

**REPORT ON EXAMINATION**  
**OF THE**  
**PARK AVENUE LIFE INSURANCE COMPANY**  
**AS OF**  
**DECEMBER 31, 2011**

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

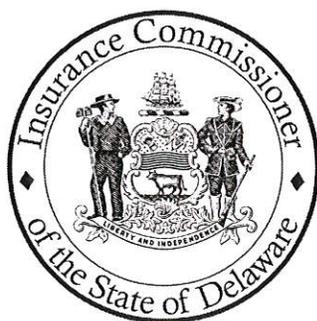
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2011 of the

**PARK AVENUE LIFE INSURANCE COMPANY**

is a true and correct copy of the document filed with this Department.

Attest By: Brandi Biddle

Date: May 15, 2013



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 15<sup>th</sup> day of May, 2013.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION  
OF THE  
PARK AVENUE LIFE INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2011

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart", is written over a horizontal line.

Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Dated this 15<sup>th</sup> day of May, 2013

## TABLE OF CONTENTS

SALUTATION .....	1
SCOPE OF EXAMINATION.....	1
SUMMARY OF SIGNIFICANT FINDINGS .....	3
SUBSEQUENT EVENTS .....	3
COMPANY HISTORY .....	3
CORPORATE RECORDS .....	4
MANAGEMENT AND CONTROL .....	5
HOLDING COMPANY SYSTEM.....	6
FIDELITY BONDS AND OTHER INSURANCE .....	9
TERRITORY AND PLAN OF OPERATION .....	11
GROWTH OF THE COMPANY .....	11
REINSURANCE.....	13
ACCOUNTS AND RECORDS.....	15
STATUTORY DEPOSITS .....	16
FINANCIAL STATEMENTS .....	17
ASSETS .....	18
LIABILITES, SURPLUS AND OTHER FUNDS .....	19
SUMMARY OF OPERATIONS.....	20
RECONCILIATION OF CAPITAL AND SURPLUS.....	21
ANALYSIS OF CHANGES IN THE FINANCIAL STATEMENTS .....	22
NOTES TO THE FINANCIAL STATEMENTS .....	22
COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS .....	24

SUMMARY OF RECOMMENDATIONS .....	24
CONCLUSION.....	24

January 15, 2013

## **SALUTATION**

Honorable Karen Weldin-Stewart-CIR-ML Commissioner  
Delaware Department of Insurance  
Rodney Building  
841 Silver Lake Boulevard  
Dover, Delaware 19904

Commissioner:

In compliance with instructions and pursuant to Certificate of Authority No. 12.006, issued February 23, 2012 by the Delaware Department of Insurance, an examination has been made of the affairs, financial condition and management of the

### **PARK AVENUE LIFE INSURANCE COMPANY**

hereinafter referred to as “Company” or “PALIC”, incorporated under the laws of the State of Delaware as a stock company with its statutory home office located at 1209 Orange Street, Wilmington, Delaware. The examination was conducted at the principal administrative offices of the Company located at 7 Hanover Square, New York, NY. The examination report thereon is respectfully submitted.

### **SCOPE OF EXAMINATION**

The last examination was as of December 31, 2007. This examination covers the period from January 1, 2008, through December 31, 2011, and encompasses a general review of transactions during the period, the Company’s business policies and practices, as well as

management and relevant corporate matters, with a determination of the financial condition of the Company at December 31, 2011. Transactions subsequent to the examination date were reviewed where deemed necessary.

We conducted our examination in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (the “NAIC Handbook”). The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing current and prospective risks to which the Company is exposed and evaluating its system controls and procedures used to mitigate those risks. The examination also includes an assessment of the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk focused examination process. The examination report only addresses regulatory information revealed by the examination process.

During the course of this examination, consideration was given to work performed by the Company’s Internal Audit Department (“IAD”) and by the external accounting firm, PricewaterhouseCoopers LLP (“PwC”). Certain auditor work papers have been incorporated into the examiners’ work papers and have been utilized in determining the scope and areas of emphasis in conducting the examination.

The examination was conducted concurrently with that of affiliate Guardian Insurance & Annuity Company, Inc. (“GIAC”), also a Delaware domestic insurance company. Separate reports of examination were filed for each company.

### **SUMMARY OF SIGNIFICANT FINDINGS**

There were no significant findings noted during the performance of this examination.

### **SUBSEQUENT EVENTS**

There were no significant or material findings noted subsequent to December 31, 2011.

