THE COMMONWEALTH OF MASSACHUSETTS

OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION

DIVISION OF INSURANCE

REPORT OF EXAMINATION OF

ALLMERICA FINANCIAL LIFE INSURANCE AND ANNUITY COMPANY

Worcester, Massachusetts

As of December 31, 2004

NAIC GROUP CODE 0088
(New NAIC Group Code 3891)

NAIC COMPANY CODE 84824

EMPLOYERS ID NO. 04-6145677

ALLMERICA FINANCIAL LIFE INSURANCE AND ANNUITY COMPANY

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May 31, 2006

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Honorable Commissioners and Directors:

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 the

ALLMERICA FINANCIAL LIFE INSURANCE AND ANNUITY COMPANY
Worcester, Massachusetts

at its home office located at 440 Lincoln Street, Worcester, Massachusetts 01653. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Allmerica Financial Life Insurance and Annuity Company (hereinafter referred to as "the Company" or "AFLIAC") was last examined as of December 31, 1999, under the association plan of the National Association of Insurance Commissioners ("NAIC") by the Delaware Department of Insurance. The current association plan examination was conducted by the Massachusetts Division of Insurance ("the Division") and covers the five year period from January 1, 2000 through December 31, 2004, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination. All NAIC zones were invited to participate, however no zones chose to participate in the examination. The Division conducted a concurrent examination of First Allmerica Financial Life Insurance Company ("FAFLIC"), which was a wholly-owned subsidiary at December 31, 2004 and divested at December 30, 2005. A separate examination report has been issued for FAFLIC.

The current examination was conducted in accordance with standards and procedures established by the NAIC Financial Condition (E) Committee and prescribed by the NAIC as well as with the requirements of the *NAIC Financial Examiners' Handbook* and in accordance with Massachusetts General Laws.

In addition to a review of the financial condition of the Company, the examination included a review of the Company's business policies and practices, corporate records, reinsurance treaties, conflict of interest disclosure statements, fidelity bond and other insurance, employees' pension and benefit plans, disaster recovery plan, treatment of policyholders and other pertinent matters to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. In planning and conducting the examination, consideration was given to the concepts of materiality and risk and examination efforts were directed accordingly.

The Company has been audited annually by PricewaterhouseCoopers LLP, an independent certified public accounting firm in accordance with 211 CMR 23.00. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2000 through 2004. A review and use of the certified public accountants' work papers were made to the extent deemed appropriate and effective. Representatives from the independent accounting, consulting and actuarial firm of Ernst & Young LLP ("E&Y"), were engaged by the Division to complete certain procedures and examine certain actuarial items and other areas as directed, principally policy reserves. E&Y's Assurance and Advisory Business Services unit was engaged by the Division to evaluate the adequacy and effectiveness of the information technology ("IT") systems controls to determine the level of reliance to be placed on summary information generated by the data processing systems.

For a summary of findings contained within this report, refer to the "Notes to the Financial Statements" section of this report.

HISTORY

The Company, a stock company, 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. On July 7, 1995 the Company's name was changed to the present form of "Allmerica Financial Life Insurance and Annuity Company," effective October 1, 1995.

Effective July 1, 1999 the Allmerica Financial Corporation ("AFC") entities engaged in an extraordinary distribution by way of an "unstacking transaction". This unstacking transaction was accomplished by having Allmerica Asset Management, Inc. merge/liquidate into SMA Financial. SMA Financial is the surviving entity and changed its name to Allmerica Asset Management, Inc. Allmerica Asset Management, Inc./SMA Financial (AAM/SMA) contributed 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 additional share of AFLIAC. AAM/SMA then distributed AFLIAC and Allmerica Trust Company, N.A. to First Allmerica Financial Life Insurance Company (FAFLIC).

Effective December 30, 2002, the Company, previously a Delaware domiciled insurance company, became a Commonwealth of Massachusetts domiciled insurance company. Effective December 31, 2002, the Company became a direct subsidiary of AFC, 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 AFC. This extraordinary dividend of the Company to AFC was approved by the Division. Effective 12/1/05, AFC changed its name to The Hanover Group, Inc. (the "Hanover").

Effective December 30, 2005 the Company was sold to The Goldman Sachs Group, Inc. ("Goldman Sachs"). Refer to the Subsequent Events section of this report for further information on this transaction.

The Company is licensed to write business all fifty states except the State of New York, the District of Columbia and the US Virgin Islands. Prior to September 30, 2002, the Company sold variable annuities, variable universal life and traditional life insurance products, as well as certain group retirement products. As a result of the cumulative effect of the significant decline in the equity markets as well as rating agency actions, the Company discontinued all new sales of proprietary variable annuities and life insurance products.

Capital Stock

The Company's Restated Articles of Organization, dated December 5, 2002, authorized the Company to issue 10,000 shares of Class A common stock with a par value of $1,000 per share. As of December 31, 2004, the Company had issued and outstanding 2,526 shares of common stock. There are no other classes of capital stock.

Pursuant to Massachusetts statutes, the maximum amount of dividends and other distributions that an insurer may pay in any twelve month period, without prior approval of the Commissioner, is limited to the greater of the Company's statutory net gains from operations of the preceding year or 10% of the statutory policyholders' surplus as of the preceding December 31.

Capital Contributions

In 2001 the Company received capital contributions totaling $130 million from its then parent, FAFLIC, consisting of cash and securities. FAFLIC had received the funds from AFC. The Company received additional capital contributions in 2002 totaling $406 million.

