



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

REPORT OF EXAMINATION OF THE
FIRST ALLMERICA FINANCIAL LIFE INSURANCE COMPANY

Southborough, Massachusetts

As of December 31, 2014

NAIC GROUP CODE 3891

NAIC COMPANY CODE 69140

EMPLOYER ID NUMBER 04-1867050

FIRST ALLMERICA FINANCIAL LIFE INSURANCE COMPANY

TABLE OF CONTENTS

	<u>Page</u>
Salutation	1
Scope of Examination	2
Summary of Significant Findings of Fact	2
Company History	3
Dividends	5
Management and Control	6
Board of Directors Minutes	6
Articles of Organization and Bylaws	6
Board of Directors	6
Officers	6
Affiliated Companies	7
Organizational Chart	7
Transactions with Subsidiaries and Affiliates	9
Agreements with Third Party Administrators	10
Guarantees	11
Territory and Plan of Operation	11
Treatment of Policyholders-Market Conduct	12
Reinsurance	12
Reinsurance Transactions	12
Financial Statements	14
Statement of Assets, Liabilities, Surplus and Other Funds	15
Statement of Assets, Liabilities, Surplus and Other Funds (continued)	16
Statement of Income	17
Reconciliation of Capital and Surplus	18
Separate Accounts	19
Separate Accounts Financial Statements	19
Statement of Assets, Liabilities and Surplus	20
Statement of Income	21
Reconciliation of Surplus	22
Analysis of Changes in Financial Statements Resulting From Examination	23
Comments on Financial Statements	23
Subsequent Events	23
Summary of Recommendations	24
Signature Page	25



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

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DANIEL R. JUDSON
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

FIRST ALLMERICA FINANCIAL 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

First Allmerica Financial Life Insurance Company ("FAFLIC" or "Company") 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

First Allmerica Financial Life Insurance Company was incorporated as a mutual insurance company, known as State Mutual Life Assurance Company of America, on March 16, 1844, under the laws of the Commonwealth of Massachusetts and commenced business on June 1, 1845. Effective October 16, 1995, the Company converted to a stock life insurance company pursuant to a Plan of Reorganization (the "De-Mutualization Plan") and adopted its present name. As part of the De-Mutualization Plan, the Company became a wholly-owned subsidiary of Allmerica Financial Corporation, which subsequently changed to its current name, The Hanover Insurance Group, Inc. ("THG"), effective December 1, 2005. Pursuant to the De-Mutualization Plan, THG issued 37.5 million shares of its common stock to eligible policyholders of the Company. THG also issued 12.7 million shares of its common stock in a public offering, and contributed approximately \$393 million of the proceeds from the public offering (and a related debt issuance) to the Company in the form of paid-in and contributed surplus.

Effective July 1, 1999, THG's subsidiaries engaged in an "unstacking transaction," which involved several changes in THG holding company infrastructure. This unstacking transaction was accomplished by first having a subsidiary of the Company, known as Allmerica Asset Management, Inc., merge into another subsidiary of the Company, known as SMA Financial Corp., which was the surviving entity in the transaction. 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 Allmerica Financial Life Insurance and Annuity Company ("AFLIAC") in exchange for one share of common stock. AAM then distributed AFLIAC and another subsidiary, Allmerica Trust Company, N.A., to the Company, and the Company distributed AAM to THG. As a result of these transactions, the Company's investment in the common stock of its affiliates was increased by \$855 million. THG further contributed \$125 million to the Company in exchange for one additional share of the Company's common stock, with the result that THG owned all 500,001 of the issued and outstanding shares of the Company's common stock.

