

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

REPORT OF EXAMINATION OF THE
Commonwealth Annuity and Life Insurance Company
Southborough, Massachusetts
As of December 31, 2009

NAIC GROUP CODE 3891

NAIC COMPANY CODE 84824

EMPLOYER'S ID NO. 04-6145677

For Informational Purposes Only

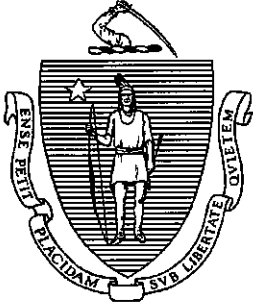
COMMONWEALTH ANNUITY AND LIFE INSURANCE COMPANY

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

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May 16, 2011

The Honorable Joseph Torti III, Chair
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Honorable Commissioners, Director and Superintendant:

Pursuant to the statutory requirements of the Commonwealth of Massachusetts and in conformity with your instructions, an association examination has been made of the transactions and financial condition of

Commonwealth Annuity and Life Insurance Company

having its home office at 132 Turnpike Road, Southborough, Massachusetts. The following report is respectfully submitted.

SCOPE OF EXAMINATION

The Commonwealth Annuity and Life Insurance Company (hereinafter referred to as "the Company" or "Commonwealth Annuity") was last examined as of December 31, 2004, under the association plan of the National Association of Insurance Commissioners ("NAIC") by the Massachusetts Division of Insurance ("the Division"). The current association plan examination was also conducted by the Division and covers the five year period from January 1, 2005 through December 31, 2009, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination. All NAIC zones were invited to participate, however no zones chose to participate in the examination. The Division conducted a concurrent examination of the Company's subsidiary First Allmerica Financial Life Insurance Company ("FAFLIC") and a separate examination report has been issued for that company.

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

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

The company has been audited annually by PricewaterhouseCoopers, LLP, an independent certified public accounting firm in accordance with 211 CMR 23.00. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2005 through 2009. A review and use of the certified public accountants' work papers were made to the extent deemed appropriate and effective. Representatives from the independent accounting, consulting and actuarial firm of Deloitte and Touche LLP ("D&T"), were engaged by the Division to complete certain procedures and examine certain actuarial items and other areas as directed, principally policy reserves. D&T's Audit and Enterprise Risk Services unit was engaged by the Division to evaluate the adequacy and effectiveness of the information technology ("IT") systems controls to determine the level of reliance to be placed on summary information generated by the data processing systems.

Status of Prior Examination Findings

The current financial examination included a review to verify the current status of exception conditions commented upon in the previous Report of Examination. The December 31, 2004, Report of Examination did not have any exception conditions.

Affidavits confirming distribution of the prior Report of Examination as of December 31, 2004, were signed by all members of the Board of Directors.

HISTORY

Commonwealth Annuity and Life Insurance Company, a stock company, was incorporated on July 26, 1974, under the laws of the State of Delaware under the name "American Variable Annuity Life Assurance Company, Inc." Effective with the close of business December 31, 1974, a merger agreement was entered into between "American Variable Annuity Life Assurance Company" of Little Rock, Arkansas, initially incorporated in January 1967, and the "American Variable Annuity Life Assurance Company, Inc." of Delaware, Delaware. As a result of the merger, "American Variable Annuity Life Assurance Company, Inc." became the surviving and continuing company, operating under the laws of the State of Delaware. The surviving company assumed the name "American Variable Annuity Life Assurance Company" under the terms of the merger agreement.

On October 7, 1981, a Certificate of Amendment to the Certificate of Incorporation was filed with the State of Delaware, changing the Company's name to "SMA Life Assurance Company," effective January 1, 1982. Effective October 1, 1995, the Company's name was changed to "Allmerica Financial Life Insurance and Annuity Company."

Effective July 1, 1999, the subsidiaries of Allmerica Financial Corporation (name changed to The Hanover Insurance Group, Inc. on February 1, 2006; "THG") engaged in an "unstacking transaction," which involved several changes in the THG holding company infrastructure. This unstacking transaction was accomplished by first having an affiliate of the Company, known as Allmerica Asset Management, Inc., merge into an affiliate known as SMA Financial Corp., which was the surviving entity in the transaction, and SMA Financial Corp. then changed its name to Allmerica Asset Management, Inc. ("AAM"). AAM contributed certain subsidiaries that had been owned by SMA Financial Corp. (i.e., Allmerica Investments, Inc., Allmerica Investment Management Company, Inc., Allmerica Financial Investment Management Services, Inc. and Allmerica Financial Services Insurance Agency, Inc.) to the Company in exchange for one share of the Company's common stock. AAM then distributed the Company and another subsidiary, Allmerica Trust Company, N.A., to First Allmerica Financial Life Insurance Company ("FAFLIC"), and FAFLIC distributed AAM to THG.

Effective December 30, 2002, the Company redomiciled and became a Commonwealth of Massachusetts domiciled insurance company. Also effective December 31, 2002, the Commonwealth of Massachusetts, Division of Insurance ("Division") approved an extraordinary dividend of all of the Company's issued and outstanding stock to THG, and the contribution of

all 500,001 shares of FAFLIC's common stock to the Company. As a result of these transactions, the Company became a direct subsidiary of THG, as well as the immediate parent of FAFLIC. Under the previous internal ownership structure, FAFLIC was the immediate parent of the Company and a direct subsidiary of THG.

Effective December 30, 2005, the Company was purchased by The Goldman Sachs Group, Inc. ("Goldman Sachs"). Effective December 30, 2005, the Company reinsured 100% of the variable life insurance and annuity business of FAFLIC in a 100% coinsurance/modified coinsurance agreement. Effective September 1, 2006, the Company's name was changed to its current name of Commonwealth Annuity and Life Insurance Company.

Capital Stock

The Company's Restated Articles of Organization, dated June 26, 2006, authorize the Company to issue 10,000 shares of Class A common stock with a par value of \$1,000 per share. As of December 31, 2009, the Company had issued and outstanding 2,526 shares of common stock. There are no other classes of capital stock.

Capital Contributions

In July, 2006, the Company received a capital contribution of \$86.3 million from Goldman Sachs.

In December, 2008, the Company received a capital contribution of \$50 million from Goldman Sachs.

In March, 2009, the Company received a capital contribution of \$250 million from Goldman Sachs.

Dividends to Stockholder

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

On December 22, 2004, the Company declared an ordinary dividend of \$75 million payable to THG. This dividend was approved by the Division and was paid in January 2005. On December 30, 2005, immediately prior to its acquisition by Goldman Sachs, the Company made certain distributions to FAFLIC and THG, as follows: (1) the Company contributed all of the outstanding shares of capital stock of certain of its non-insurance subsidiaries to FAFLIC, and (2) the Company distributed all of the capital stock of FAFLIC, Allmerica Financial Investment Management Services, Inc, and VeraVest Investments, Inc. to THG.

