



COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION
Division of Insurance

Report on the Statutory Examination of

Centre Life Insurance Company

Boston, Massachusetts

As of December 31, 2005

NAIC COMPANY CODE: 80896

EMPLOYERS ID NUMBER: 04-1589940

CENTRE LIFE INSURANCE COMPANY

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COMMONWEALTH OF MASSACHUSETTS

Office of Consumer Affairs and Business Regulation

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May 30, 2007

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Dear Sirs and Madams:

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
Boston, Massachusetts

at its administrative office located at 105 East 17th Street, New York, New York 10003-2105.
The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Centre Life Insurance Company, hereinafter referred to as the "Company" or "CLIC," was formerly Massachusetts Casualty Insurance Company ("MCIC") which was last examined as of December 31, 2000 by the Massachusetts Division of Insurance.

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 ("the Division"). The statutory examination was performed at the Company's administrative office in New York, New York. Representatives from Deloitte & Touche LLP and 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 items.

This statutory examination covers the five year period from January 1, 2001 through December 31, 2005, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination. Deloitte has applied certain procedures to selected records and transactions of the Company. Such procedures were reviewed and approved by the Division.

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.

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, employees' pension and benefits plans, 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 and examination efforts were directed accordingly.

In determining the scope of the statutory examination, after review and evaluation, the Division placed reliance on certain workpapers provided by the Company's external auditors, PricewaterhouseCoopers LLP. Wherever possible and wherever deemed appropriate and effective, their independent work product was used to define, support, document and expedite the overall examination process.

HISTORY

General

The Company was acquired by Centre Reinsurance Holdings Limited and ultimately contributed to Centre Solutions (U.S.) Limited ("CSUS") on February 5, 1999 from Sun Life Assurance Company of Canada (U.S.). CSUS is a Bermuda-domiciled holding company whose ultimate parent is Zurich Financial Services AG ("ZFS"). Prior to its acquisition, MCIC was a wholly-owned subsidiary of Sun Life Assurance Company of Canada (U.S.). 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 a subsidiary of the Sun Life of Canada Group.

The Company is a Massachusetts-domiciled insurer who prior to its acquisition by Centre Solutions (U.S.) Limited was a writer of individual accident and health business, with virtually all of its business representing non-cancelable disability income insurance. After the acquisition of the company, while continuing to run-off such direct business, CLIC limited its new business writing to reinsurance. The Company is licensed in all 50 states and the District of Columbia

MANAGEMENT AND CONTROL

Stockholders Meetings

According to Article 2 of the Company's By-Laws, the annual meeting of the stockholders 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 ("the Board") and stated in the notice of the meeting or in a duly executed waiver of notice thereof. At each annual meeting, stockholders shall elect by a plurality vote a Board, and transact such other business as may properly be brought before the meeting. The holders of a majority of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business except as otherwise provided by statute or by the Articles or Organization. Proxy votes are valid as long as they are not dated more than six months before the meeting and written consent in lieu of a meeting is also permissible.

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.

Centre Life Insurance Company

Board of Directors

According to Article 3 of the Company's By-Laws, 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 nor 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.

At December 31, 2005 the Board was comprised of seven directors, which is in compliance with Company bylaws. Directors duly elected and serving at December 31, 2005, with addresses and business affiliations, follow:

<u>Director</u>	<u>Principal Occupation</u>
Richard William Grilli Lutherville, Maryland	President of Centre Life Insurance Company
Oliver Juergen Horbelt New York, New York	President and Chief Executive Officer of Centre Group Holdings (U.S.) Limited
Colm Joseph Holmes New York, New York	Senior Vice President and Chief Operating Officer of Centre Group Holdings (U.S.) Limited
Joseph Sebastian Magnano Wilton, Connecticut	Senior Vice President and General Counsel of Centre Group Holdings (U.S.) Limited
Marcia Beth Scheiner New York, New York	Senior Vice President and Chief Financial Officer of Centre Group Holdings (U.S.) Limited
Thomas Alan Rogers Westfield, New Jersey	Senior Vice President and Chief Information Officer of Centre Group Holdings (U.S.) Limited
James Thomas McNamara Bardonia, New York	Senior Vice President and Global Head of Claims Management of Centre Group Holdings (U.S.) Limited

The Board may hold meetings, both regular and special, either within or outside the Commonwealth of Massachusetts. Regular meetings of the Board may be held without notice at such time and at such place as shall from time to time be determined by 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.