First Allmerica Financial Life Insurance Company

In 2001 the Company received a paid-in surplus contribution of \$130 million from THG consisting of cash and bond securities, which the Company then contributed to its then wholly owned subsidiary, Allmerica Financial Life Insurance and Annuity Company. In 2002 the Company received \$188 million of paid-in surplus contributions from THG, and the Company contributed \$244 million consisting of cash and bond securities to AFLIAC. Effective December 30, 2002, and in connection with THG's ongoing restructuring activities, AFLIAC, previously a Delaware-domiciled insurance company, re-domesticated and became a Massachusetts-domiciled insurance company. Also effective December 31, 2002, the Division approved an extraordinary dividend of all of AFLIAC's issued and outstanding stock to THG, and the contribution of all 500,001 shares of the Company's stock to AFLIAC. As a result of these transactions, the Company became a direct wholly-owned subsidiary of AFLIAC.

On December 30, 2005, THG sold all of the outstanding shares of capital stock of AFLIAC to The Goldman Sachs Group, Inc. ("Goldman Sachs"), and the Company ceded 100% of the variable life insurance and annuity business to AFLIAC in a 100% coinsurance/modified coinsurance agreement. On December 30, 2005, immediately prior to its acquisition by Goldman Sachs, AFLIAC made certain distributions to the Company and THG, as follows: AFLIAC contributed all of the outstanding shares of capital stock of certain of its subsidiaries (Allmerica Financial Investment Management Services, Inc. ("AFIMS") and VeraVest Investments, Inc.) and transferred to the Company certain other assets and liabilities; and AFLIAC distributed all of the capital stock of the Company, AFIMS, and VeraVest Investments, Inc. to THG.

In connection with the sale of Commonwealth Annuity and Life Insurance Company ("Commonwealth Annuity" or "CwA"), the Division approved a cash dividend of \$48.6 million from the Company to THG, including the \$8.6 million ceding commission received related to the reinsurance transaction, and approved the distribution of other non-insurance subsidiaries to THG (including AFIMS, which THG subsequently transferred to Goldman Sachs). AFLIAC changed its name, effective September 1, 2006, to Commonwealth Annuity and Life Insurance Company

On January 2, 2009, following the approval of the Division, Commonwealth Annuity acquired the Company by purchasing 100% of its issued and outstanding common stock, consisting of 500,001 shares. The terms of the purchase are set forth in the Stock Purchase Agreement dated July 30, 2008, by and between Commonwealth Annuity and THG ("Stock Purchase Agreement"). In connection with the acquisition of the Company by Commonwealth Annuity, approval was obtained from the Division for a pre-close dividend from the Company consisting of designated admitted and non-admitted assets with a statutory book value of approximately \$136.3 million, which was paid to THG on January 2, 2009. As part of the sale agreement, THG also contributed \$6.4 million to the Company as a capital contribution. Additionally, coincident with the transaction, the Company and The Hanover Insurance Company ("HIC") entered into a reinsurance transaction whereby HIC reinsured the Company's discontinued accident and health insurance business through

First Allmerica Financial Life Insurance Company

a 100% coinsurance agreement totaling \$119.5 million in assets. HIC also agreed to service the accident and health business.

THG and Goldman Sachs have made various representations, warranties and covenants in the Stock Purchase Agreement. THG agreed to indemnify Goldman Sachs for any breaches of THG's representations, warranties and covenants. THG has also agreed to indemnify Goldman Sachs for certain litigation, regulatory matters and other liabilities relating to the pre-closing activities of the business that was sold.

On December 17, 2012, FAFLIC declared an extraordinary dividend of \$25.0 million payable to its stockholder of record, CwA. Payment of the dividend was approved by the Division. The dividend was paid on January 29, 2013.

On April 30, 2013, Goldman Sachs contributed several of its insurance subsidiaries, including FAFLIC, 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, CwA, parent company of FAFLIC, became a wholly-owned subsidiary of Global Atlantic (Fin) Company ("Finco"), a Delaware company, which is a wholly-owned subsidiary of GAFG.

On October 1, August 30 and June 27, 2013, FAFLIC received capital contributions from its parent, CwA, of \$12.2 million, \$30 million and \$20 million respectively.