### **COMPANY HISTORY**

The Company was incorporated as AM Life Insurance Company (“AM Life”) under the laws of the Commonwealth of Massachusetts on November 19, 1964; was chartered as a stock company to issue policies for life, annuities and accident and health insurance; and commenced business on April 9, 1965.

The following summary describes the major changes in the Company prior to the purchase of the Company by The Guardian Life Insurance Company of America (“GLIC”):

- Cooperants Mutual Life (“Canada”) acquired all outstanding stock of AM Investors Inc. on January 13, 1987. The U.S. holding company name was changed to Coop Massachusetts, Inc.
- In 1992, Cooperants Mutual Life (Canada) filed for protection under Canadian bankruptcy laws and, as a result, Guardian Financial sold First International to Standard Management Corporation (“SMC”), an Indiana corporation on July 10, 1992.

- On March 18, 1996, First International was purchased by GIAC, a subsidiary of GLIC, for \$9,913,540, at which time GIAC also made a capital contribution of \$20,041,655. On December 31, 1998, GLIC purchased First International from GIAC for \$29,955,195 and re-domesticated GIAC to Delaware. In conjunction with the re-domestication, the name of the entity was changed to Park Avenue Life Insurance Company (PALIC).

During the period under examination, gross paid-in and contributed surplus decreased by \$70,200,000 from \$240,141,332 in 2007 to \$169,941,332 in 2010. The decrease for the period is illustrated in the following schedule:

Ending Balance as of December 31, 2007	<u>\$240,141,332</u>
Return of Capital to GLIC - 2010	<u>(70,200,000)</u>
Ending Balance as of December 31, 2011	<u>\$169,941,332</u>

On September 2, 2010, PALIC filed a Form D with the Delaware Department of Insurance related to the payment of dividends from PALIC to GLIC in the amount of \$105 million, comprised of \$70.2 million as a return of capital and \$34.8 million as an extraordinary dividend. The purpose of the Form D filing was to provide prior notice of the extraordinary dividend pursuant to 18 Del. C. §5005(b) of the Delaware Insurance Code.

## **CORPORATE RECORDS**

The minutes of the Board of Directors (Board) and Shareholders were reviewed for the period under examination. The recorded minutes documented activities and transactions of the Company.

There are two board committees of Park Avenue Life Insurance Company, Executive Committee and Investment Committee. The Audit and Risk Committee, which exists at the parent company level, (appointed as Audit Committee for PALIC) provide oversight of GLIC and the activities of the enterprise as a whole.

Copies of the Form B Holding Company Registration Statements filed with the Delaware Department of Insurance during the period under examination were reviewed. Per the review, the Company has complied with the provisions of 18 Del. Admin. Code 1801.

### **MANAGEMENT AND CONTROL**

The business affairs and corporate activities are vested in a Board of Directors that shall consist of not less than five members. The directors are elected for a term of one year at the annual stockholder's meeting which is held not less than 30 or more than 120 days after the end of the last preceding fiscal year.

The bylaws provide that the Board may designate one or more committees that shall consist of two or more Directors. The Board has designated an Executive Committee and an Investment Committee to oversee Company operations.

The Executive Committee has any and all powers of the Board during the interval between Board meetings. The Investment Committee has general control and supervision over the financial affairs and accounts of the Company. The bylaws provide that the findings of the committees shall be reported to the Board.

The Board and Officers, duly elected in accordance with the bylaws and serving as of December 31, 2011, are as follows:

<u>Director</u>	<u>Principal Occupation</u>
Robert Ernest Broatch	Executive VP & CFO, Risk & Operational Excellence, GLIC

Douglas Scott Dolfi	Executive Vice President & Chief Operating Officer, GLIC
Michael Nicholas Ferik	Senior Vice President – Individual Life, GLIC
John Hunter Flannigan	Senior Vice President & Corporate Controller, GLIC
Michael Slipowitz	Senior Vice President & Corporate Chief Actuary, GLIC

<u>Officer</u>	<u>Title</u>
Michael Slipowitz	President and Chief Executive Officer
Tracy Leon Rich	Executive Vice President, General Counsel & Corp. Secretary
Thomas George Sorell	Executive Vice President & Chief Investment Officer
Karen Farnsworth-Einsidler	Vice President – Investment and Real Estate Counsel
John Robert Hurley	Vice President – Government Relations
Alphonsus Lawrence Padavano	Assistant Vice President & Controller
Barry Ivan Belfer	Treasurer
Roland Raymond Rose	Associate Actuary