Centre Life Insurance Company

The Board may, by resolution passed by a majority of the whole board, designate one of more committees, each committee to consist of one or more of the directors of the corporation. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. Each committee shall keep regular minutes of its meetings and report the same when required.

Investment Committee

According to Article 3 of the Company's By-Laws, the Board may designate one or more committees, with each committee to consist of one or more of the members of the Board. The only committee of the Board is the Investment Committee. At December 31, 2005 the Investment Committee consisted of the following members:

Richard W. Grilli
Oliver J. Horbelt
Marcia B. Scheiner

Officers

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, a 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, 2005 were as follows:

<u>Officer</u>	<u>Title</u>
Richard W. Grilli	President
Marcia B. Scheiner	Chief Financial Officer
Patricia M. Aprill	Treasurer
Todd B. Infeld	Secretary
Diana L Branciforte	Vice President
Ali E. Rifai	Vice President
Thomas Alan Rogers	Vice President
Steven Gaeta	Assistant Vice President

Centre Life Insurance Company

Conflict of Interest Procedures

All directors, officers, and key employees are required to annually affirm understanding of and compliance with the Company's conflict of interest statement. Anyone who has a conflict with the policy must notify the General Counsel of his or her respective company.

Corporate Records

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. The Company's articles of incorporation and By-Laws were reviewed and verified that there were no changes during the examination period as stated in the Annual Statement General Interrogatories.

Board of Directors Minutes

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 By-Laws and the laws of the Commonwealth of Massachusetts. Activities of the committees were ratified at each meeting of the Board.

Surplus Notes

On June 30, 2001, CLIC issued a surplus note in the principle sum of \$40.0 million, with the maturity date of June 30, 2016 to its parent CSUS. Interest at the rate of 8.25% per annum, is due on July 1 of each year, with the first payment due July 1, 2002. 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. No interest payments have been paid since December 31, 2003.

On December 31, 2003, CLIC issued a surplus note in the principal sum of \$8.3 million, with a maturity date of June 30, 2016 to CSUS. Interest at the rate of 8.25% per annum is due on July 11 of each year beginning July 11, 2004. No interest payments have ever been made on this note.

SUMMARY OF COST SHARING AGREEMENTS

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 services,

Centre Life Insurance Company

finance services, human resources, legal services, claim services, risk management services, work-out services, real estate analysis services, payor services, senior management services, tax services, MIS services 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 2005 and 2004 were approximately \$1.5 million and \$0.9 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. A SAS 70 Type II report for DMS was reviewed, and no significant deficiencies were noted.

CLIC incurred approximately \$24.0 million and \$23.0 million in expense for services provided by DMS in 2005 and 2004, 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.

Centre Life Insurance Company

CLIC incurred approximately \$749,041 and \$1,458,645 in expense for services provided by the investment management agreements in 2005 and 2004, respectively.

Tax Allocation Agreement

Effective January 1, 2004 CLIC is a party to a Tax Allocation Agreement with CGHUS, Centre Solutions Holdings (Delaware) Limited, Centre Risk Advisors, Inc., Centre Solutions (US) Limited, Centre Insurance Company and ZC Specialty Insurance Company. The Company as party to the Tax Allocation Agreement files its Federal Income Taxes on a consolidated basis with its parent and affiliates pursuant to Section 1501 of the Internal Revenue Code of 1986.

Surety Bond

Effective January 1, 2000, a Surety Bond issued by Centre Reinsurance (U.S.) Limited, and in favor of CLIC, the purpose of which is to ensure that CLIC as the insured, will have a net worth at all times of at least the higher of (a) US \$1,000,000 or (b) the minimum required in accordance with applicable insurance law. Centre Reinsurance (U.S.) Limited and CLIC 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.

The 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 Bond 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.

