



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

**REPORT OF EXAMINATION OF THE
LIBERTY LIFE ASSURANCE COMPANY OF BOSTON
BOSTON, MASSACHUSETTS
AS OF DECEMBER 31, 2004**

**NAIC GROUP CODE 0111
NAIC COMPANY CODE 65315
EMPLOYER'S ID No. 04-6076039**

Report of Statutory Financial Examination of
Liberty Life Assurance Company of Boston
As of December 31, 2004

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COMMONWEALTH OF MASSACHUSETTS
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May 31, 2006

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Honorable Commissioners and Directors:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 175, Section 4, an examination has been made of the financial condition and affairs of the

LIBERTY LIFE ASSURANCE COMPANY OF BOSTON
BOSTON, MASSACHUSETTS

at its home office located at 175 Berkley Street, Boston, Massachusetts, 02117. The following report thereon is respectfully submitted.

INTRODUCTION

The Liberty Life Assurance Company of Boston (hereinafter referred to as "LLAC" or the "Company") was last examined as of December 31, 1999 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. This examination covers the intervening five-year period through December 31, 2004, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

The current examination was conducted at the direction of, and under the overall management and control of, the examination staff of the Division in accordance with standards established by the Financial Condition (E) Committee of the NAIC as well as with the requirements of the *NAIC Financial Condition Examiners' Handbook* (the "Handbook"), the examination standards of the Division and with Massachusetts General Laws.

The examination was performed by the Division utilizing representatives of the independent certified public accounting firm of PricewaterhouseCoopers LLP ("PwC") at the direction of and under the overall management of the Division's examination staff, including the Division's representative, a qualified Certified Financial Examiner. The examination was performed at the Company's home office in Boston, Massachusetts. There was no zone participation for this examination. The Company is ultimately controlled by Liberty Mutual Holding Company Inc. ("LMHC"), an insurance holding company domiciled in Massachusetts. Concurrent examinations were also conducted of two other Massachusetts domiciled insurers that are also controlled by LMHC, Liberty Mutual Insurance Company ("LMIC") and Liberty Mutual Fire Insurance Company ("LMFIC"), which own 90% and 10% of LLAC, respectively. Each of those examinations is the subject of separate reports.

SCOPE OF STATUTORY EXAMINATION

This examination covers the five-year period ending December 31, 2004 and any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination. During the course of this examination, the operations, management and corporate policies, transactions, accounting practices and procedures, and internal controls of the Company were reviewed, analyzed, and tested to the extent deemed appropriate and necessary.

The Company is audited by Ernst & Young LLP ("E&Y"), an independent certified public accounting firm, in accordance with 211 CMR 23.00. Unqualified audit opinions were issued by E&Y on the Company's statutory financial statements for each of the years under examination. E&Y's audit work was evaluated and relied upon where deemed appropriate and effective. The work of the Company's internal auditors was also reviewed and relied upon to the extent deemed appropriate.

PwC was engaged to complete certain agreed upon procedures, including a review of selected elements of the Company's financial statements, an actuarial

evaluation of the methods and assumptions used to establish the statutory policy and claim reserves reported as of December 31, 2004 in the Company's 2004 Annual Statement, and a review and evaluation of the adequacy and effectiveness of the Company's information technology ("IT") controls to determine the level of reliance to be placed on summary information generated by the data processing systems. All agreed-upon procedures were reviewed and approved by the Division.

In addition to the foregoing, 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, treatment of policyholders and other pertinent matters to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. In planning and conducting the examination, consideration was given to the concepts of materiality and risk and examination efforts were directed accordingly.

HISTORY

General

The Company was incorporated on September 17, 1963 under the laws of the Commonwealth of Massachusetts and commenced business on January 15, 1964. The Company is a stock life insurer, ultimately wholly-owned by LMHC, an insurance holding company domiciled in the state of Massachusetts. The Company writes a broad range of both individual and group life insurance policies, group disability and various annuity products.

Capital Stock

The Company has authorized and outstanding 8,000 shares of common capital stock with a par value of \$312.50 per share. 90% of the outstanding capital stock of the Company is owned by LMIC and the remaining 10% is owned by LMFIC, both of which are ultimately owned by LMHC. During the period covered by this examination, the Company received a total of \$260 million in additional paid-in and contributed surplus. \$185 million of the total was contributed in 2004 and the remaining \$75 million from 2001 to 2003.

Dividends to Stockholders

The Company did not pay any dividends to stockholders during the five-year period covered by this examination.

Growth of Company

The growth of the Company for the years 2000 through 2004 is shown in the following schedule, the source of which was the Company's statutory annual statements (amounts in 000's):

<u>Year</u>	Admitted Assets Excluding <u>Separate Accts.</u>	<u>Premium</u> <u>Income</u>	<u>Capital and</u> <u>Surplus</u>
2004	\$ 5,865,440	\$ 439,901	\$ 302,619
2003	5,251,751	492,932	145,046
2002	4,838,544	469,000	124,845
2001	4,460,972	411,219	131,031
2000	3,784,386	954,182	140,589

MANAGEMENT

Annual Meeting of the Stockholders

In accordance with the Bylaws, the annual meeting of the stockholders is to be held within six months after the end of the fiscal year, the purpose of which is to elect a Board of Directors and to act upon such matters as may properly come before that meeting. Minutes of meetings of the stockholders were reviewed for the period covered by this examination.

