

COMMONWEALTH OF MASSACHUSETTS

OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION

DIVISION OF INSURANCE

REPORT OF EXAMINATION OF THE

BOSTON MUTUAL LIFE INSURANCE COMPANY

CANTON, MASSACHUSETTS

As of December 31, 2011

NAIC GROUP CODE 00581

NAIC COMPANY CODE 61476

EMPLOYER ID NUMBER 04-1106240

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COMMONWEALTH OF MASSACHUSETTS

Office of Consumer Affairs and Business Regulation

DIVISION OF INSURANCE

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JOSEPH G. MURPHY
COMMISSIONER OF INSURANCE

March 15, 2013

Honorable Joseph G. Murphy
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street
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 as of December 31, 2011, of

BOSTON MUTUAL LIFE INSURANCE COMPANY

at its home office located at 120 Royall Street, Canton, Massachusetts, 02021-1098. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Boston Mutual Life Insurance Company (hereinafter referred to as the "Company") was last examined as of December 31, 2006 by the Massachusetts Division of Insurance (the "Division"). The current examination was also conducted by the Division, and covers the five-year period from January 1, 2007 through December 31, 2011, 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 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. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, when applicable to domestic state regulations. All accounts and activities of the company were considered in accordance with the risk-focused examination process.

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 benefits 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 is audited annually by Ernst & Young LLP ("E&Y"), an independent certified public accounting firm. The firm expressed unqualified opinions on the Company's financial statements in conformity with accounting practices prescribed or permitted by the Commonwealth of Massachusetts Division of Insurance for the calendar years 2007 through 2011. 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 PricewaterhouseCoopers, LLP, were engaged to complete certain agreed upon procedures, including a review and evaluation of the adequacy of the Company's policy reserves and IT systems as of December 31, 2011.

Boston Mutual Life Insurance Company

HISTORY

General

The Company is a Massachusetts domiciled company originally incorporated under the assessment laws of Massachusetts on August 18, 1891. The Company commenced business on February 15, 1892, under the name Boston Mutual Life Association. The new name, Boston Mutual Life Insurance Company, was adopted in 1899 when the Company was reorganized as a legal reserve company. In 1955, the Company expanded its operations by being licensed as an Accident and Health insurer. In 1968, the Company entered into the mutual fund business through a wholly owned subsidiary, Boston Mutual Sales Corporation, for the distribution of mutual funds and other equity funds. The Company subsequently withdrew from the mutual fund business.

By 1988, the Company had expanded its geographical licensure to write insurance business in 49 states, as well as the District of Columbia, and Puerto Rico. Although inactive, the Company is also licensed to write insurance business at United States defense installations in Europe. In 1989, the Company gained access to the State of New York market through a newly formed wholly owned subsidiary, Life Insurance Company of Boston & New York, a New York domiciled insurance company. The Company also owns all of the outstanding stock of Boston Mutual Life Insurance Agency and is the sole member of 66 Beacon Street, LLC. The Company is the lead company of Boston Mutual Group, which includes all of the previously mentioned entities.

Growth of Company

The growth of the Company for the years 2007 through 2011 is shown in the following schedule, which was prepared from the Company's Annual Statements, including any changes as a result of the examination.

| <u>Year</u> | <u>Admitted Assets</u> | <u>Net Premiums Written</u> | <u>Surplus</u> | <u>Total Losses and Benefits</u> |
|-------------|------------------------|---------------------------------|----------------|--------------------------------------|
| 2007 | \$ 893,464,627 | \$ 169,534,886 | \$102,138,936 | \$ 134,130,336 |
| 2008 | 929,127,283 | 170,735,544 | 77,722,334 | 137,912,888 |
| 2009 | 995,276,770 | 170,523,662 | 108,145,976 | 135,976,338 |
| 2010 | 1,048,910,375 | 171,203,513 | 118,783,345 | 134,920,118 |
| 2011 | 1,102,746,536 | 180,133,882 | 126,301,796 | 144,443,538 |

MANAGEMENT

Annual Meeting

In accordance with the bylaws, the Annual Meeting of the Company is held on the third Wednesday of April in each year at the Company's principal office in Canton, Massachusetts, or at such place, date and time as the Board of Directors shall otherwise fix. Twelve Members of the Company (every person holding a life policy, annuity or pure endowment contract issued by the Company is considered a Member) present in person or by proxy shall constitute a quorum at any Annual

Boston Mutual Life Insurance Company

Meeting and a lesser number may adjourn from time-to-time. The minutes indicate that a quorum was obtained at each annual meeting held during the examination period.

