THE COMMONWEALTH OF MASSACHUSETTS

OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION

DIVISION OF INSURANCE

REPORT OF EXAMINATION OF THE

Centre Life Insurance Company

Springfield, Massachusetts

As of December 31, 2010

NAIC GROUP CODE 0212

NAIC COMPANY CODE 80896

EMPLOYERS ID NUMBER 04-1589940

TABLE OF CONTENTS

Salutation	1
Scope of Examination	2
Status of Prior Examination Findings	3
History	3
General	3
Common Capital Stock	3
Gross Paid-in and Contributed Capital	3
Dividends to Stockholders	4
Growth of Company	4
Management and Control	4
Stockholders Meetings	4
Board of Directors	4
Audit Committee	5
Investment Committee	6
Officers	6
Conflict of Interest Procedures	7
Articles of Incorporation and By-Laws	7
Surplus Notes	7
Management Continuity and National Emergency	7
Affiliated Companies	8
Transactions and Agreements with Affiliates	8
Fidelity Bond and Other Insurance	10
Special Deposits	11
Insurance Products and Related Practices	11
Reinsurance	11
Accounts and Records	13
Administrative Services Agreement	14
Financial Statements	14
Statutory Statement of Assets, Liabilities, Surplus and Other Funds	15
Summary of Operations	16
Capital and Surplus	17
Reconciliation of Capital and Surplus	18
Notes to Financial Statements	19
Acknowledgement	20

COMMONWEALTH OF MASSACHUSETTS
Office of Consumer Affairs and Business Regulation
DIVISION OF INSURANCE
1000 Washington Street, Suite 810 • Boston, MA 02118-6200
(617) 521-7794 • Fax (617) 521-7771
TTY/TDD (617) 521-7490
http://www.state.ma.us/doi

DEVAL L. PATRICK
GOVERNOR

TIMOTHY P. MURRAY
LIEUTENANT GOVERNOR

GREGORY BIALECKI
SECRETARY OF HOUSING AND ECONOMIC DEVELOPMENT

BARBARA ANTHONY
UNDERSECRETARY OF CONSUMER AFFAIRS AND BUSINESS REGULATION

JOSEPH G. MURPHY
COMMISSIONER OF INSURANCE

May 31, 2012

The Honorable Joseph G. Murphy
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street
Boston, Massachusetts 02118-6200

Honorable Commissioner Murphy:

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

CENTRE LIFE INSURANCE COMPANY

at its administrative office located at 1 Liberty Plaza, 165 Broadway, New York, New York 10006. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Centre Life Insurance Company hereinafter referred to as the ("Company") or ("CLIC") was last examined as of December 31, 2005 by the Massachusetts Division of Insurance. The current examination covers the intervening period from January 1, 2006 through December 31, 2010, and any material transactions and/or events occurring subsequent and noted during the examination. The current examination was conducted at the direction of and under the overall management and control of the examination staff of the Massachusetts Division of Insurance ("Division") in accordance with standards established by the NAIC Financial Condition (E) Committee, as well as the requirements of the *NAIC Financial Condition Examiner's Handbook*, using the risk-focused examination approach, the examination standards of the Division and with Massachusetts General Laws.

The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risk within the Company, and evaluating system controls and procedures used to mitigate those risks. The examination also included 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.

The principal focus of the examination was for the year ended December 31, 2010, however; transactions both prior and subsequent thereto were reviewed as deemed appropriate. The examiners considered reliance on general controls review, internal control evaluations and account balance testing conducted by the Company's external auditor, PricewaterhouseCoopers LLP ("PWC") as part of the statutory compliance examination.

Representatives from the firms Deloitte & Touche LLP, Deloitte Consulting LLP, (collectively called "Deloitte") were engaged by the Division to assist in the examination by performing certain examination procedures including an information systems review and an actuarial review of the Company's actuarially determined account balances and related items at the direction of and under the overall management of the Division's examination staff.

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 bonds and other insurance, disaster recovery plan, 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 assessment and examination efforts were directed accordingly.

Status of Prior Examination Findings

The prior report of examination did not have any findings.