On December 24, 2009, in connection with the VACARVM reinsurance transaction with an affiliate, Arrow Capital Reinsurance Company ("Arrow Capital"), the Company received approval from the Division to pay an extraordinary dividend in the amount of \$60 million to Goldman Sachs, subject to Goldman Sachs contributing an equivalent amount to a segregated account of Arrow Capital, to be utilized as capital in support of the VACAVRM reinsurance transaction. Both transactions were completed on December 31, 2009.

GROWTH OF COMPANY

The growth of the Company for the years 2005 through 2009 is depicted in the following schedule, which was prepared from the Company's Annual Statements:

<u>Year</u>	<u>Admitted Assets</u>	<u>Net Premiums Written</u>	<u>Surplus</u>
2009	\$ 6,929,433,671	\$147,425,047	\$ 453,336,896
2008	5,334,785,643	108,924,991	388,065,839
2007	9,653,746,406	529,928,908	2,825,144
2006	10,556,864,114	100,410,201	568,410,960
2005	10,084,390,776	33,688,533	371,564,704

MANAGEMENT

Annual Meeting

In accordance with the Company's amended and restated Bylaws, which were effective June 26, 2006, the annual meeting of the stockholders shall be held for the election of directors at such date, time and places if any, either within or without the Commonwealth of Massachusetts, or at such other time and place as may be permitted by law, at no place (but rather by means of remote communication), as may be designated by the Board of Directors from time to time. Any other proper business may be transacted at the annual meeting. A quorum shall consist of a majority of the votes entitled to be cast, or as may be required by law.

Board of Directors

The Bylaws provide that, except as reserved for the stockholders Bylaw or by the Articles of Organization, the business and affairs of the Company shall be managed by the Board of Directors who shall have and may exercise all the powers of the Company. The number of directors shall consist of five or more members. The number of directors may be decreased to any number permitted by law at any time or from time to time by either the stockholder or the directors by a vote of a majority then in office. Directors need not be stockholders. Each director shall hold office until the next annual meeting and/or until his or her successor is duly elected and qualified. At December 31, 2009, the Board was comprised of six directors, which is in compliance with the Company's Bylaws. Directors duly elected and serving at December 31, 2009, with their business affiliations, are as follows:

<u>Directors</u>	<u>Business Affiliation</u>
Allan S. Levine	Goldman Sachs
Nicholas Helmuth von Moltke	Goldman Sachs
Manda J. D'Agata	Goldman Sachs
Donald R. Mullen	Goldman Sachs
Michael S. Rotter	Goldman Sachs
Michael A. Reardon	Commonwealth Annuity

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 during 2009. At any meeting one-third of the entire Board of Directors and at least four directors must be present to constitute a quorum. If a quorum exists, the vote of a majority of directors present shall be the act of the Board of Directors. The minutes indicate that a quorum was obtained at all meetings of the Board of Directors held during the examination period.

Committees of the Board of Directors

The Board of Directors has established an Investment Management Committee, an Audit Committee, a Compliance Committee, and a Rate Setting Committee.

The Investment Management Committee, which is comprised of three directors, is charged with oversight of the investment, sale, loan, or deposit of funds under the ownership, direction or control of the Company. The Investment Management Committee consists of the following: Allan S. Levine, Michael A. Reardon and Nicholas H. von Moltke.

The Audit Committee, which is comprised of three Directors, assists the Board in fulfilling its oversight responsibilities relating to the Company's financial statements, auditing and financial reporting processes, the system of internal controls, and the independence, qualifications and performance of the independent auditors. The Audit Committee consists of the following: Allan S. Levine, Manda J. D'Agata and Michael A. Reardon.

The Compliance Committee, which is comprised of at least one Director and up to six members of the Company's senior management team, assists the Board of Directors with mitigation of potential regulatory or reputational risk to the Company through identification, review and resolution of compliance risk throughout the organization. The Compliance Committee consists of the following: Tom Matthias, Michael A. Reardon, Scott D. Silverman, Nicholas H. von Moltke and Margot K. Wallin.

The Rate Setting Committee, which is comprised of at least one Director and up to six members of the Company's management team, assists the Board of Directors in setting various interest rates, by monitoring capital requirements and dividend restrictions. The Rate Setting Committee consists of the following: Jonathan Hecht, Stephen J. Lanczycki, Kevin F. Leavey, Hanben K. Lee, Michael J. O'Neill, Michael A. Reardon, Robert E. Winawer and Valerie Zablocki.

Officers

The Bylaws of the Company provide that the officers of the Company shall consist of a President, Treasurer and a Secretary, and it may, if it so determines, elect from among its members a Chairman of the Board and a Vice Chairman of the Board. The Board may also elect a Chief Executive Officer, Chief Operating Officer and one or more Senior Vice-Presidents, one or more Assistant Secretaries and one or more Assistant Treasurers, and such other officers as the directors may from time to time in their discretion elect or appoint. Any officer may be, but need not be, a director or stockholder.

Officers may be elected by resolution by the Board of Directors and shall hold office until the next regular election of officers and until their successors are elected and qualified. The directors may remove any officer at their discretion, and vacancies in any office may be filled by the directors.

The officers of the Corporation shall have all the powers and duties in the management of the Corporation as specified in the bylaws or in resolution of the Board of Directors which is not inconsistent with the laws of the Commonwealth of Massachusetts. The elected senior officers and their respective titles at December 31, 2009,² are as follows:

<u>Officers</u>	<u>Titles</u>
Allan S. Levine	Chairman of the Board of Directors
Eleanor L. Kitzman*	Senior Vice President and Director of Regulatory Affairs
Nicholas Helmuth von Moltke	Director and Senior Vice President
John J. Fowler ¹	Vice President
Jonathan Hecht	Vice President & Actuary
Alan A. Yamamura*	Vice President & Chief Risk Officer
Hanben K. Lee ¹	Vice President
Scott D. Silverman ¹	Vice President, General Counsel and Corporate Secretary
Manda J. D'Agata	Director, Vice President and Treasurer
Samuel Ramos	Vice President & Assistant Corporate Secretary
Donald R Mullen	Director
Michael S. Ruff	Director and Vice Chairman
Jane S. Grieso	Vice President and Controller
Stephen J. Lanczycki	Vice President and Chief Actuary
Kevin F. Leavey	Assistant Vice President and Product Actuary
Justin D. MacNeil	Vice President - Tax
Laura N. Prewitt*	Vice President and Chief Operating Officer
Michael A. Reardon*	Director, President and Chief Executive Officer
Timothy D. Rogers*	Vice President & Chief Financial Officer
Margot K. Wallin	Vice President, Special Investigative Officer & Chief Compliance Officer

* Resigned in 2010.

¹ Title Changes occurred in 2010. Effective February 1, 2010, Scott D. Silverman became Senior Vice President, General Counsel and Corporate Secretary. Effective April 1, 2010, Hanben K.