Dividends to Stockholder

On December 5, 2003, the Company paid a $25 million dividend to its parent, AFC. This dividend was approved by the Division. On December 22, 2004, the Company declared an ordinary dividend of $75 million payable to its parent, AFC. This dividend was approved by the Division and was paid in January 2005. These were the only dividends paid during the period under examination.

Growth of Company

The growth of the Company for the years 2000 through 2004 is depicted in the following schedule, which was prepared from the Company's Annual Statements.

Year	Admitted Assets	Net Premiums Written	Surplus
2004	$ 11,533,971,274	$ 80,158,711	$ 553,103,177
2003	12,611,782,500	157,215,911	493,070,818
2002	13,590,801,101	2,719,744,118	424,525,369
2001	15,878,962,775	2,941,959,463	192,464,660
2000	16,475,830,709	307,614,620	279,619,987

MANAGEMENT

Annual Meeting

In accordance with the Company's bylaws, the annual meeting of the stockholders shall be held on the second Wednesday of April, if not a legal holiday, and if a legal holiday, then the next business day, at the principal offices of the corporation in Massachusetts, or at such other time and place as may be determined from time to time by the board of directors. A quorum shall consist of a majority of the votes entitled to be cast, or as may be required by law. The minutes of the annual meeting indicate that a quorum was obtained at each annual meeting held during the examination period.

Board of Directors

The bylaws provide that except as reserved for the stockholders by law or by the Articles of Organization, the business of the corporation shall be managed by the board of directors who shall have and may exercise all the powers of the corporation. In particular, and without limiting the generality of the foregoing, the directors may at any time and from time to time issue all or any part of the unissued capital stock of the corporation authorized under the Articles of Organization and may determine, subject to any requirements of law, the consideration for which stock is to be issued and the manner of allocating such consideration between capital and surplus.

The number of directors shall be not less than five nor more than fifteen. The number of directors may be increased at any time or from time to time by either the stockholders or the directors by a vote of a majority of the directors then in office. The number of directors may be decreased to any number permitted by law at any time or from time to time either by the stockholders or by the directors by a vote of a majority of directors then in office. No directors need be a stockholder. Each director shall hold office until the next annual meeting and/or until his or her successor is duly elected and qualified. At December 31, 2004, the board was comprised of seven directors, which is in compliance with the Company bylaws. Directors duly elected and serving at December 31, 2004, with their business affiliation, follows:

Directors	Business Affiliation
Frederick H. Eppinger	President & Chief Executive Officer of AFC
Bonnie K. Haase	Vice President and Chief Human Resources Officer
J. Kendall Huber	Senior Vice President and General Counsel
John P. Kavanaugh	Vice President and Chief Investment Officer
Edward J. Parry, III	Vice President and Chief Financial Officer
Michael A. Reardon	President and Chief Executive Officer
Gregory D. Tranter	Vice President and Chief Information Officer

The bylaws do not specify the number of meetings to be held during a year. The minutes of the board of directors meetings indicated that meetings were held ten times during 2004. At any meeting a majority of the directors then in office shall constitute a quorum, provided however, that at least four directors must be present to constitute a quorum. The minutes indicate that a quorum was obtained at all meetings of the board of directors held during the examination period.

Committees of the Board of Directors

The bylaws of the Company provide that the directors may, by vote of a majority of the directors then in office, elect from their number an executive committee or a finance committee and other committees and delegate to any such committee or committees some of the powers of the directors. Except as the directors may otherwise determine, any such committee may make rules for the conduct of its business. The board elected a Compliance Committee on August 30, 2004. Its members were J. Kendall Huber, Michael A. Reardon and John P. Kavanaugh. The Compliance Committee held a joint meeting (AFLIAC/FAFLIC) on September 17, 2004.

Officers

The bylaws of the Company provide that the officers of the Company shall consist of a Chairman of the Board (if such officer be deemed desirable), a President, Vice-Presidents (including such Executive Vice Presidents, Senior Vice Presidents, Vice Presidents, and Assistant Vice Presidents as the directors may elect), a Treasurer, a Secretary, Assistant Secretaries and 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.

Officers may be elected by the board of directors at the regular meeting following the annual stockholders meeting or at any directors meeting. Each officer shall hold office until the first meeting of the directors following the next annual meeting of the stockholders unless a shorter period shall have been specified by the terms of such officer's election or appointment, or in each case until such officer sooner dies, resigns, is removed or becomes disqualified. The directors may in their discretion at any time remove any officer.

If a Chairman of the Board is elected, said Chairman shall have all the duties and powers specified in the bylaws and those as may be determined by the board. The Chief Executive Officer shall be the Chairman of the Board, if any, the President, or any other officer as may be designated by the directors, and shall have general charge and supervision of the business of the corporation. The elected senior officers and their respective titles at December 31, 2004 are as follows:

Officers	Title
Michael A. Reardon	President and Chief Executive Officer
Charles F. Cronin	Vice President and Secretary
Mark C. McGivney	Vice President and Treasurer
Dan R. Spafford	Vice President and Actuary
Warren E. Barnes	Vice President and Corporate Controller
J. Kendall Huber	Senior Vice President and General Counsel
John P. Kavanaugh	Vice President and Chief Investment Officer

Edward J. Parry, III	Vice President and Chief Financial Officer
Bonnie K. Haase	Vice President
Richard W. Lavey	Vice President
Gregory D. Tranter	Vice President, Chief Information Officer

Conflict of Interest Procedures

The Company has adopted, by resolution of the board of directors, a formal Statement of Policy pertaining to conflict of interest in accordance with Question 14 of the General Interrogatories of the Annual Statement. The Company has an established procedure for the disclosure to the board of directors of any potential financial transaction, investment, material interest or activity and affiliation on the part of any director, officer, or key employee, which might be contrary to the policy statement.