Board of Directors

The bylaws provide that the Board of Directors shall have the immediate governance, direction and control of all of the affairs and business of the Company except as otherwise provided by the Articles of Incorporation, the Massachusetts General Laws or by a valid policyholder vote. The Board of Directors shall consist of not fewer than seven nor more than fifteen Directors with the number determined at each Annual Meeting by resolution of the Members. Each Director holds office for a term of four years. Vacancies in the Board through death, resignation, or any other cause may be filled by vote of the Board at any regular or special meeting.

At December 31, 2011, the Board was comprised of eight Directors, which is in compliance with the Company's bylaws.

Directors duly elected and serving at December 31, 2011, with business affiliations, are as follows:

| <u>Term Expires</u> | <u>Director</u> | <u>Business Affiliation</u> |
|---------------------|--------------------------------|---|
| 2013 | John J. Cook, Jr. | Managing Director Seaward Management |
| 2012 | Henry T. Goldman, Esq. | Attorney at Law Law Office of Henry T. Goldman |
| 2015 | Thomas M. Joyce, Jr., Esq. | Attorney at Law Joyce & Joyce |
| 2012 | Marnie W. Mueller, PhD, CLU | Consultant Senior Vice President (Retired), Connecticut Mutual |
| 2014 | Vincent M. O'Reilly, CPA | Distinguished Senior Lecturer Carroll School of Management - Boston College |
| 2013 | Nils P. Peterson | Chief Investment Officer (Retired) Harvard Management Company |
| 2014 | Paul E. Petry, FSA, CLU | Chairman, President and CEO Boston Mutual Life Insurance Company |
| 2015 | Richard P. Quincy | President Quincy & Company |

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 four times per year in 2007 through 2011. At any meeting of the Board, a majority of the Board shall constitute a quorum for the transaction of business. The minutes indicated that a quorum was met at all meetings held during the examination period.

Boston Mutual Life Insurance Company

The Board of Directors appoints an Executive Committee, Finance Committee, and Audit Committee in accordance with the bylaws. The purpose and membership of each committee at December 31, 2011, follows.

Executive Committee

The Executive Committee is comprised of four Directors empowered to act on behalf of the Board. The committee is charged with the duty to act for the Board of Directors in regard to all matters requiring immediate Board action arising between regular meetings of the Board of Directors, except as provided by law, and shall report any action taken by them to the next regular meeting of the Board. Directors serving on this committee at December 31, 2011, are as follows:

Paul E. Petry, FSA, CLU
Henry T. Goldman, Esq.
Thomas M. Joyce, Jr., Esq.
Vincent M. O'Reilly, CPA

Finance Committee

The Finance Committee is comprised of five Directors empowered to act on behalf of the Board. The committee is charged with the duty to invest funds of the Company, and may, in accordance with the statutes of the Commonwealth of Massachusetts, buy, sell, exchange, collect or otherwise deal in stocks, bonds, notes, mortgages, securities, real or personal property or other property, or any interest therein. It shall have general charge of the financial transactions of the Company and shall report its actions to the Board of Directors at the next regular meeting of the Board at which it is feasible to do so. Directors serving on this committee at December 31, 2011, are as follows:

Paul E. Petry, FSA, CLU
John J. Cook, Jr.
Marnie W. Mueller, PhD, CLU
Nils P. Peterson
Richard P. Quincy

Audit Committee

The Audit Committee is comprised of four Directors empowered to act on behalf of the Board. The committee is charged with the duty to supervise examination of the books and accounts of the Company and of its securities and other assets. Directors serving on this committee at December 31, 2011, are as follows:

Vincent M. O'Reilly, CPA
Henry T. Goldman, Esq.
Thomas M. Joyce, Jr., Esq.
Richard P. Quincy

Other committees appointed by the Board were the Salary Committee, Finance Subcommittee, Mortgage Rating Subcommittee, and Risk Committee (formally Insurance Operations).

Boston Mutual Life Insurance Company

Officers

The bylaws of the Company provide that the officers of the Company shall be a Chairman of the Board, President, one or more Vice Presidents, Treasurer, Clerk, Secretary, one or more Medical Directors, and such other officers as the Board of Directors may, from time-to-time, deem necessary or proper to the transaction of business of the Company. The same person may hold the office of the Chairman of the Board and President. The bylaws state that at the first meeting of the Board following the Annual Meeting of the Company, the Directors shall choose by ballot, from their own number, a President and Chairman of the Board. The Directors shall also choose by ballot a Secretary, a Treasurer, and a Clerk of the Corporation, who need not be members of the Board. At any meeting of the Board, the Directors may elect, from their own number or not, as they see fit, such other officers they deem proper. Vacancies among the officers may be filled and new offices created and filled by the Board of Directors.