Executive Committee

Robert Ernest Broatch  
Joseph Anthony Caruso  
Douglas Scott Dolfi  
Michael Slipowitz (Alternate)

Investment Committee

Robert Ernest Broatch  
Joseph Anthony Caruso  
Michael Slipowitz  
Douglas Scott Dolfi (Alternate)

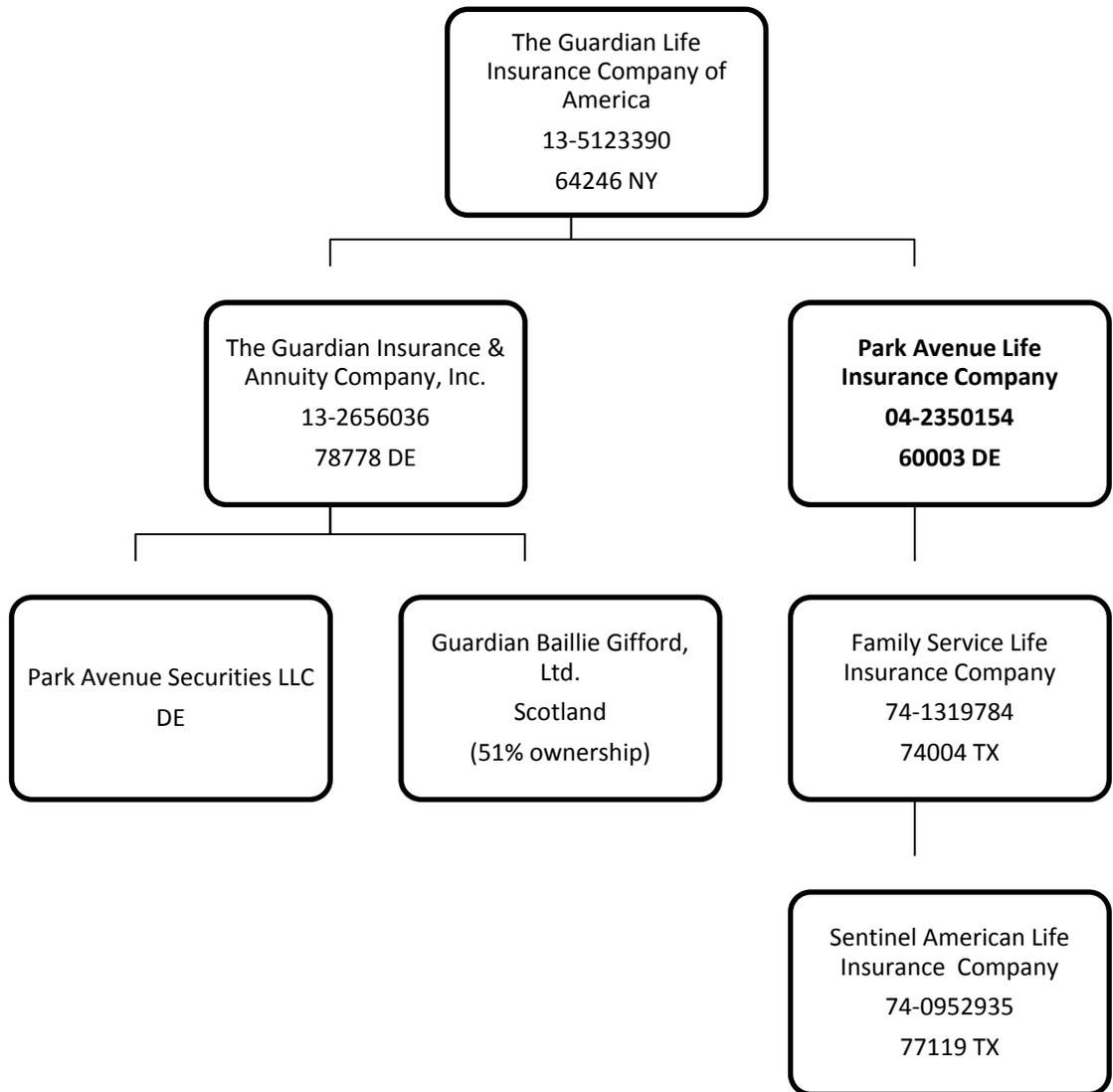
The Company’s Code of Conduct and Conflict of Interest statements were reviewed for the period under examination. No conflicts were noted during this review.