On January 2, 2014, Finco acquired Forethought Financial Group ("FFG"), a privately-held, diversified financial services organization that owns life insurance entities. Finco restructured the ownership of certain subsidiaries, after which FAFLIC became an indirect subsidiary of FFG. FAFLIC continues to be a wholly-owned subsidiary of CwA.

Dividends

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

2014	\$14,245,930
2013	20,652,395
2012	12,154,818
2011	12,258,334
2010	13,394,505

First Allmerica Financial Life Insurance Company

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 examination period.

Board of Directors

According to the bylaws, the Company's business shall be managed by or under the direction of 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 below eight individuals with Mr. Spencer being independent. The composition 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
John Joseph Fowler	Senior Vice President and Chief Financial Officer
Hanben Kim Lee	Executive Vice President and Chief Risk Officer
Nicholas Helmuth von Moltke	President and Chief Executive Officer, First Allmerica Financial Life Insurance Company
Michael Anthony Reardon	Head of Product Strategy
Kathleen Marie Redgate	Chief Administrative Officer
Richard Vaughan Spencer	Chairman Audit Committee

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

First Allmerica Financial Life Insurance Company

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, First Allmerica Financial 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
Hanben 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. Egan	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

*In 2015 Peter Cai became the Chief Risk Officer

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.

First Allmerica Financial Life Insurance Company

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
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.

First Allmerica Financial Life Insurance Company

****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 CwA 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:

Goldman Sachs entered into an Omnibus Amendment Agreement with THG and FAFLIC dated July 20, 2008, to amend a number of agreements that were executed in connections with the acquisition in 2005 of CwA by Goldman Sachs from THG. The Omnibus Amendment revised the terms of various agreements to reflect the re-affiliation of the Registrants that resulted from the acquisition. The agreements that were amended are: the Stock Purchase Agreement, dated August 22, 2005, between Goldman Sachs and THG; the Core Coinsurance Agreements, the Core Administrative Services Agreement and the Non-Core Administrative Services Agreement, each dated December 30, 2005, and each between the Registrants; and the Non-Core Coinsurance Agreement, dated May 30, 2006, between the Registrants.

Effective April 30, 2013, the Company entered into a Services and Expense Agreement with an affiliate, Global Atlantic Financial Company ("GAFC"), under which GAFC and its affiliates agreed to provide personnel, management services, administrative support, the use of facilities and such other service as the parties may agree to from time to time. The Agreement replaced a substantially similar agreement with Goldman Sachs.

The Company entered into Underwriting and Administrative Services Agreements with Epoch Securities, Inc. ("Epoch") and CwA dated January 22, 2008 and May 1, 2008, as consolidated April 30, 2010, whereby Epoch provides principal underwriting services and CwA provides certain administrative services in connection with the distribution and servicing of the variable annuity contracts and variable life policies issued by FAFLIC.

The Company and Goldman Sachs Asset Management, L.P. ("GSAM") entered into a Discretionary Advisory Agreement, dated January 4, 2009, whereby GSAM provides investment management service to the Company. The Company 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.

The Company entered into a Participation Agreement with the Goldman Sachs Variable Insurance Trust ("GSVIT") and GSAM, dated November 1, 2000, whereby GSAM serves as investment advisor for the sale of GSVIT funds to FAFLIC's group variable life separate account. FAFLIC also entered into an Administrative Services Agreement with Goldman Sachs, date November 1, 2000, whereby Goldman Sachs compensates FAFLIC for service provided to group variable life policyholders with investments in the funds of GSVIT managed by GSAM.