Annually, all directors, officers, and employees whose duties require them to transact any business, the nature of which might be contrary to the conflict of interest policy, are required to complete a Conflict of Interest Questionnaire. The completed questionnaires were reviewed with no discrepancies noted regarding conflicts of interest as reflected in the Company's 2004 Annual Statement responses to General Interrogatories.

Corporate Records

Bylaws and Articles of Incorporation

The bylaws and articles of organization and amendments thereto were examined as part of this examination. During the examination period these documents were amended in 2000 and 2002. The changes in 2002 were made to reflect the redomestication of the Company to Massachusetts. All changes have been properly disclosed to all regulatory authorities.

Board of Directors Minutes

Our review of the minutes of the board of directors and committees in place for the period under the statutory examination indicated that all meetings were held in accordance with the Company bylaws and laws of the Commonwealth of Massachusetts. Actions of the board and committees were ratified at each meeting either by vote or consent.

Disaster Recovery and Business Continuity

The Company provides for the continuity of management and operations in the event of a catastrophe or national emergency in accordance with Massachusetts General Laws, Chapter 175 ss. 180M-180Q.

AFFILIATED COMPANIES

Per Form B, as filed with the Division and amended as of March 15, 2004, the Company is a member of a holding company system and is subject to the registration requirements of Chapter 175, Section 206C of the Massachusetts General Laws. The Company is a wholly-owned subsidiary of AFC, a publicly traded holding company and the ultimate controlling person of the holding company system.

Prior to December 31, 2002, the Company was a subsidiary of FAFLIC. Subsequent to this date the Company became a direct subsidiary of AFC and FAFLIC became a subsidiary of AFLIAC.

Annual Statement Schedule Y Listing

Subsidiaries and Affiliates	State of Domicile or Incorporation
Allmerica Financial Corporation	Delaware
Opus Investment Management, Inc.	Massachusetts
The Hanover Insurance Company	New Hampshire
Citizens Insurance Company of America	Michigan
Allmerica Financial Life Insurance and Annuity Company	**Massachusetts**
VeraVest Investments, Inc.	Massachusetts
Allmerica Financial Investment Management Services, Inc.	Massachusetts
Allmerica Financial Services Insurance Agency, Inc.	Massachusetts
Allmerica Investments Insurance Agency Inc. of Alabama	Alabama
First Allmerica Financial Life Insurance Company	Massachusetts
Allmerica Trust Company, N.A.	Federally Chartered
Allmerica Investments Insurance Agency Inc. of Florida	Florida
Allmerica Investments Insurance Agency Inc. of Georgia	Georgia
Allmerica Investments Insurance Agency Inc. of Kentucky	Kentucky
Allmerica Investments Insurance Agency Inc. of Mississippi	Mississippi

Transactions and Agreements with Subsidiaries and Affiliates

Guarantees

The Company's parent, AFC, entered into an agreement with the Division in 2002, whereby AFC would indefinitely maintain the Risk Based Capital ("RBC") ratio of the Company at a minimum of 100% of the NAIC Company Action Level. This agreement replaced earlier commitments that AFC maintain the Company's then parent, FAFLIC's RBC ratio at specified levels. The commitment was subsequently terminated with the consent of the Division in December 2005 in connection with the sale of the Company to Goldman Sachs, and replaced with a limited keepwell from Goldman Sachs.

Management and Service Agreements

All entities within the holding company system executed a Consolidated Service Agreement, which was amended effective January 1, 2004. Under this agreement, each company agrees to provide any other company within the holding company system with such services as it may require for its operations. Charges under the agreement are made under a cost allocation policy designed to provide fairness and equity in the establishment of service charges between affiliates and lines of business. Both the consolidated service agreement and the corresponding cost allocation method were examined and no material exceptions were noted.

Tax Sharing Agreement

AFC, its life insurance subsidiaries including the Company, and its non-insurance domestic subsidiaries file a life-nonlife consolidated federal income tax return. Entities included within the consolidated group are segregated into either a life insurance or non-life insurance company subgroup. The consolidation of these subgroups is subject to certain statutory restrictions on the percentage of eligible non-life taxable operating losses that can be applied to offset life company taxable income. All federal income taxes for all subsidiaries in the consolidated return are calculated on a separate return basis. Any current tax liability is paid to AFC. Tax benefits resulting from taxable operating losses or credits of the subsidiaries are not reimbursed to the subsidiary until such losses or credits can be utilized by the subsidiary on a separate return basis. Other companies in the AFC group are parties to a separate consolidated income tax agreement with an effective date of December 31, 2002.

FIDELITY BOND AND OTHER INSURANCE

The Company maintains fidelity coverage with an authorized Massachusetts insurer, consistent with Massachusetts General Laws, Chapter 175, Section 60. The aggregate limit of liability exceeds the NAIC suggested minimum. The Company also has in place numerous other insurance coverages including "all risk" property coverage, executive liability coverage, excess catastrophe liability coverage, and an electronic and computer crime bond.

EMPLOYEE AND AGENT'S WELFARE AND PENSION PLANS

The Company does not have any direct employees and therefore does not have any direct cost associated with employee welfare and pension plans. All employees and human resources are provided by FAFLIC, and as such, the Company is charged by FAFLIC, through an allocation process, for actual salary and benefit costs for services provided to the Company by FAFLIC employees.