The elected officers and their respective titles at December 31, 2011, are as follows:

| <u>Name</u> | <u>Title</u> |
|------------------------------|---|
| *Paul E. Petry, FSA, CLU | Chairman, President and Chief Executive Officer |
| Eric J. Bernazzani, CNE | Vice President, Information Technology |
| Timothy E. Flannigan | Vice President, General Agency |
| *Walter J. Gorski, Esq. | Vice President, General Counsel, Secretary & Clerk |
| Linda M. Izzo | Vice President – HR & Individual Insurance Operations |
| Clifford A. Lange, FSA CLU | Vice President, CFO & Chief Actuary |
| Howard V. Neff, Jr. | Vice President, Chief Investment Officer |
| *Paul A. Quaranto, Jr. | Vice President, Group Insurance |
| Peter S. Tillson | Vice President, Worksite Marketing |
| Mary T. Tillson | Vice President, Product & Field Support |
| Christine T. Coughlin, CPA | Second Vice President & Treasurer |
| Susan J. Gardner, CPA | Second Vice President & Controller |
| Paul S. Painchaud, ASA, MAAA | Second Vice President & Appointed Actuary |
| Frederick C. Thurston | Second Vice President – Chief Compliance Officer |
| Philip G. Sullivan, M.D. | Medical Director |

*Paul Petry was succeeded by Paul Quaranto, Jr. as President & Chief Operating Officer effective January 1, 2012. Paul Petry retained the title of Chairman & Chief Executive Officer.

*Walter Gorski was succeeded by John R. Flores, J.D. as Vice-President, General Counsel & Secretary on April 2, 2012

*Paul Quaranto, Jr. was succeeded by David C. Mitchell, CLU as Vice-President, Group Insurance on March 7, 2012.

Boston Mutual Life Insurance Company

Conflict of Interest Procedures

The Company has adopted a policy statement pertaining to conflict-of-interest in accordance with Question 18 of the General Interrogatories of the Annual Statement. The Company has an established procedure for the disclosure to the Board of Directors of any material interest or affiliation on the part of any officer or director, which is in or is likely to conflict with his/her official duties.

Annually, each officer, director, and responsible employee completes a questionnaire disclosing any material conflicts of interest. The completed questionnaires were reviewed and no discrepancies were noted in the responses to the General Interrogatories regarding conflicts of interest as reflected in the Company's 2011 Annual Statement.

Corporate Records

Articles of Incorporation and Bylaws

The bylaws and Articles of Incorporation and amendments thereto were read. There were changes to the bylaws on February 18, 2009, which were filed with the Commissioner pursuant to MGL Chapter 175, Section 49. These changes were regarding the elimination of the residential provision for the Directors and the amendment to the restrictions to the numbers of Directors for each of the four classes. There were no changes to the Articles of Incorporation since the prior examination.

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 the MGL Chapter 175, Sections 180M through 180Q.

Board of Directors Minutes

The minutes of meetings of the Board of Directors for the period under examination were read and indicated that all meetings were held in accordance with the Company bylaws and the laws of the Commonwealth of Massachusetts. Activities of the Committees were ratified at each meeting of the Board of Directors.

The minutes of the July 16, 2008, Board of Directors meeting noted that the prior Report of Examination as of December 31, 2006, was reviewed and accepted by the Board.

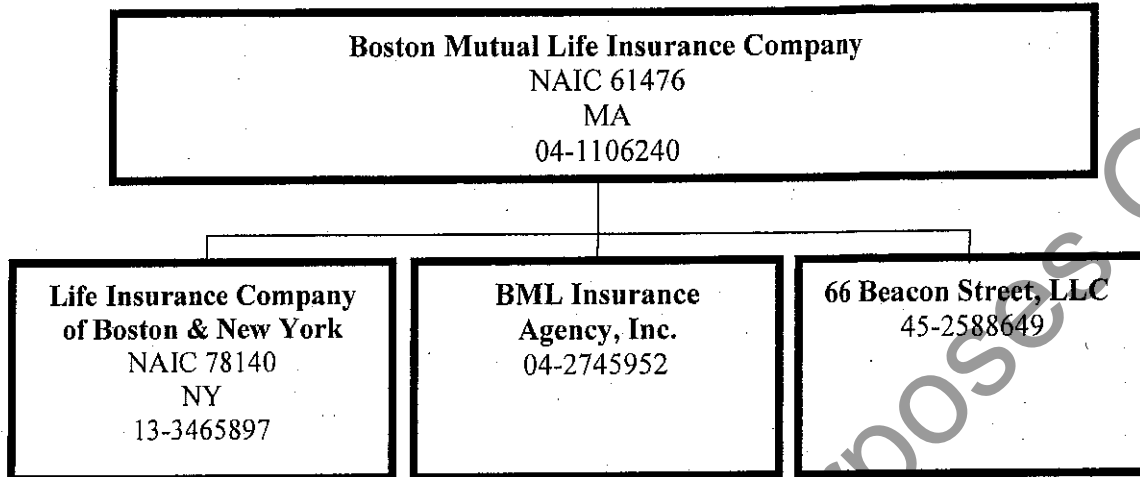
AFFILIATED COMPANIES

Per Form B, as filed with the Massachusetts Division of Insurance, 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 the "ultimate controlling person" for three entities, including one insurance and two non-insurance corporations.