HISTORY

General

The Company, formerly the Massachusetts Casualty Insurance Company ('MCIC') was incorporated on October 6, 1926 and commenced business on October 1, 1927. On December 29, 1980, the Company's capital stock was purchased by Equitable Massachusetts, Inc., a subsidiary in the Equitable of Iowa Companies Group. On January 30, 1987, the Company's capital stock was acquired by Sun Life Assurance Company of Canada (U.S.) a subsidiary of the Sun Life of Canada Group. On February 5, 1999 the Company was then acquired by Centre Reinsurance Holdings Limited which contributed the stock of the Company to Centre Solutions (U.S.) Limited ("CSUS"). CSUS is a Bermuda-domiciled insurance company whose ultimate parent is Zurich Insurance Group Ltd ("ZIG") f/k/a Zurich Financial Services Ltd.

The Company is a Massachusetts-domiciled writer of individual accident and health business, with virtually all of its business representing non-cancelable disability income insurance. The Company is licensed in all 50 states and the District of Columbia.

Common Capital Stock

At December 31, 2010, the Company's issued and outstanding shares of common capital stock totaled 2,500 having a par value per share of $1,000 with a total value of $2,500,000. All outstanding shares are owned by CSUS.

Gross Paid-in and Contributed Surplus

At December 31, 2010, gross paid-in and contributed surplus totaled $127,157,500. During the period of this examination, contributions to the Company's gross paid-in and contributed surplus were as follows:

Year	**Contributions to Paid-in and Contributed Surplus During the Year**	**Gross Paid-in and Contributed Surplus as of December 31**
2010	0	$127,157,500
2009	0	127,157,500
2008	0	127,157,500
2007	0	127,157,500
2006	$48,300,000	127,157,500

Dividends to Stockholders

During the period of this examination, the Company's Board of Directors did not declare any dividends to stockholders.

Growth of Company

The growth of the Company since the last examination as of December 31, 2005 is illustrated in the following schedule:

Year	Premium Income	Admitted Assets	Total Liabilities	Capital and Surplus
2010	$ 3,058,200	$ 1,841,168,658	$ 1,752,017,467	$ 86,651,19[illegible]
2009	10,232,334	1,969,019,471	1,891,944,843	77,[illegible]4,631
2008	1,192,461	2,021,720,012	1,930,956,330	[illegible],7[illegible]3,680
2007	3,446,441	1,658,221,510	1,564,999,801	[illegible],221,696
2006	4,511,271	1,672,561,959	1,597,436,986	75,124,972

MANAGEMENT AND CONTROL

Stockholder Meetings

At December 31, 2010, CSUS is the sole stockholder of the Company. The annual meeting of the stockholder shall be held on the third Wednesday of April in each year if not a legal holiday, and if a legal holiday, then on the next succeeding day not a legal holiday, or on such date and at such time as shall be determined from time to time by the Board of Directors ("Board") and stated in the notice of the meeting or in a duly executed waiver of notice thereof. Special meetings of the stockholders may be called by the President and shall be called by the President or Secretary at the request in writing of a majority of the Board or at the request in writing of the holders of a majority of the outstanding stock. Notice of special meetings must be given between 10-50 days before the date of the meeting. The Company held the annual meetings within these guidelines

Board of Directors

The business and affairs of the Company are managed by its Board which may exercise all of the powers of the Company except those exclusively conferred upon or reserved solely to stockholders. The number of Directors which constitutes the whole Board is not less than five or more than ten. Each Director holds office until a successor is elected and qualified. Directors need not be stockholders. At all meetings of the Board, a majority of the Directors then in office, but at least four Directors, constitutes a quorum for the transaction of business and the act of a quorum is the act of the Board. Special meetings of the Board may be called by the president on three days' notice to each Director, either personally or by mail, telegram or telephone; special meetings shall be called by the President or Secretary in like manner and on like notice on the written request of two Directors.

Directors duly elected and serving at December 31, 2010, with addresses and business affiliations, follow:

Director	Principal Occupation
Patricia Maria Haemmerle Aprill	President/Chief Executive Office, Centre Group Holdings (U.S) Limited
Richard William Grilli	Senior Vice President and COO, Zurich American Life Insurance Company
Colm Joseph Holmes	Senior Vice President and COO, Centre Group Holdings (U.S.) Limited
Ernest I. Wilson	Senior Vice President, Centre Insurance Company and Centre Life Insurance Company
Diana L. Branciforte	Vice President and Controller, Centre Group Holdings (U.S.) Limited

The minutes of the Board and committee meetings for the period under statutory examination were read and indicated that all meetings were held in accordance with the Company's by-laws and the laws of the Commonwealth of Massachusetts.