### **HOLDING COMPANY SYSTEM**

The Company is a member of an insurance holding company system as defined by 18 Del. C. § 50, “Insurance Holding Companies”. The Company operates under the immediate and ultimate controlling parent, GLIC, which is domiciled in the State of New York and is the fifth largest mutual life insurance company in America with consolidated statutory admitted assets of \$35.130 billion, liabilities of \$30.557 billion and policyholder surplus of \$4.573

billion as of December 31, 2011. The Company is part of a consolidated Holding Company Registration Statement filing made in the State of Delaware by GLIC.

The following is an organizational chart provided by the Company as of December 31, 2011:



## **MANAGEMENT AND SERVICE AGREEMENTS**

### Tax Allocation Agreement

The Company entered into a federal tax consolidation agreement with GLIC effective July 19, 2001, covering all tax years after December 31, 1982. The tax liability is allocated to the members of the group in the ratio that each member's separate return tax liability for the year bears to the sum of the separate return tax liabilities of all the members. However, the tax charge shall not exceed the amount that would be paid had the member filed on an individual basis. This agreement was submitted to and approved by the Delaware Department of Insurance.

### Amended and Restated Agreement for Services and Reimbursement

The Company entered into an amended and restated agreement for services and reimbursement with GLIC effective December 31, 2007. The agreement is an expense sharing arrangement pursuant to which Guardian provides office space, furniture, equipment, heat and light, clerical staff, employee benefits and any other services as requested by the Company. Expenses are allocated to the Company on a direct basis or through an allocation developed by GLIC's cost accounting department utilizing asset, head count or overhead information. Settlement occurs 45 days following the end of each quarter. As allowed under the agreement, PALIC paid fees to GLIC on behalf of Family Services Life Insurance Company ("FSLIC") and to a TPA on behalf of Sentinel American Life Insurance Company ("SALIC"). This agreement was submitted to and approved by the Delaware Department of Insurance. The 2011 annual statement Notes to the Financial Statements indicate that the Company incurred \$380,250 in charges for this contract.

Custodial Agreement

The Company entered into a Custody Agreement with Chase Manhattan Bank (“Chase”) effective September 3, 1997. Chase agrees to act as custodian over the Company’s assets in exchange for a fee as structured in the agreement.

Services Agreement

The Company entered into a 10-year agreement with IBM Business Transformation Outsourcing Insurance Corp Services (“IBMIOS”) in April 2006, whereby IBMIOS will provide administrative services related to the run-off of the business remaining in the Company. Administrative services include billing and remittance, policy owner service, policy loan and surrender processing, claims processing, financial reporting and actuarial services. Service response standards and administration fees are scheduled under the agreement and the agreement can be terminated prior to the expiration of the 10-year period for cause. Fees are paid by the Company on a monthly basis.

**FIDELITY BONDS AND OTHER INSURANCE**

The Company has no fidelity bond or insurance coverage of its own. Instead, the Company is a named insured on the The Guardian Life Insurance Company of America (GLIC) policies with the following coverage: directors and officers liability, professional liability, employment practices liability, fiduciary liability, fidelity/comprehensive crime, surety bonds, property, general liability, automobile, workers compensation, umbrella and excess umbrella.

GLIC allocates a portion of the cost of such insurance coverage to the Company, which is included in the periodic payments to GLIC. According to the 2011 annual statement, Exhibit 2, total expenses related to the Company's allocated cost of insurance was \$4,273.

As of December 31, 2011, GLIC has fidelity coverage of \$7,500,000 with a deductible of \$500,000, which exceeds the NAIC suggested minimum fidelity coverage for GLIC and PALIC of \$5,750,000 and \$800,000 respectively.

### **PENSION AND OTHER EMPLOYEE BENEFIT PLANS**

The Company has no defined benefit plan, however, the Company's Parent, GLIC, has a defined benefit plan and allocates a portion of the cost to the Company, which is included in the periodic payments to GLIC.

The Company has no defined contribution plan. GLIC, however, has a defined contribution plan and allocates a portion of the cost to the Company, which is included in the periodic payments to GLIC.

The Company has no post-employment benefits or compensated absences. GLIC, however, offers post-employment benefits and compensated absences and allocates a portion of the cost to the Company, which is included in the periodic payments to GLIC.

The Company has no multi-employer plans and no consolidated/holding company plans. GLIC bills the Company for all compensation and related employee benefits for those employees of GLIC who are engaged in the Company's business. According to the 2011 annual statement, Exhibit 2, total expenses related to the Company's allocated cost of salaries and contributions for employee benefit plans were \$767,872 and \$97,336, respectively.