Boston Mutual Life Insurance Company

Organization Chart

An organization chart of Boston Mutual Life Insurance Company and subsidiaries is presented below:



Acquisitions, Mergers, Disposals and Other Transactions

The Company formed 66 Beacon Street, LLC on June 22, 2011, with a capital contribution of \$14,500,000. The general character of 66 Beacon's business is to own, develop, finance and otherwise deal in real estate and to otherwise engage in any lawful act or activity for which limited liability companies may be organized under Chapter 156C of the Massachusetts General Law. 66 Beacon Street, LLC is a wholly owned subsidiary of the Company, which is the sole member of the LLC.

Transactions and Agreements with Subsidiaries and Affiliates

Management & Service Agreement

The Company provides and receives certain accounting, management and other services to and from its affiliates. Fees charged for these services are agreed upon by the parties from time-to-time.

Cost Sharing Arrangement

The Company pays for various general and administrative expenses on behalf of certain subsidiaries and is repaid on a cost reimbursement basis.

Boston Mutual Life Insurance Company

Tax Sharing Agreement

The Company participates in a tax allocation agreement with its eligible subsidiaries. The allocation method is based upon the respective tax liability of each member computed as if a separate return were filed, in accordance with the Internal Revenue Code. Inter-company balances between the Company and Life Insurance Company of Boston & New York are settled within 30 days of the filing of the applicable estimated or actual consolidated federal corporate income tax return with the Internal Revenue Service except when a refund is due the Company, in which case, the Company may defer payment to Life Insurance Company of Boston & New York to within 30 days of receipt of such refund. All settlements shall be in cash or securities eligible as investments for Life Insurance Company of Boston & New York, at market value.

FIDELITY BONDS AND OTHER INSURANCE

The Company maintains fidelity coverage with an authorized Massachusetts insurer consistent with MGL Chapter 175, Section 60. The aggregate limit of liability exceeds the NAIC suggested minimum as well as Massachusetts General Law requirements.

The Company has further protected its interests and properties by policies of insurance covering other insurable risks. Coverage is provided by insurers licensed in the Commonwealth of Massachusetts and was in force as of December 31, 2011.

PENSION AND INSURANCE PLANS

The Company offers various insurance plans, including group and family life insurance, dental and health coverage, short-term and long-term disability insurance, and personal accident insurance to all eligible employees.

The Company offers two Savings and Investment Plans under section 401(k) of the Internal Revenue Code. The plans, which are defined contribution plans, cover substantially all employees and agents of the Company. Eligible employees and agents become qualified to participate in a plan on the first day of employment.

Substantially all of the Company's eligible employees and agents participate in a noncontributory defined benefit pension plan. The Company provides a non-qualified pension plan for individuals in the defined benefit plan limited by the Internal Revenue Code. In addition, the Company participates in a non-qualified Executive Supplementary Pension Plan for certain individuals of the Company. SEI Private Trust Company, an independent consultant, holds the pension plan assets and executes investment transactions. Pension plan liabilities are determined by a consulting actuary from Fidelity Employer Services Company. The qualified defined pension plan and the non-qualified plan were frozen as of December 31, 2007. At December 31, 2011, the qualified pension fund was 73% funded. All pension fund information is disclosed in the Notes to the Financial Statements in the Company's Annual Statement.

Boston Mutual Life Insurance Company

STATUTORY DEPOSITS

The statutory deposits of the Company as of December 31, 2011, were as follows:

