filed by the Company with the Division and present the financial condition of the Company for the period ending December 31, 2014. The financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2014

Summary of Operations for the Year Ended December 31, 2014

Reconciliation of Capital and Surplus for Each Year in the Five-Year Period Ended December 31, 2014

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Statement of Assets, Liabilities, Surplus and Other Funds As of December 31, 2014

ASSETS	Per Annual Statement
Bonds	\$ 4,518,246,118
Common stocks	1,564,334,005
Mortgage Loans: First liens	188,379,966
Cash, cash equivalents and short-term investments	382,661,327
Contract loans	273,401,154
Derivatives	186,076,647
Other Invested Assets	97,069,795
Receivable for securities	14,946,263
Subtotals, cash and invested assets	<u>7,225,115,275</u>
Investment income due and accrued	35,837,381
Uncollected premiums and agents' balances	304,040
Deferred premiums	4,538,691
Amounts recoverable from reinsurers	11,441,611
Other amounts receivable under reinsurance contracts	37,151,450
Net deferred tax asset	166,582,588
Guaranty funds receivable or on deposit	786,804
Aggregate write-ins	1,603,436
Total Assets Excluding Separate Accounts	<u>7,483,361,276</u>
From separate accounts	<u>3,013,669,035</u>
 Total Assets	 <u><u>\$ 10,497,030,311</u></u>

Commonwealth Annuity and Life Insurance Company

Statement of Assets, Liabilities, Surplus and Other Funds (Continued) As of December 31, 2014

LIABILITIES	<u>Per Annual Statement</u>
Aggregate reserve for life contracts	\$1,594,916,408
Aggregate reserve for accident and health contracts	114,187
Liability for deposit type contracts	387,792,615
Life contract claims	11,793,619
Accident and health contract claims	90
Dividends apportioned for payment	708,740
Premiums and annuity considerations	317,836
Other amounts payable on reinsurance ceded	54,849,938
Interest maintenance reserve	71,926,419
Commissions to agents due or accrued	957,968
General expenses due or accrued	9,011,512
Transfers to separate accounts due or accrued	(20,278,412)
Taxes, licenses and fees due and accrued	6,838,581
Current federal and foreign income taxes	5,426,314
Unearned investment income	229,310
Amounts withheld or retained by company as agent or trustee	604,387
Remittances and items not allocated	23,134,255
Borrowed money	47,207,200
Asset valuation reserve	26,011,476
Reinsurance in unauthorized and certified companies	1,482,385
Funds held under reinsurance treaties with unauthorized and certified reinsurers	2,898,565,652
Payable to parent, subsidiaries and affiliates	2,661,738
Funds held under coinsurance	368,865,465
Aggregate write-ins	344,242,023
Total Liabilities Excluding Separate Accounts	<u>5,837,379,706</u>
From separate accounts	3,013,669,035
Total Liabilities Including Separate Accounts	<u>8,851,048,741</u>
Common capital stock	2,526,000
Surplus notes	255,000,000
Gross paid in and contributed surplus	1,333,897,773
Aggregate write-ins for special surplus funds	44,999
Unassigned funds (surplus)	54,512,798
Surplus	<u>1,643,455,570</u>
Total capital and surplus	<u>1,645,981,570</u>
Total Liabilities, Surplus and Other Funds	<u><u>\$ 10,497,030,311</u></u>