Lee became Vice President and Chief Risk Officer. Effective September 13, 2010, John J. Fowler became Vice President and Chief Financial Officer.

² Effective February 1, 2010, Mandeep Kaur O'Hearn, Jason M. Roach and Robert E. Winawer were elected as Vice President. Joel Volcy was elected as Senior Vice President and Chief Operating Officer.

Conflict of Interest Procedures

The Company has adopted, by resolution of the Board of Directors, a formal statement called "Conflict of Interest Policy." The Company has an established procedure for the disclosure to the Board of Directors of any potential financial transaction, investment, material interest or conflict of interest and affiliation on the part of any director, officer, or key employee, which might be contrary to the policy statement.

Annually, all directors, officers, and employees whose duties require them to transact any business, the nature of which might be contrary to the conflict of interest policy, are required to complete a Conflict of Interest Certificate. The completed certificates were reviewed with no discrepancies noted regarding conflicts of interest.

CORPORATE RECORDS

Bylaws and Articles of Incorporation

The Bylaws and Articles of Organization and amendments thereto were examined as part of this examination. During the examination period these documents were amended in June, 2006. The changes in 2006 were made to reflect the change in control of the Company. All changes have been properly disclosed to all regulatory authorities.

Board of Directors Minutes

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

Disaster Recovery and Business Continuity

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

AFFILIATED COMPANIES

The Company is a member of an insurance holding company system and is subject to the registration requirements of Chapter 175, Section 206C of the Massachusetts General Laws. The

Company is a direct wholly-owned subsidiary of Goldman Sachs, the ultimate controlling entity in the holding company system. Goldman Sachs is a publicly traded holding company.

Annual Statement Schedule Y Listing:

Subsidiaries and Affiliates from Schedule Y

The Goldman Sachs Group, Inc.
Commonwealth Annuity and Life Insurance Company
First Allmerica Financial Life Insurance Company
Columbia Capital Life Reinsurance Company
Charleston Capital Reinsurance, LLC
Pearl Street Insurance Company, Inc.
Goldman Sachs Risk Brokers, Inc.
Goldman Sachs Risk Advisors, LP
Arrow Capital Risk Services Limited
Arrow Reinsurance Company, Limited
Arrow Capital Reinsurance Company, Limited
Goldman Sachs Risk Services, LLC
GS Risk Advisors, Inc.
Goldman, Sachs & Co.
Goldman Sachs Asset Management, LP
Goldman Sachs International
Goldman Sachs Financial Markets, LP
Essent Group Limited
Essent Reinsurance Limited
Goldman Sachs Financial Markets, LLC
Essent US Holdings, Inc.
Essent Guaranty, Inc.
Epoch Securities, Inc.
The Goldman, Sachs & Co. LLC
Goldman Sachs Global Holdings LLC
Arrow Corporate Member Holdings LLC
Arrow Corporate Member Limited
Rothesay Life, LLC
Rothesay Life (Cayman) Limited
Rothesay Life Limited

State of Domicile or Incorporation

Delaware
Massachusetts
Massachusetts
Washington, D.C.
Washington, D.C.
Vermont
Delaware
Delaware
Bermuda
Bermuda
Bermuda
Delaware
Delaware
New York
Delaware
England
Delaware
Bermuda
Bermuda
Delaware
Delaware
Pennsylvania
Delaware
Delaware
Delaware
Delaware
England
Delaware
Cayman Islands
England

Guarantees

On December 30, 2005, immediately prior to the acquisition of the Company by Goldman Sachs, a Keepwell Agreement by THG for the benefit of the Company was terminated.

In connection with the acquisitions of the Company and FAFLIC, Goldman Sachs provided certain written assurances to the Massachusetts Commissioner of Insurance (the "Commissioner") to make capital contributions to the Company and/or FAFLIC, subject to a maximum of \$350 million in the aggregate, as may be required to maintain the Companies'

respective RBC Ratios at 100% of the Company Action Level risk based capital (the "Keepwell Agreement"). On December 31, 2009, the Company ceded 100% of its variable annuity business (including the business previously ceded to the Company by FAFLIC) to an affiliate, Arrow Capital, via coinsurance and modified coinsurance, and the Company implemented Actuarial Guideline 43, CARVM for Variable Annuities (the "VACARVM Reinsurance Transaction"). Because of the reduction in financial risk to the Company and FAFLIC resulting from the VACARVM transaction, Goldman Sachs requested and received approval of an amended and restated Keepwell Agreement, which supersedes all prior Keepwell Agreements, to reduce the aggregate of Goldman Sachs' obligations to a maximum of \$250 million. The assurances under the Keepwell Agreement are not evidence of indebtedness or an obligation or liability of Goldman Sachs, and do not provide contract owners with any specific rights or recourse against Goldman Sachs.

Transactions and Agreements with Subsidiaries and Affiliates

The Company has entered into several management, service, and cost sharing arrangements with FAFLIC and other affiliates within Goldman Sachs. All such agreements were submitted for prior review of the Division pursuant to the requirements of Chapter 175 M.G.L. 206C. These agreements include the following:

- Amended and Restated Shared Services and Expense Agreement, as amended, whereby Goldman Sachs and Goldman Sachs & Co. ("GS & Co.") provide support services in administrative, legal, compliance, technology, operations, financial reporting, human resources, risk management, and other areas to Commonwealth Annuity. The Company provides certain services to Longmeadow Credit Services, LLC ("LCS"), including but not limited to seconding Commonwealth Annuity employees to LCS, providing management services, administrative support, the use of certain furniture, fixtures, equipment, leased space and improvements, and services related thereto, and such other services as the parties may agree to from time to time.
- Discretionary Advisory Agreement and related agreements with Goldman Sachs Asset Management, L.P. ("GSAM," a wholly-owned subsidiary of Goldman Sachs), whereby GSAM provides investment management services to Commonwealth Annuity. Commonwealth Annuity pays GSAM an annual investment management fee based upon the market value of assets under management. This fee is consistent with the arms-length rates GSAM charges to non-affiliates, including third party insurance companies. In connection with this agreement, the Company, GSAM, and GS & Co. entered into a Futures and Option Account Agreement, whereby Goldman, Sachs & Co. or any of its affiliates may execute, clear, and/or carry on Commonwealth Annuity's behalf for the purchase or sale of futures contracts or options on futures contracts, and any customer accounts carried by GS & Co. in connection therewith. The Company entered into an ISDA Master Agreement, related Credit Support Annex, and related confirmations and other ancillary agreements with Goldman Sachs International in order to hedge both market-based and reinsurance-based risk. The Company and GS & Co. also entered into a Delivery Versus Payment Broker Dealer Agreement, whereby GS & Co. acts as

executing broker for equity and/or fixed income securities and another non-prime broker institution acts as a custodian for cash and securities