In 2004 the Company recorded a $0.6 million decrease to surplus related to its allocation of the qualified additional minimum pension liability. The amount is reflect as an adjustment to surplus, net of taxes, in accordance with SSAP 89 and primarily reflects the difference between the present value of accumulated benefit obligations and liabilities, and the market value of assets funding the plan.

STATUTORY DEPOSITS

The statutory deposits of the Company as of December 31, 2004, were as follows:

Location	Description of Deposit	Par Value	Statement Value	Market Value
Georgia	US Treasury Notes 7.125% due 02/15/23	$140,000	$134,884	$178,647
Kansas	US Treasury Notes 6.500% due 08/15/05	400,000	400,414	409,736
Kentucky	US Treasury Notes 7.125% due 02/15/23	130,000	125,249	165,887
Massachusetts	US Treasury Notes 7.125% due 02/15/23	300,000	289,037	382,815
Massachusetts	US Treasury Notes 7.500% due 02/15/05	1,500,000	1,509,640	1,509,960
New Mexico	US Treasury Notes 7.125% due 02/15/23	120,000	115,615	153,126
New York	Bank of N.Y. Sr. Sub. Notes 7.300% due 12/01/09	10,000,000	10,645,681	11,374,400
New York	AIG Sun America Global GIC 5.300% due 05/30/07	3,956,000	4,024,996	4,110,086
New York	Jackson National Life Global Notes 5.250% due 03/15/07	5,000,000	5,066,742	5,197,750
New York	Goldman Sachs Group Notes 7.200% due 11/01/06	6,500,000	6,496,376	6,927,180
New York	Detroit Edison Company First Mortgage 6.125% due 10/01/10	2,000,000	2,044,974	2,181,700
New York	Campbell Soup Notes 5.500% due 03/15/07	3,500,000	3,554,655	3,629,290
New York	Daimler Chrysler Holdings NA Notes 7.200% due 09/01/09	10,529,000	10,591,016	11,718,988
North Carolina	US Treasury Notes 7.125% due 02/15/23	350,000	337,210	446,618
North Carolina	US Treasury Notes 6.750% due 05/15/05	50,000	50,004	50,774
South Carolina	US Treasury Notes 6.750% due 05/15/05	500,000	500,042	507,735
Tennessee	US Treasury Notes 4.250% due 11/15/13	500,000	493,165	503,145
Virginia	US Treasury Notes 7.500% due 02/15/05	408,000	410,622	410,709
Virginia	US Treasury Notes 6.750% due 05/15/05	92,000	92,008	93,423
Virgin Islands	US Treasury Notes 7.125% due 02/15/23	600,000	578,074	765,630
	TOTAL ALL LOCATIONS	$46,575,000	$47,460,404	$50,717,599

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed to write business in forty nine states, the District of Columbia and the US Virgin Islands. Prior to September 30, 2002, the Company sold variable annuities, variable universal life and traditional life insurance products, as well as certain group retirement products. As a result of the cumulative effect of the significant decline in the equity markets as well as rating agency actions, the Company discontinued all new sales of propriety variable annuities and life insurance products.

Prior to September 30, 2002 the Company's products were distributed primarily through three distribution channels: (1) Agency, which consisted of a career agency force; (2) Select, which consisted of a network of third party broker/dealers; and (3) Partners, which included distributors of various mutual funds.

Treatment of Policyholders

Claims Settlement Practices

Procedures performed in conjunction with claims testwork disclosed no unusual practices which would indicate that the Company does not settle claims on a timely and equitable basis.

Policyholder Complaints

During the course of the examination, a general review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations to policyholders and claimants. This review was limited in nature and was substantially narrower than a full scope market conduct examination. The Division's Consumer Services Section was consulted as part of the examination planning process. The review disclosed no indications that would lead the examination team to believe that a pattern of unfair consumer practices existed. A sample of complaints against the company were reviewed, and of those reviewed, it would appear that the Company responded in an overall timely manner. During the examination process the Company became aware of certain historical processing errors relating to tax basis reporting to certain policyholders and others with respect to the annuity business of the Company, which could precipitate future policyholder complaints, which the Company is making provisions for. See additional details of this issue in the "Subsequent Events" section later in this report.

REINSURANCE

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, provide protection against large losses, and obtain a greater diversification of risk. In recent years the Company has expanded its use of reinsurance to exit certain lines of business and facilitate its plan to discontinue a major operating unit.

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, broken out by product type, is as follows.

Ceded Reinsurance

Individual Annuities

The Company implemented a guaranteed minimum death benefit ("GMDB") mortality reinsurance program effective December 1, 2002 covering the incidence of mortality on variable annuity policies. Under this program, the Company pays the reinsurers monthly premiums based on the net amount at risk on the variable annuity business. The reinsurers then reimburse the Company for the net amount at risk portion of qualified variable annuity claims. Under this program, the Company retains the market risk associated with the net amount at risk on the variable business.

Individual Life

The Company retention on any one life is $2 million. Automatic treaties are in place, on an annual or yearly renewable term basis, which provides coverage up to three times this $2 million retention. Policies issued with face values of $8 million or greater are reinsured on a facultative basis. This facultative coverage may be provided by one or several reinsurers.

The Company has coinsurance agreements with Protective Life Insurance Company whereby AFLIAC ceded its term and non-universal life business. One agreement covers policies issued in all states, other than New York, that were in-force as of December 31, 1994, while the other covers policies issued in New York that were in-force as of November 30, 1995. The purpose of the agreements is to provide for the 100% coinsurance or assumption by Protective of the contractual liabilities of the Company and to provide for the full servicing of the coinsured policies by Protective.