Commonwealth Annuity and Life Insurance Company

Summary of Operations For the Year Ended December 31, 2014

	Per Annual Statement
Premiums and annuity considerations for life and accident and health contracts	\$ 552,365,341
Considerations for supplementary contracts with life contingencies	153,198
Net investment income	303,888,449
Amortization of interest maintenance reserve	10,998,418
Commissions and expense allowances on reinsurance ceded	53,352,731
Income from fees associated with investment management administration administration and contract guarantees from Separate Accounts	27,642,639
Aggregate write-ins for miscellaneous income	98,157,060
Total	<u>1,046,557,836</u>
Death benefits	36,409,026
Annuity benefits	16,925,551
Disability benefits and benefits under accident and health contracts	1,574,097
Coupons, guaranteed annual pure endowments and similar benefits	44,736
Surrender benefits and withdrawals for life contracts	184,265,036
Interest and adjustments on contract or deposit-type contract funds contract funds	4,032,864
Payments on supplementary contracts with life contingencies	16,339
Increase in aggregate reserves for life and accident and health contracts	434,196,719
Totals	<u>677,464,368</u>
Commissions on premiums, annuity considerations and deposit-type contract funds	20,533,010
Commissions and expense allowances on reinsurance assumed	8,743,185
General insurance expenses	65,773,853
Insurance taxes, licenses and fees excluding federal income taxes	5,551,214
Increase in loading on deferred and uncollected premiums	(239,580)
Net transfers from Separate Accounts net of reinsurance	(56,990,671)
Aggregate write-ins for deductions	202,019,344
Totals	<u>922,854,723</u>
Net gain from operations before dividends to policyholders and federal income federal income taxes	123,703,113
Dividends to policyholders	1,803,873
Net gain from operations after dividends to policyholders and before federal income taxes	121,899,240
Federal and foreign income taxes incurred	(37,052,798)
Net income from operations after dividends to policyholders and federal income federal income taxes	<u>158,952,038</u>
Net realized capital gains	56,566,385
Net income	<u>\$ 215,518,423</u>

Commonwealth Annuity and Life Insurance Company

Reconciliation of Capital and Surplus For Each Year in the Five-Year Period Ended December 31, 2014

	2014	2013	2012	2011	2010
Surplus as regards policyholders, December 31, prior year	\$ 723,558,173	\$ 327,394,555	\$ 374,607,397	\$ 411,612,972	\$ 455,862,306
Net income/(loss)	215,518,423	(32,556,254)	(7,389,090)	122,398,742	161,917,689
Change in net unrealized capital gains gains (losses)	406,377,011	16,892,643	70,948,026	34,767,072	(6,904,358)
Change in net unrealized foreign exchange exchange capital loss	(24,412,113)	8,088,018	1,701,573	-	-
Change in net deferred income tax	(61,481,920)	185,148,278	(14,601,676)	(106,136,859)	(82,755,896)
Change in non-admitted assets	34,416,903	(44,635,291)	6,377,957	94,907,393	84,585,754
Change in liability for reinsurance in unauthorized and certified companies	(1,215,334)	1,537,686	(533,580)	(860,729)	49,561
Change in asset valuation reserve	2,628,234	1,595,000	(11,879,134)	(9,602,181)	(3,652,340)
Surplus (contributed to) withdrawn from from separate accounts	2,632,622	(1,486,859)	2,155,490	4,877,341	2,039,118
Other changes in surplus in separate accounts	(2,632,622)	1,486,859	(2,155,490)	(4,877,341)	(2,039,118)
Change in surplus notes	255,000,000	-	-	-	-
Paid in surplus	116,075,950	212,983,554	(150,000,000)	-	-
Change in surplus as a result of reinsurance	(20,483,757)	47,109,984	-	-	0
Dividends to stockholders	-	-	-	(160,000,000)	(250,000,000)
Aggregate write-ins	-	-	58,163,082	(12,479,013)	52,510,256
Change in surplus as regards policyholders for the year	<u>922,423,397</u>	<u>396,163,618</u>	<u>(47,212,842)</u>	<u>(37,005,575)</u>	<u>(44,249,334)</u>
Surplus as regards policyholders, December 31, current year	<u>\$ 1,645,981,570</u>	<u>\$ 723,558,173</u>	<u>\$ 327,394,555</u>	<u>\$ 374,607,397</u>	<u>\$ 411,612,972</u>

SEPARATE ACCOUNTS

Section 132F and 132G of Chapter 175 of the Massachusetts General Laws were enacted in 1960 and 1968 respectively, and amended several times thereafter. These laws provide for the establishment by life companies of one or more separate investment accounts, independent of the insurer's general investment account.