Board of Directors

The Company is managed by a Board of Directors, the Chairman of which presides at stockholder meetings and meetings of the Board. The Board consists of not less than seven nor more than fifteen members, as determined from time to time by vote of a majority of the Board. Directors must be employees of the Company or LMIC. Directors are elected for a period of one year, with all Board members' terms expiring annually.

In accordance with the Bylaws, the Board of Directors may take action without meeting if all members eligible to vote consent to action in writing and such written consents are filed with the records of the meetings. Actual meetings of the Board were minimal; however, all actions taken by written consent were reviewed for the five-year period covered by this examination.

At December 31, 2004, Directors of the Company, together with their primary business affiliations, were as follows:

<u>Director</u>	<u>Principal Affiliation</u>
Edmund F. Kelly	Chairman of the Board , President and Chief Executive Officer of the Company, LMIC and LMFIC
J. Paul Condrin, III	Vice President of the Company, Executive Vice President, Manager – Personal Market, LMIC
A. Alexander Fontanes	Executive Vice President and Chief Investment Officer, LMIC
Dennis J. Langwell	Vice President of the Company, Senior Vice President and Chief Financial Officer, LMIC
Christopher C. Mansfield	Senior Vice President and General Counsel, LMIC
Jean M. Scarrow	Executive Vice President and Chief Operating Officer of the Company – Group Market, General Manager
Stephen M. Batza	Executive Vice President and Chief Operating Officer of the Company – Individual Life Market General Manager

Committees of the Board

The Bylaws state that the Board may elect an Investment Committee and may elect, or by vote authorize, the Chief Executive Officer to appoint members of an Executive Committee and such other committees as may be required from time to time. As of the date of this examination, the Company operated with designated Investment and Audit Committees. Minutes of the Committees meetings were reviewed and noted for the entire period covered by this examination. The following is a list of members serving on the Committees noted above as of December 31, 2004:

Investment Committee

A. Alexander Fontanes
Edmund F. Kelly
Dennis J. Langwell
Christopher C. Mansfield (alternate)

Audit Committee

J. Paul Condrin, III
Edmund F. Kelly
Dennis J. Langwell

Officers

Corporate officers are elected by the Board of Directors at their first meeting following the Annual Meeting of stockholders, and serve for one year in accordance with the Company's Bylaws. The elected principal officers and their respective titles at December 31, 2004 were as follows:

<u>Officer</u>	<u>Position</u>
Edmund F. Kelly	Chairman of the Board, President and Chief Executive Officer
Jean M. Scarrow	Executive Vice President and Chief Operating Officer - Group
Stephen M. Batza	Executive Vice President and Chief Operating Officer - Individual
Dexter R. Legg	Secretary
Laurance H. S. Yahia	Treasurer
J. Paul Condrin, III	Vice President
Dennis J. Langwell	Vice President
A. Alexander Fontanes	Vice President
Gary J. Ostrow	Vice President

Conflict of Interest Procedures

The Liberty Mutual Group, Inc. ("LMGI or the Group") has developed an enterprise-wide approach to corporate compliance that specifically includes the means to manage conflict of interest issues. The enterprise-wide approach includes a *Code of Business Ethics and Conduct* as a reference guide to help personnel define and understand appropriate standards of business conduct and to establish compliance requirements. The approach also has established procedures for the disclosure of possible conflicts of interest involving Directors, officers and key employees. The Group has established an Office of Corporate Compliance with responsibility for managing this disclosure program, investigating potential conflict situations, and making recommendations to management for the resolution of any such conflicts. The Group's General Counsel reports the results of the annual disclosure process to the Chief Executive Officer and to the Board of Directors. As a member of the Group, LLAC follows all requirements of the approach and is an active participant in it. As part of the examination, the following were obtained and reviewed:

- The Code of Business Ethics and Conduct
- A report on the Group's (including LLAC's) conflict of interest disclosures, dated September, 2005, analyzing the responses to the disclosure forms provided to elected officers, key employees and Directors during the 2005 annual disclosure process.

Corporate Records

Articles of Incorporation and Bylaws

The Company's Articles of Incorporation were reviewed and it was noted that no changes were made during the period covered by this examination.

Board of Directors Minutes

The minutes of the Board of Directors and Committee meetings for the period under examination were read and indicated that all meetings were held in accordance with Company Bylaws and the laws of the Commonwealth of Massachusetts.

Disaster Recovery and Business Continuity

The Company provides for the continuity of management in the event of a catastrophe or other emergency in accordance with Sections 180 M through Q of Chapter 175 of the Massachusetts General Laws.

