



THE COMMONWEALTH OF MASSACHUSETTS  
OFFICE OF CONSUMER AFFAIRS AND BUSINESS  
REGULATION

DIVISION OF INSURANCE

REPORT OF EXAMINATION OF THE  
*First Allmerica Financial Life Insurance Company*

Southborough, Massachusetts

As of December 31, 2009

*NAIC GROUP CODE 3891*

NAIC COMPANY CODE 69140

EMPLOYER'S ID NO. 04-1867050

**For Informational Purposes Only**

FIRST ALLMERICA FINANCIAL LIFE INSURANCE COMPANY

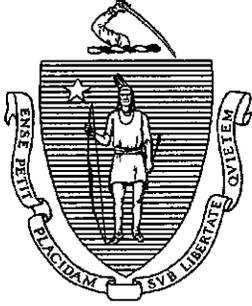
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**COMMONWEALTH OF MASSACHUSETTS**  
**Office of Consumer Affairs and Business Regulation**  
**DIVISION OF INSURANCE**

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COMMISSIONER OF INSURANCE

May 16, 2011

The Honorable Joseph Torti III, Chair  
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The Honorable Monica J. Lindeen  
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Commissioner of Insurance  
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1000 Washington Street – Suite 810  
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Honorable Commissioners, Director and Superintendent:

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

**First Allmerica Financial Life Insurance Company**

First Allmerica Financial Life Insurance Company

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

**SCOPE OF EXAMINATION**

The First Allmerica Financial Life Insurance Company (hereinafter referred to as "the Company" or "FAFLIC") 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 immediate parent, Commonwealth Annuity and Life Insurance Company ("Commonwealth Annuity") 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 Examiners 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 2008. 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.

## First Allmerica Financial Life Insurance Company

### 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

First Allmerica Financial Life Insurance Company was incorporated as a mutual insurance company, known as State Mutual Life Assurance Company of America, on March 16, 1844, under the laws of the Commonwealth of Massachusetts and commenced business on June 1, 1845. Effective October 16, 1995, the Company converted to a stock life insurance company pursuant to a Plan of Reorganization (the "De-Mutualization Plan") and adopted its present name. As part of the De-Mutualization Plan, the Company became a wholly-owned subsidiary of Allmerica Financial Corporation, which subsequently changed to its current name, The Hanover Insurance Group, Inc. ("THG"), effective December 1, 2005. Pursuant to the De-Mutualization Plan, THG issued 37.5 million shares of its common stock to eligible policyholders of the Company. THG also issued 127 million shares of its common stock in a public offering, and contributed approximately \$393 million of the proceeds from the public offering (and a related debt issuance) to the Company in the form of paid-in and contributed surplus.

Effective July 1, 1999, THG's subsidiaries engaged in an "unstacking transaction," which involved several changes in the THG holding company infrastructure. This unstacking transaction was accomplished by first having a subsidiary of the Company, known as Allmerica Asset Management, Inc., merge into another subsidiary of the Company known as SMA Financial Corp., which was the surviving entity in the transaction. 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 Allmerica Financial Life Insurance and Annuity Company ("AFLIAC") in exchange for one share of common stock. AAM then distributed AFLIAC and another subsidiary, Allmerica Trust Company, N.A., to the Company, and the Company distributed AAM to THG. As a result of these transactions, the Company's investment in the common stock of its affiliates was increased by \$855 million. THG further contributed \$125 million to the Company in exchange for one additional share of the Company's common stock, with the result that THG owned all 500,001 of the issued and outstanding shares of the Company's common stock.

In 2001 the Company received a paid-in surplus contribution of \$130 million from THG consisting of cash and bond securities, which the Company then contributed to its then wholly owned subsidiary, Allmerica Financial Life Insurance and Annuity Company. In 2002 the

First Allmerica Financial Life Insurance Company

Company received \$188 million of paid-in surplus contributions from THG, and the Company contributed \$244 million consisting of cash and bond securities to AFLIAC. Effective December 30, 2002, and in connection with THG's ongoing restructuring activities, AFLIAC, previously a Delaware-domiciled insurance company, re-domesticated and became a Massachusetts-domiciled insurance company. Also effective December 31, 2002, the Massachusetts Division of Insurance ("Division") approved an extraordinary dividend of all of AFLIAC's issued and outstanding stock to THG, and the contribution of all 500,001 shares of the Company's stock to AFLIAC. As a result of these transactions, the Company became a direct wholly-owned subsidiary of AFLIAC.

On December 30, 2005, THG sold all of the outstanding shares of capital stock of AFLIAC to The Goldman Sachs Group, Inc. ("Goldman Sachs"), and the Company ceded 100% of the variable life insurance and annuity business to AFLIAC in a 100% coinsurance/modified coinsurance agreement. On December 30, 2005, immediately prior to its acquisition by Goldman Sachs, AFLIAC made certain distributions to the Company and THG, as follows: (1) AFLIAC contributed all of the outstanding shares of capital stock of certain of its subsidiaries (Allmerica Financial Investment Management Services, Inc. ("AFIMS") and VeraVest Investments, Inc.) and transferred to the Company certain other assets and liabilities; and (2) AFLIAC distributed all of the capital stock of the Company, AFIMS and VeraVest Investments, Inc. to THG.

In connection with the sale of Commonwealth Annuity, the Division approved a cash dividend of \$48.6 million from the Company to THG, including the \$8.6 million ceding commission received related to the reinsurance transaction, and approved the distribution of other non-insurance subsidiaries to THG (including AFIMS, which THG subsequently transferred to Goldman Sachs). AFLIAC changed its name, effective September 1, 2006, to Commonwealth Annuity and Life Insurance Company.