- Underwriting and Administrative Services Agreement, Shared Services Agreement, and Expense Sharing Agreement with Epoch Securities, Inc. ("Epoch" a wholly-owned subsidiary of Goldman Sachs) and the Company, whereby Epoch provides principal underwriting services and the Company provides certain administrative services in connection with the distribution and servicing of variable annuity contracts and variable life insurance policies issued by the Company and FAFLIC.
- Participation Agreements with GS & Co. and Goldman Sachs Variable Insurance Trust ("GSVIT") and Goldman Sachs Trust ("GST") whereby the separate accounts of the Company may purchase shares of funds of GSVIT and GST for the variable contracts supported by such separate accounts. GSVIT and GST are open-end management investment companies that offer shares of beneficial interest exclusively to separate accounts of life insurance companies and various qualifying retirement plans or accounts. GSVIT and GST are independent from Goldman Sachs and its affiliates and are governed by their own independent Board of Directors.
- Administrative Services Agreement with GSAM, whereby the Company will assist GSAM with the provision of certain administrative services to GSVIT or GSAM, relating to investments in shares of funds of GSVIT and the separate accounts of the Company, pursuant to the terms of the Participation Agreement. GSAM will pay Commonwealth Annuity a fee equal to a fixed percentage rate of the average aggregate net asset value, which is comparable to that paid to other insurers whose separate accounts invest in shares of GSVIT.
- Omnibus Amendment Agreement with Goldman Sachs, THG, and FAFLIC to amend a number of agreements that were executed in connection with the acquisition in 2005 of Commonwealth Annuity by Goldman Sachs from THG. The Omnibus Amendment revised the terms of various agreements to reflect the re-affiliation of the Company and FAFLIC that resulted from the acquisition of FAFLIC on January 2, 2009. The agreements that were amended are: the Stock Purchase Agreement, dated August 22, 2004, between Goldman Sachs and THG; the Core Coinsurance Agreement, the Core Administrative Services Agreement and the Non-Core Administrative Services Agreement, each dated December 30, 2005, and each between the Company and FAFLIC, and the Non-Core Coinsurance Agreement, dated May 30, 2006, between the Company and FAFLIC.
- Shared Services and Expense Agreement with Columbia Capital Life Reinsurance Company ("Columbia Capital") and Charleston Capital Reinsurance, LLC ("Charleston Re"), whereby the Company provides support services in administrative, legal, compliance, technology, operations, financial reporting, human resources, risk management and other areas.

- Trust Agreement, as amended, entered into in connection with the reinsurance transaction between the Company and Arrow Capital, which provides Commonwealth Annuity additional reinsurance collateral supporting the segregated accounts obligations in the form of a segregated trust account, which was funded with amounts contributed by Goldman Sachs to Arrow Capital.

Management and Service Agreements

In addition to the management and services arrangements with affiliates, the Company has outsourced policyholder administration to certain third party administrators. The Company has outsourced administration of the core block of variable life and variable annuity business (including variable product business reinsured from FAFLIC), to se2, an affiliate of Security Benefit Corporation, located in Topeka, Kansas. Under the terms of a master third party administration agreement, se2 provides customary administrative services (including operation of a call center, premium accounting, claims payments and disbursements), but does not market or underwrite new policies.

In connection with reinsurance transactions, Commonwealth Annuity may from time-to-time enter into administrative services agreements with the ceding insurance companies. Administration of the reinsured blocks of fixed business are subcontracted to third party administrators, including Dell Perot Systems Corporation ("Perot"), Transaction Applications Group, Inc. ("TAG"), Professional Data Management Again, Inc. ("PDMA") and LOGiQ³ pursuant to the terms of third party administration agreements between the respective service providers and Commonwealth Annuity and its affiliates.

To the extent that additional underwriting or claims services are needed for services such as increases in premium or reinstatements such services are provided by Mid-America Agency Services, Inc. and TEG Enterprise Incorporated ("MAAS/TEG"), pursuant to the terms of services agreements with Commonwealth and its affiliates. MAAS/TEG will perform underwriting functions on cases requiring current evidence of insurability in accordance with the Company's guidelines and procedures. MAAS/TEG is located in Omaha, Nebraska.

Tax Sharing Agreement

The Company has not been eligible to file a consolidated income tax return with its corporate parent due to certain tax restrictions. It will be eligible in 2011 for such a consolidation. At that time a tax sharing agreement will be executed with Goldman Sachs. The Company has filed federal tax returns on a standalone entity basis since 2006.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond issued to its ultimate parent, Goldman Sachs. The fidelity bond protects against loss from any fraudulent or dishonest acts by any employees, and provides coverage of \$200 million in the aggregate or for a single loss. The fidelity bond meets the minimum coverage recommended by the NAIC for the Company. In

addition, the Company has Errors and Omissions insurance coverage in-force that provides coverage to a limit of \$25 million with a \$2.5 million deductible. Based upon our review, the Company's insurance coverage for these risks appeared adequate.

EMPLOYEE AND AGENT'S WELFARE AND PENSION PLANS

Prior to December 30, 2005, the Company did not have any direct employees and therefore did not have any direct cost associated with employee welfare and pension plans. All employees and human resources were provided by FAFLIC, and as such, the Company was charged by FAFLIC, through an allocation process, for actual salary and benefit costs for services provided to the Company by FAFLIC employees.

The Company and its employees are not members of a Goldman Sachs sponsored pension program and the Company does not have any direct or indirect pension liabilities and no postretirement benefit liabilities.

STATUTORY DEPOSITS

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

<u>Location</u>	<u>Description of Deposit</u>	<u>Fair Value</u>	<u>Statement Value</u>	<u>Market Value</u>
California	U.S. TREASURY 4 1/4% Due 11/15/2017 MN15	\$100,000	\$105,892	\$104,813
Georgia	U.S. TREASURY 7 1/8% Due 2/15/2023 FA15	140,000	182,999	179,638
Kansas	U.S. TREASURY 7 1/2% Due 9/30/2017 MS31	425,000	423,507	450,679
Kentucky	U.S. TREASURY 7 1/8% Due 2/15/2023 FA15	130,000	169,928	166,807
Massachusetts – All Policyholders	GEORGIA POWER COMPANY 5 1/8% Due 11/15/2012 MN15	1,200,000	1,206,637	1,293,746
Massachusetts All Policyholders	U.S. TREASURY 7 1/8% Due 2/15/2023 FA15	600,000	784,281	769,878
New Mexico	U.S. TREASURY 7 1/8% Due 2/15/2023 FA15	120,000	156,856	153,976
New York	FEDERAL FARM CREDIT BANK 4 7/8% Due 11/16/2015 MN16	25,000,000	25,401,951	26,960,600
New York	TENN VALLEY AUTHORITY 5 3/8% Due 4/1/2056 AO1	6,500,000	6,750,645	6,992,510
New York	STRIP PRINC Due 11/15/2026 At Mat	10,529,000	4,958,140	4,663,820
New York	U.S. TREASURY 8 7/8% Due 8/15/2017 FA15	2,000,000	2,611,070	2,727,140