AFFILIATED COMPANIES

The Company is a member of a holding company system and is subject to the registration requirements of Chapter 175, Section 206C of the Massachusetts General Laws. Direct ownership consists of 90% by LMIC and 10% is by LMFIC. LMHC is the "ultimate controlling person" of the holding company system per Form B, as filed with the Division.

LIBERTY MUTUAL HOLDING COMPANY
ANNUAL STATEMENT- SCHEDULE Y LISTING

	State / Country of Domicile
LIBERTY MUTUAL HOLDING COMPANY INC.	MA
Direct & Indirect Owned Subsidiaries	
LMHC Massachusetts Holdings Inc.	MA
Liberty Mutual Group Inc.	MA
St. James Insurance Company LTD	Bermuda
Employers Insurance Company of Wausau	WI
*** Liberty Mutual Fire Insurance Company	MA
Liberty Corporate Services LLC	MA
Helmsman Management Services LLC	MA
Liberty Life Holdings Inc.	DE
Liberty Financial Services Inc.	MA
Summit Consulting Inc.	FL
Heritage Summit Health Care of Florida Inc.	FL
Summit Consulting Inc of Louisiana	LA
Helmsman Insurance Agency LLC	MA
Helmsman Insurance Agency of Illinois Inc.	IL
Helmsman Insurance Agency of Texas Inc.	TX
Liberty Mutual Insurance Company	MA
Liberty Mutual Captive Holdings LLC	DE
Lexco Limited	Bermuda
Liberty Mutual Bermuda LTD	Bermuda
Wausau (Bermuda) LTD	Bermuda
Liberty Mutual Holdings LTD	Bermuda
Arlington Insurance Company LTD	Bermuda
The Stuart Insurance Group LTD	Bermuda
Liberty Mutual Management Bermuda LTD	Bermuda
Liberty International Holdings LLC	DE
Liberty International Holdings Inc.	DE
Liberty International Chile S.A.	Chile
Liberty Compania de Seguros Generales S.A.	Chile
Liberty International Ireland Holdings LTD	Ireland
Liberty International Insurance Company LTD	Ireland
Liberty Insurance Compania De Seguros Y Reaseguros S.A. (57.4%)	Spain
Liberty International (Spain) Holdings LLC	DE
Liberty International Iberia S.I. S. Com (24.7%)	Spain
Liberty Seguros S.A.	Portugal
Liberty International Brasil Limitada	Brazil
Liberty Paulista Seguros	Brazil
Liberty International Latin America Holdings LLC	DE
Seguros Caracas De Liberty Mutual C.A.	Venezuela
LI (Colombia) Holdings LTD	Bermuda
LILA (Colombia) Holdings LTD	Bermuda
Liberty Seguros S.A.	Columbia
Liberty Seguros De Vida	Columbia
Liberty Art S.A.	Argentina
Liberty Seguros Argentina S.A.	Argentina

LIBERTY MUTUAL HOLDING COMPANY
ANNUAL STATEMENT- SCHEDULE Y LISTING

	State / Country of Domicile
LIBERTY MUTUAL HOLDING COMPANY INC.	MA
Direct & Indirect Owned Subsidiaries	
Liberty Mutual Insurance Company (continued)	MA
Liberty International Holdings LLC (continued)	DE
Liberty International Holdings Inc. (continued)	DE
Liberty International Asia Pacific Holdings Inc.	DE
Liberty Citystate Holdings PTE LTD	Singapore
Liberty Insurance PTE LTD	Singapore
CI Investments LTD	Hong Kong
Liberty International Insurance LTD	Hong Kong
Liberty International (HK) LTD	Hong Kong
Kritiya Tun CO. LTD	Thailand
Tun Kaoklai CO. LTD	Thailand
LMG Insurance Company LTD	Thailand
Khoom Khao Ins. Public CO. LTD	Thailand
Liberty Europe Holdings LTD	U.K.
Liberty Corporate Capital LTD	U.K.
Liberty Mutual Insurance Europe Limited	U.K.
Marine Insurance Services PTE LTD	Singapore
Liberty Spain Insurance Group LLC	DE
Liberty Insurance Group Compania De Seguros Y Reaseguros, S.A.	Spain
Liberty Insurance Compania De Seguros Y Reaseguros, S.A. (42.5%)	Spain
Liberty Iberia S.A.	Spain
Seguros Genesis, S.A.	Spain
Genesis Seguros Generales, S.A.	Spain
Golden Eagle Insurance Corporation	CA
San Diego Insurance Company	CA
Liberty Insurance Corporation	IL
Liberty Northwest Insurance Corporation	OR
Liberty Management Services, Inc.	OR
Oregon Automobile Insurance Company	OR
Access Insurance Services Company	OR
North Pacific Insurance Company	OR
The First Liberty Insurance Corporation	IA
LM Personal Insurance Company	DE
LM Property and Casualty Insurance Company	IN
LM General Insurance Company	DE
Liberty RE Bermuda LTD	Bermuda
LM Insurance Corporation	IA
Summit Holding Southeast Inc.	FL
Bridgefield Employers Insurance Company	FL
Bridgefield Casualty Insurance Company	FL
U.S. Employers Insurance Company Inc.	Cayman Islands
Liberty Information Technology LTD	Northern Ireland