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 officer 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

All of the issued and outstanding shares of the Company's voting stock are owned by CSUS, an insurance and reinsurance company domiciled in Bermuda. CSUS is controlled by Centre Group Holdings (U.S.) Limited, a holding company domiciled in Delaware, which is in turn controlled by Centre Reinsurance Limited, an insurance and reinsurance company domiciled in Bermuda, which is in turn controlled by Centre Solutions (Bermuda) Limited, a holding company domiciled in Bermuda, which is in turn controlled by Centre Group Holdings Limited, a holding company domiciled in Bermuda, which in turn is controlled by CMSH Limited, a holding company domiciled in Bermuda, which is in turn controlled by Zurich Insurance Company, an insurance and reinsurance company domiciled in Switzerland. Zurich Insurance Company is controlled by Zurich Group Holding, a holding company domiciled in Switzerland, which is controlled by Zurich Financial Services, a financial services company domiciled in Switzerland.

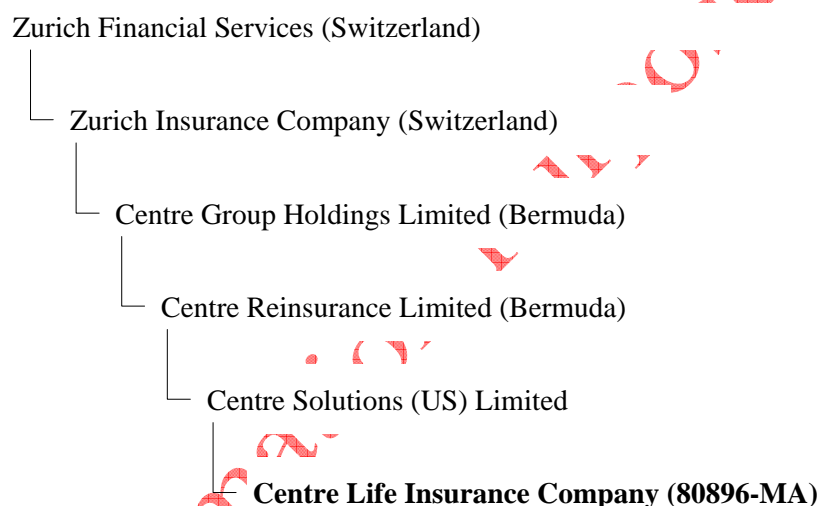
The Company represents the following:

1. It has had no transactions with any affiliate or affiliated insurer except as noted in Schedule Y – Part 2 of the annual statement.
2. It holds no investments in its parent or affiliates and has no subsidiaries.

Centre Life Insurance Company

3. It does not own shares of an upstream intermediate or its ultimate parent, either directly or indirectly, via a downstream subsidiary, controlled or affiliated company.
4. It has no undisclosed guarantees or undertakings for the benefit of an affiliate.
5. It has entered into some management or service contracts and inter-company cost allocation agreements, as discussed in 'Summary of Cost Sharing Agreements' section of this report on page 6.

A summary of ownership and relationship of the Company as of December 31, 2005 is illustrated below:



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.

PENSION AND INSURANCE PLANS

The Company has no retirement plans, deferred compensation or postretirement benefit plans.

Centre Life Insurance Company

STATUTORY DEPOSITS

The statutory deposits of the Company at December 31, 2005 are as follows:

Location	Description of Deposit	Statement Value	Market Value
Alaska	US Treasury Bonds	\$ 165,082	\$ 184,183
Arkansas	US Treasury Bonds	165,082	184,183
Georgia	US Treasury Bonds	61,067	67,983
Idaho	US Treasury Bonds	275,136	306,972
Kansas	US Treasury Bonds	111,876	124,765
Louisiana	US Treasury Bonds	33,016	36,837
Massachusetts	US Treasury Bonds	5,613,074	6,685,357
New Mexico	US Treasury Bonds	165,082	184,183
North Carolina	US Treasury Bonds	584,925	633,495
		<u>\$ 7,174,340</u>	<u>\$ 8,407,958</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

The Company has historically offered individual coverage as part of employer-sponsored plans, and coverage to individuals who are not part of the plan; however, the Company is at present not writing new business on a direct basis. All of the Company's direct and assumed business disability income policies have 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.

Centre Life Insurance 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, 2005.

The Company has ceded an immaterial portion of its business to unrelated reinsurers who are approved reinsurers in the Commonwealth of Massachusetts.

A summary of each significant reinsurance agreement is described below:

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 disability 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. CLIC has a 40% share of the program. No claims have ever been paid by CLIC on this assumed business.