Commonwealth Annuity and Life Insurance Company

<u>Location</u>	<u>Description of Deposit</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
New York	U.S. TREASURY 4 1/4% Due 11/15/2017 MN15	3,000,000	3,003,470	3,144,390
New York	DETROIT EDISON COMPANY 6 1/8% Due 10/1/2010 AO1	2,000,000	2,006,706	2,078,238
New York	FEDERAL FARM CREDIT BANK 4.6% Due 8/28/2014 FA28	4,000,000	3,883,668	4,312,548
New York	FANNIE MAE 6 5/8% Due 11/15/2010 MN15	6,500,000	6,599,117	6,844,182
New York	NEW JERSEY ST TPK AUTH TPK REV 4.252% Due 1/1/2016 JJ1	9,420,000	9,018,944	9,560,564
New York	NORTH CAROLINA TPK AUTHORITY 6.7% Due 1/1/2039 JJ1	10,000,000	9,992,942	10,368,800
North Carolina	U.S. TREASURY 7 1/8% Due 2/15/2023 FA15	400,000	512,854	513,252
South Carolina	U.S. TREASURY 4 1/2% Due 9/30/2011 MS31	600,000	597,892	636,252
Tennessee	U.S. TREASURY 4 1/4% Due 11/15/2013 MN15	500,000	496,688	540,365
Virginia	U.S. TREASURY 7 1/8% Due 2/15/2023 FA15	500,000	653,568	641,565
Virgin Islands	U.S. TREASURY 7 1/8% Due 2/15/2023 FA15	600,000	784,281	769,878
	Total All Policyholders	1,800,000	1,990,918	2,063,624
	Total Non-Ad Policyholders	82,464,000	78,320,270	81,756,123
	Total All Locations	\$84,264,000	\$80,311,188	\$83,819,747

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed to write business in forty-nine states, the District of Columbia and the US Virgin Islands.

Prior to September 30, 2002, the Company sold variable annuities, variable universal life and traditional life insurance products, as well as certain group retirement products. As a result of the cumulative effect of the significant decline in the equity markets as well as rating agency actions, in 2002 the Company discontinued all new sales of proprietary products.

The Company resumed selling new business in the summer of 2007 with the issuance of two new variable annuity products, which are available for purchase on a non-qualified basis and by qualified plans, with distribution focused primarily upon the 403(b) marketplace. In 2009, Commonwealth Annuity introduced a new individual variable annuity product. In 2010, the Company introduced a new whole life product, which is intended solely for use as a conversion product in connection with certain of the Company's previously issued term life insurance policies and life insurance riders (e.g., Other Insured Riders, Children Riders) that have conversion features. The Company intends to engage in additional product development initiatives, which will be dependent in part upon its analysis of future opportunities and of regulatory developments in the variable and fixed annuity markets.

The Company has acquired additional blocks of fixed and variable annuity and life business, primarily through reinsurance transactions. Consistent with the overall business strategy, the Company assumes certain policy risks written by other insurance companies on a coinsurance and modified coinsurance basis. These included: (1) the assumption of variable annuity, variable life, and traditional life insurance business and (2) the cession of traditional life, universal life, and health insurance business. See "Reinsurance Transactions."

TREATMENT OF POLICYHOLDERS

Claims Settlement Practices

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

Policyholder Complaints

During the course of the examination, a general review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations to policyholders and claimants. This review was limited in nature and was substantially narrower than a full scope market conduct examination. The Division's Consumer Services Section was consulted as part of the examination planning process. The review disclosed no indications that would lead the examination team to believe that a pattern of unfair consumer practices existed. A sample of complaints against the Company was reviewed, and of those reviewed, it would appear that the Company responded in an overall timely manner.

REINSURANCE

The Company utilizes the assumption of business through indemnity reinsurance to support its growth strategy. As part of this strategy, the Company has acquired various blocks of businesses in recent years. Consistent with the general practice in the life insurance industry, the Company is also a party to numerous reinsurance agreements as the ceding company, whereby the Company seeks to reduce net liability on individual risks, to provide protection against large losses, and obtain a greater diversification of risk. Historically, the Company utilized

reinsurance to exit certain lines of business and facilitate its plans to discontinue a major operating unit.

Since the Company has a number of reinsurance agreements, which have been in place for many years, only those significant treaties entered into during the period covered by this examination will be noted below. A summary of the Company's reinsurance program is as follows.

Ceded Reinsurance

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

In concert with the indemnity assumption from FAFLIC of a block of variable life business, FAFLIC novated to the Company its existing variable life reinsurance treaties. The Company retention on any one life is \$2 million. Automatic treaties are in place, on an annual or yearly renewable term basis, which provides coverage up to three times this \$2 million retention. Policies issued with face values of \$8 million or greater are reinsured on a facultative basis. This facultative coverage may be provided by one or several reinsurers. In addition, prior to the current audit period, the Company implemented 100% coinsurance agreements with various reinsurers to exit certain universal life and traditional life insurance products. Servicing for these policyholders is performed by the reinsurers.

Related to the 2005 acquisition of the Company by Goldman Sachs, the Company indemnity reinsured, effective June 2005, an immaterial block of individual hospital reinsurance, via 100% coinsurance to FAFLIC.

Effective November 1, 2006, the Company indemnity coinsured 100% of deferred fixed annuity insurance business to its affiliate, Columbia Capital. The Company continues to provide insurance servicing to these policyholders. Columbia Capital reimburses the Company for all cash transactions on a quarterly basis.

On December 18, 2009, the Company entered into an Assumption Reinsurance Agreement with Metropolitan Life Insurance Company ("MetLife") where the Company will assumption reinsure certain individual disability income insurance policies with MetLife. These policies are currently 100% coinsured with MetLife. Regulatory approval for the assumption reinsurance treaty has been granted by the Division and the New York Insurance Department. Policyholder consent is being solicited. The Company anticipates that the assumption of the policies by Met Life will be completed in 2011. The Company paid to MetLife \$4.2 million and FAFLIC paid \$0.8 million upon receiving targeted state and policyholder approval.

On December 31, 2009, the Company ceded, via coinsurance and modified coinsurance, 100% of its variable annuity business to its affiliate, Arrow Capital. As part of its reinsurance, the returns associated with the derivatives hedging program supporting the variable annuity products have been passed to Arrow Capital. In conjunction with the coinsurance terms, the Company and Arrow Capital entered into a trust agreement, whereby Arrow Capital established a trust account for the benefit of the Company. The Company may withdrawal funds from the trust account as reimbursement for the related reinsurance activities. The treaty is cash settled monthly.

Assumed Reinsurance

On December 30, 2005, the Company implemented a 100% indemnity coinsurance treaty with FAFLIC to assume 100% of FAFLIC's Variable Life and Annuity business. The separate Account liabilities for these products were assumed on a modified coinsurance basis.