**LIBERTY MUTUAL HOLDING COMPANY
ANNUAL STATEMENT- SCHEDULE Y LISTING**

	State / Country of Domicile
LIBERTY MUTUAL HOLDING COMPANY INC.	MA
Direct & Indirect Owned Subsidiaries	
Liberty Mutual Insurance Company (Continued)	
Wausau Service Corporation	WI
Wausau Business Insurance Company	WI
Wausau General Insurance Company	WI
Wausau Underwriters Insurance Company	WI
Wausau Insurance Company LTD	U.K.
Colorado Casualty Insurance Company	CO
Liberty Insurance Holdings Inc.	DE
LIH US P&C Corporation	DE
Indiana Insurance Company	IN
Consolidated Insurance Company	IN
The Netherlands Insurance Company	NH
Gulf States AIF Inc	TX
America First Lloyds Insurance Company	TX
Diversified Settlements Inc	NH
America First Insurance Company	NH
Excelsior Insurance Company	NH
Peerless Insurance Company	NH
Liberty-USA Corporation	DE
The National Corporation	IN
National Insurance Association	IN
LIH-RE of America Corporation	DE
Peerless Indemnity Insurance Company	IL
Globe American Casualty Company	OH
American Ambassador Casualty Company	IL
The Midwestern Indemnity Company	OH
Mid-American Fire & Casualty Company	OH
Liberty Insurance Underwriters	NY
Hawkeye-Security Insurance Company	WI
Liberty Energy Holdings LLC	DE
Liberty Energy Corporation	MA
Liberty Surplus Insurance Corporation	NH
Berkeley Management Corporation	TX
Liberty Lloyds of Texas Insurance Company	TX
Liberty Insurance Company of America	IL
Liberty Mutual Managed Care Inc.	MA
Cascade Disability Management Inc	WA
Liberty Personal Insurance Company	MI
Liberty Mutual Equity LLC	MA
LRE Properties Inc	MA
Liberty / Sanibel II Limited Partnership	MA
Liberty Life Assurance Company of Boston	MA

“***” Re-domesticated to Wisconsin, Decemeber 2005.

Agreements with Subsidiaries and Affiliates

Service Agreement

The Company has in place a service agreement with LMIC under which LMIC provides the Company with services including personnel, equipment, telephone and wire services, and the use of computers and office equipment to the extent deemed necessary and appropriate. The Company reimburses LMIC for the cost of all services provided under this agreement and for other services that shall be provided at the request of the Company.

Tax Sharing Agreement

The Company has in place a tax sharing agreement pursuant to which it joins with other affiliates in the filing of the consolidated U.S. federal income tax return of LMHC.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured with its affiliate, LMIC, which maintains fidelity bond coverage with an authorized Massachusetts insurer, under a Financial Institutions Bond designed for insurance companies, consistent with Massachusetts General Laws, Chapter 175, Section 60. The aggregate limit of liability on these policies was \$150,000,000 at December 31, 2004, an amount of coverage that appears adequate based upon NAIC recommended amounts. The Company is also a named insured, either itself or together with other affiliates, on policies that provide coverage for aircraft liability, excess umbrella and property damage. All policies evidencing the above coverage's were with licensed and/or authorized carriers in Massachusetts and were in force at December 31, 2004.

PENSION, SAVINGS AND INSURANCE PLANS

The Company does not have any direct employees and therefore does not have any direct obligations for a defined benefit plan, deferred compensation arrangements, compensated absences or other post-retirement benefit plans. Services for the operation of the Company are provided under a provision of an inter-company cost-sharing arrangement as generally described in the Agreements with Subsidiaries and Affiliates paragraph in the Affiliated Companies section of this report.

STATUTORY DEPOSITS

The following table details the special deposits maintained by the Company with numerous jurisdictions as of December 31, 2004.

<u>Location</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
Arkansas	\$ 160,000	\$ 162,864	\$ 170,331
Delaware	500,000	500,000	500,000
Georgia	50,000	50,084	52,848
Kansas	100,000	98,248	109,363
Kentucky	500,000	507,820	552,505
Massachusetts	1,950,000	1,920,267	2,117,597
New Mexico	120,000	122,148	127,748
Virginia	60,000	60,101	63,417
Canadian Receiver General RSD	<u>5,059,290</u>	<u>5,134,112</u>	<u>4,554,240</u>
Total	<u>\$8,001,292</u>	<u>\$8,053,627</u>	<u>\$8,482,706</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed and authorized to conduct business in all 50 States, the District of Columbia, and Canada. The Company offers a complete portfolio of individual life insurance plans on a participating and non-participating basis. Group life plans are also written on a participating and non-participating basis. The Company also markets annuities and group disability products.