Committees of the Board

Audit Committee

Chapter 26.00 of Title 211 of the Code of Massachusetts Regulations is entitled "Annual Financial Reporting for Years Ending 2010 and After." Section 26.04 of Chapter 26.00 states that "…If an Audit Committee is not designated by the insurer, the insurer's entire board of directors shall constitute the Audit Committee."

The Company's Board does not have a separate Audit Committee; nevertheless, on November 19, 2010, the Board adopted a resolution acknowledging that the entire Board serves as the Audit Committee of the Company in accordance with the requirements of Section 26.04 of Chapter 26 of Title 211 of the Code of Massachusetts Regulations. The names of the Board members, who constituted the Company's Audit Committee as of December 31, 2010, are as follows:

Patricia Maria Haemmerle Aprill
Richard William Grilli
Colm Joseph Holmes
Ernest I. Wilson
Diana L. Branciforte

Investment Committee

At December 31, 2010 the Investment Committee consisted of the following members:

Patricia Aprill
Diana Branciforte

<u>*Officers*</u>

The by-laws of the Company provide that officers of the corporation shall include a President, a Secretary and a Treasurer. The Board may also appoint a Chairman, one or more Vice-Presidents, and such other officers as are from time to time desired. Any number of offices, except President and Secretary, may be held by the same person, unless the Articles of Organization or the by-laws otherwise provide.
At its first meeting, following each annual meeting of stockholders, the Board shall choose a President, Secretary, Treasurer and such other officers as it shall deem necessary. The compensation of all officers of the corporation shall be fixed by the Board. The officers of the corporation shall hold office until their successors are chosen and qualified or until their earlier resignation or removal. Any officer elected or appointed by the Board may be removed at any time by the affirmative vote of a majority of the entire Board. Any vacancy occurring in any office of the corporation shall be filled by the Board.

The elected officers and their respective titles at December 31, 2010 were as follows:

*Patricia Marie Haemmerle Aprill	President
Ali E. Rifai	Senior Vice President, Associate General Counsel, Global Head of Insurance and Reinsurance
Ernest Wilson	Senior Vice President
Diana L. Branciforte	Vice President, Controller and Treasurer
Steven G[illegible]	Vice President
Michael D[illegible]tasi	Assistant Vice President
Dawn Cummings-Fritz	Assistant Vice President, Tax
Margaret Labno	Assistant Vice President, Tax
Jon Nagel	Corporate Secretary

*Resigned effective September 30, 2011 and on September 30, 2011 Colm Holmes was appointed President. On December 23, 2011, Patrick C. Tiernan was elected as President to replace Colm Holmes who was appointed to be the Treasurer of Zurich Insurance Group ("ZIG") in Zurich, Switzerland.

Conflict of Interest Procedures

Zurich Insurance Group Ltd and its subsidiaries, including the Company, adhere to a "Code of Business Conduct and Ethics". On an annual basis, Zurich requires employees to affirm their compliance with the policy by completing a conflict of interest statement.

Articles of Incorporation and By-Laws

The Company's by-laws may be altered, amended or repealed, or new by-laws may be adopted at any meeting of the stockholders. There were no amendments to the Company's Articles of Incorporation and by-laws during the period of this examination.

Surplus Notes

On June 30, 2001, CLIC issued a surplus note in the principle sum of $40.0 million and an interest rate of 8.25% with the maturity date of June 30, 2016 to its parent CSUS. On December 31, 2003 with the permission of the Commissioner of the Commonwealth of Massachusetts, the Company paid $8.3 million in interest on the surplus note to CSUS. For payment CLIC issued a Surplus Note to CSUS in the principal sum of $8.3 million with a maturity date of June 30, 2016 and having interest rate of 8.25%.

On October 26, 2006, the Division approved the Company's request to convert the surplus notes in the amount of $48.3 million into a capital contribution from CSUS to CLIC. Also, the Division approved the forgiveness of $10,979, 552 interest payable under the two surplus notes in favor of its parent CSUS.