Effective July 1, 2006, the Company assumed via a modified coinsurance treaty the direct and assumed general and separate account liabilities of the variable annuity block of business of the Chase Insurance Life and Annuity Company (merged April 1, 2007 into Protective Life Insurance Company, "Protective"). As part of this reinsurance, the Company assumed responsibility for administration of this block effective August 2007. As of July 1, 2007, the treaty was expanded to include a small block of variable life policies. Servicing of the variable life products was moved to the Company effective August 2008.

On January 1, 2007, the Company entered into an assumption reinsurance agreement with Fidelity Mutual Life Insurance Company ("FML") where the Company acquired all insurance business of FML, including traditional life insurance, universal life insurance, and fixed annuity contracts. This business is 100% indemnity reinsured to Columbia Capital, and settled quarterly. Prior to 2007, this business was in rehabilitation. The Company also assumed a small block of disability insurance which it did not cede to Columbia Capital. The Company is not exposed to any liabilities of FML other than the policy liabilities assumed.

On March 31, 2009, the Company entered into a coinsurance/modified coinsurance agreement to assume a block of universal life and variable universal life business from The Lincoln National Life Insurance Company ("Lincoln"). On October 1, 2009, the Company ceded to Lincoln on a yearly renewal term basis the mortality risk of this block. Effective December 31, 2009, the cession to Lincoln was novated to First Penn Pacific Life Insurance Company.

Effective April 1, 2009, the Company and its subsidiary, FAFLIC, assumed via coinsurance traditional life, universal life, and fixed annuity blocks from eight insurance subsidiaries of Universal American Corporation. Policyholder servicing for these blocks of business has been moved to the Company in 2009. Active sales of these products ceased in 2009.

GMDB HEDGING PROGRAM

The Company enters into certain over-the-counter ("OTC") derivatives; primarily equity put options, credit default swaps, and interest rate swaps and swaptions, to hedge equity volatility,

credit and interest rate risks. In addition the Company enters into exchange-traded equity and interest rate futures transactions to manage equity delta and interest rate exposures. These strategies reduce the expected economic volatility from changes in the market and protect the Company from severe market movements. The economics of a majority of the derivatives trading activities relates to the variable annuity business that was ceded to Arrow Capital in 2009.

Exchange-traded futures are effected through a regulated exchange and options are executed with Goldman Sachs pursuant to the Discretionary Advisory Agreement and related agreements. All derivatives are marked to market on a daily basis. The Company has little exposure to credit related losses in the event of nonperformance of counterparties to such financial instruments.

Prior to December 2005, the Company had implemented a hedging program with the primary purpose to provide the Company with an economic hedge against increased GMDb claims and volatility in statutory capital and risk based capital levels. The hedge program utilized a dynamic hedging approach involving exchange traded futures contracts. Under the program, these hedge contracts were expected to generate cash to fund increases in GMDb claims.

SUBSEQUENT EVENTS

During March 2010, the Company entered into a series of third party repurchase agreements for a notional value of approximately \$100 million. As part of these transactions, the Company is required to post securities and cash as collateral. The Company invests the cash in an overnight tri-party reverse repurchase agreement, in which the Company receives investment grade, highly liquid securities as collateral from counterparties. This transaction allows the Company to better match the duration of its liabilities and cash flow needs under severe stress scenarios in a more efficient manner.

On April 1, 2010, the Company recaptured its yearly renewable term insurance with First Penn Pacific and amended its coinsurance/modified coinsurance treaty with Lincoln National Life Insurance Company. The latter entered into a 100% cession on a yearly renewable term basis with First Penn Pacific and the coinsurance/modified coinsurance treaty was amended so that the cession from Lincoln to the Company is net of the mortality risk transferred by Lincoln to First Penn Pacific. As a result, the Company is no longer exposed to mortality risk, and the Company implemented deposit accounting for this transaction as of April 1, 2010.

Effective October 1, 2010, the Company novated to Athene Life Re Ltd. the reinsurance of certain fixed annuity liabilities, which it assumed from four subsidiaries of the Universal American Corporation effective April 1, 2009. Effective December 1, 2010 The Company novated to Athene Life Re Ltd. the fixed annuities liabilities of a fifth subsidiary, American Pioneer Life Insurance Company. In addition, the Company's subsidiary, FAFLIC, novated effective December 1, 2010, the fixed annuity liabilities assumed from American Progressive Life Insurance Company, a subsidiary of Universal American Corporation. The Company continues to indemnity reinsure the traditional life and universal life liabilities of the Universal American subsidiaries.

On December 9, 2010 the Company declared a dividend of \$250 million payable to its stockholder of record on such date, Goldman Sachs. Payment of the dividend was approved by the Commissioner of Insurance of the Massachusetts Division of Insurance. The Company paid \$115 million and \$135 million to Goldman Sachs on January 21, 2011 and January 31, 2011, respectively.

FINANCIAL STATEMENTS

The following financial statements reflect the assets, liabilities, capital and surplus as determined by our examination, showing the Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2009, together with a Summary of Operations for the year ended December 31, 2009, Statement of Capital and Surplus as of December 31, 2009, and a Reconciliation of Capital and Surplus for the five year period ended December 31, 2009.

The following statements are presented on the basis of accounting practices prescribed or permitted by the division and the NAIC as of December 31, 2009.

Commonwealth Annuity and Life Insurance Company

Commonwealth Annuity and Life Insurance Company
Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2009

Assets	As Reported by the Company	Examination Changes	Per Statutory Examination
Bonds	\$ 2,204,334,144	\$ -	\$ 2,204,334,144
Common stocks	156,923,177		156,923,177
Cash, cash equivalents and short-term investments	133,569,086		133,569,086
Contract loans	215,587,627		215,587,627
Receivables for securities	28,036		28,036
Aggregate write-ins for invested assets	87,987,576		87,987,576
Sub-totals, cash and invested assets	2,798,429,646		2,798,429,646
Investment income due and accrued	25,412,791		25,412,791
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	7,492,752		7,492,752
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,824,199		1,824,199
Reinsurance ceded:			
Amounts recoverable from reinsurers	12,199,543		12,199,543
Other amounts receivable under reinsurance contracts	66,264,262		66,264,262
Net deferred tax asset	63,843,781		63,843,781
Guaranty funds receivable or on deposit	766,811		766,811
Electronic data processing equipment and software	10,755		10,755
Receivables from parent, subsidiaries and affiliates	3,027,147		3,027,147
Aggregate write-ins for other than invested assets	1,861,473		1,861,473
Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts	2,981,133,160	-	2,981,133,160
From Separate Accounts, Segregated Accounts and Protected Cell Accounts	3,948,300,511		3,948,300,511
Total	\$ 6,929,433,671	\$ -	\$ 6,929,433,671

Commonwealth Annuity and Life Insurance Company

Commonwealth Annuity and Life Insurance Company
Statement of Assets, Liabilities, Surplus and Other Funds (Continued)
As of December 31, 2009