Treatment of Policyholders and Claimants - Market Conduct

During the financial examination of the Company, the Division's Market Conduct Department initiated a comprehensive market conduct examination of the Company for the period January 1, 2004 through December 31, 2004. The market conduct examination was called pursuant to authority in Massachusetts General Laws Chapter 175, Section 4. The market conduct examination is being conducted at the direction of, and under the overall management and control of, the market conduct examination staff of the Division. Representatives from the firm of Eide Bailly, LLP were engaged to complete certain agreed upon procedures which were developed using the guidance and standards of the *NAIC Market Conduct Examiner's Handbook*, the market conduct examination standards of the Division, and the Commonwealth of Massachusetts insurance laws, regulations and bulletins. The basic business areas that are being reviewed under this market conduct examination are Company Operations/Management; Complaint Handling; Marketing and Sales; Producer

Licensing; Policyholder Services; Underwriting and Rating; Claims, in addition to an assessment of the Company's internal control environment. Once this market conduct examination is completed a Report on the Comprehensive Market Conduct Examination of the Company for the period January 1, 2004 through December 31, 2004 will be issued and become available as a public document.

Dividends to Policyholders

Incurred policyholder dividends for the years 2000 through 2004 are shown in the following schedule, which was prepared from the Company's statutory annual statements.

<u>Year</u>	<u>Dividends</u>
2004	\$ 11,103,596
2003	11,891,062
2002	13,099,894
2001	12,610,167
2000	12,650,295

REINSURANCE

Ceded Reinsurance

The Company has in place a number of reinsurance contracts/treaties covering substantially all product lines written. Contract types include quota share and excess claim treaties. Generally, the Company's individual life products are reinsured with varying quota share percentages, up to a maximum retention of \$250,000. The majority of the Company's group life business is 100% reinsured after a retention limit of \$250,000 for basic coverage, \$100,000 for optional coverage and \$150,000 for AD&D coverage.

Effective 1/1/98, the Company entered into an agreement with LMIC whereby it ceded 100% of its group disability (long and short-term) business to LMIC, allowing the Company to increase its capacity to write such business. This treaty was commuted on 12/31/04.

Assumed Reinsurance

The Company currently does not actively assume either life or annuity business although a block of this business remains on the books.

SUBSEQUENT EVENT

The following item is noted as a "subsequent event", the disclosure of which in this Examination Report is considered appropriate:

- In December 2005, the Company received \$100 million in capital contributions, \$90 million from LMIC and \$10 million from LMFIC.

ACCOUNTS AND RECORDS

The Company's accounts and records are maintained on a general ledger ("ledger") system. Entries are input either electronically or manually into the ledger. The ledger maintains account level detail on a company basis. The ledger interfaces with a reporting tool that is used to produce financial statements and supplemental reports.

The internal control structure was examined using the following major approaches: review of the work performed by E&Y, the Company's independent certified public accountants; discussions with management based on the use of the NAIC's Exhibit C Questionnaire, and re-performance testing to the extent necessary and deemed appropriate.

The NAIC Questionnaire is designed to cover the evaluation of the controls in the IT environment. It was completed by the Company and reviewed by PwC to determine the adequacy of the Company's overall IT control environment. Key systems and processes were identified as critical systems and extensive control testing was performed. Additionally, the examination of the internal controls included re-performance testing to the extent necessary and deemed appropriate.

It was determined prior to the commencement of the IT review that control weaknesses existed relating to certain application and operating system access and program change controls associated with the Company's investment system (CAMRA). Based on this condition, PwC did not perform a general controls review over the investment related systems, but incorporated enhanced substantive testing of account balances and transactions into the examination approach of investment related accounts.

Based on the results of the internal control review through the approaches noted in the second paragraph of this section, no material weaknesses or significant deficiencies were identified. With respect to the investment area, the testing of investments did not result in any examination changes.

FINANCIAL STATEMENTS

The financial statements section includes the following, as determined by our examination: Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2004; Summary of Operations for the year ended December 31, 2004; Summary of Capital and Surplus for the year ended December 31, 2004; and a Reconciliation of Capital and Surplus for the years ended December 31, 2004, 2003, 2002, 2001 and 2000.

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

Liberty Life Assurance Company of Boston
Statement of Assets, Liabilities, Capital and Surplus
as of December 31, 2004

	<u>Per Annual Statement</u>	<u>Statutory Examination Adjustments</u>	<u>Notes</u>	<u>Per Statutory Examination</u>
Admitted assets				
Bonds	\$ 5,115,485,641	\$ 0		\$ 5,115,485,641
Preferred Stocks	1,041,107			1,041,107
Common Stocks	1,200,596			1,200,596
Cash and short-term investments	333,237,646	(30,890,171)	1	302,347,475
Policy loans	76,583,743			76,583,743
Other invested assets	190,720,936			190,720,936
Receivable for securities	1,283,583			1,283,583
Cash and invested assets	<u>5,719,553,252</u>	<u>(30,890,171)</u>		<u>5,688,663,081</u>
Investment income due and accrued	65,381,317			65,381,317
Uncollected premiums and agents' balances	23,895,718			23,895,718
Deferred premiums, agents' balances and installments	29,124,735			29,124,735
Reinsurance recoverable	5,217,987			5,217,987
Other reinsurance receivable	671,705			671,705
Receivable from uninsured plans	3,238,592			3,238,592
Net deferred tax asset	14,489,755			14,489,755
Receivables from parent	203,487			203,487
Other admitted assets	3,663,706			3,663,706
Separate accounts assets	<u>2,362,990,107</u>			<u>2,362,990,107</u>
Total admitted assets	<u><u>\$ 8,228,430,361</u></u>	<u><u>\$ (30,890,171)</u></u>		<u><u>\$ 8,197,540,190</u></u>