On January 2, 2009, following the approval of the Division, Commonwealth Annuity acquired the Company by purchasing 100% of its issued and outstanding common stock, consisting of 500,001 shares. The terms of the purchase are set forth in the Stock Purchase Agreement dated July 30, 2008, by and between Commonwealth Annuity and THG ("Stock Purchase Agreement"). In connection with the acquisition of the Company by Commonwealth Annuity, approval was obtained from the Division for a pre-close dividend from the Company consisting of designated admitted and non-admitted assets with a statutory book value of approximately \$13.3 million, which was paid to THG on January 2, 2009. As part of the sale agreement, THG also contributed \$6.4 million to the Company as a capital contribution. Additionally, coincident with the transaction, the Company and The Hanover Insurance Company ("HIC") entered into a reinsurance transaction whereby HIC reinsured the Company's discontinued accident and health insurance business through a 100% coinsurance agreement totaling \$119.5 million in assets. HIC also agreed to service the accident and health business.

THG and Goldman Sachs have made various representations, warranties and covenants in the Stock Purchase Agreement. THG agreed to indemnify Goldman Sachs for any breaches of THG's representations, warranties and covenants. THG has also agreed to indemnify Goldman

## First Allmerica Financial Life Insurance Company

Sachs for certain litigation, regulatory matters and other liabilities relating to the pre-closing activities of the business that was sold.

### Capital Stock

The Company's Restated Articles of Organization, approved November 26, 2009, authorized the Company to issue 1,000,000 shares of common stock with a par value of \$10.00. As of December 31, 2009, the Company had issued 500,001 shares of common stock with an aggregate par value of \$5,000,010.

### Capital Contributions

On December 30, 2005, immediately prior to its acquisition by Goldman Sachs, AFLIAC contributed all of the outstanding shares of capital stock of certain of its non-insurance subsidiaries to the Company.

In 2009, in connection with the sale of the Company to Commonwealth Annuity, THG contributed \$6.4 million to the Company as a capital contribution. (See Dividends to Stockholder, below)

### Dividends to Stockholder

Pursuant to Massachusetts statutes, the maximum amount of dividends and other distributions that an insurer may 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.

In connection with the sale of AFLIAC to Goldman Sachs, the Division approved a cash dividend of \$48.6 million from the Company to THG, including the \$8.6 million ceding commission received related to the reinsurance transaction, and approved the distribution of other non-insurance subsidiaries to THG.

In connection with the acquisition of the Company by Commonwealth Annuity in 2009, approval was obtained from the Division for a pre-close dividend from the Company consisting of designated admitted and non-admitted assets with a statutory book value of approximately \$136.3 million, which was paid to THG on January 2, 2009. These were the only dividends paid during the period under examination.

### 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.

First Allmerica Financial Life Insurance Company

<u>Year</u>	<u>Admitted Assets</u>	<u>Net Premiums Written</u>	<u>Surplus</u>
2009	\$ 1,580,619,018	\$27,760,360	\$ 151,923,167
2008	1,714,061,985	30,699,633	108,696,888
2007	2,155,843,246	32,402,462	158,728,744
2006	2,375,919,685	34,844,385	146,831,174
2005	2,851,787,478	50,743,915	159,656,974

**MANAGEMENT**

Annual Meeting

In accordance with the Company's amended and restated Bylaws, which are effective February 24, 2009, 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 or, if permitted by law, at no place (or 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 by law 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. As of December 31, 2009, the Board was comprised of seven 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>
Alan S. Levine	Goldman Sachs
Nicholas Helmuth von Moltke	Goldman Sachs
Manda J. D'Agata	Goldman Sachs
Donald R Mullen	Goldman Sachs
Kathleen M. Redgate	Goldman Sachs
Michael S. Rotter	Goldman Sachs
Michael A. Reardon	Company

## First Allmerica Financial Life Insurance Company

The Bylaws do not specify the number of meetings to be held during a year. The minutes of the Board of Directors meetings indicate 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.

First Allmerica Financial Life Insurance Company

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,<sup>2</sup> 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
Kathleen M. Redgate	Director
John J. Fowler <sup>1</sup>	Vice President
Jonathan Hecht	Vice President & Actuary
Alan A. Yamamura*	Vice President & Chief Risk Officer
Hanben K. Lee <sup>1</sup>	Vice President
Scott D. Silverman <sup>1</sup>	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. Rotter	Director
Jane S. Grosso	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 L. Roach*	Vice President & Chief Financial Officer
Margot J. Wallin	Vice President, Special Investigative Officer & Chief Compliance Officer

\*Resigned in 2010.

<sup>1</sup>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.

<sup>2</sup>Effective February 1, 2010, Mandeep Kaur O'Hearn, Jason M. Roach and Robert E. Winawer were elected as Vice President, respectively. 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 activity 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. The Articles and Bylaws were amended and restated on February 24, 2009.

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 M.G.L. c. 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 Commonwealth Annuity, which in turn is a wholly-owned subsidiary of Goldman Sachs, the ultimate controlling entity in the holding company system. Goldman Sachs is a publicly traded holding company.

Prior to January 2, 2009, the Company was a wholly-owned subsidiary of THG.

Annual Statement Schedule Y Listing:

First Allmerica Financial Life Insurance Company

Subsidiaries and Affiliates from Schedule Y

State of Domicile or Incorporation

The Goldman Sachs Group, Inc.	Delaware
Commonwealth Annuity and Life Insurance Company	Massachusetts
First Allmerica Financial Life Insurance Company	Massachusetts
Columbia Capital Life Reinsurance Company	Washington, D.C.
Charleston Capital Reinsurance, LLC	Washington, D.C.
Pearl Street Insurance Company, Inc.	Vermont
Goldman Sachs Risk Brokers, Inc.	Delaware
Goldman Sachs Risk Advisors, LP	Delaware
Arrow Capital Risk Services Limited	Bermuda
Arrow Reinsurance Company, Limited	Bermuda
Arrow Capital Reinsurance Company, Limited	Bermuda
Goldman Sachs Risk Services LLC	Delaware
GS Risk Advisors, Inc.	Delaware
Goldman, Sachs & Co.	New York
Goldman Sachs Asset Management, LP	Delaware
Goldman Sachs International	England
Goldman Sachs Financial Markets, LP	Delaware
Essent Group Limited	Bermuda
Essent Reinsurance Limited	Bermuda
Goldman Sachs Financial Markets, LLC	Delaware
Essent US Holdings, Inc.	Delaware
Essent Guaranty, Inc.	Pennsylvania
Epoch Securities, Inc.	Delaware
The Goldman, Sachs & Co. LLC	Delaware
Goldman Sachs Global Holdings LLC	Delaware
Arrow Corporate Member Holding LLC	Delaware
Arrow Corporate Member Limited	England
Rothsay Life, LLC	Delaware
Rothsay Life (Cayman) Limited	Cayman Islands
Rothsay Life Limited	England

Guarantee

In connection with the transaction in December 2002, whereby the Company became a direct subsidiary of AFLIAC (which in turn became a direct subsidiary of THG), THG agreed to maintain AFLIAC's RBC at a 100% RBC ratio. In December 2005, in connection with the sale of AFLIAC to Goldman Sachs, THG agreed to maintain the Company's RBC at 100% of the Company Action Level, and the prior commitment on behalf of Commonwealth Annuity was terminated.

In connection with the acquisitions of AFLIAC and the Company, Goldman Sachs has provided certain written assurances to the Commissioner to make capital contributions to Commonwealth Annuity and/or the Company, subject to a maximum of \$350 million in the aggregate, as may be

required to maintain either or both companies' RBC Ratios at 100% of the Company Action Level risk based capital (the "Keepwell Agreement").

On December 31, 2009, Commonwealth Annuity ceded via coinsurance and modified coinsurance, 100% of its variable annuity business (including the business ceded to Commonwealth Annuity by the Company) to an affiliate, Arrow Capital Reinsurance ("Arrow Capital"), 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 Commonwealth Annuity 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' capital contributions to a maximum of \$250 million. The assurances and 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. The Company's RBC ratio at December 31, 2009 was 977%.

#### Transactions and Agreements with Subsidiaries and Affiliates

On January 2, 2009, immediately prior to its acquisition by Commonwealth Annuity, the Company terminated all management agreements, service contracts, and cost-sharing arrangements between and among the Company and certain of its former affiliates.

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

- Omnibus Amendment Agreement with Goldman Sachs, THG, and AFLIAC, 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 Commonwealth Annuity that resulted from the acquisition of the Company on January 2, 2009. The agreements that were amended are: the Stock Purchase Agreement, dated August 22, 2005, 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 Commonwealth Annuity, and the Non-Core Coinsurance Agreement, dated May 30, 2006, between the Company and Commonwealth Annuity.
- Amended and Restated Shared Services and Expense Agreement, dated January 2, 2009, whereby Commonwealth Annuity and Goldman Sachs provide support to the Company in administrative, legal, compliance, technology, operations, financial reporting, human resources, risk management, and other areas.

First Allmerica Financial Life Insurance Company

- Discretionary Advisory Agreement with Goldman Sachs Asset Management, L.P. (“GSAM,” a wholly-owned subsidiary of Goldman Sachs) dated January 4, 2009, whereby GSAM provides investment management services to the Company. The Company 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.
- Underwriting and Administrative Services Agreements with Epoch Securities, Inc. (“Epoch” a wholly-owned subsidiary of Goldman Sachs) and Commonwealth Annuity, dated January 22, 2008 and May 1, 2008, as consolidated effective April 30, 2010, whereby Epoch provides principal underwriting services and Commonwealth Annuity provides certain administrative services in connection with the distribution and servicing of variable annuity contracts and variable life insurance policies issued by the Company.
- Participation Agreements entered into prior to being acquired by Commonwealth Annuity. The Company entered into Participation Agreements with Goldman, Sachs & Co. (“GS & Co.”) and Goldman Sachs Variable Insurance Trust (“GSVIT”), dated November 1, 2000 and January 2, 2006, as amended, whereby the separate accounts of the Company may purchase shares of funds of GSVIT for the contracts supported by such separate accounts. GSVIT is an open-end management investment company that offers its shares of beneficial interest exclusively to separate accounts of life insurance companies and various qualifying retirement plans or accounts. GSVIT is independent from Goldman Sachs and its affiliates and is governed by its own independent Board of Directors. The Company does not pay any fees under these agreements.
- Administrative Services Agreement with GSAM and Investor Services Agreement Service Class Shares with Goldman Sachs entered into prior to being acquired by Commonwealth Annuity. Under the Administrative Services Agreement with GSAM, dated November 1, 2000 and July 28, 2006, the Company assists GSAM with the provision of certain administrative services to GSVIT or GSAM, relating to investments in shares of funds of GSVIT by the separate accounts of the Company pursuant to the terms of the Participation Agreements. Under the Investor Services Agreement – Service Class Shares with Goldman Sachs, dated July 28, 2006, Goldman Sachs compensates the Company for distribution and shareholder services provided to GSVIT.

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 its traditional life insurance policies and pension products to se2, an affiliate of Security Benefit Life Insurance Company, under the terms of a third party administration agreement (the “TPA Agreement”). Administration of its variable life and variable annuity block has also been outsourced to se2, under the terms of a third party administration agreement (the “Master Agreement”) between se2 and Commonwealth Annuity and its affiliates, including the Company. Under the TPA Agreement and the Master Agreement, se2 provides customary administrative services, including operations of a call center, premium

accounting, claims payments and disbursements (“Administrative Services”). se2 does not market or underwrite new policies on behalf of the Company.