| <u>Location</u> | <u>Description of Deposit</u> | <u>Par Value</u> | <u>Statement Value</u> | <u>Market Value</u> |
|-----------------|-------------------------------------|------------------|------------------------|---------------------|
| Florida | US Treasury Bond 6.625% due 2027 | \$ 350,000 | \$ 396,081 | \$ 538,563 |
| Georgia | US Treasury Bond 6.625% due 2027 | 50,000 | 56,583 | 76,938 |
| Kansas | US Treasury Bond 6.25% due 2030 | 100,000 | 109,060 | 154,656 |
| Kentucky | US Treasury Bond 6.625% due 2027 | 500,000 | 565,830 | 769,375 |
| Massachusetts | US Treasury Bond 6.625% due 2027 | 1,650,000 | 1,843,929 | 2,538,938 |
| New Mexico | US Treasury Bond 6.625% due 2027 | 165,000 | 184,393 | 253,894 |
| North Carolina | US Treasury Bond 6.25% due 2030 | 400,000 | 436,241 | 618,624 |
| Oklahoma | US Treasury Bond 6.25% due 2030 | 165,000 | 179,949 | 255,182 |
| Puerto Rico | US Treasury Bond 6.625% due 2027 | 1,000,000 | 1,087,109 | 1,538,750 |
| Virginia | US Treasury Bond 6.25% due 2030 | 55,000 | 59,983 | 85,061 |

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed to write insurance business in 49 states, as well as the District of Columbia, and Puerto Rico. The Company is not licensed in New York, but transacts business in that state through its wholly owned subsidiary, Life Insurance Company of Boston & New York, a New York domiciled insurance company.

The Company's principal lines of business are offered through a portfolio of group life, individual life, and group accident & health related products, which are provided primarily to low and middle-income markets. The Company distributes its insurance products through worksite marketing specialists, district and general agencies, independent agents and brokers.

Boston Mutual Life Insurance Company

The Company has added a few new products since the last examination. The most significant new products are the Accident product and Critical Illness product which are sold through Worksite Marketing. General Agencies also began selling an individual disability income product which is marketed in conjunction with Tower Insurance Services. Additionally, the Company has a number of joint marketing arrangements with other insurance companies where the Company does not have any risk, but receives a fee for selling those products.

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 for the period January 1, 2011 through December 31, 2011. The market conduct examination was called pursuant to authority in MGL Chapter 175, Section 4.

The market conduct examination is being 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 Risk & Regulatory Consulting, LLC 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 basic business areas that are being reviewed under this market conduct examination are Company Operations/Management; Complaint Handling; Marketing and Sales; Producer Licensing; Policyholder Services; Underwriting and Rating; Claims, in addition to an assessment of the Company's internal control environment. Once this market conduct examination is completed a Report on the Comprehensive Market Conduct Examination of the Company for the period January 1, 2011 through December 31, 2011 will be issued and become available as a public document.

DIVIDENDS TO POLICYHOLDERS

The Company annually determines the amount of divisible surplus available as dividends to eligible policyholders. Surplus, in excess of what the Company's Board of Directors determines to be necessary to meet its future obligations, is distributed annually in the form of dividends on the Company's participating policies, subject to statutory mandates. Policyholder dividends for the examination period, are as follows:

| <u>Year</u> | <u>Dividends to Policyholders</u> |
|-------------|-----------------------------------|
| 2007 | \$ 656,135 |
| 2008 | 735,595 |
| 2009 | 1,072,419 |
| 2010 | 686,906 |
| 2011 | 865,368 |

Boston Mutual Life Insurance Company

CAPITAL & SURPLUS

On December 4, 2002, the Company issued a 30 year surplus note with a face amount of \$10,000,000 paying a variable interest rate (the 3 month LIBOR rate + 4%) pursuant to Rule 144A under the Securities Act of 1933. The surplus note was issued for cash, with interest payable on March 4, June 4, September 4 and December 4. Interest and principal amounts are only payable upon prior approval of the Commissioner of Insurance of the Commonwealth of Massachusetts. During 2008 and 2007, interest of \$230,818 and \$955,535 was paid. No principal amounts were due or paid in 2007. On January 14, 2008, the Commissioner of Insurance of the Commonwealth of Massachusetts approved the payoff of the 30 year \$10,000,000 surplus note, issued by the Company on December 4, 2002. The payoff was completed on March 4, 2008.

REINSURANCE

Ceded Reinsurance

The general purpose of the ceded reinsurance program is to allow for the growth of the Company by providing additional capacity and protection of underwriting results and loss ratios. The Company's maximum retained risk by line of business is the following:

| <u>Line of Business</u> | <u>Maximum Retention</u> |
|-------------------------|---------------------------------------|
| Individual Life | \$100,000 plus a \$10,000 corridor |
| Individual AD & D | \$20,000 plus a \$5,000 corridor |
| Group Life | \$112,500 |
| Group AD & D | \$100,000 |

Short-term disability is 90% retained, long-term disability is 20% or less, and intermediate-term or "Worksite Short-term Disability" is 50% retained.

The Company transacts some of its reinsurance activities through reinsurance intermediaries. Reinsurance agreements utilizing intermediaries were reviewed for appropriate credit risk assumption provisions.

Each treaty reviewed contained an insolvency clause in accordance with MGL Chapter 175, Section 20A.