Liberty Life Assurance Company of Boston
Statement of Assets, Liabilities, Surplus and Other funds
as of December 31, 2004

	<u>Per Annual Statement</u>	<u>Statutory Examination Adjustments</u>	<u>Notes</u>	<u>Per Statutory Examination</u>
Liabilities, Surplus and Other Funds:				
Liabilities:				
Policy and contract reserves for Life	\$ 3,638,995,234	\$ 0	2	\$ 3,638,995,234
Policy and contract reserves for Accident and Health	722,672,776		2	722,672,776
Liability for Deposit-type contracts	878,131,625			878,131,625
Policy and contract claims for Life	25,918,737			25,918,737
Policy and contract claims for Accident and Health	11,241,385			11,241,385
Policyholders' dividends	98,228			98,228
Policyholder dividend reserve	11,384,779			11,384,779
Premiums and annuity considerations received in advanced	370,683			370,683
Contract liabilities not included elsewhere:				
Provision for experience rating refunds	6,614,066			6,614,066
Interest maintenance reserve	17,261,379			17,261,379
Commissions to agents due or accrued -life and annuity contracts	1,040,949			1,040,949
Commissions and expense allowances payable on reinsurance assumed	16,000			16,000
General Expenses due or accrued	35,956,043			35,956,043
Taxes, licenses and fees due or accrued, excluding federal income taxes	(3,114,740)			(3,114,740)
Federal income tax liability	19,431,688			19,431,688
Unearned Investment income	625,466			625,466
Remittances and items not allocated	27,966,614			27,966,614
Borrowed money	30,890,171	(30,890,171)	1	-
Asset valuation reserve	40,918,585			40,918,585
Reinsurance in unauthorized companies	381,746			381,746
Due from parent	(6,423,539)			(6,423,539)
Drafts outstanding	5,950,470			5,950,470
Other liabilities	96,492,482			96,492,482
Separate accounts liabilities	2,362,990,107			2,362,990,107
Total liabilities	<u>7,925,810,934</u>	<u>(30,890,171)</u>		<u>7,894,920,763</u>
Capital and surplus:				
Common stock	2,500,000			2,500,000
Additional paid-in capital	316,500,000			316,500,000
Contingency reserve for separate accounts	750,000			750,000
Unassigned (deficit) surplus	(17,130,573)			(17,130,573)
Total capital and surplus	<u>302,619,427</u>			<u>302,619,427</u>
Total liabilities and capital and surplus	<u><u>\$8,228,430,361</u></u>	<u><u>\$ (30,890,171)</u></u>		<u><u>\$8,197,540,190</u></u>

Liberty Life Assurance Company of Boston
Statement of Operations
for the Year Ended December 31, 2004

	<u>Per Annual Statement</u>	<u>Statutory Examination Adjustments</u>	<u>Per Statutory Examination</u>
Premiums and other revenues:			
Premiums and annuity considerations	\$ 439,901,329	\$ 0	\$ 439,901,329
Considerations for supplementary contracts with life contingencies	586		586
Net investment income	348,468,019		348,468,019
Amortization of Interest Maintenance Reserve	1,916,960		1,916,960
Commissions and expense allowances on reinsurance ceded	(6,448,738)		(6,448,738)
Income from fees associated with investment management, admin. and contract guarantees from separate accounts	2,597,291		2,597,291
Other considerations	1,205,869		1,205,869
Total premiums and other revenues	<u>787,641,316</u>		<u>787,641,316</u>
Benefits paid or provided:			
Death benefits	99,493,627		99,493,627
Annuity benefits	125,401,570		125,401,570
Disability and accident and health benefits	11,686,148		11,686,148
Other benefits	43,685,136		43,685,136
Change in liability for premium and other deposit funds	53,209,208		53,209,208
Payments on supplementary contracts with life contingencies	402,868		402,868
Change in policy and contract reserves	344,080,146		344,080,146
Total benefits paid or provided	<u>677,958,703</u>		<u>677,958,703</u>
Insurance expenses:			
Commissions	16,258,611		16,258,611
Commissions and expenses allowances on reinsurance assumed	16,000		16,000
General insurance expenses	101,206,079		101,206,079
Insurance expenses and taxes	15,553,760		15,553,760
Decrease on loading on deferred and uncollected premiums	1,059,535		1,059,535
Transfers to separate accounts	(5,568,726)		(5,568,726)
Aggregate write-ins for deductions	3,914,121		3,914,121
Total insurance expenses	<u>132,439,380</u>		<u>132,439,380</u>
(Loss) gain from operations before dividends to policyholders, federal income taxes and net realized capital gains (losses) on investments	(22,756,767)		(22,756,767)
Dividends to policyholders	11,103,596		11,103,596
Loss from operations before federal income taxes and net realized capital gains (losses) on investments	(33,860,363)		(33,860,363)
Federal income tax (benefit) expense	(10,378,686)		(10,378,686)
Loss from operations before net realized capital gains (losses) on investments	(23,481,677)		(23,481,677)
Net realized capital gains (losses) on investments	3,152,001		3,152,001
Net loss	<u><u>\$ (20,329,676)</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ (20,329,676)</u></u>