## **TERRITORY AND PLAN OF OPERATION**

At December 31, 2011, the Company was authorized to write life, health and annuity business in 48 states and the District of Columbia. The Company is not licensed in Hawaii or New York. The Company has been in run-off and has not written any new business since May 1, 1992,

The Company's run-off business is entirely administered by third party administrators and is comprised primarily of the original blocks of term and universal life policies acquired by PALIC under a 100% reinsurance assumption agreements.

For direct business, the insurance blocks and corresponding third party administrators are as follows:

<u>Direct Business – Original Insurer</u>	<u>Third Party Administrator</u>
Aztec Life Insurance Company	IBM Insurance Outsourcing Services
First International (PALIC) – Block I	IBM Insurance Outsourcing Services
First International (PALIC) – Block II	Madison National Life Ins. Co

For assumed business, the ceding insurer and the corresponding third party administrators are as follows:

<u>Ceding Insurer</u>	<u>Third Party Administrator</u>
Allianz Life Insurance Company	IBM Insurance Outsourcing Services
Universal Guaranty Life Insurance Company	Universal Guaranty Life Ins. Co.

The Allianz block consists mainly of pre-need and final expense whole life and limited-pay insurance whereas the Universal Guaranty block consists primarily of term and whole life policies.

## **GROWTH OF THE COMPANY**

The following information was obtained from the Company's filed annual statements and covers the five preceding years:

Year	Admitted Assets	Capital & Surplus	Premiums & Annuity Considerations	Net Income
2011	\$306,982,567	\$55,423,489	\$3,923,943	\$700,607
2010	319,723,309	64,896,084	4,334,300	38,237,308
2009	419,366,478	156,228,067	4,817,714	6,285,184
2008	417,793,811	144,337,317	6,556,427	16,903,226
2007	434,885,522	150,531,445	8,493,990	15,813,005

Since the prior examination as of December 31, 2007, the Company's financial results were as follows:

- 29.41% decrease in admitted assets
- 63.18% decrease in capital and surplus
- 53.80% decrease in premiums and annuity considerations
- 95.57% decrease in net income

The Company is in run-off and, therefore, the operations are expected to be winding down. In 2010, the Company received \$67.0 million in an extraordinary dividend and return of capital from its subsidiary FSLIC. Also in 2010, the Company distributed \$105.0 million to its parent, GLIC, in the form of \$70.2 million return of capital and \$34.8 million extraordinary dividend. The \$105.0 distribution in 2010 accounts for the significant reductions to assets and surplus.

### **LOSS/MORTALITY EXPERIENCE**

Reserves and contract claims as of December 31, 2010, and December 31, 2011, were as follows:

	<u>Aggregate Reserves for Life Contracts</u>	<u>Liability for Deposit-type Contracts</u>	<u>Contract Claims: Life</u>	<u>Total</u>
December 31, 2010	\$238,681,782	\$3,335,547	\$2,647,027	\$244,664,356
December 31, 2011	<u>228,469,926</u>	<u>3,303,938</u>	<u>9,848,555</u>	<u>241,622,419</u>
Increase / (Decrease)	<u>\$(10,211,856)</u>	<u>\$(31,609)</u>	<u>\$7,201,528</u>	<u>\$(3,041,937)</u>

The \$3 million total decrease is generally a result of run-off business, on-going analysis of recent loss development trends and strengthening of reserves. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

During 2011, management became aware of the possibility that its assumed in-force business may include deceased policyholders. As a result, the Company recorded an additional reserve for this potential liability in life contracts claims.

## REINSURANCE

The reinsurance operations of the company are managed by third party administrators.

Direct and assumed written premiums and annuity considerations for 2011 were \$1,213,823 and \$2,965,870, respectively. PALIC ceded \$255,750, or 6.12%, of its \$4,179,693 in total written premiums and annuity considerations in 2011.