The Company has a coinsurance agreement with American Heritage Life Insurance Company. Under the terms of the agreement the Company cedes 100% of its contractual obligations under its payroll deduction universal life insurance policies previously written or assumed in all states except New York which were in force as of June 30, 1995.

The Company entered into 100% quota share agreements with RGA Reinsurance Company and Reinsurance Company of Missouri, in 1998 and 2001 respectively. Under terms of the agreement, the Company cedes 100% of the mortality risks associated with its universal life and variable universal life products issued prior to 1998. The agreement does not affect policy administrative or claim payments made under the contracts.

GMDB HEDGING PROGRAM

On December 3, 2003 the Company implemented a hedging program for the in-force variable annuity policies with GMDB features. The program's primary purpose is to provide the Company with an economic hedge against increased GMDB claims which could arise from declines in the equity market below levels at December 3, 2003. Also, the program is expected to reduce the volatility in statutory capital and risk based capital levels from the effects of future equity market movements and allows the Company to retain most of the benefits of reduced GMDB costs in a rising equity market. The hedge program does not provide protection from the GMDB cost associated with the net amount at risk of $2.7 billion in existence on December 3, 2003. Over time, the actual amount of the unhedged economic cost will vary depending on equity market levels, redemption rates, and certain GMDB product features, such as roll-up (net deposits accumulated at a specified rate) or ratchet (high historical account value on a contract anniversary).

The program utilizes a dynamic hedging approach involving exchange traded futures contracts. Under the program, hedge contracts are expected to generate cash to fund increases in the GMDB claims resulting from declines in the equity market. As part of the program, investment returns of a majority of the funds underlying the variable annuity products were matched to widely followed indices which have exchange traded futures contracts. There can be no assurance that the returns of the underlying funds will be perfectly correlated to the returns of the indices. Also, certain market risks such as those relating to interest rates have not been hedged; such interest rate risk is predominantly in separate accounts that have underlying bond funds, which represent approximately 14% of separate account assets as of December 31, 2004. As interest rates rise, account values decrease, and the net amount at risk and associated reinsurance premium increases. Consequently, the Company expects to generate increased GMDB expenses in a rising interest rate environment.

SUBSEQUENT EVENTS

As noted previously on December 1, 2005 the Company's ultimate parent, AFC changed its name to The Hanover Insurance Group, Inc. ("The Hanover") and the company's stock will trade on the New York Stock Exchange under the stock ticker symbol "THG".

On December 30, 2005, The Hanover sold all of the outstanding shares of capital stock of AFLIAC, a life insurance subsidiary representing approximately 95% of The Hanover's run-off variable life insurance and annuity business to Goldman Sachs. In addition and in connection with the sale of AFLIAC to Goldman Sachs, FAFLIC ceded to the Company in a 100% modified co-insurance agreement, its variable life insurance and annuity business. This transaction, which was also completed on December 30, 2005, was approved by the Division. In connection with these transactions, Allmerica Investment Trust ("AIT") agreed to transfer certain assets and liabilities of its funds to certain Goldman Sachs Variable Insurance Trust managed funds through a fund reorganization transaction. Finally, The Hanover agreed to sell to Goldman Sachs all of the outstanding shares of capital stock of Allmerica Financial Investment Management Service, Inc. ("AFIMS"), its investment advisory subsidiary, concurrently with the consummation of a fund reorganization transaction. The fund reorganization transaction was consummated on January 9, 2006.

Total proceeds from the sale were $318.8 million, comprised of $284.0 million of proceeds from the sale of AFLIAC, proceeds from the sale of AFIMS of $26.2 million and proceeds from the ceding commission related to the reinsurance of the FAFLIC variable business of $8.6 million.

Included in the proceeds from the sale of AFLIAC is $46.7 million of proceeds expected to be deferred and paid over a three year period, with 50% being received in the first year and 25% in the following two years.

In connection with the sale, the Massachusetts Division of Insurance approved a cash dividend of $48.6 million from FAFLIC, including the $8.6 million ceding commission received related to the reinsurance of 100% of the variable business of FAFLIC, and for the distribution of other non-insurance subsidiaries, from which the holding company received $15.4 million of additional funds.

The Hanover and Goldman Sachs have made various representations, warranties and covenants in the Stock Purchase Agreement entered into in connection with the transaction. The Hanover has agreed to indemnify Goldman Sachs for the breaches of The Hanover's representations, warranties and covenants. The Hanover 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.

In connection with these agreements, The Hanover will provide transition services until the earlier of eighteen months from the December 30, 2005 closing or when the operations of AFLIAC, and the FAFLIC business to be reinsured, can be transferred to Goldman Sachs. These services include policy and claims processing, accounting and reporting, and other administrative services. This transition period is currently expected to extend into the fourth quarter of 2006. In the first quarter of 2006, The Hanover incurred a loss of $5 million after-tax, primarily related to the transition costs described above. For the remaining nine months of 2006, The Hanover anticipates incurring an estimated $10 million of additional costs after-tax, related to these transition costs. Upon conclusion of this transition services agreement, there will be no continuing cash flows associated with the business that is being disposed.

On March 31, 2006, The Hanover established a provision relating to its indemnification obligations to the Company pursuant to the agreements pursuant to which Goldman Sachs acquired the Company. This provision related to certain historical processing errors relating to tax reporting to certain policyholders and others with respect to the annuity business of the Company. The provision was based on The Hanover's preliminary estimate of expenses, reimbursement and other costs of remediation of such errors. In light of The Hanover's various indemnification obligations, the Company has reported that it does not expect this matter to be material to the Company's financial results of operations or financial position.