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

Centre Life Insurance Company

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 and this amendment was also approved by the Division. 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 (US) sold Massachusetts Casualty Insurance Company ("MCIC") to Centre Solutions (U.S.) Limited ("CRUS"). 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 2005 Annual Statement. No significant 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.

SUBSEQUENT EVENTS

Surplus Notes

Effective October 1, 2006 pursuant to a Termination Agreement and approved by the Massachusetts Division of Insurance, CLIC's two Surplus Notes totaling \$48.3 million were terminated and the principal balances of the surplus notes were converted into a \$48.3 million capital contribution by the Company's parent Centre Solutions (U.S.) Limited. In accordance with the Termination Agreement all interest unpaid related to the surplus notes was forgiven.

Statutory Home Office

In 2006 CLIC moved its statutory home office from 155 Federal Street, 7th floor, Boston, Massachusetts 02110 to 1350 Main Street, Suite 1600, Springfield, Massachusetts 01103.

COMMITMENTS AND CONTINGENCIES

The Company is involved in litigation arising in and out of the normal course of business including class action and purported class action suits which seek both compensatory and punitive damages. While the Company is not aware of any actions or allegations which should reasonably give rise to any material adverse effect, the outcome of litigation cannot be foreseen with certainty. It is the opinion of management, after consultation with legal counsel, that the ultimate resolution of these matters will not materially affect its financial position, results of operations or liquidity.

FINANCIAL STATEMENTS

The Financial Statement section includes the following:

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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, 2005.

For Information Purposes Only

Centre Life Insurance Company
Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2005

<u>Assets</u>	<u>Per Company</u>	<u>Examination Changes</u>	<u>Per Examination</u>	<u>Notes</u>
Bonds	\$1,630,250,746	\$ 0	\$1,630,250,746	
Cash on hand and on deposit	7,664,555		7,664,555	
Short-term investments	16,380,545		16,380,545	
Investment income due and accrued	17,969,859		17,969,859	
Reinsurance:				
Amount recoverable from reinsurers	3,580,737		3,580,737	
Other amounts receivable under contracts	12,012,918		12,012,918	
 Total Assets	 \$1,687,859,352	 \$ 0	 \$1,687,859,352	
 <u>Liabilities</u>				
Aggregate reserve for accident and health contracts	\$13,607,000	\$ 0	\$13,607,000	
Contract liabilities not included elsewhere:				
Other amounts payable on reinsurance	10,713,506		10,713,506	
Interest maintenance reserve	3,184,138		3,184,138	
Commissions to agents due or accrued	54,000		54,000	
General expenses due or accrued	1,067,327		1,067,327	
Taxes, licenses and fees due or accrued	600,000		600,000	
Amounts withheld by company as agent or trustee	166,534		166,534	
Remittances and items not allocated	4,211,725		4,211,725	
Miscellaneous liabilities:				
Asset Valuation Reserve	2,792,455		2,792,455	
Funds held under reinsurance treaties	1,584,158,550		1,584,158,550	
Payable to parent, subsidiaries & affiliates	407,336		407,336	
 Total Liabilities	 \$1,620,962,571	 \$ 0	 \$1,620,962,571	
 <u>Surplus</u>				
Common capital stock	2,500,000		2,500,000	
Surplus notes	48,300,000		48,300,000	
Gross paid in and contributed surplus	78,857,500		78,857,500	
Unassigned funds (surplus)	(62,760,717)		(62,760,717)	
 Total Surplus	 64,396,775	 0	 64,396,775	
 Total Liabilities, Surplus and Other Funds	 \$1,687,859,352	 \$ 0	 \$1,685,359,352	

Centre Life Insurance Company
Summary of Operations
For the Year Ended December 31, 2005