### Assumed

The Company has co-insurance agreements with the following unaffiliated companies:

Company	Type of Contract	Effective Date	Line of Business	Limits	Amount In-force
Universal Guaranty LIC	Coinsurance	9/30/1996	Closed block of paid-up life insurance and annuity policies with approximately \$17,364,515 in reserves.	100 %	\$37,059,091

Park Avenue life Insurance Company

Allianz LIC	Coinsurance	12/31/1999	Closed block of paid-up pre-need and final expense life insurance policies and annuity contracts for funeral related business with approximately \$195,150,868 in reserves.	100 %	\$214,457,933
Total			Reserves \$212,515,383		\$251,517,024

Ceded

The Company primarily enters into coinsurance, modified coinsurance and yearly renewable term agreements to provide for reinsurance of select individual life and annuity, group life and annuity and credit life and credit accident and health policies. During the examination period, the Company entered into no new reinsurance agreements. The most recent ceded reinsurance agreement since 1990 is an assumption agreement with Madison National Life Insurance Company (Madison) effective October 1, 2006, whereby 100% of the business under that agreement is being managed by Madison on behalf of the Company.

The business ceded by the Company is outlined in the following schedule:

Company	Type of Contract	Effective Date	Line of Business	Retention	Amount In-force
Madison	Coinsurance	10/1/2006	Indemnity reinsurance with an authorized insurer, reserve credit taken \$1,227,675	None (100% quota share)	\$7,110,125
All Others (20)	Varies**	Varies **	Reserve credits taken \$179,131		\$10,483,052
Total			Reserve credits \$1,406,806		\$17,593,177

\*\* Business originally written by the Company, ceded to unaffiliated reinsurers, prior to the purchase of the Company by GLIC.

## **ACCOUNTS AND RECORDS**

The Company's premium and claim administration is handled offsite by third party administrators, with IBMIOS administering a majority of the business. Data is received electronically into the Company from each of the individual TPAs where it is then manually posted into the Company's PeopleSoft general ledger. The Company utilizes GLIC's mainframe located in Bethlehem, PA for processing, updating, and storing the primary records of the Company. Personal computers and file servers support financial reporting and analysis.

Investment transactions, administered through GLIC's investment department located in the New York City office, are processed using CAMRA software, which automatically posts to the general ledger system. All other Company-related transactions, such as accounting, are also handled out of the New York City office.

The independent certified public accounting firm, PwC, audited the Company's records for the years ended 2008, 2009, 2010 and 2011. Audit reports and applicable workpapers were made available for the examiners' use.

The accounts and records review included an assessment of the Company's risk management process in identifying and controlling risks in the key operational areas of the Company. In making the assessment in each key area, processes were reviewed, risks were identified, operational and organizational controls were identified and tested and the Company's methodology for assessing the effectiveness of the established mitigation factors was evaluated.

The primary systems used in the operations of the Company were also evaluated. The IT

portion of the examination was performed by INS Services, Inc. The review was performed in accordance with the NAIC Handbook. The review of IT controls included IT management and organizational controls, application and operating system software change controls, system and program development controls, overall systems documentation, logical and physical security controls, contingency planning, local and wide area networks, personal computers, and mainframe controls. Control testing performed by the Company's Risk Management function, IAD, and PwC was evaluated and testing of end user computing and IT outsourcing controls were performed in making the evaluation. As a result of the procedures performed, the IT Examination Team obtained reasonable assurance that IT general controls and general application controls were functioning as management intended and that an effective system of controls is in place and conducive to the accuracy and reliability of financial information processed and maintained by the Company. There are no reportable items related to our review of IS controls.

### **STATUTORY DEPOSITS**

Listed below are the Company's statutory deposits:

<b>State</b>	<b>Type of Deposit</b>	<b>Book/Adjusted Carrying Value</b>	<b>Fair Value</b>
Arizona	Bond	\$ 199,979	\$ 202,031
Arkansas	Bond	124,987	126,270
Delaware	Bond	5,067,521	6,729,637
Florida	Bond	321,226	332,662
Georgia	Bond	50,227	52,320
Massachusetts	Bond	126,737	169,612
Nevada	Bond	251,974	261,318
New Mexico	Bond	124,987	126,270
New York	Bond	499,947	505,078
North Carolina	Bond	399,957	404,062
South Carolina	Bond	139,985	141,422
Virginia	Bond	209,978	212,133
Totals		<u>\$ 7,517,505</u>	<u>\$ 9,262,815</u>

### **FINANCIAL STATEMENTS**

The following statements show the assets, liabilities, surplus and other funds of the Company, as determined by this examination, as of December 31, 2011.