MANAGEMENT CONTINUITY AND NATIONAL EMERGENCY

The Company provides for the continuity of management and operations in the event of a catastrophe or national emergency in accordance with M.G.L. Chapter 175 Section 180M-180Q. If, as a result of a catastrophe or other emergency condition, a quorum of the Board cannot feasibly be convened, those Directors who are available shall constitute an Emergency Executive Committee. The Emergency Executive Committee shall have all the powers of the Board to conduct business and shall fill any vacancies in the Board, which shall resume its powers as soon as a quorum can be convened. The Directors so appointed shall serve until there is an election of Directors by the members at a duly convened meeting. If no Directors are available to attend a Board meeting after a catastrophe or other emergency conditions, the remaining senior officers of the corporation shall be authorized to conduct the business of the corporation until a meeting of the corporation or of the Directors can be convened.

If it is impracticable or impossible to give notice of a Board meeting in the manner prescribed by the by-laws, the person calling such meeting may give notice thereof by making such reasonable efforts as circumstances may permit to notify the Directors. Failure of any Director to receive actual notice of a meeting shall not affect the power of the Directors present at such meeting to exercise the powers prescribed.

AFFILIATED COMPANIES

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. As of December 31, 2010, the Company was 100% owned by CSUS. The ultimate parent is Zurich Insurance Group Ltd (Switzerland).

A summary of ownership and relationship of the Company as of December 31, 2010 is illustrated below:

Zurich Insurance Group Ltd (Switzerland)

    Zurich Insurance Company Ltd (Switzerland)

        CMSH Limited (Bermuda)

            Centre Group Holdings Limited (Bermuda)

                Centre Solutions (Bermuda) Limited

                    Centre Group Holdings (U.S.) Limited (DE)

                        Centre Solutions (U.S.) Limited (Bermuda)

                            Centre Life Insurance Company (80896 – MA)

Transactions and Agreements with Affiliates

Intercompany Service Agreement with Centre Group Holdings (U.S.) Limited

Effective January 1, 2004, CLIC entered into an Intercompany Service Agreement with Centre Group Holdings (U.S.) Limited ("CGHUS"). In accordance with the agreement, CGHUS provides all accounting, actuarial, administration and transaction, finance , human resources, legal, claims, risk management, work-out, real estate analysis, payor, senior management, tax, MIS and any other services that may be agreed to and required by CLIC. CLIC agrees to reimburse CGHUS for 100% of all payments by CGHUS and for any costs and expense incurred by CGHUS in providing the services. Costs and expenses shall be allocated based upon actual time and expense incurred, actual usage or availability of services, value created, the number, size, complexity, risk exposure or value of transactions involved or some other appropriate allocation method. Any such allocation method shall be in conformity with any applicable state insurance regulations, generally accepted accounting principles and transfer pricing rules under Section 482 of the Internal Revenue Code. Costs not included are expenses which are part of claim payments such as allocated administration. Fees incurred by CLIC in 2010 and 2009 were approximately $8.4 million and $8.4 million respectively

Administrative Services Agreement with Disability Management Services, Inc. ("DMS")

Effective February 5, 1999, the Company entered into a servicing agreement with Disability Management Services ("DMS") to administer all run-off premiums and claim processing related to the old MCIC disability business. DMS also handles much of the accounting and postings to the general ledger for the Company, as all systems are maintained at DMS.

Effective July 1, 2000, the Company entered into a servicing agreement with DMS to administer all run-off premiums and claim processing related to the reinsured policies pursuant to the 100% Quota Share Reinsurance Agreement with Equitable Life Assurance Society. DMS also handles much of the accounting and postings to the general ledger for the Company, as all systems are maintained at DMS. CLIC incurred approximately $19.0 million and $20.0 million in expense for services provided by DMS in 2010 and 2009, respectively.

Investment Management Agreements

Effective July 1, 2000 CGHUS and affiliates including CLIC entered into an Investment Management Agreement with Scudder Kemper Investments, Inc. (formerly known as Zurich Scudder Investments, Inc. and now known as Deutsche Investment Management Americas Inc. and doing business as Deutsche Asset Management ("DeAM"). Under this agreement, DeAM manages CLIC's investment portfolio and pursuant to a separate Investment Management Agreement between Zurich Investment Services Limited ("ZIS"), an affiliate of CLIC and DeAM, dated March 19, 2002, ZIS provides cash management, reconciliation and settlement of trades as well as other back office functions with respect to certain CLIC accounts managed by DeAM. CLIC incurred approximately $1.1 million and $1.2 million in expense for services provided by the investment management agreements in 2010 and 2009, respectively.