In connection with reinsurance transactions, the Company and 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 Perot Systems Corporation (“Perot”), Transaction Applications Group, Inc. (“TAG”), Professional Data Management Again, Inc. (“PDMA”) and LOGiQ<sup>3</sup> pursuant to the terms of third party administration agreements between the respective service providers and Commonwealth Annuity and its affiliates, including the Company.

To the extent that additional underwriting or claims services are needed for increases in premium or reinstatements, etc., such services are provided by Mid-America Agency Services, Inc. and TEG Enterprises, Incorporated (“MAAS/TEG”), pursuant to the terms of service agreements with Commonwealth Annuity and its affiliates. MAAS/TEG will perform underwriting functions on cases requiring current evidence of insurability. MAAS/TEG will underwrite all policy transactions per the Company guidelines and procedures.

As part of its acquisition by Commonwealth, the Company entered into a number of agreements with THG pertaining to the Company’s discontinued accident and health insurance business (consisting of select market reinsurance pools, group accident and health policies, and individual medical/hospital policies) and transferred assets and liabilities of \$119.5 million. The purpose of the transactions relating to this business was to transfer all liability for, and responsibility to administer, such business to THG.

#### Tax Sharing Agreement

For the December 31, 2009, period and the Company filed a stand alone federal income tax return. Prior to this date, the Company filed a consolidated income tax return with THG. The Company is eligible to file a consolidated return with Commonwealth Annuity. It will also be eligible to file a consolidated return with Goldman Sachs in 2015. A tax sharing agreement will be executed before it files in any consolidated return filing.

#### 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 2008, the Company, as the common employer for all THG companies, provided multiple benefit plans to employees and agents of these affiliated Companies, including retirement plans. The salaries of employees and agents covered by these plans and the expenses of these plans were charged to the affiliated companies in accordance with the provisions in the intercompany cost sharing agreement. The Company offered various insurance plans, including health, dental, short-term disability or salary continuance benefits, long-term disability, and several life insurance options to all full-time and qualified part-time employees. In order to participate, qualified employees agreed to pay their share of the plan's cost of benefits by salary deduction. The Company also provided retirement benefits, including a defined contribution 401(k) plan for its employees. The Company also provided post retirement medical and death benefits to certain full-time employees, retirees, and their dependents and former agents of the affiliated Companies.

As of January 1, 2008, THG changed the common employer for all THG companies from the Company to HIC, and moved all liabilities related to the benefit plans and an equal amount of assets to HIC.

Since the acquisition of the Company by Commonwealth Equity in 2009, the Company is no longer required to contribute any funds to any benefit plans, nor is it required to make any benefit payments.

**STATUTORY DEPOSITS**

The statutory deposits of the Company as of December 31, 2009 were as follows:

Location	Description of Deposit	Par Value	Statement Value	Market Value
Georgia	U.S. TREASURY 6 1/2% Due 2/15/2010 FA15	\$50,000	\$49,539	\$46,940
Kansas	U.S. TREASURY 6 1/2% Due 2/15/2010 FA15	100,000	100,362	100,729
Kentucky	U.S. TREASURY 6 1/2% Due 2/15/2010 FA15	500,000	501,808	503,645
Massachusetts - All Policyholders	TENN VALLEY AUTHORITY 7 1/8% Due 5/1/2030 MN1	6,000,000	7,569,225	7,359,384
Massachusetts - All Policyholders	U.S. TREASURY 9 1/4% Due 2/15/2016 FA15	1,140,000	1,246,934	1,536,253
Massachusetts - All Policyholders	U.S. TREASURY 6 1/2% Due 2/15/2010 FA15	750,000	752,712	755,467
New Mexico	U.S. TREASURY 7 1/4% Due 5/15/2016 MN15	200,000	198,665	247,710
North Carolina	U.S. TREASURY 9 1/4%			

First Allmerica Financial Life Insurance Company

<u>Location</u>	<u>Description of Deposit</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
	Due 2/15/2016 FA15	100,000	109,380	134,759
North Carolina	U.S. TREASURY 6 1/2% Due 2/15/2010 FA15	300,000	297,236	281,640
South Carolina	U.S. TREASURY 7 1/4% Due 5/15/2016 MN15	1,000,000	993,323	1,238,550
Virginia	U.S. TREASURY 6 1/2% Due 2/15/2010 FA15	500,000	501,808	503,645
Puerto Rico	U.S. TREASURY 6 1/2% Due 2/15/2010 FA15	820,000	822,964	825,998
Virgin Islands	U.S. TREASURY 6 1/2% Due 2/15/2010 FA15	500,000	501,808	503,645
Virgin Islands	U.S. TREASURY 4 1/4% Due 5/15/2039 MN15	500,000	495,377	469,400
Canada	CANADIAN GOVERNMENT 3 1/2% Due 6/1/2013 JD1	1,905,851	1,744,514	1,981,628
	Total All Policyholders	7,890,000	9,568,871	9,651,104
	Total Not All Policyholders	6,475,851	6,516,801	6,838,269
	Total All Locations	\$14,365,851	\$16,085,672	\$16,489,373

**INSURANCE PRODUCTS AND RELATED PRACTICES**

Territory and Plan of Operation

The Company is licensed to write life, annuity, and accident and health business in all fifty states, the District of Columbia, and the U.S. Virgin Islands, and in Canada is licensed to service policies issued prior to June 1, 1992.

Prior to September 30, 2002, the Company ceased issuing new policies, including but not limited to all variable annuities, variable universal life and traditional life insurance products, as well as certain group retirement products. On December 30, 2005, the Company ceded 100% of its variable life insurance and annuity business to AFLIAC in a 100% modified coinsurance agreement. Additionally, coincident with the acquisition of the Company by Commonwealth Annuity, the Company and HIC entered into a reinsurance transaction whereby HIC assumed the Company's discontinued accident and health insurance business through a 100% coinsurance agreement.