Liberty Life Assurance Company of Boston
Statement of Capital and Surplus
for the Year Ended December 31, 2004

	<u>Per Annual Statement</u>	<u>Statutory Examination Adjustments</u>	<u>Per Statutory Examination</u>
Capital and Surplus, December 31, prior year	<u>\$ 145,046,111</u>	<u>\$ 0</u>	<u>\$ 145,046,111</u>
Net income (loss)	(20,329,676)		(20,329,676)
Change in net unrealized capital gains and (losses)	1,788,989		1,788,989
Change in net deferred income tax	2,321,551		2,321,551
Change in non-admitted assets and related items	(1,809,126)		(1,809,126)
Change in liability for reinsurance in unauthorized companies	247,683		247,683
Change in asset valuation reserve	(12,354,917)		(12,354,917)
Surplus adjustment:			
Paid in	185,000,000		185,000,000
Aggregate write-in for gains and losses in surplus	<u>2,708,812</u>		<u>2,708,812</u>
Net change in capital and surplus for the year	<u>157,573,316</u>		<u>157,573,316</u>
Capital and Surplus, December 31, current year	<u><u>\$ 302,619,427</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 302,619,427</u></u>

Liberty Life Assurance Company of Boston
Reconciliation of Capital and Surplus Account for the Years Ended
December 31, 2004, 2003, 2002, 2001 and 2000

	2004	2003	2002	2001	2000
Capital and Surplus, December 31, prior year	<u>\$ 145,046,111</u>	<u>\$ 124,845,467</u>	<u>\$ 131,031,477</u>	<u>\$ 140,589,300</u>	<u>\$ 141,901,974</u>
Net income (loss)	(20,329,676)	753,966	(30,707,883)	(10,093,893)	(142,062)
Change in net unrealized capital gains and (losses)	1,788,989	10,568,548	(5,612,153)	(29,801,324)	(1,801,926)
Change in net deferred income tax	2,321,551	(2,255,785)	(8,669,668)	85,147,958	-
Change in non-admitted assets and related items	(1,809,126)	3,890,693	6,881,926	(72,095,049)	2,956,708
Change in liability for reinsurance in unauthorized companies	247,683	(629,428)	-	-	295,448
Change in asset valuation reserve	(12,354,917)	(8,451,800)	(2,284,881)	13,134,083	(13,020,842)
Cumulative effect of changes in accounting principles	-	-	-	(9,919,019)	-
Surplus adjustment:					
Paid in	185,000,000	25,000,000	35,000,000	15,000,000	-
Aggregate write-in for gains and losses in surplus	<u>2,708,812</u>	<u>(8,675,550)</u>	<u>(793,351)</u>	<u>(930,579)</u>	<u>10,400,000</u>
Net change in capital and surplus for the year	<u>157,573,316</u>	<u>20,200,644</u>	<u>(6,186,010)</u>	<u>(9,557,823)</u>	<u>(1,312,674)</u>
Capital and Surplus, December 31, current year	<u><u>\$ 302,619,427</u></u>	<u><u>\$ 145,046,111</u></u>	<u><u>\$ 124,845,467</u></u>	<u><u>\$ 131,031,477</u></u>	<u><u>\$ 140,589,300</u></u>

NOTES TO THE FINANCIAL STATEMENTS

Note 1: Short-term Investments / Borrowed Money

In the Company's 2004 Annual Statement, both short-term investments and borrowed money were overstated by \$30,890,171. The overstatement was caused by the failure to eliminate intra-company borrowing. The adjustment has no net impact on total capital and surplus.

Note 2: Aggregate Reserves for Life Policies and Contracts and Accident and Health Policies

As part of its engagement by the Division to assist in the overall examination, PwC was directed to review the reasonableness of the aggregate reserves for life policies and contracts and accident and health policies of the Company as of December 31, 2004. The aggregate reserves carried by the Company as of the examination date totaled \$ 4,361,668,010. This amount was determined by the Company's management, and included actuarial support thereof. The Company's independent auditors and actuaries reviewed the actuarial assumptions and methodologies used in determining the reserves and considered them reasonably determined. Independent actuaries from PwC, representing the Division, performed a separate actuarial analysis that also supported the reserve level and concluded that the actuarial assumptions and methodologies used in determining the reserves were reasonable.