Assets  
 Liabilities, Surplus and Other Funds  
 Statement of Income  
 Reconciliation of Capital and Surplus Account  
 Analysis of Financial Statement Changes resulting from Examination

**PARK AVENUE LIFE INSURANCE COMPANY**

**ASSETS**

**DECEMBER 31, 2011**

	<b>ASSETS</b>			
	<u>Assets</u>	Nonadmitted	Net Admitted	
	<u>Assets</u>	<u>Assets</u>	<u>Assets</u>	Notes
Bonds	\$ 263,446,659	\$ -	\$ 263,446,659	1
Common stocks (stocks)	27,368,725	-	27,368,725	
Cash, cash equivalents and short-term investments	3,478,595	-	3,478,595	
Contract loans	3,811,509	-	3,811,509	
Investment income due and accrued	4,277,565	-	4,277,565	
Uncollected premiums and agents' balances	147,461	108,911	38,550	
Deferred premiums	1,327,537	-	1,327,537	
Current federal and foreign income tax recoverable	2,482,370	-	2,482,370	
Net deferred tax asset	6,175,345	5,697,191	478,154	
Receivables from parent; subsidiaries and affiliates	272,902	-	272,902	
Totals	<u>\$ 312,788,669</u>	<u>\$ 5,806,102</u>	<u>\$ 306,982,567</u>	

**PARK AVENUE LIFE INSURANCE COMPANY**

**LIABILITES, SURPLUS AND OTHER FUNDS**

**DECEMBER 31, 2011**

		Notes
Aggregate reserve for life contracts	\$ 228,469,926	2
Liability for deposit-type contracts	3,303,938	
Life contract claims	9,848,555	
Premiums and annuity considerations received in advance	40,294	
Interest maintenance reserve	4,247,157	
Commissions to agents due or accrued	278,405	
Commissions and expense allowances payable on reinsurance assumed	17,829	
General expenses due or accrued	195,376	
Taxes; licenses and fees due or accrued; excluding federal income taxes	249,334	
Unearned investment income	21,741	
Amounts withheld or retained by company as agent or trustee	125,094	
Amounts held for agents' account	17,296	
Remittances and items not allocated	546,840	
Asset valuation reserve	2,017,777	
Payable to parent; subsidiaries and affiliates	380,320	
Aggregate write-ins for liabilities	1,799,197	
Total liabilities	<u>251,559,079</u>	
Common capital stock	2,500,000	
Gross paid in and contributed surplus	169,941,332	
Unassigned funds (surplus)	<u>(117,017,843)</u>	
Surplus	52,923,489	
Totals of common and preferred stock and surplus	<u>55,423,489</u>	
Totals of liabilities; common and preferred stock and surplus	<u>\$ 306,982,567</u>	

**PARK AVENUE LIFE INSURANCE COMPANY**

**SUMMARY OF OPERATIONS**

**DECEMBER 31, 2011**

Premiums and annuity considerations for life and accident and health contracts	\$ 3,923,943
Net investment income	17,367,136
Amortization of Interest Maintenance Reserve (IMR)	318,800
Commissions and expense allowances on reinsurance ceded	15,777
Aggregate write-ins for miscellaneous income	(145)
Totals	<u>21,625,512</u>
Death benefits	23,981,547
Matured endowments	5,906
Annuity benefits	2,904,068
Surrender benefits and withdrawals for life contracts	1,900,524
Interest and adjustments on contract or deposit-type contract funds	7,684
Payments on supplementary contracts with life contingencies	21,451
Increase in aggregate reserves for life and accident and health contracts	<u>(10,211,856)</u>
Totals	<u>18,609,325</u>
Commissions on premiums; annuity considerations and deposit-type contract funds	20,648
Commissions and expense allowances on reinsurance assumed	1,606,004
General insurance expenses	891,933
Insurance taxes; licenses and fees; excluding federal income taxes	291,031
Increase in loading on deferred and uncollected premiums	(10,883)
Aggregate write-ins for deductions	<u>(108,185)</u>
Totals	<u>21,299,873</u>
Net gain from operations before dividends to policyholders and federal income taxes	325,639
Federal and foreign income taxes incurred (excluding tax on capital gains)	<u>(374,991)</u>
Net gain from operations after dividends to policyholders and federal income tax and before realized capital gains or (losses)	700,629
Net realized capital gains or (losses)	<u>(22)</u>
Net income	<u>\$ 700,607</u>

**PARK AVENUE LIFE INSURANCE COMPANY**  
**RECONCILIATION OF CAPITAL AND SURPLUS**  
**FROM DECEMBER 31, 2007 to DECEMBER 31, 2011**