Tax Allocation Agreement

Effective January 1, 2004, CLIC is a party to a Tax Allocation Agreement with CGHUS, Centre Solutions (U.S.) Limited, Centre Insurance Company and ZC Specialty Insurance Company.

Surety Bonds

Effective January 1, 2000, CLIC's net worth is guaranteed by two Surety Bonds, one with Centre Reinsurance (U.S.) Limited and the other with Centre Solutions (U.S.) Limited. Both Surety Bonds, each providing the same coverage, are for the purpose of ensuring that CLIC as the insured, will have a net worth at all times of at least the higher of (a) U.S. $1,000,000 or (b) the minimum required in accordance with applicable insurance law. Both Centre Reinsurance (U.S.) Limited and Centre Solutions (U.S.) Limited desire to maintain the financial condition of CLIC and to assist CLIC in meeting its payment obligations to Counterparties under Cover Products. Cover Products means any of the following if issued or executed and delivered on or after January 1, 2000: any insurance, reinsurance, surety or derivative contract; any obligation to purchase, repurchase, deliver or sell securities; any obligation to post margin or collateral; any obligation to provide liquidity or otherwise provide funds to others; any other product or instrument similar to any of the foregoing; and any other product or instrument identified as a "Covered Product" in a certificate issued by an authorized officer of Centre Reinsurance (U.S.) Limited and Centre Solutions (U.S.) Limited.

The Centre Reinsurance (U.S.) Limited's Surety Bond was amended October 11, 2004 as follows:

> "As consideration for Surety's agreements hereunder, CLIC shall pay the Surety the following premium payments: (a) $332,000, which relates to the period from the date that the Surety Bond was issued to CLIC through the date hereof and would be payable on or prior to December 31, 2004, and (b) $300,000, which relates to all periods after the date hereof and would be payable on or prior to December 31, 2005. With the exception of the amounts specified in this paragraph no other premium payments (whether with respect to any prior or future periods) will be payable by CLIC to Surety. Surety shall have no obligations to refund any premium payments."

The Surety Bonds shall be effective and in full force and effect with regard to all the Covered Products executed and delivered prior to the date of any termination pursuant to the terms of the Bond until such time as all such Covered Products shall either no longer be outstanding or be satisfied in full.

FIDELITY BOND AND OTHER INSURANCE

The Company maintains fidelity bond coverage with an authorized Massachusetts insurer, consistent with M.G.L. Chapter 175 Section 60. The aggregate limit of liability exceeds the NAIC suggested minimum. The Company has further protected its interests and property by acquiring policies of insurance covering other insurable risk.

SPECIAL DEPOSITS

The statutory deposits of the Company at December 31, 2010 are as follows:

State	Book Value	Fair Value
Alaska	$ 158,939	$ 189,105
Arkansas	158,939	189,105
Georgia	59,147	70,055
Idaho	264,898	315,176
Kansas	107,817	128,176
Louisiana	31,788	37,821
Massachusetts	5,490,130	6,884,706
New Mexico	158,939	189,105
North Carolina	576,527	656,0[illegible]
Total	$ 7,007,124	$ [illegible]59,292

INSURANCE PRODUCTS AND RELATED PRACTICES

The Company had historically offered individual coverage as part of employer-sponsored plans, and coverage to individuals who are not part of a plan; however, the Company is at present not writing new business on a direct basis. All of the Company's direct and assumed business has been placed in run-off and is 100% reinsured with the exception the assumed business from Trustmark Insurance Company.

REINSURANCE

The Company's reinsurance program is a large part of its insurance operations, with the majority of its premiums ceded to related parties. Beginning in 1999, the Company ceded all of its direct business to Centre Reinsurance (U.S.) Limited, a related party, under a 100% quota share agreement. The majority of Company's assumed business is 100% retroceded to Zurich Insurance Company, Bermuda Branch, an affiliated company.

The Company's principal reinsurers are related parties and are not authorized reinsurers in the Commonwealth of Massachusetts. The Company secures a large portion of such ceded reserves by withholding funds from the reinsurer and by reinsurance funds held pursuant to trust agreements. The Company had no surplus adjustment for unsecured unauthorized reinsurance at December 31, 2010.

The Company has ceded a portion of its business to unrelated reinsurers, Swiss Re Life and Health America, Inc. and Munich American Reassurance Company, who are approved reinsurers in the Commonwealth of Massachusetts.

A summary of each significant reinsurance agreement is described as follows:

Assumption Agreements

Sun Life Assurance Company of Canada (U.S.)