SEPARATE ACCOUNTS

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

Separate accounts assets and liabilities represent designated funds held and invested by the Company for the benefit of contract-holders. Separate account invested assets are carried at market value. The Company provides administrative services for all separate account contracts, all of which are non-guaranteed.

SEPARATE ACCOUNTS - FINANCIAL STATEMENTS

The financial statements section for the Separate Accounts includes the following, as determined by our examination: Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2004; and Summary of Operations for the year then ended.

For Information Purposes Only

Liberty Life Assurance Company of Boston - Separate Account Business
Statement of Assets, Liabilities, Surplus and Other Funds
as of December 31, 2004

	<u>Per Annual Statement</u>	<u>Statutory Examination Adjustments</u>	<u>Per Statutory Examination</u>
Assets			
Bonds	\$ 656,915,111	\$ 0	\$ 656,915,111
Preferred Stocks	1,366,626		1,366,626
Common Stocks	1,380,442,532		1,380,442,532
Cash	1,223,497		1,223,497
Short-term investments	109,442,011		109,442,011
Other invested assets	<u>199,337,248</u>		<u>199,337,248</u>
Cash and invested assets	2,348,727,025		2,348,727,025
Investment income due and accrued	10,591,480		10,591,480
Receivables for securities	3,671,602		3,671,602
Total Assets	<u><u>\$ 2,362,990,107</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 2,362,990,107</u></u>
Liabilities, Surplus and Other Funds			
Aggregate reserve for life, annuity and accident and health contracts	\$ 59,893,881	\$ 0	\$ 59,893,881
Liabilities for deposit-type contracts	2,267,214,769		2,267,214,769
Charges for investment management, administration and contract guarantees, due and accrued	1,493,598		1,493,598
Payables for securities	35,581,343		35,581,343
Other Liabilities	<u>(1,193,484)</u>		<u>(1,193,484)</u>
Total liabilities	2,362,990,107		2,362,990,107
Surplus and Other Funds	<u>-</u>		<u>-</u>
Total Liabilities, Surplus and Other Funds	<u><u>\$ 2,362,990,107</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 2,362,990,107</u></u>

Liberty Life Assurance Company of Boston - Separate Account Business
Statement of Operations
for the year ended December 31, 2004

	<u>Per Annual Statement</u>	<u>Statutory Examination Adjustments</u>	<u>Per Statutory Examination</u>
Net premiums and annuity considerations	\$ 4,951,743	\$ 0	\$ 4,951,743
Transfers on account of deposit-type contracts	14,830,871		14,830,871
Net investment income and capital gains / losses	<u>208,933,294</u>		<u>208,933,294</u>
Total premiums and other revenues	228,715,908		228,715,908
Deduct:			
Death benefits	53,684		53,684
Annuity benefits	805,160		805,160
Surrender benefits and withdrawals for life contracts	8,601,885		8,601,885
Transfers on account of policy loans	219,333		219,333
Transfers to separate accounts	(240,171)		(240,171)
Aggregate write-ins for other transfers from separate accounts	<u>1,143,208</u>		<u>1,143,208</u>
	10,583,099		10,583,099
Fees associated with charges for investment management, administration and contract guarantees	948,705		948,705
Increase in aggregate reserve for life and accident and health contracts	(5,554,853)		(5,554,853)
Increase in liability for deposit-type contracts	<u>222,738,957</u>		<u>222,738,957</u>
Total benefits, transfers and other expenses	228,715,908		228,715,908
Net gain from operations	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>

ACKNOWLEDGEMENT AND REPORT OF CERTIFIED FINANCIAL EXAMINER

This is to certify that the undersigned is a duly qualified Certified Financial Examiner ("CFE"), and that pursuant to a proposal submitted by PricewaterhouseCoopers LLP to the Division of Insurance of the Commonwealth of Massachusetts ("Division") dated June 27, 2005, certain agreed-upon procedures have been applied to the accounting and corporate records of Liberty Life Assurance Company of Boston for the purpose of assisting the Division in fulfilling its requirements regarding periodic Association Statutory Examinations of Massachusetts domiciled insurers.

The undersigned's participation in this Association Financial Examination as the Examiner-In-Charge encompassed responsibility for the coordination and direction of the statutory examination performed which was in accordance with, and substantially complied with, those standards established by the Financial Condition (E) Committee of the NAIC and the NAIC Handbook. This participation consisted of involvement in the planning (development, supervision, and review of agreed-upon procedures), administration, review of work papers prepared as documentary evidence of examination procedures performed, and preparation of the statutory examination report.

The cooperation and assistance of the officers and employees of Liberty Life Assurance Company of Boston extended to all examiners during the course of the examination is hereby acknowledged.

John M. Curran, CFE
Supervising Examiner and Examiner-in-Charge
Commonwealth of Massachusetts
Division of Insurance
Boston, Massachusetts