First Allmerica Financial Life Insurance Company

The Company entered into a Participation Agreement with GSVIT and GSAM, as of January 2, 2006, whereby GSAM serves as investment advisor for the sale of GSVIT funds to FAFLIC's individual variable annuity and variable life separate accounts. FAFLIC entered into an Administrative Services Agreement with GSAM, dated July 28, 2006, whereby GSAM compensates FAFLIC for services provided with respect to variable annuity and variable life policyholders with investments in the funds of GSVIT managed by GSAM. FAFLIC also entered into an Investor Services Agreement – Service Class Shares with Goldman Sachs, dated July 28, 2006, whereby Goldman Sachs compensates FAFLIC for distribution and shareholders services provided by GSVIT.

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 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. As of December 31, 2014, the Company filed a standalone tax return.

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 its traditional life insurance policies and pension products to Se2, an affiliate of Security Benefit Corporation, under the terms of a third party administration agreement (the "TPA Agreement"). Administration of its variable life and variable annuity block has also been outsourced to Se2, under the terms of a third party administration agreement (the "Master Agreement") between Se2 and Commonwealth Annuity and its affiliates, including the Company. Under the TPA Agreement and the Master 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 and CwA 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 LOGiQ³, pursuant to the terms of third party administration agreements between the respective service providers and CwA and its affiliates, including the Company.

As part of its acquisition by CwA, the Company entered into a number of agreements with THG pertaining to the Company's discontinued accident and health insurance business (consisting of select market reinsurance pools, group accident and health policies, and individual medical/hospital policies) and transferred assets and liabilities of \$119.5 million. The purpose of the transactions relating to this business was to transfer all liability for, and responsibility to administer, such business to THG.

First Allmerica Financial Life Insurance Company

Guarantees

On December 31, 2009, Commonwealth Annuity ceded via coinsurance and modified coinsurance, 100% of its variable annuity business (including the business ceded to CwA by the Company) to an affiliate, Arrow Capital Reinsurance. Arrow Capital Reinsurance was renamed Ariel Capital Reinsurance Company Ltd ("Ariel") in April 2012. The Company implemented Actuarial Guideline 43, CARVM for Variable Annuities (the "VACARVM Reinsurance Transaction"). Because of the reduction in financial risk to the Company and Commonwealth Annuity 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 Commonwealth Annuity by Goldman Sachs to GAFG on April 30, 2013, the existing Keepwell agreement described above was terminated.

Also effective 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.

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 50 states, the District of Columbia, American Samoa, Guam and U.S. Virgin Islands with the largest numbers of insurance risks written in New York, Pennsylvania and Florida. The Company reported \$858 million of 2014 direct premium written in 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's reinsurance business 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.

First Allmerica Financial Life Insurance Company

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 of 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

With the acquisition of the Company by Commonwealth Annuity in 2009, the assumption of business through indemnity reinsurance is used to support its growth strategy. Consistent with the general practice in the life insurance industry, the Company is a party to numerous reinsurance agreements. The majority of the Company's involvement in reinsurance contracts is as the ceding company, whereby the Company seeks to reduce net liability on individual risks, to provide protection against large losses, and obtain a greater diversification of risk. Historically, the Company utilized reinsurance to exit certain lines of business.

Since the Company has a 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 December 1, 2010, the Company novated to Athene Life Re Ltd ("Athene") its liabilities related to the fixed annuity business, which the Company reinsured from American Progressive Life Insurance Company.

Effective July 1, 2012, the Company recaptured from John Hancock Life Insurance Company (USA) a block of universal life business.

Effective July 1, 2012, the Company entered into coinsurance agreement with John Hancock Life Insurance Company of New York ("John Hancock"), whereby it assumed fixed annuity business on a 90% quota share. Effective April 1, 2013, the Company entered into funds withheld coinsurance agreement with Commonwealth Re, whereby it retroceded the John Hancock business on an 80% quota share.

First Allmerica Financial Life Insurance Company

Effective April 1, 2013, the Company entered into a funds withheld coinsurance agreement with CwA whereby it assumed on a 50% quota share basis, a book of universal life and variable life insurance assumed by CwA from The Lincoln National Life Insurance Company. This agreement does not meet the criteria for risk transfer and is accounted for using deposit accounting.