Boston Mutual Life Insurance Company

Assumed Reinsurance

In-Force Treaties

The majority of the assumed reinsurance activity is with the Company's wholly owned subsidiary, Life Insurance Company of Boston & New York. The Company has a nominal amount of assumed reinsurance business through retrocessions or mutual (pooled) arrangements for universal life products and short-term disability.

Life Insurance Company of Boston & New York is licensed to write business in New York. The Company is not licensed to transact business in New York. Individual life, group life, and accident and health are the principal products offered by Life Insurance Company of Boston & New York. Approximately 10% of this wholly owned subsidiary's in-force life business is assumed by the Company.

ACCOUNTS AND RECORDS

The internal controls 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 Information Systems (IS) environment. The questionnaire was completed by the Company and reviewed by the PricewaterhouseCoopers representatives with whom the Division contracted to evaluate the adequacy of the information systems 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 2011 Annual Statement. No material exceptions were noted.

The books and records of the Company are audited annually by Ernst & Young LLP, independent Certified Public Accountants, in accordance with 211 CMR 23.00. They expressed an unqualified opinion in each of the years.

FINANCIAL STATEMENTS

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, 2011:

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2011

Statement of Income for the Year Ended December 31, 2011

Statement of Capital and Surplus for the Year Ended December 31, 2011

Reconciliation of Capital and Surplus for the Five-Year Period Ended December 31, 2011

Boston Mutual Life Insurance Company

Statement of Assets, Liabilities, Surplus and Other Funds As of December 31, 2011

| | As Reported by the Company | Examination Changes | Per Statutory Examination |
|--|-------------------------------|------------------------|------------------------------|
| <u>Assets</u> | | | |
| Bonds | \$ 668,029,983 | \$ 0 | \$ 668,029,983 |
| Stocks: | | | |
| Preferred stocks | 0 | | 0 |
| Common stocks | 31,400,389 | | 31,400,389 |
| Mortgage loans on real estate: | | | |
| First liens | 124,912,645 | | 124,912,645 |
| Real estate: | | | |
| Properties held for the production of income | 7,181,565 | | 7,181,565 |
| Contract loans | 119,278,808 | | 119,278,808 |
| Cash | 304,785 | | 304,785 |
| Short-term investments | 19,213,922 | | 19,213,922 |
| Other invested assets | 21,838,098 | | 21,838,098 |
| Receivables for securities | 248,057 | | 248,057 |
| Subtotals, cash and invested assets | 992,408,252 | | 992,408,252 |
| Investment income due and accrued | 13,659,595 | | 13,659,595 |
| Premiums and considerations: | | | |
| Uncollected premiums and agents balances in the course of collection | 4,935,693 | | 4,935,693 |
| Deferred premiums, agents' balances and installments booked but deferred and not yet due | 41,925,746 | | 41,925,746 |
| Reinsurance: | | | |
| Amounts recoverable from reinsurers | 2,602,158 | | 2,602,158 |
| Other amounts receivable under reinsurance contracts | 1,527,161 | | 1,527,161 |
| Current federal and foreign income tax recoverable and interest thereon | 400,369 | | 400,369 |
| Net deferred tax asset | 18,854,391 | | 18,854,391 |
| Guaranty funds receivable or on deposit | 290,224 | | 290,224 |
| Electronic data processing equipment and software | 7,849 | | 7,849 |
| Receivable from parents, subsidiaries and affiliates | 131,509 | | 131,509 |
| Aggregate write-ins for other than invested assets | 26,003,589 | | 26,003,589 |
| Total Assets | \$ 1,102,746,536 | \$ 0 | \$ 1,102,746,536 |

Boston Mutual Life Insurance Company

Statement of Assets, Liabilities, Surplus and Other Funds (Continued) As of December 31, 2011