On October 1, 1999, the Company entered into a reinsurance agreement with Sun Life Assurance Company of Canada ("Sun Life"), whereby the Company would assume Sun Life's Individual Disability Income block of business.

Equitable Life Assurance Society of the United States

During the year 2000, the Company assumed a large block of disability business through a 100% quota share reinsurance agreement with Equitable, an unrelated party. This agreement resulted in gross premiums of approximately $1.5 billion, and net premiums of approximately $225 million, after retrocession, for the year ended December 31, 2000. The Company retrocedes approximately 100% of this business to Zurich Insurance Company (Bermuda Branch).

Trustmark Insurance Company

The Company reinsures Trustmark Insurance Company ("Trustmark") on a quota share basis for payments made to teams of the National Hockey League (NHL) and National Basketball Association (NBA) for disabled players. The disability coverage offered by Trustmark indemnifies the NHL and NBA teams for guaranteed salary paid to a player when that player misses games due to injury and illness.

The NHL program covers exposures that occur during a six-year term beginning September 1, 2002 through August 31, 2008, plus a subsequent runoff period ending August 31, 2014. CLIC has a 40% share of the program. No claims have been paid by CLIC on the assumed business since inception of the program

The NBA contract covers exposures beginning September 1, 2004 through August 31, 2007, plus a runoff period ending August 31, 2011. CLIC has a 25% share of the program. No claims have been paid by CLIC on this assumed business since inception of the program.

Cession Agreements

Zurich Insurance Company (Bermuda Branch)

An 85% quota share reinsurance agreement with an affiliate, Zurich Insurance Company (Bermuda Branch) ("ZIBB"), in place prior thereto, covers the disability reserves assumed from the Equitable under the aforesaid reinsurance agreement plus cession of all additional premiums, benefits, expenses and obligations. The ZIBB reinsurance transaction was reviewed and approved by the Massachusetts Division of Insurance on May 11, 2000. On October 1, 2003, the retrocession agreement between CLIC and ZIBB was amended to increase the quota share percentage from 85% to 100%, retroactive to the beginning of the reinsurance agreement. As a result, reserves related to the Equitable deal are fully ceded to ZIBB.

Centre Reinsurance (U.S.) Limited

On February 5, 1999, Sun Life Assurance Company of Canada (U.S.) sold Massachusetts Casualty Insurance Company ("MCIC") to Centre Solutions (U.S.) Limited ("CSUS"). At this time, a 100% quota share reinsurance agreement (after inuring reinsurance previously in place) was entered into with Centre Reinsurance (U.S.) Limited, effective January 1, 1999. The retrocession of MCIC activity to CRUS was changed from funds withheld basis to a cash transfer basis. Securities in the amount of approximately $220 million were transferred to a trust in December 2003.

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 significant deficiencies were noted.

The NAIC provides a questionnaire covering the evaluation of the controls in the IT environment. The questionnaire completed by the Company was reviewed and evaluated for adequacy of the IT controls. No significant deficiencies were noted.

The Company uses an automated general ledger system. Trial balances were traced from the general ledger and supporting documents to the 2010 Annual Statement. No material exceptions were noted.

The books and records of the Company are audited annually by PriceWaterhouseCoopers LLP, independent certified public accountants, in accordance with 211 CMR 23.05.

Administrative Services Agreement

Disability Management Services ("DMS") administers all premiums and claim processing related to the old MCIC individual disability and major medical businesses. DMS also handles much of the accounting for the Company, as all systems are maintained at DMS. A SAS 70 Type II report for DMS was reviewed, and no deficiencies were noted.

FINANCIAL STATEMENTS

The Financial Statement section includes the following:

	Page
Statutory Statement of Assets, Liabilities, Surplus, and Other Funds as of December 31, 2010	15
Summary of Operations for the Year Ended December 31, 2010	16
Capital and Surplus for the Year Ended December 31, 2010	17
Reconciliation of Capital and Surplus for the Five Year Period Ended December 31, 2010	18

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Commonwealth of Massachusetts Division of Insurance and by the National Association of Insurance Commissioners as of December 31, 2010.

Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2010

Assets	**Per Company**	**Examination Changes**	**Per Examination**	**Notes**
Bonds	$ 1,780,424,580	$ 0	$ 1,780,424,580	
Cash, cash equivalents and short-term investments	20,749,175		20,749,175	
Subtotals, cash and invested assets	1,801,173,755		1,801,173,755	
Investment income due and accrued	19,216,802		19,216,802	
Premiums and considerations:				
Uncollected premiums and agents' balances	213,749		213,749	
Reinsurance:				
Amounts recoverable from reinsurers	11,004,813		11,004,813	
Other amounts receivable under reinsurance contracts	293,317		293,317	
Current federal an foreign tax recoverable	9,266,222		9,266,222	
Total Assets	$ 1,841,168,658	$ 0	$ 1,841,168,658	
Liabilities				
Aggregate reserve for accident and health contracts	4,594,000	$ 0	$ 4,594,000	1
Contract liabilities not included elsewhere:				
Other amounts payable on reinsurance	6,915,765		6,915,765	
Interest Maintenance Reserve	2,736,535		2,736,535	
Amounts withheld or retained by company as agent or trustee	80,193		80,193	
Remittances and items not allocated	2,330		2,330	
Miscellaneous liabilities:				
Asset valuation reserve	670,408		670,408	
Funds held under reinsurance treaties with unauthorized reinsurers	1,733,521,305		1,733,521,305	
Payable to parent, subsidiaries and affiliates	3,496,931		3,496,931	
Total liabilities	1,752,017,467		1,752,017,467	
Common capital stock	2,500,000		2,500,000	
Gross paid-in and contributed surplus	127,157,500		127,157,500	
Unassigned funds (surplus)	(40,506,302)		(40,506,302)	
Surplus	86,651,198		86,651,198	
Total Capital and Surplus	89,151,198		89,151,198	
Totals	$ 1,841,168,665	$ 0	$ 1,841,168,665	

Summary of Operations
For the Year Ended December 31, 2010

	Per Company	Examination Changes	Per Examination	Notes
Premium and annuity considerations	$ 3,058,200	$ 0	$ 3,058,200	
Net investment income	106,640,091		106,640,091	
Amortization of interest maintenance reserve	37,383		37,383	
Commissions and expense allowances on reinsurance ceded	28,622,565		28,622,565	
Miscellaneous Income:				
Aggregate write-ins for miscellaneous income	1,158,098		1,158,098	
Totals	139,516,337		139,516,337	
Disability benefits and benefits under A&H policies	146,027		146,027	
Increase in aggregate reserves for life and accident and health policies and contracts	(6,348,000)		(6,348,000)	
Totals	(6,201,973)		(6,201,973)	
Commissions on premiums, annuity considerations and deposit-type contract funds	4,781,448		4,781,448	
General insurance expenses	29,356,331		29,356,331	
Insurance taxes, licenses and fees, excl. federal income taxes	975,206		975,206	
Aggregate write-ins for deductions	111,146,410		111,146,410	
Totals	140,057,422		140,057,422	
Net gain from operations before dividends to policyholders and federal income taxes	(541,085)		(541,085)	
Federal income taxes incurred (excluding tax on capital gains)	(16,932,022)		(16,932,022)	
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	16,390,937		16,390,937	
Net realized capital gains or (losses)	(227,071)		(227,071)	
Net income	$ 16,163,866	$ 0	$ 16,163,866	

Statement of Changes in Capital and Surplus
For the Year Ended December 31, 2010

	Per Company	Examination Changes	Per Examination	Notes
Capital and surplus, December 31, prior year	$ 77,074,628	$ 0	$ 77,074,628	
Net income	16,163,866		16,163,866	
Change in net unrealized capital gains less capital gains tax	(669,504)		(669,504)	
Change in net deferred income tax	(11,709,324)		(11,709,324)	
Change in nonadmitted assets	8,961,936		8,961,936	
Change in asset valuation reserve	(670,404)		(670,404)	
Net change in capital and surplus for the year	12,076,570		12,076,570	
Capital and surplus, December 31, 2010	$ 89,151,198	$ 0	$ 89,151,198	

Reconciliation of Capital and Surplus
For the five year period ending December 31, 2010