For individual insurance, the separate accounts held by the Company relate to variable annuities or life insurance of both a guaranteed and non-guaranteed return nature. The net investment return of the separate account is credited directly to the policyholder and can be positive or negative. The variable annuities provide a guaranteed minimum death benefit ("GMDB"), the nature of which has varied over time. In 1996, the Company began offering a GMDB that is adjusted annually to the current account value. In 1998, the Company began offering GMDB benefit riders that provide guaranteed death benefits that could exceed current account value. The assets and liabilities of these accounts are carried at market value, and the business has been included in the Company's General Account Annual Statement. The Company's risk under the GMDB riders have been reinsured under the GMDB mortality reinsurance program and hedge under the GMDB Hedging program discussed above.

In 1997, the Company began offering annuities with market value adjustment. While there are guarantees associated with these annuities, returns above the guaranteed level may be subject to market value adjustments which can be positive or negative. The assets and liabilities of these annuities are carried at market value.

For group insurance, the separate accounts held by the Company relate to group annuity contracts, which fund defined contribution and defined benefit plans. The assets and liabilities of these accounts are carried primarily at market value.

SEPARATE ACCOUNTS FINANCIAL STATEMENTS

The following financial exhibits are based on the statutory financial statements prepared by management and filed by the Company with the Division and present the financial condition of the Company for the period ending December 31, 2014. The financial statements are the responsibility of Company management.

Statement of Assets, Liabilities and Surplus as of December 31, 2014

Summary of Operations for the Year Ended December 31, 2014

Reconciliation of Surplus for Year Ended December 31, 2014

Commonwealth Annuity and Life Insurance Company

Separate Accounts Business Statement of Assets, Liabilities and Surplus As of December 31, 2014

ASSETS		Per Annual Statement
Bonds		\$ 19,463,326
Common stocks		2,990,724,482
Short-term investments		3,432,742
Investment income due and accrued		48,485
Total assets		<u>\$ 3,013,669,035</u>
LIABILITIES AND SURPLUS		
Aggregate reserve		\$ 2,996,788,080
Other transfers to general account due or accrued		16,880,955
Total liabilities		<u>3,013,669,035</u>
Total surplus		-
Total liabilities and surplus		<u>\$ 3,013,669,035</u>

Commonwealth Annuity and Life Insurance Company

Separate Accounts Business Summary of Operations For the Year Ended December 31, 2014

	<u>Per Annual Statement</u>
Transfers to separate accounts:	
Net premiums and annuity considerations	\$ 30,320,308
Considerations for supplementary contracts with life contingencies	7,735,739
Net investment income and capital gains and losses	<u>233,051,255</u>
Totals	<u>271,107,302</u>
Transfers from the separate account on account of contract benefits:	
Annuity benefits	109,659,122
Surrender benefits and withdrawals for life contracts	283,221,958
Transfer on account of policy loans	1,194,755
Net transfer of reserves from or (to) separate accounts	14,050,706
Other transfers from the separate accounts:	
Aggregate write-ins for other transfers from separate accounts on account of contract benefits	(1,793,810)
Fees associated with charges for investment management, administration and contract guarantees	71,805,041
Increase in aggregate reserve	(209,661,098)
Aggregate write-ins for reserve and funds	<u>(246,284)</u>
Totals	<u>268,230,390</u>
Net gain from operations	<u>\$ 2,876,912</u>

Commonwealth Annuity and Life Insurance Company

Separate Accounts Business Reconciliation of Surplus As of December 31, 2014

	Per Annual Statement
Surplus, December 31 prior year	<u>\$ 0</u>
Net gain from operations	2,876,912
Surplus contributed or (withdrawn) during year	(2,876,912)
Surplus, Decemenber 31 current year	<u><u>\$ 0</u></u>

Commonwealth Annuity and Life Insurance Company

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION

During the course of the examination it was determined that the following reclassification should be made.

Annual Statement Line Number	Summary of Reclassifications			
	Balance per Annual Statement	Increase	Decrease	Adjusted Balance
P3L33 Paid in and Contributed Surplus	\$1,333,897,773		\$470,000,000	\$863,897,773
P3L35 Unassigned Funds	\$ 54,512,798	\$470,000,000		\$524,512,798

COMMENTS ON FINANCIAL STATEMENT ITEMS

The Division engaged the services of an independent consulting actuary from RRC to perform a review of the statutory reserves of the Company as of December 31, 2014.