ACCOUNTS AND RECORDS

The internal control structure was discussed with management through questionnaires and through a review of the work performed by the Company's independent certified public accountants. No material deficiencies were noted.

The NAIC provides a questionnaire covering the evaluation of the controls in the IT systems environment. The questionnaire was completed by the Company and the Division retained the services of E&Y's Assurance and Advisory Business Services Unit to evaluate the adequacy of the IT controls. No material deficiencies were noted.

The Company uses an automated general ledger system. Trial balances were traced from the general ledger and supporting documents to the 2004 Annual Statement. No material deficiencies were noted.

FINANCIAL STATEMENTS

The following financial statements reflect the assets, liabilities, capital and surplus as determined by our examination, showing the Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2004, together with a Summary of Operations for the year ended December 31, 2004, Statement of Capital and Surplus as of December 31, 2004, and a Reconciliation of Capital and Surplus for the four year period ended December 31, 2004.

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Division and the NAIC as of December 31, 2004.

Allmerica Financial Life Insurance and Annuity Company
Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2004

Assets	**As Reported by the Company**	**Examination Changes**	**Per Statutory Examination**
Bonds	$ 1,256,841,986	$ 0	$ 1,256,841,986
Common stocks	197,348,088		197,348,088
Cash, cash equivalents and short-term investments	640,105		640,105
Contract loans	108,091,682		108,091,682
Other invested assets	700,191		700,191
Receivable for securities	15,216		15,216
Subtotals, cash and invested assets	1,563,637,268		1,563,637,268
Investment income due and accrued	20,909,976		20,909,976
Premiums and considerations:			
Uncollected premiums and agents' balances	(11,617,875)		(11,617,875)
Reinsurance:			
Amounts recoverable from reinsurers	13,991,324		13,991,324
Other amounts receivable under reinsurance contracts	1,402,226		1,402,226
Current federal income tax recoverable	34,675,085		34,675,085
Net deferred tax asset	5,083,935		5,083,935
Guaranty funds receivable or on deposit	978,198		978,198
Aggregate write-ins for other than invested assets	3,033,623		3,033,623
Total assets excluding Separate Accounts	1,632,093,760		1,632,093,760
From Separate Accounts	9,901,877,514		9,901,877,514
Total Assets	$11,533,971,274	$ 0	$11,533,971,274

Allmerica Financial Life Insurance and Annuity Company
Statement of Assets, Liabilities, Surplus and Other Funds (Continued)
As of December 31, 2004

Liabilities	**As Reported by the Company**	**Examination Changes**	**Per Statutory Examination**	**Note**
Aggregate reserve for life contracts	$ 1,171,708,869	$ 176,289,432	$ 1,347,998,301	(1)
Aggregate reserve for accident and health contracts	606,975		606,975	
Liability for deposit-type contracts	86,062,424		86,062,424	
Contract claims: Life	2,378,750		2,378,750	
Interest maintenance reserve	6,830,580		6,830,580	
Commissions to agents due or accrued	4,215,244		4,215,244	
General expenses due or accrued	435,122		435,122	
Transfers to Separate Accounts due or accrued	(290,227,546)	(135,248,825)	(425,476,371)	(1)
Taxes, licenses and fees due or accrued, excluding federal income taxes	738,869		738,869	
Amounts withheld or retained by company as agent or trustee	695,044		695,044	
Remittances and items not allocated	(630,999)		(630,999)	
Dividends to stockholders declared and unpaid	75,000,000		75,000,000	
Asset valuation reserve	2,191,411		2,191,411	
Reinsurance in unauthorized companies	1,904,581		1,904,581	
Payable to parent, subsidiaries and affiliates	9,575,825		9,575,825	
Payable for securities	3,805,626		3,805,626	
Aggregate write-ins for liabilities	1,173,862		1,173,862	
Total liabilities excluding Separate Accounts	1,076,464,637	41,040,607	1,117,505,244	
From Separate Accounts statement	9,901,877,460		9,901,877,460	
Total Liabilities	10,978,342,097	41,040,607	11,019,382,704	
Common capital stock	2,526,000		2,526,000	
Gross paid in and contributed surplus	759,932,064		759,932,064	
Separate Acounts contingency reserve	750,000		750,000	
Unassigned funds (surplus)	(207,578,887)	(41,040,607)	(248,619,494)	
Total Surplus	553,103,177	(41,040,607)	512,062,570	
Total Capital and Surplus	555,629,177	(41,040,607)	514,588,570	
Total Liabilities, Capital and Surplus	$11,533,971,274	$ 0	$11,533,971,274	

Allmerica Financial Life Insurance and Annuity Company
Summary of Operations
For the Year Ended December 31, 2004