| | As Reported by the Company | Examination Changes | Per Statutory Examination | Notes |
|---|-------------------------------|------------------------|------------------------------|-------|
| Liabilities and Surplus | | | | |
| Aggregate reserve for life contracts | \$ 867,863,068 | \$ 0 | \$ 867,863,068 | (1) |
| Aggregate reserve for accident and health contracts | 7,691,906 | | 7,691,906 | (1) |
| Liability for deposit-type contracts | 17,628,620 | | 17,628,620 | (1) |
| Contract claims: | | | | |
| Life | 10,795,846 | | 10,795,846 | (1) |
| Accident and health | 3,878,081 | | 3,878,081 | (1) |
| Policyholders' dividends and coupons due and unpaid | 0 | | 0 | |
| Provision for policyholders' dividends payable in following calendar year—estimated amounts: | | | | |
| Dividends apportioned for payment | 451,422 | | 451,422 | |
| Dividends not yet apportioned | 551,737 | | 551,737 | |
| Premium and annuity considerations for life and accident and health contracts received in advance less | 1,582,735 | | 1,582,735 | |
| Contract liabilities not included elsewhere: | | | | |
| Interest Maintenance Reserve | 4,111,183 | | 4,111,183 | |
| Commissions to agents due or accrued—life and annuity contracts and accident and health | 3,604,256 | | 3,604,256 | |
| General expenses due or accrued | 7,376,931 | | 7,376,931 | |
| Taxes, licenses and fees due or accrued, excluding federal income taxes | 1,981,205 | | 1,981,205 | |
| Current federal and foreign income taxes | 0 | | 0 | |
| Unearned investment income | 134,077 | | 134,077 | |
| Amounts withheld or retained by company as agent or trustee | 5,183,459 | | 5,183,459 | |
| Remittances and items not allocated | 6,368,016 | | 6,368,016 | |
| Miscellaneous liabilities: | | | | |
| Asset valuation reserve | 6,999,379 | | 6,999,379 | |
| Reinsurance in unauthorized companies | 512,230 | | 512,230 | |
| Aggregate write-ins for liabilities | 29,730,589 | | 29,730,589 | |
| Total liabilities | 976,444,740 | 0 | 976,444,740 | |
| Surplus notes | 0 | | 0 | |
| Aggregate write-ins for special surplus funds | 16,513,775 | | 16,513,775 | |
| Unassigned funds (surplus) | 109,788,021 | | 109,788,021 | |
| Total surplus | 126,301,796 | | 126,301,796 | |
| Total liabilities and surplus | \$ 1,102,746,536 | \$ 0 | \$ 1,102,746,536 | |

Boston Mutual Life Insurance Company

Statement of Income For the Year Ended December 31, 2011

| | As Reported by the Company | Examination Changes | Per Statutory Examination |
|--|-------------------------------|------------------------|------------------------------|
| Premium and annuity considerations for life and accident and health contracts | \$ 180,133,882 | \$ 0 | \$ 180,133,882 |
| Net investment income | 50,861,336 | | 50,861,336 |
| Amortization of interest Maintenance Reserve | 560,348 | | 560,348 |
| Commissions and expense allowances on reinsurance ceded | 14,809,579 | | 14,809,579 |
| Reserve adjustments on reinsurance ceded | 331,655 | | 331,655 |
| Aggregate write-ins for miscellaneous income | 1,188,756 | | 1,188,756 |
| Total income | 247,885,555 | | 247,885,555 |
| Death benefits | 60,727,037 | | 60,727,037 |
| Matured endowments | 322,040 | | 322,040 |
| Annuity benefits | 7,889 | | 7,889 |
| Disability benefits & benefits under accident and health contracts | 14,246,955 | | 14,246,955 |
| Surrender benefits and withdrawals for life contracts | 29,834,306 | | 29,834,306 |
| Interest and adjustments on contract or deposit-type contract funds | 832,573 | | 832,573 |
| Increase in aggregate reserves for life and accident and health contracts | 38,472,738 | | 38,472,738 |
| Commissions on premiums, annuity considerations and deposit-type contract funds | 38,523,228 | | 38,523,228 |
| Commissions and expense allowances on reinsurance assumed | 9,595 | | 9,595 |
| General insurance expenses | 38,482,146 | | 38,482,146 |
| Insurance taxes, licenses and fees, excluding federal income taxes | 7,177,348 | | 7,177,348 |
| Increase in loading on deferred and uncollected premiums | 783,477 | | 783,477 |
| Aggregate write-ins for deductions | 91,938 | | 91,938 |
| Total disbursements | 229,511,269 | | 229,511,269 |
| Net gain from operations before dividends to policyholders and federal income taxes | 18,374,286 | | 18,374,286 |
| Dividends to policyholders | 865,368 | | 865,368 |
| Net gain from operations after dividends to policyholders and before federal income taxes | 17,508,917 | | 17,508,917 |
| Federal income taxes incurred | 5,540,508 | | 5,540,508 |
| Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses) | 11,968,409 | | 11,968,409 |
| Net realized capital gains or (losses) less capital gains tax and transferred to the IMR | 129,837 | | 129,837 |
| Net income | \$ 12,098,246 | \$ 0 | \$ 12,098,246 |