Based on the procedures performed the consulting actuary concluded that, it appears that the aggregate net amounts which were reported by the Company met or exceeded the statutory minimums of the Commonwealth of Massachusetts. The reserves reported by the Company were deemed to be reasonable in light of the liabilities they support, and materially in compliance with Massachusetts laws.

Extraordinary dividends for the period 2010 to 2014 in the amount of \$470,000,000 were incorrectly classified as a reduction in unassigned funds; they should have been classified as a reduction in paid in and contributed surplus. The result of reclassification did not impact surplus.

SUBSEQUENT EVENTS

Effective January 1, 2015, the Company entered into a coinsurance agreement with Vantis Life Insurance Company, whereby it assumed approximately \$698.6 million of fixed annuity reserves. The Company retroceded on an 80% quota share funds withheld basis to Commonwealth Re, approximately \$558.9 million of fixed annuity reserves.

Effective April 1, 2015, the Company entered into an agreement whereby the Company assumed, on a coinsurance basis, universal life and variable universal life business from Lincoln National Life Insurance Company. As a result of the transaction, the Company assumed policyholder liabilities totaling \$656.1 million, which are accounted for using

Commonwealth Annuity and Life Insurance Company

deposit accounting. The Company then retroceded 100% of this business on a funds withheld basis to Commonwealth Re.

On June 16, 2015 CwA received a capital contribution of \$142.5 million; of which \$30 million was from Finco and \$112.5 million was from FFSI. CwA then made a capital contribution of \$142.5 million to FLIC.

Effective October 1, 2015, the Company entered into a coinsurance agreement with Transamerica Life Insurance Company, whereby it assumed approximately \$721.3 million of fixed annuity reserves. The company then retroceded on an 80% quota share funds withheld basis to Commonwealth Re, approximately \$581.2 million of fixed annuity reserves. Effective December 31, 2015, the Company entered into two coinsurance funds withheld and modified coinsurance agreements with FLIC, whereby it assumed approximately \$148.0 million of variable annuity reserves. This block of business is actively being sold and includes a significant separate account expense allowance. In accordance with INT 02-04, the expense allowance has been transferred to the reinsurer and is included in the funds withheld balance. The Company retroceded \$93.1 million on funds withheld basis to Commonwealth Re.

Effective December 31, 2015 Epoch Securities, Inc was merged into Forethought Distributors LLC. Associated with the merger, effective January 1, 2016, new Management, Service and Cost sharing agreements were formed and approved.

The Surplus Note was amended in 2015 changing the terms of the note, including a new date of maturity, elimination of interim principal payment requirement and a new rate. This was approved by the Division.

As of the second quarter 2016, the GAFGL Audit Committee will function as the Audit Committee for all US insurers in the Group. The final meeting of the CwA Audit Committee was held in the first quarter of 2016.

In 2016 there was a reorganization at the holding company level. All of the capital stock of Global Atlantic (Fin) Company, a Delaware holding company was contributed to Commonwealth Re Midco, a Bermuda corporation, thereby making Global Atlantic (Fin) Company a wholly owned direct subsidiary of Commonwealth Re Midco. Commonwealth Re Midco is a wholly owned direct subsidiary of Global Atlantic Financial Life Limited.

SUMMARY OF RECOMMENDATIONS

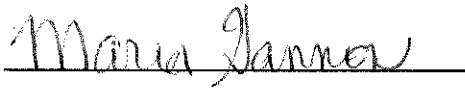
There are no recommendations being made as part of this examination report.

SIGNATURE PAGE

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Company during the examination.

The assistance rendered by Risk and Regulatory Consulting, LLC and the following Division examiner participating in this examination is acknowledged.

Michael Lewandowski Insurance Examiner II

A handwritten signature in cursive script, reading "Maria Gannon", is written over a horizontal line.

Maria Gannon, CFE
Supervising Examiner and
Examiner-in-Charge
Commonwealth of Massachusetts
Division of Insurance