	As Reported by the Company	Examination Changes	Per Statutory Examination
Premium and annuity considerations	$ 80,158,711	$ 0	$ 80,158,711
Net investment income	87,405,723		87,405,723
Amortization of interest maintenance reserve	2,856,400		2,856,400
Separate Accounts net gain from operations	3,690,488		3,690,488
Commissions and expense allowances on reinsurance ceded	6,704,314		6,704,314
Reserve adjustments on reinsurance ceded	(5,841)		(5,841)
Income from fees associated with investment management,			
administration and contract guarantees from Sep. Accounts	136,876,625		136,876,625
Aggregate write-ins for miscellaneous income	33,725,010		33,725,010
Total	351,411,430		351,411,430
Death benefits	10,101,552		10,101,552
Annuity benefits	265,151,562		265,151,562
Disability benefits and benefits under A&H policies	1,491,123		1,491,123
Surrender benefits and withdrawals for life contracts	1,988,332,947		1,988,332,947
Interest and adjustments on contracts or depsoit-type funds	(2,425,065)		(2,425,065)
Increase in aggregate reserves for life and			
accident and health policies and contracts	(107,928,813)		(107,928,813)
Totals	2,154,723,306		2,154,723,306
Commissions on premiums, annuity considerations and			
deposit-type funds	25,511,648		25,511,648
General insurance expenses	60,343,988		60,343,988
Insurance taxes, licenses and fees, excl. federal income taxes	12,595,297		12,595,297
Net transfers to or (from) Separate Accounts	(1,956,431,520)		(1,956,431,520)
Totals	296,742,719		296,742,719
Net gain from operations before dividends to			
policyholders and federal income taxes	54,668,711		54,668,711
Federal income taxes incurred (excluding tax on capital gains)	(46,512,630)		(46,512,630)
Net gain from operations after dividends to policyholders			
and federal income taxes and before realized capital			
gains or (losses)	101,181,341		101,181,341
Net realized capital gains or (losses)	(21,369,984)		(21,369,984)
Net Income	$ 79,811,357	$ 0	$ 79,811,357

Allmerica Financial Life Insurance and Annuity Company
Capital and Surplus
For the Year Ended December 31, 2004

	As Reported by the Company	Examination Changes	Per Statutory Examination	Note
Capital and surplus, December 31, 2003	$495,596,818	$	$495,596,818	
Net income	79,811,357		79,811,357	
Change in net unrealized capital gains or losses	58,815,356		58,815,356	
Change in net deferred income tax	(44,819,558)		(44,819,558)	
Change in nonadmitted assets and related items	45,443,025		45,443,025	
Change in liability for reinsurance in unauthorized companies	(1,088,547)		(1,088,547)	
Change in asset valuation reserve	1,832,448		1,832,448	
Surplus withdrawn from Separate Accounts during perioc	3,690,487		3,690,487	
Other changes in surplus in Separate Accounts statement	(3,690,488)		(3,690,488)	
Dividends to stockholders	(75,000,000)		(75,000,000)	
Aggregate write-ins for gains and losses in surplus	(4,961,721)	(41,040,607)	(46,002,328)	(1)
Net change in capital and surplus for the year	60,032,359	(41,040,607)	18,991,752	
Capital and surplus, December 31, 2004	$555,629,177	$ (41,040,607)	$514,588,570	

Allmerica Financial Life Insurance and Annuity Company
Reconciliation of Capital and Surplus
For the Five Year Period Ended December 31, 2004

	2004	2003	2002	2001	2000
Capital and surplus, December 31, prior year	$495,596,818	$427,051,369	$194,990,660	$282,145,987	$342,707,282
Net income	79,811,357	105,140,450	(314,059,222)	(170,723,479)	(40,284,678)
Change in net unrealized capital gains or (losses)	58,815,356	(63,449,950)	7,041,756	7,616,981	(10,906,558)
Change in net deferred income tax	(44,819,558)	(36,876,852)	58,650,023	63,256,966	
Change in non-admitted assets and related items	45,443,025	52,117,382	(3,527,462)	(110,967,317)	(8,479,415)
Change in liability for reinsurance in unauthorized companies	(1,088,547)	(730,311)	737,961	(823,684)	
Change in asset valuation reserve	1,832,448	13,025,259	19,143,584	647,304	(1,595,033)
Surplus (contributed to) withdrawn from Separate Accounts during period	3,690,487	8,988,386	2,290,590	2,755,221	5,519,712
Other changes in surplus in Separate Accounts Statement	(3,690,488)	(11,169,286)	(109,689)	(2,755,221)	(5,519,712)
Cumulative effect of changes in accounting principals				22,161,060	
Capital changes - Paid in			406,192,830	130,000,000	
Dividends to stockholders	(75,000,000)	(25,000,000)			
Aggregate write-ins for gains and (losses) in surplus	(46,002,328)	26,500,371	55,700,338	(28,323,158)	704,389
Net change in capital and surplus for the year	18,991,752	68,545,449	232,060,709	(87,155,327)	(60,561,295)
Capital and surplus, December 31, current year *	$514,588,570	$495,596,818	$427,051,369	$194,990,660	$282,145,987

***** = Reflects results of examination changes in 2004

NOTES TO FINANCIAL STATEMENTS

NOTE (1) - Aggregate Reserve for Life Contracts

As noted previously, representatives from E&Y where retained by the Division to examine certain actuarial accounts, including aggregate reserves for life and annuity contracts. This included a detailed review and analysis of the Company's closed block of variable annuity contracts.

As part of this review, E&Y reviewed the Company's reserve calculation under CARVM as interpreted under Actuarial Guideline ("AG") 33 and AG 34. E&Y concluded that the methodologies, interest rate assumptions and mortality assumptions used to calculate policy reserves are appropriate and comply with the minimum standards of Massachusetts regulation. Additionally E&Y performed procedures to determine that all material product features were reflected within the policy reserves appropriately. This review indicated that the recorded guaranteed minimum death benefit ("GMDB") reserve appeared low relative to relationships commonly observed. E&Y determined that the Company had not considered all possible elective benefit streams in calculating reserves for variable annuities under CARVM, and did not establish GMDB reserves based on the greatest present value of certain benefit streams, and as a result of the Company's interpretation and application of CARVM and AG 33 and AG 34, annuity reserves were understated.

In response to this finding, the Company quantified the changes in its reserves that would result under alternative application of its methodologies, and it has been determined and agreed upon that given the language within the guidance, the various features within the policy contracts, and the inherent run-off characteristics of the contracts being a closed block of business, a change (increase) in reserves totaling $41,040,607 was a reasonable adjustment. This change results in a decrease in surplus and is considered a change in the application of CARVM assumptions, and is therefore shown as an adjustment to surplus as an "Aggregate Write-ins for Gains and Losses in Surplus".