In 2009, the Company developed a traditional whole life insurance policy, to be issued solely in the State of New York, in connection with the conversion privileges under certain previously

First Allmerica Financial Life Insurance Company

issued term life insurance policies and life insurance riders (e.g., Children Riders, Other Insured Riders).

The Company may from time-to-time be involved as a Reinsurer under reinsurance transactions involving fixed and/or annuity and life insurance policies.

Treatment of Policyholders

*Claims Settlement Practices*

Procedures performed in conjunction with claims testwork 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.

Dividends to Policyholders

Prior to its demutualization, the Company issued participating policies, the dividend feature of which was preserved through the creation of the "Closed Block" (See separate discussion of Closed Block in this report). The Company annually determines the amount of divisible surplus available as dividends to eligible policyholders associated with the Closed Block. Policyholder dividends paid during the examination period are as follows:

Year	Dividends to Policyholders
2009	\$ 12,217,604
2008	15,199,935
2007	18,344,876
2006	20,699,672
2005	21,780,180

**REINSURANCE**

With the acquisition of the Company by Commonwealth Annuity in 2009, the assumption of business through indemnity reinsurance is used to support its growth strategy. Consistent with the general practice in the life insurance industry, the Company is a party to numerous reinsurance agreements. The majority of the Company's involvement in reinsurance contracts is

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## First Allmerica Financial Life Insurance Company

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.

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

On December 30, 2005, the Company implemented a 100% indemnity coinsurance treaty with AFLIAC to cede 100% of its Variable Annuity and Variable Life Insurance businesses. The Separate Account liabilities for these products were ceded on a modified coinsurance basis. In concert with the cession to AFLIAC all of the existing variable life reinsurance treaties were novated to AFLIAC. The Company continues to retain certain retirement products, which are not actively sold.

As part of the Company's January 2, 2009, sale to Commonwealth Equity, a 100% indemnity coinsurance treaty with HIC was put into place whereby the Company cedes all remaining net retention of Accident and Health insurance and any medical and long-term disability and other business written through reinsurance pools and associations. This segment was previously referred to as Corporate Risk Management Services ("CRMS"). As part of this coinsurance treaty HIC has established a trust for the benefit of the Company which supports the reserve credit provided by unauthorized reinsurers of these blocks. The Company continues to reinsure this block through the pre-existing reinsurance for the EBS group of accident and health business with Great-West Life and the 100% coinsurance of Group long-term disability policies to ReliaStar Life Insurance Company.

In the second quarter of 1997, the Company entered into an agreement to cede substantially all of the Company's individual disability income business under a 100% coinsurance agreement to Metropolitan Life Insurance Company ("Met Life"). In December 18, 2009, the Company signed an assumption reinsurance agreement with Met Life to cede the block currently coinsured. 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.

### Assumed Reinsurance

The Company assumes group accident and health business primarily via its participation in a number of pooling arrangements, its participation ratio in any one pool being relatively small. This business was part of the operations of the Company's CRMS segment, which includes the EBS unit and as previously noted, remaining exposure was ceded to HIC effective January 2, 2009. The Company ceased assuming new business in these pools in the third quarter of 1998, subject to certain contractual obligations.

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Related to the 2005 acquisition of AFLIAC by Goldman Sachs, the Company indemnity reinsured effective June 2006, via 100% coinsurance an immaterial block of individual hospital reinsurance which has been retroceded to HIC effective January 2, 2009.

The Company entered into a material reinsurance contract effective April 1, 2009, with American Progressive Life Insurance Company. The Company assumes via the 100% indemnity coinsurance treaty all traditional life, universal life and fixed annuity liabilities. In addition to the above, the Company had in place until December 30, 2005, an inter-company agreement with its wholly owned subsidiary, Commonwealth Annuity. This business assumed by the Company consists of numerous policy plans, and included all amounts over Commonwealth Annuity's \$2 million dollar retention. This treaty was recaptured, and the Company's Variable Life products were ceded to Commonwealth Annuity as previously described.

**SUBSEQUENT EVENTS**

Effective December 1, 2010, The Company novated to Athene Life Re Ltd. the fixed annuities 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 American Progressive Life.

On January 10, 2011, the Company declared a dividend of \$115 million payable to its stockholder of record on such date, Commonwealth Annuity. Payment of the dividend was approved by the Commissioner of Insurance of the Massachusetts Division of Insurance. The dividend was paid on January 21, 2011.

**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.

First Allmerica Financial Life Insurance Company

First Allmerica Financial 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	\$ 995,382,102	\$ -	\$ 995,382,102
Common stocks	91,039		91,039
Cash, cash equivalents and short-term investments	156,217,184		156,217,184
Contract loans	104,665,444		104,665,444
Receivables for securities	82,207		82,207
Aggregate write-ins for invested assets	2,111,114		2,111,114
Sub-totals, cash and invested assets	1,258,549,090	-	1,258,549,090
Investment income due and accrued	15,270,185		15,270,185
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	1,659,712		1,659,712
Deferred premiums, agents' balances and installments booked but deferred and not yet due	3,821,046		3,821,046
Reinsurance ceded:			
Amounts recoverable from reinsurers	3,758,611		3,758,611
Other amounts receivable under reinsurance contracts	31,669		31,669
Net deferred tax asset	19,596,844		19,596,844
Guaranty funds receivable or on deposit	108,791		108,791
Aggregate write-ins for other than invested assets	186		186
Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts	1,302,796,134	-	1,302,796,134
From Separate Accounts, Segregated Accounts and Protected Cell Accounts	277,822,884		277,822,884
Total	\$ 1,580,619,018	\$ -	\$ 2,561,345,224

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First Allmerica Financial Life Insurance Company