Capital and surplus; December 31, 2007	\$150,531,445
Net income	62,126,325
Change in net unrealized capital gains (losses)	(36,361,196)
Change in net deferred income tax	(2,175,584)
Change in nonadmitted assets	1,571,391
Change in asset valuation reserve	231,107
Paid in (surplus adjustments)	(70,200,000)
Dividends to stockholders	<u>(50,300,000)</u>
Net change in capital and surplus for the year	<u>(95,107,957)</u>
Capital and surplus; December 31, 2011	<u>\$55,423,488</u>

**PARK AVENUE LIFE INSURANCE COMPANY**  
**ANALYSIS OF CHANGES IN THE FINANCIAL STATEMENTS**

**DECEMBER 31, 2011**

There were no adjustments to the financial statements as a result of this examination.

**NOTES TO THE FINANCIAL STATEMENTS**

**1) Bonds** **\$263,446,659**

Bonds constitute the largest category of assets at December 31, 2011, representing approximately 85.8% of reported total admitted assets. Approximately \$250,340,239, or 95%, of the Company's bonds are rated as Class 1 or Class 2 by the NAIC. Approximately \$5,682,472 or 2.1%, of bonds are private placement securities.

**2) Aggregate Reserve for Life Policies and Contracts** **\$228,469,926**

The above captioned amount is the same as that reported by the Company in its 2011 Annual Statement. The reserve breakdown in Exhibit 5, by type of benefit, is presented in the following table:

<b>Reserve Segment</b>	<b>Total (Gross)</b>	<b>Reinsurance Ceded</b>	<b>Total (Net)</b>
Life Insurance	\$179,425,930	\$1,185,326	\$178,240,604
Annuities	49,879,705	0	49,879,705
Accidental Death Benefits	1,969	684	1,285
Disability - Active Lives	12,337	578	11,759
Disability – Disabled Lives	288,075	65,650	222,425
Miscellaneous Reserves	272,738	158,590	114,148
<b>Totals</b>	<b>\$229,880,754</b>	<b>\$1,410,828</b>	<b>\$228,469,926</b>

Most of the aggregate life reserve is held for closed blocks of ordinary life insurance, fixed and flexible premium universal life insurance and deferred annuity business. This includes both the direct-written business as well as assumed business.

Although PALIC holds reserves for closed blocks of direct-written life insurance business, its primary focus is the assumption or acquisition of closed blocks of business. As of December 31, 2011, PALIC had assumed four blocks of business from other insurers. A review of the Company's major reinsurance agreements indicates the legitimate transfer of risk, as required by 18 Del. Admin. Code 1002. The business assumed consists largely of traditional ordinary life, smaller blocks of term, interest sensitive life and fixed deferred annuity policies. Credit life and disability insurance is also assumed, but this business is 100% retroceded to outside reinsurers.

The Department's consulting actuary, INS Consultants Inc. ("INS"), performed the valuation review of PALIC's December 31, 2011 reserves and prepared the Certificate of Reserve Valuation. During that process, summary work papers were reviewed and found to be in order. Actuarial Opinions and Reliance Statements from TPA and ceding company officials were also reviewed and found to be in order. Reserves were reviewed for compliance with standard valuation laws, applicable National Association of Insurance Commissioners (NAIC) Actuarial Guidelines and Model Regulations. Reserve trend analyses and an in-depth review of the Actuarial Opinion Memoranda (AOM), which included asset adequacy / cash flow testing ("CFT") analysis for the examination period, were also performed. Reserves were reconciled from the summary workpapers to Exhibit 5. Reserves for all blocks revealed stable trends for the period under examination. Based on the review, INS concluded that additional

actuarial reserves were not required as of December 31, 2011.

### COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The Company was in compliance with the prior examination recommendations.

### SUMMARY OF RECOMMENDATIONS

There were no examination findings or recommendations as a result of the examination as of December 31, 2011.

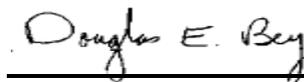
### CONCLUSION

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

<u>Description</u>	<u>December 31, 2011</u>	<u>December 31, 2007</u>	<u>Decrease</u>
Assets	\$306,982,567	\$434,885,522	\$ (127,902,955)
Liabilities	\$251,559,079	\$284,354,493	\$ (32,795,414)
Capital and Surplus	\$55,423,489	\$150,531,445	\$ (95,107,956)

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. and INS Services, Inc. is acknowledged.

Respectfully submitted,



---

Douglas E. Bey  
Examiner In-Charge  
State of Delaware