	Per Company	Examination Changes	Per Examination	Notes
Premiums and annuity considerations	\$5,170,042	\$ 0	\$5,170,042	
Net investment income	96,237,530		96,237,530	
Amortization of interest maintenance reserve	262,624		262,624	
Commissions and expense allowances on reins. ceded	40,760,495		40,760,495	
Aggregate write-ins for miscellaneous income	95,768		95,768	
Total	142,526,459	0	142,526,459	
Increase in aggregate reserves for life and accident health policies and contracts	5,352,000		5,352,000	
Sub-total	5,352,000	0	5,352,000	
Commissions on premiums & annuity considerations	7,537,320		7,537,320	
General insurance expenses	36,152,865		36,152,865	
Insurance taxes, licenses and fees	1,584,874		1,584,874	
Aggregate write-ins for deductions	102,681,015		102,681,015	
Total	153,308,074	0	153,308,074	
Net gain from operations after dividends to policyholders and before federal taxes	(10,781,615)	0	(10,781,615)	
Federal income taxes incurred	(10,387,553)	0	(10,387,553)	
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	(394,062)	0	(394,062)	
Net Income/(Loss)	(\$394,062)	\$ 0	(\$394,062)	

Centre Life Insurance Company
Capital and Surplus
For the Year Ended December 31, 2005

	Per Company	Examination Changes	Per Examination	Notes
Capital and surplus, December 31, 2004	\$70,091,332	\$ 0	\$70,091,332	
Net Income	(394,062)	0	(394,062)	
Change in net deferred income tax	137,921		137,921	
Change in non-admitted assets and related items	701,039		701,039	
Change in Asset Valuation Reserve	(630,733)		(630,733)	
Aggregate write-ins for gains and (losses) in surplus	(3,008,723)		(3,008,723)	
Net change in capital and surplus for the year	(3,194,557)	0	(3,194,557)	
Capital and surplus, December 31, 2005	\$66,896,775	\$ 0	\$66,896,775	

Centre Life Insurance Company
Reconciliation of Capital and Surplus
For Each Year in the Five Year Period Ended December 31, 2005

	2005	2004	2003	2002	2001
Capital and surplus, December 31, prior year	<u>\$70,091,332</u>	<u>\$79,457,530</u>	<u>\$120,606,261</u>	<u>\$102,161,865</u>	<u>\$59,123,097</u>
Net Income	(394,062)	(2,736,620)	(45,393,396)	14,694,799	1,284,977
Change in net deferred income tax	137,921	3,372,746	(9,338,792)	8,110,311	(1,814,411)
Change in non-admitted assets	701,039	(8,994,537)	6,437,400	(7,308,909)	902,655
Change in Asset Valuation Reserve	(630,733)	(1,007,780)	(1,153,942)	2,970,836	(1,480,979)
Change in surplus notes	-	-	8,300,000	-	40,000,000
Aggregate write-ins for gains and (losses) in surplus	<u>(3,008,723)</u>	<u>-</u>	<u>-</u>	<u>(22,739)</u>	<u>5,690,470</u>
Net change in capital and surplus for the year	<u>(3,194,557)</u>	<u>(9,366,192)</u>	<u>(41,148,731)</u>	<u>18,444,399</u>	<u>43,038,768</u>
Capital and surplus, December 31, current year	<u><u>\$66,896,775</u></u>	<u><u>\$70,091,332</u></u>	<u><u>\$79,457,530</u></u>	<u><u>\$120,606,261</u></u>	<u><u>\$102,161,865</u></u>

NOTES TO FINANCIAL STATEMENTS

POLICYHOLDERS' RESERVES AND FUNDS

A detailed review of the statutory reserves and related actuarial items held by the Company as of December 31, 2005 was performed. This included a review of reserving methodologies, assumptions, reserve calculations, and compliance with Massachusetts insurance laws and regulations. The actuaries relied upon the accuracy and completeness of the data underlying the reserve calculations in its work; however, the accuracy and completeness of the underlying data was tested by the financial examination team and found to be reliable.

Testing procedures were performed, and based on those 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, 2005 (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, 2005, were generally found to be computed in accordance with presently accepted actuarial methods. However, it was noted that for the individual disability business assumed from the Equitable Life Assurance Society of the United States ("Equitable"), the active life reserve valuation system appears limited in its ability to fully reflect certain policy provisions. The valuation modeling simplifications that are used by the Company to reflect these policy provisions were evaluated and found to result in active life reserves being held that are greater than those required by the contract provisions.

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. This is partially offset by a valuation interest rate that is less conservative in most years than the prescribed interest rate standard, and a negative explicit margin factor, which is designed to bring the reserves to a best-estimate basis. However, 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.

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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.

Kenneth Plumb, CPA, CFE
Supervising Examiner and Examiner In Charge
Commonwealth of Massachusetts
Division of Insurance

For Information Purposes Only