First Allmerica Financial 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	\$ 989,225,839	\$ -	\$ 989,225,839
Liability for deposit-type contracts	108,829,792		108,829,792
Contract claims: Life	8,681,779		8,681,779
Policyholder dividends and coupons	251,587		251,587
Provision for policyholder dividends and coupons payable in following calendar year-estimated amounts:			
Dividend apportioned for payment	13,490,407		13,490,407
Premiums and annuity considerations for life and accident and health contracts received in advance	113,476		113,476
Contract liabilities not included elsewhere	4,832,350		4,832,350
Interest maintenance reserve	6,043,057		6,043,057
General expenses due or accrued	1,495,659		1,495,659
Transfers to Separate Accounts due or accrued	(19,756)		(19,756)
Taxes, licenses and fees due or accrued	1,724,258		1,724,258
Current federal and foreign income taxes	2,682,610		2,682,610
Unearned investment income	4,541		4,541
Amounts withheld or retained by company as agent or trustee	214,470		214,470
Remittances and items not allocated	3,105,871		3,105,871
Miscellaneous liabilities:			
Asset valuation reserve	1,161,838		1,161,838
Payable to parent, subsidiaries and affiliates	2,592,509		2,592,509
Aggregate write-ins for liabilities	1,442,798		1,442,798
Total liabilities excluding Separate Accounts business	1,145,873,085	-	1,145,873,085
From Separate Accounts statements	277,822,756		277,822,756
Total Liabilities	1,423,695,841	-	1,423,695,841
Common capital stock	5,000,010		5,000,010
Gross paid in and contributed surplus	654,406,481		654,406,481
Aggregate write-ins for special surplus funds	11,434,838		11,434,838
Unassigned funds (surplus)	(513,918,152)		(513,918,152)
Surplus	151,923,167	-	151,923,167
Total Capital and Surplus	156,923,177	-	156,923,177
Total Liabilities, Capital and Surplus	\$ 1,580,619,018	\$ -	\$ 1,297,796,252

# First Allmerica Financial Life Insurance Company

First Allmerica Financial 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	\$ 147,824,395	\$ -	\$ 147,824,395
Net investment income	71,353,436		71,353,436
Amortization of Interest Maintenance Reserve	4,025,729		4,025,729
Commissions and expense allowances on reinsurance ceded	77,920		77,920
Miscellaneous income:			
Income from fees associated with investment management, administration and contract guarantees from Separate Accounts	221,429		221,429
Aggregate write-ins for miscellaneous income	455,800		455,800
Totals	<u>223,958,709</u>	-	<u>223,958,709</u>
Death benefits	32,503,174		32,503,174
Matured endowments	467,387		467,387
Annuity benefits	37,942,723		37,942,723
Disability benefits and benefits under accident and health contracts	587,912		587,912
Surrender benefits and withdrawals for life contracts	39,550,662		39,550,662
Interest and adjustments on contracts or deposit-type contract funds	3,505,326		3,505,326
Payments on supplementary contracts with life contingencies	(150)		(150)
Increase in aggregate reserve for life and accident and health contracts	82,582,787		82,582,787
Sub-totals	<u>197,139,821</u>	-	<u>197,139,821</u>
Commissions on premiums, annuity considerations and deposit-type contract funds	151,630		151,630
Commissions and expense allowances on reinsurance assumed	7,334,649		7,334,649
General insurance expenses	7,376,307		7,376,307
Insurance taxes, licenses and fees, excluding federal income taxes	940,779		940,779
Increase in loading on deferred and uncollected premiums	(725,384)		(725,384)
Net transfers to or (from) Separate Accounts net of reinsurance	(6,582,428)		(6,582,428)
Aggregate write-ins for deductions	(14,603,000)		(14,603,000)
Totals	<u>191,032,374</u>	-	<u>191,032,374</u>
Net gain from operations before dividends to policyholders and federal income taxes	32,926,335		32,926,335
Dividends to policyholders	12,217,604		12,217,604
Net gain from operations after dividends to policyholders and before federal income taxes	20,708,731	-	20,708,731
Federal and foreign income taxes incurred	8,043,121		8,043,121
Net gain from operations after dividends to policyholders and federal income taxes	12,665,610	-	12,665,610
Net realized capital gains (losses)	(1,853,566)		(1,853,566)
Net income	<u>\$ 10,812,044</u>	\$ -	<u>\$ 10,812,044</u>

First Allmerica Financial Life Insurance Company

First Allmerica Financial 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	\$ 113,696,898	\$ -	\$ 113,696,898
Net income	10,812,044		10,812,044
Change in net unrealized capital gains (losses)	10,328,937		10,328,937
Change in net unrealized foreign exchange capital gains (losses)	273,369		273,369
Change in net deferred income tax	(9,516,017)		(9,516,017)
Change in nonadmitted assets	12,811,285		12,811,285
Change in liability for reinsurance in unauthorized companies	6,231,975		6,231,975
Change in asset valuation reserve	4,461		794,461
Other changes in surplus in Separate Accounts statement	30		30
Surplus adjustment: Paid in	2,305,357		2,305,357
Aggregate write-ins for gains and losses in surplus	9,184,838		9,184,838
Net change in capital and surplus for the year	43,226,279	-	43,226,279
Capital and surplus, December 31, current year	\$ 156,923,177	\$ -	\$ 156,923,177

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First Allmerica Financial Life Insurance Company