Liabilities	As Reported by the Company	Examination Changes	Per Statutory Examination
Aggregate reserve for life contracts	\$ 2,347,433,328	\$ -	\$ 2,347,433,328
Aggregate reserve for accident and health contracts	417,839		417,839
Liability for deposit-type contracts	59,499,374		59,499,374
Contract claims:			
Life	14,361,184		14,361,184
Accident and health	181		181
Premiums and annuity considerations for life and accident and health contracts received in advance	443,379		443,379
Other amounts payable on reinsurance	66,962,230		66,962,230
Interest maintenance reserve	30,404,111		30,404,111
Commissions to agents due or accrued deposit-type contract funds	711,957		711,957
Commissions and expense allowances payable on reinsurance assumed	152,468		152,468
General expenses due or accrued	13,821,799		13,821,799
Transfers to Separate Accounts due or accrued	(87,291,481)		(87,291,481)
Taxes, licenses and fees due or accrued	1,940,029		1,940,029
Unearned investment income	276,712		276,712
Amounts withheld or retained by company as agent or trustee	817,698		817,698
Remittances and items not allocated	27,605,105		27,605,105
Miscellaneous liabilities:			
Asset valuation reserve	5,101,055		5,101,055
Reinsurance in unauthorized companies	459,988		459,988
Payable to parent, subsidiaries and affiliates	677,195		677,195
Payable for securities	13,168,550		13,168,550
Aggregate write-ins for liabilities	28,308,153		28,308,153
Total liabilities excluding Separate Accounts business	2,525,270,854	-	2,525,270,854
From Separate Accounts statement	3,948,300,511		3,948,300,511
Total Liabilities	6,473,571,365	-	6,473,571,365
Common capital stock	2,526,000		2,526,000
Gross paid in and contributed surplus	1,154,838,270		1,154,838,270
Aggregate write-ins for special surplus funds	21,326,259		21,326,259
Unassigned funds (surplus)	(722,828,223)		(722,828,223)
Total Surplus	453,336,306	-	453,336,306
Total Capital and Surplus	455,862,306	-	455,862,306
Total Liabilities, Capital and Surplus	\$ 6,929,433,671	\$ -	\$ 6,929,433,671

Commonwealth Annuity and Life Insurance Company

Commonwealth Annuity and Life Insurance Company
Summary of Operations
For the year ended December 31, 2009

	As Reported by the Company	Examination Changes	Per Statutory Examination
Premiums and annuity considerations for life and accident and health contracts	\$ 1,534,010,167	\$ -	\$ 1,534,010,167
Net investment income	144,750,456		144,750,456
Amortization of Interest Maintenance Reserve	2,367,040		2,367,040
Separate Accounts net gain from operations	1,134,244		1,134,244
Commissions and expense allowances on reinsurance ceded	17,857,706		17,857,706
Miscellaneous income:			
Income from fees associated with investment management, administration and contract guarantees from Separate Accounts	111,469,441		111,469,441
Aggregate write-ins for miscellaneous income	125,211,800		125,211,800
Totals	1,936,800,854		1,936,800,854
Death benefits	72,008,734		72,008,734
Annuity benefits	171,993,140		171,993,140
Disability benefits and benefits under accident and health contracts	1,358,841		1,358,841
Coupons, guaranteed annual pure endowments and similar benefits	1,608		1,608
Surrender benefits and withdrawals for life contracts	1,090,199,898		1,090,199,898
Interest and adjustments on contracts or deposit-type contract funds	9,449,611		9,449,611
Payments on supplementary contracts with life contingencies	726		726
Increase in aggregate reserve for life and accident and health contracts	1,117,567,203		1,117,567,203
Sub-totals	2,462,579,761	-	2,462,579,761
Commissions on premiums, annuity considerations and deposit- type contract funds	9,365,773		9,365,773
Commissions and expense allowances on reinsurance assumed	311,414,216		311,414,216
General insurance expenses	48,502,274		48,502,274
Insurance taxes, licenses and fees including federal income taxes	5,267,151		5,267,151
Net transfers to or (from) Separate Accounts net of reinsurance	(575,285,234)		(575,285,234)
Aggregate write-offs for deductions	(220,155,372)		(220,155,372)
Totals	2,041,688,569	-	2,041,688,569
Net gain from operations before dividends to policyholders and federal income taxes	(104,887,714)		(104,887,714)
Dividends to policyholders	10,916		10,916
Net gain from operations after dividends to policyholders and before federal income taxes	(104,898,630)	-	(104,898,630)
Federal and foreign income taxes incurred	-		-
Net gain from operations after dividends to policyholders and federal income taxes	(104,898,630)	-	(104,898,630)
Net realized capital gains (losses)	(35,654,124)		(35,654,124)
Net income	\$ (140,552,754)	\$ -	\$ (140,552,754)

Commonwealth Annuity and Life Insurance Company

Commonwealth Annuity and Life Insurance Company

Capital and Surplus

For the year ended December 31, 2009

	As Reported by the Company	Examination Changes	Per Statutory Examination
Capital and surplus, December 31, prior year	\$ 390,621,839	\$ -	\$ 390,621,839
Net income	(140,552,754)		(140,552,754)
Change in net unrealized capital gains (losses)	(41,633,730)		(41,633,730)
Change in net deferred income tax	36,587,862		36,587,862
Change in nonadmitted assets	(4,483,111)		(4,483,111)
Change in liability for reinsurance in unauthorized companies	(64,120)		(64,120)
Change in asset valuation reserve	(1,712,699)		(1,712,699)
Surplus (contributed to) withdrawn from Separate Accounts during period	1,134,244		1,134,244
Other changes in surplus in Separate Accounts statement	(1,134,224)		(1,134,224)
Cumulative effect of changes in accounting principles	9,108,559		9,108,559
Surplus adjustment: Paid in	250,000,000		250,000,000
Dividends to stockholders	(60,000,000)		(60,000,000)
Aggregate write-ins for gains and losses in surplus	17,990,401		17,990,401
Net change in capital and surplus for the year	65,240,467	-	65,240,467
Capital and surplus, December 31, current year	\$ 455,862,306	\$ -	\$ 455,862,306