Boston Mutual Life Insurance Company

Statement of Capital and Surplus For the Year Ended December 31, 2011

| | As Reported by the Company | Examination Changes | Per Statutory Examination |
|---|-------------------------------|------------------------|------------------------------|
| Capital and surplus, December 31, 2010 | \$ 118,783,345 | \$ 0 | \$ 118,783,345 |
| Net income | 12,098,246 | | 12,098,246 |
| Change in net unrealized capital gains (losses) | 2,401,237 | | 2,401,237 |
| Change in net deferred income tax | 2,683,922 | | 2,683,922 |
| Change in nonadmitted assets | (7,591,459) | | (7,591,459) |
| Change in liability for reinsurance in unauthorized companies | (18,695) | | (18,695) |
| Change in reserve on account of change in valuation basis | 0 | | 0 |
| Change in asset valuation reserve | (737,672) | | (737,672) |
| Aggregate write-ins for gains and losses in surplus | (1,317,129) | | (1,317,129) |
| Net change in capital and surplus for the year | 7,518,451 | 0 | 7,518,451 |
| Capital and surplus, December 31, current year | \$ 126,301,796 | \$ 0 | \$ 126,301,796 |

Boston Mutual Life Insurance Company

Reconciliation of Capital and Surplus For the Five-Year Period Ended December 31, 2011

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|----------------|----------------|----------------|----------------|----------------|
| Capital and surplus, December 31, prior year | \$ 118,783,345 | \$ 108,145,976 | \$ 77,722,334 | \$ 102,138,936 | \$ 89,410,572 |
| Net income | 12,098,246 | 12,380,778 | 9,985,314 | 9,604,549 | 10,334,878 |
| Change in net unrealized capital gains (losses) | 2,401,237 | 1,547,927 | 4,257,982 | (3,602,555) | 997,452 |
| Change in net deferred income tax | 2,683,923 | 1,406,050 | (6,151,939) | 3,725,257 | 3,173,659 |
| Change in nonadmitted assets and related items | (7,591,459) | (4,507,238) | 10,999,487 | (23,915,120) | (1,629,941) |
| Change in liability for reinsurance in unauthorized companies | (18,695) | (151,067) | 1,252,747 | (1,595,215) | 767 |
| Change in reserve on account of change in valuation basis | 0 | 0 | 0 | 833,789 | 0 |
| Change in asset valuation reserve (increase) or decrease | (737,672) | (286,903) | (796,495) | 532,693 | (148,451) |
| Change in surplus notes | 0 | 0 | 0 | (10,000,000) | 0 |
| Aggregate write-ins for gains and losses in surplus | (1,317,129) | 247,822 | 10,876,546 | 0 | 0 |
| Net change in capital and surplus for the year | 7,518,451 | 10,637,369 | 30,423,642 | (24,416,602) | 12,728,364 |
| Capital and surplus, December 31, current year | \$ 126,301,796 | \$ 118,783,345 | \$ 108,145,976 | \$ 77,722,334 | \$ 102,138,936 |

Boston Mutual Life Insurance Company

NOTES TO FINANCIAL STATEMENTS

Note 1: Actuarial Items, Reserves and Liabilities:

In connection with the Division's examination of the Company and its 2011 Annual Statement, the services of PricewaterhouseCoopers LLP (the "Consulting Actuary") were retained to perform a detailed review of the Company's actuarial items, reserves, and claims liability. The Consulting Actuary verified that certain reserves reported by the Company as of December 31, 2011, comply with Massachusetts Valuation Law; appear reasonable, accurate and complete; and follow the guidelines established by the NAIC Statements of Statutory Accounting Principles.

In addition, the Consulting Actuary reviewed the Company's Cash Flow Testing (Asset Adequacy Analysis) for asset/liability risk to assure that adequate margins were present for the modeled business in all tested interest rate scenarios. The result of the asset adequacy analysis appears in the Company's 2011 Actuarial Opinion, which the Consulting Actuary reviewed for reasonableness. Business not modeled through cash flow testing was reviewed to assure that it was not sensitive to economic interest rate risk.

Additionally, the Consulting Actuary reviewed the reinsurance program, including specific ceded agreements with reserve credit taken. They also determined that Risk Based Capital amounts were reasonably stated and that methods and underlying assumptions were reasonable and appropriate.

Based upon the work performed by the Consulting Actuary and the conclusion detailed within the report of actuarial examination, it is concluded that the Company's Annual Statement actuarial reserves are properly calculated, in compliance with Massachusetts Valuation Law, follow the NAIC Statements of Statutory Accounting Principles, and set at a reasonable standard of conservatism.

Boston Mutual Life Insurance Company

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Acknowledgment is made of the cooperation and courtesies extended by the officers and employees of the Company.

The assistance rendered by the following Division examiners who participated in this examination is hereby acknowledged:

Kenneth R. Brenner, CPA, CFE
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Insurance Examiner II
Insurance Examiner II
Insurance Examiner II



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Commonwealth of Massachusetts
Division of Insurance