First Allmerica Financial 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	\$ 113,696,898	\$ 163,728,754	\$ 151,831,184	\$ 158,254,411	\$ 183,644,126
Prior period adjustment		-	-	6,402,573	-
Adjusted capital and surplus, December 31 prior year	113,696,898	163,728,754	151,831,184	164,656,984	183,644,126
Net income	10,812,044	33,123,913	16,962,487	12,962,188	34,507,012
Change in net unrealized capital gains (losses)	10,328,937	(10,144,969)	(1,492,579)	5,066,691	(2,622,527)
Change in net unrealized foreign exchange capital gains (losses)	273,369	-	-	-	-
Change in net deferred income tax	(9,516,017)	(37,963,163)	(27,517,702)	(25,353,788)	1,115,588
Change in nonadmitted assets	12,811,285	103,296,074	27,328,272	35,082,788	(17,313,531)
Change in liability for reinsurance in unauthorized companies	6,231,975	3,867,857	(3,738,969)	(2,499,551)	(3,088,761)
Change in asset valuation reserve	794,461	13,462,429	2,668,193	2,117,608	(6,650,959)
Surplus (contributed to) withdrawn from Separate Accounts during period	-	99,627	152,727	153,597	(35,338)
Other changes in surplus in Separate Accounts statement	30	(99,627)	(1,475)	(153,590)	231,510
Cumulative effect of change in accounting principles	-	-	-	(3,823,483)	1,228,531
Surplus adjustment: Paid in	2,305,357	5,115,159	-	-	79,460
Dividends to stockholders	-	(153,210,009)	-	(40,000,000)	(48,600,000)
Aggregate write-ins for gains and losses in surplus	9,184,838	(1,343,378)	(2,312,132)	3,316,152	11,995,481
Rounding	-	-	-	-	(1)
Net change in capital and surplus for the year	43,211,879	(50,031,856)	11,897,570	(12,825,800)	(25,389,715)
Capital and surplus, December 31, current year	\$ 156,923,177	\$ 113,696,898	\$ 163,728,754	\$ 151,831,184	\$ 158,254,411

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**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 minimum guaranteed death benefit that is adjusted annually to the current account value. In 2001, the Company began offering a minimum guaranteed death benefit that may be the highest accumulated value on any contract anniversary date prior to the date of death (as increased for subsequent payments and proportionately reduced for subsequent withdrawals). 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.

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 Summary 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.

First Allmerica Financial Life Insurance Company

First Allmerica Financial 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
<b>Assets</b>			
Bonds	\$ 448,280	\$ -	\$ 448,280
Common stocks	276,342,768		276,342,768
Short-term investments	1,023,718		1,023,718
Investment income due and accrued	7,965		7,965
Receivables for securities	157		157
	<u>\$ 277,822,888</u>	<u>\$ -</u>	<u>\$ 277,822,888</u>
<b>Liabilities and Surplus</b>			
Aggregate reserve for life, annuity and accident and health contracts	\$ 200,838,640	\$ -	\$ 200,838,640
Liability for deposit-type contracts	72,223,112		72,223,112
Interest maintenance reserve	117,690		117,690
Charges for investment management, administration and contract guarantees due and accrued	(258,324)		(258,324)
Other transfers to general account due and accrued	5,019,328		5,019,328
Aggregate write-ins for liabilities	(117,690)		(117,690)
Total Liabilities	<u>277,822,756</u>	<u>-</u>	<u>277,822,756</u>
Unassigned funds	132		132
Total Surplus	<u>132</u>	<u>-</u>	<u>132</u>
Total Liabilities and Surplus	<u>\$ 277,822,888</u>	<u>\$ -</u>	<u>\$ 277,822,888</u>

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First Allmerica Financial Life Insurance Company

First Allmerica Financial 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	\$ 3,976,962	\$ -	\$ 3,976,962
Transfers on account of deposit-type contracts	(6,820,878)		(6,820,878)
Net investment income and capital gains and losses	53,087,516		53,087,516
Totals	<u>50,243,600</u>	<u>-</u>	<u>50,243,600</u>
DEDUCT:			
Transfers from the Separate Accounts on account of contract benefits:			
Death benefits	2,636,467		2,636,467
Annuity benefits	334,710		334,710
Aggregate write-ins for other transfers from Separate Accounts on account of contract benefits	24,154,587		24,154,587
Transfers on account of policy loans	175,160		175,160
Net transfer of reserves from or (to) Separate Accounts	3,281,691		3,281,691
Other transfers from the Separate Accounts:			
Aggregate write-ins for other transfers from Separate Accounts	(2,260,110)		(2,260,110)
Fees associated with charges for investment management, administration and contract guarantees	6,771,350		6,771,350
Increase in aggregate reserve for life and accident and health contracts	16,005,599		16,005,599
Increase in liability for deposit-type contracts	(915,499)		(915,499)
Aggregate write-ins for reserves and funds	53,774		53,774
Totals	<u>50,237,729</u>	<u>-</u>	<u>50,237,729</u>
Net gain from operations	<u>\$ 5,871</u>	<u>\$ -</u>	<u>\$ 5,871</u>

For Informational Purposes Only

First Allmerica Financial Life Insurance Company

First Allmerica Financial 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	\$ 210,101	\$ -	\$ 210,101
Net gain from operations	5,871		5,871
Surplus contributed or (withdrawn) during year	33,799		33,799
Aggregate write-ins for gains and losses in surplus	(249,639)		(249,639)
Surplus, December 31, current year	<u>\$ 132,040</u>	<u>\$ -</u>	<u>\$ 132,040</u>

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**CLOSED BLOCK**

The Company established and began operating a closed block (the "Closed Block") for the benefit of the participating policies included therein, consisting of certain individual life insurance participating policies, individual deferred annuity contracts and supplementary contracts not involving life contingencies which were in force as of the Company's demutualization on October 16, 1995; such policies constitute the "Closed Block Business". The purpose of the Closed Block is to protect the policy dividend expectations of certain dividend paying policies and contracts. Unless the Commissioner consents to an earlier termination, the Closed Block will continue to be in effect until the date none of the Closed Block policies are in force. The Company allocated to the Closed Block assets in an amount that is expected to produce cash flows which, together with future revenues from the Closed Block business, are reasonably sufficient to support the Closed Block business, including provision for payment of policy benefits, certain future expenses and taxes and for continuation of policyholder dividend scales payable in 1999 so long as the experience underlying such dividend scales continues. The Company expects that the factors underlying such experience will fluctuate in the future and policyholder dividend scales for Closed Block business will be set accordingly.