	2010	2009	2008	2007	2006
Capital and surplus, December 31, prior year	$ 77,074,628	$ 90,763,680	$ 93,221,696	$ 75,124,972	$ 66,896,[illegible]
Net income	16,163,866	(4,800,600)	3,403,292	8,954,869	[illegible]
Change in net unrealized capital gains or (losses)	(669,504)	737,614			
Change in net deferred income tax	(11,709,324)	(1,020,934)	9,682,213	6,089,575	([illegible],426,363)
Change in nonadmitted assets	8,961,936	(8,605,132)	(19,377,224)	3,61[illegible]	5,697,929
Change in asset valuation reserve	(670,404)		3,833,703	([illegible])	(482,270)
Change in surplus notes					(48,300,000)
Surplus adjustment:					
Paid in					48,300,000
Net change in capital and surplus for the year	12,076,570	(13,689,052)	(2,45[illegible])	18,096,724	8,228,189
Capital and surplus, December 31, current year	$ 89,151,198	$ 77,074,628	$ 90,[illegible]63,680	$ 93,221,696	$ 75,124,972

NOTES TO FINANCIAL STATEMENTS

Note 1 – Aggregate Reserve for Accident and Health Contracts

A risk-focused review of the statutory reserves and related actuarial items held by the Company as of December 31, 2010 was performed. To determine procedures for the review, Company controls documentation and audit work conducted by the Company's external auditors, PricewaterhouseCoopers LLP, was reviewed, relied upon wherever deemed appropriate and effective, and incorporated into the work papers supporting this examination whenever deemed appropriate. In addition, discussions took place with Company management and representatives from Disability Management Services, Inc. and Milliman, two external firms who collectively provide administration and valuation services to the Company. The remaining procedures were focused on areas where some amount of residual risk remained un-mitigated by the existing control framework. This included a review of the Company's various reinsurance contracts, trend analysis on the active life reserve and disabled life reserve, and an independent calculation of the active life reserve and disabled life reserve for a sample of policies. The actuaries relied upon the accuracy and completeness of the data underlying the reserve calculations in its work.

Based on our procedures, it was determined that the statutory reserves and related actuarial items:

- Are computed in accordance with presently accepted actuarial standards consistently applied and are fairly stated in accordance with sound actuarial principles, except where noted below;
- Are based on actuarial assumptions which produce reserves at least as great as those called for in any contract provision as to reserve basis and method, and are in accordance with all other contract provisions;
- Meet the requirements of the insurance laws and regulations of the Commonwealth of Massachusetts and meet the requirements of the NAIC Model Regulation on Minimum Reserve Standards for Individual and Group Health Insurance Contracts;
- Include provision for all actuarial reserves and related statement items that ought to be established.

In accordance with applicable Division and NAIC insurance guidance, the Company records as liabilities in its financial statements actuarially determined interest-discounted reserves that are calculated to meet future contractual obligations under outstanding policies and claims. The reserves are based on statutorily recognized methods, generally using prescribed morbidity and mortality tables and interest rates. These reserves include provisions for unearned premiums; future claims in excess of future premium (i.e. active life reserves); and future payment on claims that have been incurred, whether reported or not reported as of December 31, 2010 (i.e. claim reserves). In addition, there is a reserve for claim settlement expenses on such future claim payments for incurred claims.

All actuarial reserves and liabilities except those for the Sports Disability block are 100% ceded to affiliate and non-affiliate reinsurance companies. Because amounts ceded by the Company (primarily related to individual disability business) represent such a large portion of the total direct and assumed reserves and liabilities, and because material portions of those reserves are ceded to affiliated companies, these amounts were considered to be within the scope of the actuarial review.

Active life reserves for individual disability policies as established as of December 31, 2010, were generally found to be computed in accordance with presently accepted actuarial methods.

Claim reserves are established for future payments not yet due on claims already incurred, primarily relating to individual disability insurance and group long term disability insurance products. It was noted that for the Equitable individual disability block, the claim reserves are not established based on the prescribed statutory morbidity tables and interest rates. The Company has estimated its claim reserves for the Equitable block using a claim termination basis that is more conservative than the prescribed morbidity standard. The Company has provided a demonstration showing that the claim reserves held are greater than those called for in the requirements of the NAIC Model Regulation on Minimum Reserve Standards for Individual and Group Health Insurance Contracts.

ACKNOWLEDGEMENT

Acknowledgment is made of the cooperation and courtesies extended by the officers and employees of the Company to all the examiners during the course of the examination. The assistance rendered by Deloitte & Touche LLP who participated in this examination is acknowledged.

Raffaele J. Ciaramella, Jr. CFE
Supervising Examiner and Examiner-in-Charge
Commonwealth of Massachusetts
Division of Insurance