Effective October 1, 2013, the Company assumed via Coinsurance and funds withheld coinsurance the life business of Athene Life Insurance of New York ("Athene") (previously Aviva Life and Annuity Company of New York). The agreement covers universal life, whole life and term life products. Effective October 1, 2013, the Company entered into a funds withheld retrocession agreement with Presidential Life Insurance Company ("PLIC") whereby FALIC ceded the financed NLG business assumed from Athene on a 100% quota share. PLIC was purchased by CwA and renamed Accordia Life and Annuity Company.

Effective July 1, 2014, the Company entered into multiple Yearly Renewable Term ("YRT") reinsurance agreements to cede what was previously being ceded externally by Athene. There was no change in reinsurance risk to the Company; the contracts were novated from Athene to the Company.

First Allmerica Financial Life Insurance Company

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

First Allmerica Financial Life Insurance Company

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

ASSETS	Per Annual Statement
Bonds	\$ 2,355,705,048
Cash, cash equivalents and short-term investments	94,396,868
Contract loans	78,133,422
Derivatives	4,327,225
Other Invested Assets	3,645,446
Receivable for securities	19,557
Subtotals, cash and invested assets	<u>2,536,227,566</u>
Investment income due and accrued	22,814,992
Uncollected premiums and agents' balances in the course of collection	2,426,985
Deferred premiums	16,639,503
Amounts recoverable from reinsurers	8,697,365
Funds held by or deposited with reinsured companies	1,400,346,374
Other amounts receivable under reinsurance contracts	73,687,927
Current federal income tax recoverable and interest thereon	1,799,525
Net deferred tax asset	13,397,475
Guaranty funds receivable or on deposit	243,094
Aggregate write-ins for other than invested assets	665,981
Total assets excluding separate accounts	<u>4,076,946,787</u>
From separate accounts	<u>163,532,065</u>
Total Assets	<u>\$ 4,240,478,852</u>

First Allmerica Financial Life Insurance Company

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

LIABILITIES	Per Annual Statement
Aggregate reserve for life contracts	\$ 1,902,468,199
Liability for deposit type contracts	453,258,442
Life contract claims	20,930,797
Policyholders' dividends	266,322
Dividends apportioned for payment	16,953,436
Premiums and annuity considerations received in advance	378,184
Other amounts payable on reinsurance	113,511,662
Interest maintenance reserve	52,533,685
Commissions & expense allowances payable on reinsurance assumed	260,202
General expenses due or accrued	2,363,029
Transfers to separate accounts due or accrued	(5,657,786)
Taxes, licenses and fees due or accrued	1,263,221
Unearned investment income	228
Amounts withheld or retained by company as agent or trustee	(20,406)
Remittances and items not allocated	3,117,054
Liability for benefits for employees and agents	3,449,247
Asset valuation reserve	12,071,931
Funds held under reinsurance treaties with unauthorized and	1,082,363,880
Payable to parent, subsidiaries and affiliates	1,732,477
Funds held under coinsurance	183,743,934
Aggregate write-ins for liabilities	15,521,521
Total Liabilities Excluding Separate Accounts	3,860,509,259
From separate accounts	163,532,065
Total Liabilities Including Separate Accounts	4,024,041,324
Common capital stock	5,000,010
Gross paid in and contributed surplus	691,635,661
Aggregate write-ins for special surplus funds	2,250,000
Unassigned funds (surplus)	(482,448,143)
Surplus	211,437,518
Total capital and surplus	216,437,528
Total Liabilities, Surplus and Other Funds	\$ 4,240,478,852