Although the assets and income allocated to the Closed Block inure solely to the benefit of the holders of policies included in the Closed Block, the excess of Closed Block liabilities over Closed Block assets as measured on a GAAP basis represents the expected future post-tax income from the Closed Block which may be recognized in income over the period the policies and contracts in the Closed Block remain in force. If the actual income from the Closed Block in any given period equals or exceeds the expected income for such period as determined at the inception of the Closed Block, the expected income would be recognized in income for that period. Further, cumulative actual Closed Block income in excess of the expected income would not inure to the shareholders and would be recorded as an additional liability for policyholder dividend obligations. This account for future dividends effectively limits the actual Closed Block income recognized in income to the Closed Block income expected to emerge from operation of the Closed Block as determined at inception.

**CLOSED BLOCK – FINANCIAL STATEMENTS**

A Statement of Assets, Liabilities and Surplus as of December 31, 2009, and a Summary 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.

First Allmerica Financial Life Insurance Company

First Allmerica Financial Life Insurance Company  
 Closed Block Business  
 Statement of Assets, Liabilities and Surplus  
 As of December 31, 2009

	As Reported by the Company	Examination Changes	Per Statutory Examination
<b>Assets</b>			
Bonds	\$ 421,646,782	\$ -	\$ 421,646,782
Short-term investments	92,545,090		92,545,090
Contract loans	102,533,652		102,533,652
Investment income due and accrued	9,030,884		9,030,884
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	1,585,189		1,585,189
Deferred premiums, agents' balances and installments booked but deferred and not yet due	2,425,189		2,425,189
Guaranty fund receivable or on deposit	(388,936)		(388,936)
<b>Total Assets</b>	<b>\$ 629,377,850</b>	<b>\$ -</b>	<b>\$ 629,377,850</b>
<b>Liabilities and Surplus</b>			
Aggregate reserve for life, annuity and accident and health contracts	\$ 578,803,194	\$ -	\$ 578,803,194
Liability for deposit-type contracts	80,484,893		80,484,893
Contract claims: Life	6,547,306		6,547,306
Provision for policyholder dividend and coupons payable in following calendar year-estimated amounts:			
Dividend apportionment for payment	13,490,407		13,490,407
Premium and annuity considerations for life and accident and health contracts received in advance	101,454		101,454
Taxes, licenses and fees due and accrued	1,138,231		1,138,231
Current federal and foreign income taxes	904,878		904,878
Unearned investment income	4,197		4,197
Aggregate write-ins for liabilities	2,364,371		2,364,371
<b>Total Liabilities</b>	<b>683,838,931</b>	<b>-</b>	<b>683,838,931</b>
Unassigned funds	(54,461,081)		(54,461,081)
<b>Total Surplus</b>	<b>(54,461,081)</b>	<b>-</b>	<b>(54,461,081)</b>
<b>Total Liabilities and Surplus</b>	<b>\$ 629,377,850</b>	<b>\$ -</b>	<b>\$ 629,377,850</b>

First Allmerica Financial Life Insurance Company

First Allmerica Financial Life Insurance Company  
 Closed Block Business  
 Summary of Operations  
 For the year ended December 31, 2009

	As Reported by the Company	Examination Changes	Per Statutory Examination
Net premium and annuity considerations for life and accident and health contracts	\$ 21,398,580	\$ -	\$ 21,398,580
Net investment income and capital gains and losses	31,915,496		31,915,496
Totals	<u>53,314,076</u>	-	<u>53,314,076</u>
Death benefits	26,206,702		26,206,702
Matured endowments	467,387		467,387
Disability benefits and benefits under accident and health contracts	622,900		622,900
Surrender benefits and withdrawals for life contracts	23,051,813		23,051,813
Interest and adjustments on contracts or deposit-type contract funds	6,653,601		2,653,601
Increase in aggregate reserve for life and accident and health contracts	(19,134,225)		(19,134,225)
Sub-totals	<u>33,868,178</u>	-	<u>33,868,178</u>
Insurance taxes, licenses and fees, excluding federal income taxes	430,508		430,508
Increase in loading on deferred and uncollected premiums	(725,384)		(725,384)
Aggregate write-ins for deductions	2,970,558		2,970,558
Totals	<u>2,675,682</u>	-	<u>2,675,682</u>
Net gain from operations before dividends to policyholders and federal income taxes	16,770,216		16,770,216
Dividends to policyholders	12,226,170		12,226,170
Net gain from operations after dividends to policyholders and before federal income taxes	4,544,046	-	4,544,046
Federal and foreign income taxes incurred	904,878		904,878
Net gain from operations after dividends to policyholders and federal income taxes	3,639,168	-	3,639,168
Net realized capital gains and (losses)	4,921,695		4,921,695
Net income	<u>\$ 8,560,863</u>	\$ -	<u>\$ 8,560,863</u>

First Allmerica Financial Life Insurance Company

First Allmerica Financial Life Insurance Company

Closed Business

Reconciliation of Surplus

For the year ended December 31, 2009

	As Reported by the Company	Examination Changes	Per Statutory Examination
Surplus, December 31, 2008	\$ (63,021,946)	\$ -	\$ (63,021,946)
Net income			-
Surplus contributed or (withdrawn) during year	8,560,863		8,560,863
Rounding	2		2
Surplus, December 31, 2009	<u>\$ (54,461,081)</u>	<u>\$ -</u>	<u>\$ (54,461,081)</u>

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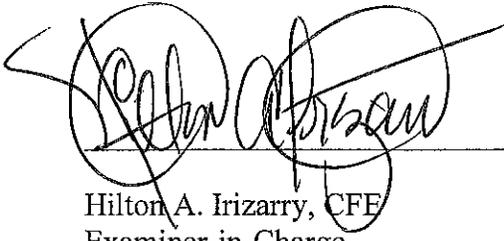
ACKNOWLEDGEMENT

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Company to all examiners during the course of the examination

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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