Commonwealth Annuity and Life Insurance Company

Commonwealth Annuity and Life Insurance Company

Reconciliation of Capital and Surplus

For the Five Year Period Ended December 31, 2009

	2009	2008	2007	2006	2005
Capital and surplus, December 31, prior year	\$ 390,621,839	\$ 461,351,144	\$ 368,936,958	\$ 374,090,704	\$ 555,629,177
Net income	(140,552,754)	(247,090,101)	58,162,606	(35,525,345)	(2,334,890)
Change in net unrealized capital gains (losses)	(41,633,730)	123,725,741	43,727,406	(25,147,526)	27,667,600
Change in net deferred income tax	36,587,862	100,982,334	(8,311,403)	21,241,830	(11,940,883)
Change in nonadmitted assets	(4,483,111)	(114,271,527)	19,899,083	(9,453,699)	17,779,785
Change in liability for reinsurance in unauthorized companies	(64,120)	109,766	(388,305)	(6,500)	1,896,119
Change in asset valuation reserve	(1,712,699)	2,038,432	(3,357,861)	(2,977,694)	2,118,754
Surplus (contributed to) withdrawn from Separate Accounts during period	1,134,244	2,670,122	2,030,305	515,653	(2,372,825)
Other changes in surplus in Separate Accounts statement	(1,134,224)	(2,670,078)	(2,030,305)	(515,653)	2,372,827
Cumulative effect of change in accounting principles	9,108,599	-	-	-	-
Surplus adjustment: Paid in	250,000,000	50,000,000	-	86,306,206	8,600,000
Dividends to stockholders	(60,000,000)	-	-	-	(223,454,211)
Change in surplus as a result of reinsurance	-	12,495,701	(12,495,701)	-	-
Aggregate write-ins for gains and losses in surplus	17,495,001	1,280,305	(4,821,674)	(40,488,651)	(1,866,168)
Rounding	-	-	2	-	-
Net change in capital and surplus for the year	85,240,467	(70,729,305)	92,414,186	(5,153,746)	(181,538,473)
Capital and surplus, December 31, current year	\$ 455,862,306	\$ 390,621,839	\$ 461,351,144	\$ 368,936,958	\$ 374,090,704

SEPARATE ACCOUNTS

Section 132F and 132G of Chapter 175 of the Massachusetts General Laws were enacted in 1960 and 1968 respectively, and amended several times thereafter. These laws provide for the establishment by life companies of one or more separate investment accounts, independent of the insurer's general investment account.

For individual insurance, the separate accounts held by the Company relate to variable annuities or life insurance of both a guaranteed and non-guaranteed return nature. The net investment return of the separate account is credited directly to the policyholder and can be positive or negative. The variable annuities provide a minimum guaranteed death benefit, the nature of which has varied over time. In 1996, the Company began offering a guaranteed minimum death benefit that is adjusted annually to the current account value. In 1998, the Company began offering GMDB riders that provide guaranteed death benefits that could exceed current account value. The assets and liabilities of these accounts are carried at market value and the business has been included in the Company's General Account Annual Statement. The Company's risk under the GMDB riders have been reinsured under the GMDB mortality reinsurance program and hedged under the GMDB Hedging program, discussed above.

In 1997, the Company began offering annuities with market value adjustment. While these are guarantees associated with these annuities, returns above the guaranteed level may be subject to market value adjustments which can be positive or negative. The assets and liabilities of these annuities are carried at market value.

For group insurance, the separate accounts held by the Company relate to group annuity contracts, which fund defined contribution and defined benefit plans. The assets and liabilities of these accounts are carried primarily at market value.

SEPARATE ACCOUNTS – FINANCIAL STATEMENTS

A Statement of Assets, Liabilities and Surplus as of December 31, 2009, a Statement of Operations for the year ended December 31, 2009, and a Reconciliation of Surplus for the year ended December 31, 2009, as determined by this examination, are presented.

Commonwealth Annuity and Life Insurance Company

Commonwealth Annuity and Life Insurance Company
 Separate Account Business
 Statement of Assets, Liabilities and Surplus
 As of December 31, 2009

	As Reported by the Company	Examination Changes	Per Statutory Examination
Assets			
Bonds	\$ 28,376,155	\$ -	\$ 28,376,155
Common stocks	3,910,134,289		3,910,134,289
Short-term investments	9,365,143		9,365,143
Investment income due and accrued	419,540		419,540
Receivables for securities	5,384		5,384
	<u>\$ 3,948,300,511</u>	<u>\$ -</u>	<u>\$ 3,948,300,511</u>
Liabilities and Surplus			
Aggregate reserve for life, annuity and accident and health contracts	\$ 3,895,177,191	\$ -	\$ 3,895,177,191
Interest maintenance reserve	1,793,108		1,793,108
Other transfers to general account due and accrued	53,123,320		53,123,320
Aggregate write-ins for liabilities	(1,793,108)		(1,793,108)
Total Liabilities	<u>3,948,300,511</u>	<u>-</u>	<u>3,948,300,511</u>
Unassigned funds	-		-
Total Surplus	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities and Surplus	<u>\$ 3,948,300,511</u>	<u>\$ -</u>	<u>\$ 3,948,300,511</u>

Commonwealth Annuity and Life Insurance Company

Commonwealth Annuity and Life Insurance Company

Separate Account Business

Summary of Operations

For the year ended December 31, 2009

	As Reported by the Company	Examination Changes	Per Statutory Examination
Transfers to Separate Accounts:			
Net premium and annuity considerations for life and accident and health contracts	\$ 42,354,091	\$ -	\$ 42,354,091
Net investment income and capital gains and losses	894,203,846		894,203,846
Totals	936,557,937	-	936,557,937
DEDUCT:			
Transfers from the Separate Accounts on account of contract benefits:			
Death benefits	109,328,440		109,328,440
Annuity benefits	5,309,165		5,309,165
Aggregate write-ins for other transfers from Separate Accounts on account of contract benefits	406,670,301		406,670,301
Transfers on account of policy loans	1,824,769		1,824,769
Net transfer of reserves from or (to) Separate accounts	84,436,803		84,436,803
Aggregate write-ins for other transfers from Separate Accounts	(122,279,719)		(122,279,719)
Fees associated with charges for investment management, administration and contract guarantees	84,399,479		84,399,479
Increase in aggregate reserves for life and accident and health contracts	366,247,471		366,247,471
Aggregate write-ins for reserves and funds	(546,815)		(546,815)
Totals	935,389,894	-	935,389,894
Net gain from operations	\$ 1,168,043	\$ -	\$ 1,168,043

Commonwealth Annuity and Life Insurance Company

Commonwealth Annuity and Life Insurance Company

Separate Account Business

Reconciliation of Surplus

For the year ended December 31, 2009

	As Reported by the Company	Examination Changes	Per Statutory Examination
Surplus, December 31, prior year	\$ -	\$ -	\$ -
Net gain from operations	1,168,043		1,168,043
Surplus contributed or (withdrawn) during year	(1,168,043)		(1,168,043)
Surplus, December 31, current year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

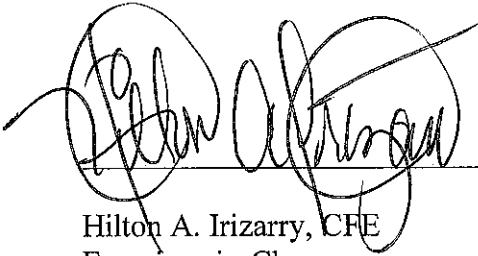
ACKNOWLEDGEMENT

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

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