First Allmerica Financial Life Insurance Company

Summary of Operations For the Year Ended December 31, 2014

	Per Annual Statement
Premiums and annuity considerations	\$ 78,816,897
Considerations for supplementary contracts	688,271
Net investment income	126,791,781
Amortization of IMR	14,737,341
Commission & expense allowances on reinsurance ceded	8,477,446
Income from fees	22,366,961
Aggregate write-ins for miscellaneous income	162,796,531
Total	<u>414,675,228</u>
Death benefits	60,748,499
Matured endowments	457,566
Annuity benefits	31,530,074
Disability benefits	649,055
Surrender benefits and withdrawals	106,501,922
Interest and adjustments on contract or deposit-type contract funds	5,328,452
Increase in aggregate reserves	<u>21,315,094</u>
Total	<u>226,530,662</u>
Commissions on premiums, annuity considerations, deposit-type contract funds	27,587
Commissions and expense allowance on reinsurance assumed	(226,688)
General insurance expenses	26,597,066
Insurance taxes, licenses and fees	3,894,716
Increase in loading on deferred and uncollected premiums	260,608
Net transfers from Separate Accounts net of reinsurance	(31,347,462)
Aggregate write-ins for deductions	114,265,796
Totals	<u>340,002,285</u>
Net gain from operations before dividends and federal income taxes	<u>74,672,943</u>
Dividends to policyholders	<u>14,245,930</u>
Net gain from operations after dividends and before federal income taxes	<u>60,427,013</u>
Federal and foreign income taxes incurred	<u>(10,355,852)</u>
Net gain from operations after dividends and federal income taxes, before capital gains	70,782,865
Net realized capital gains less capital gainst tax	<u>2,981,687</u>
Net income	<u><u>\$ 73,764,552</u></u>

First Allmerica Financial 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	\$ 154,662,686	\$ 125,357,739	\$ 85,938,624	\$ 189,000,760	\$ 156,923,177
Net income/(loss)	73,764,552	(38,693,921)	19,647,479	19,470,419	37,116,827
Change in net unrealized capital gains	507,458	-	-	(1,639,536)	(492,513)
Change in net unrealized foreign exchange capital gain (loss)	-	-	-	(104,239)	108,510
Change in net deferred income tax	(56,946,854)	32,912,090	18,998,566	(2,927,666)	(13,237,759)
Change in non-admitted assets	47,088,203	(21,132,941)	(20,309,312)	1,495,292	13,175,348
Change in asset valuation reserve	357,290	(4,760,439)	(3,092,061)	(970,120)	(2,444,763)
Surplus (contributed to) withdrawn from separate accounts	-	-	-	-	563
Other changes in surplus in separate accounts	-	-	-	-	(431)
Paid in surplus	-	62,229,180	(25,000,000)	-	-
Change in surplus as a result of reinsurance	(2,995,807)	(1,249,022)	49,174,443	-	-
Dividends to stockholders	-	-	-	(115,000,000)	-
Aggregate write-ins for gains and losses in surplus	-	-	-	(3,386,286)	(2,148,198)
Change in surplus as regards policyholders for the year	<u>61,774,842</u>	<u>29,304,947</u>	<u>39,419,115</u>	<u>(103,062,136)</u>	<u>32,077,583</u>
Surplus as regards policyholders, December 31, current year	<u>\$ 216,437,528</u>	<u>\$ 154,662,686</u>	<u>\$ 125,357,739</u>	<u>\$ 85,938,624</u>	<u>\$ 189,000,760</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 minimum guaranteed death benefit, the nature of which has varied over time. In 1996, the Company began offering a minimum guaranteed death benefit that is adjusted annually to the current account value. In 2001, the Company began offering a minimum guaranteed death benefit that may be the highest accumulated value on any contract anniversary date prior to the date of death (as increased for subsequent payments and proportionately reduced for subsequent withdrawals). 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.