The increase in reserves would have a tax return benefit associated with it but it would be received over a ten year period for tax return purposes. For financial statement purposes this would create a deferred tax benefit. As the Company has principally all of its deferred tax asset reflected as non admitted because of the limitations imposed under SSAP No. 10, this additional deferred tax benefit created by the increase in reserves noted above would also be non admitted, therefore having no net impact on surplus (increase in deferred tax asset offset by the increase in non admitted assets). For examination purposes, this is being handled on a net basis with no reflection of the increase to net deferred tax asset and the offset of the increase in non admitted assets.

To facilitate this change within the financial statements, it was also determined that for presentation purposes, the entire reserves (previously carried plus the adjustment increase) for the GMDB feature of the variable annuities would be re-classed within the annual statement liabilities page from line 13, "Transfers to Separate Accounts Due or Accrued", and included as part of Exhibit 5 and reported on line 1, "Aggregate Reserves for Life Contracts".

The Company has represented to the Division that it intends to adjust its financial statement in the second quarter of 2006 by approximately $41 million dollars to reflect this change in reserve methodology.

SEPARATE ACCOUNTS

Sections 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.

Most separate accounts held by the Company relate to individual variable annuities or individual life insurance of a 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. 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 1996, the Company began offering annuities with market value adjustments. While there are guarantees associated with these annuities, returns above this 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. Also in 1996, the Company began offering a separate account to fund certain group life insurance plans. This account provides guaranteed interest returns for three months only, where the rate is re-established based upon the investment return of the account. There are guarantees of principal and interest. The assets and liabilities are carried at book value.

SEPARATE ACCOUNTS - FINANCIAL STATEMENTS

A Statement of Assets, Liabilities and Surplus as of December 31, 2004, and a Summary of Operations for the year ended December 31, 2004, and a Reconciliation of Surplus for the year ended December 31, 2004, as determined by this examination, are presented.

Allmerica Financial Life Insurance and Annuity Company
Separate Account Business
Statement of Assets, Liabilities, and Surplus
As of December 31, 2004

Assets	**As Reported by the Company**	**Examination Changes**	**Per Statutory Examination**
Bonds	$ 98,010,802	$ 0	$ 98,010,802
Common stocks	9,799,727,688		9,799,727,688
Cash	86,993		86,993
Short-term investments	2,388,970		2,388,970
Investment income due and accrued	1,663,061		1,663,061
Total Assets	$9,901,877,514	$ 0	$ 9,901,877,514
Liabilities and Surplus			
Aggregate reserve for life, annuity and accident and health policies and contracts	$9,611,608,748	$ 0	$ 9,611,608,748
Interest maintenance reserve	1,288,371		1,288,371
Charges for investment management, administration and contract guarantees due or accrued	403,240		403,240
Other transfers to general account due or accrued	289,824,305		289,824,305
Aggregate write-ins for liabilities	(1,247,203)		(1,247,203)
Total Liabilities	9,901,877,460		9,901,877,460
Unassigned Funds	54		54
Total Surplus	54		54
Total Liabilities and Surplus	$9,901,877,514	$ 0	$ 9,901,877,514

Allmerica Financial Life Insurance and Annuity Company
Separate Account Business
Summary of Operations
For the Year Ended December 31, 2004

	As Reported by the Company	Examination Changes	Per Statutory Examination
Transfers to Separate Accounts:			
Net premiums and annuity considerations	$ 120,545,161	$ 0	$ 120,545,161
Net investment income and capital gains and losses	989,776,204		989,776,204
Totals	1,110,321,365		1,110,321,365
DEDUCT:			
Transfers from the Separate Accounts on account of contract benefits:			
Death benefits	215,406,344		215,406,344
Annuity benefits	3,716,264		3,716,264
Aggregate write-ins for other transfers from Separate Accounts on account of contract benefits	1,768,048,654		1,768,048,654
Transfers on account of policy loans	8,601,908		8,601,908
Net transfer of reserves from or (to) Separate Accounts	93,016,781		93,016,781
Aggregate write-ins for other transfers from Separate Accounts	(70,713,522)		(70,713,522)
Subtotals	2,018,076,429		2,018,076,429
Fees associated with changes for investment management, administration and contract guarantees	192,371,194		192,371,194
Increase in aggregate reserve for life and accident and health contracts	(1,103,432,689)		(1,103,432,689)
Aggregate write-ins for reserves and funds	(384,057)		(384,057)
Totals	1,106,630,877		1,106,630,877
Net gain from operations	$ 3,690,488	$ 0	$ 3,690,488

Allmerica Financial Life Insurance and Annuity Company
Separate Account Business
Reconciliation of Surplus
For the Year Ended December 31, 2004

	As Reported by the Company	Examination Changes	Per Statutory Examination
Surplus, December 31, 2003	$ 53	$ 0	$ 53
Net gain from operations	3,690,488		3,690,488
Surplus contributed or (withdrawn) during year	(3,690,487)		(3,690,487)
Surplus, December 31, 2004	$ 54	$ 0	$ 54

ACKNOWLEDGEMENT

Acknowledgment is made of the cooperation and courtesies extended by the officers and employees of the Company to all examiners during the course of the examination.

The assistance of representatives from Ernst & Young LLP is hereby acknowledged. In addition to the undersigned, the following individuals representing the Commonwealth of Massachusetts participated in this examination and the findings thereof:

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