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

First Allmerica Financial Life Insurance Company

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

ASSETS	Per Annual Statement
Bonds	\$ 266,382
Common stocks	162,463,415
Short-term investments	797,863
Investment income due and accrued	4,405
Total assets	<u>\$ 163,532,065</u>
 LIABILITIES AND SURPLUS	
Aggregate reserve	\$ 138,902,560
Liability for deposit-type contracts	23,453,190
Other transfers to general account due or accrued	1,176,315
Total liabilities	<u>163,532,065</u>
Total surplus	-
 Total liabilities and surplus	<u>\$ 163,532,065</u>

First Allmerica Financial 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	\$ 2,185,834
Considerations for supplementary contracts with life contingencies	88,346
Aggregate write-ins for other transfers to separate accounts	50,000
Transfers on account of deposit-type contracts	(1,546,027)
Net investment income and capital gains and losses	<u>14,291,189</u>
Totals	<u>15,069,342</u>
Transfers from the separate account on account of contract benefits:	
Matured endowments	1,573,790
Surrender benefits and withdrawals for life contracts	15,601,734
Transfer on account of policy loans	41,013
Net transfer of reserves from or (to) separate accounts	33,616,489
Other transfers from the separate accounts:	
Aggregate write-ins for other transfers from separate accounts on account of contract benefits	(250,040)
Fees associated with charges for investment management, administration and contract guarantees	4,790,643
Increase in aggregate reserve	(8,955,340)
Increase in liability for deposit-type contracts	(31,360,925)
Aggregate write-ins for reserve and funds	<u>(75)</u>
Totals	<u>15,057,289</u>
Net gain from operations	<u>\$ 12,053</u>

First Allmerica Financial Life Insurance Company

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

	<u>Per Annual Statement</u>
Surplus, December 31 prior year	\$ 0
Net gain from operations	12,053
Surplus contributed or (withdrawn) during year	(12,053)
Surplus, December 31 current year	<u>\$ 0</u>

First Allmerica Financial 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	\$691,635,661		\$113,658,000	\$577,977,661
P3L35 Unassigned Funds	\$ (482,448,143)	\$113,658,000		\$(368,790,143)

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 their procedures 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.

Extraordinary dividends for the period 2010 to 2014 in the amount of \$113,658,000 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 April 1, 2015, the Company entered into a Monthly Renewable Term ("MRT") reinsurance agreement with The Lincoln National Life Insurance Company. Under this agreement the company ceded 100% of a block of life business that is not currently reinsured under any other agreement.

The Company entered into a 2015 ISDA Master Agreement and the Schedule and the Credit Support Annex (New York law) thereto (collectively, the "FAFLIC ISDA Agreements") on April 2, 2015, pursuant to which FAFLIC will enter into derivatives transactions with Goldman Sachs International ("GSI"). The FAFLIC ISDA Agreements contain terms and conditions that

First Allmerica Financial Life Insurance Company

are typical for ISDA Agreements between dealers and third parties in connection with the normal course derivatives transactions.

Effective July 31, 2015, and following the receipt of approval from the New York Department of Financial Services, the Company and Athene Life Insurance Company of New York ("ALICNY") entered into amendments to two existing funds withheld reinsurance agreements to change the structure from funds withheld to coinsurance. FAFLIC received approximately \$862 million of invested assets and policy loans and released the funds withheld receivable for these treaties. Upon receipt, FAFLIC recognized a gain, representing the difference between transaction date fair value of the portfolio and the amortized cost basis funds withheld receivable, which was offset by capital gains tax as well as an increase to Interest Maintenance Reserve. The transaction did not affect other aspects of the reinsurance with ALICNY.

Effective December 1, 2015, and following the approval of the Division, the Company entered into a coinsurance agreement with Ameritas Life Insurance Corp. whereby it ceded approximately 99% of its closed block of business. The closed block consists of individual whole life insurance participating policies and individual deferred annuity contracts which were in force as of October 16, 1995. As a result of the transaction, the Company ceded \$571.4 million of policyholder liabilities and transferred associated assets.

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.

As of the second quarter of 2016, the GAFGL Audit Committee will function as the Audit Committee for US insurers in the Group. The final meeting of the FAFLIC 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.

First Allmerica Financial Life Insurance Company

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



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