REPORT ON EXAMINATION

OF THE

SUN LIFE ASSURANCE COMPANY OF CANADA (U.S.)

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

SUN LIFE ASSURANCE COMPANY OF CANADA (U.S.)

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

Attest By: Brandi Biddle

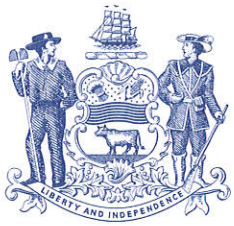
Date: March 20, 2013

Insurance Commissioner of the State of Delaware

In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 20th day of March, 2013.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION

OF THE

SUN LIFE ASSURANCE COMPANY OF CANADA (U.S.)

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.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 20th day of March, 2013

841 Silver Lake Blvd., Dover, DE 19904-2465 • www.delawareinsurance.gov
(302) 674-7300 Dover • (302) 739-5280 fax • (302) 577-5280 Wilmington

TABLE OF CONTENTS

SCOPE OF EXAMINATION 1

SUMMARY OF SIGNIFICANT FINDINGS 2

COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS 3

SUBSEQUENT EVENTS 4

HISTORY 5

CAPITALIZATION 7

- Common Capital Stock and Paid-in Surplus 7
- Dividends 7
- Surplus Notes 8
- Borrowed Money 8

CORPORATE RECORDS 9

MANAGEMENT AND CONTROL 9

- Stockholder 9
- Board of Directors 10
- Committees 11
- Officers 11
- Conflicts of Interest 12
- Articles of Incorporation and bylaws 13

HOLDING COMPANY SYSTEM 13

- Organization Chart 13

INTERCOMPANY AGREEMENTS 14

- Administrative Service Agreements 16
- Information Technology Service Agreement 17
- Administrative and Tax Service Agreement 17
- Terms Agreements and Funding Agreements: 17
- Floating Rate Demand Note and Interest Rate Swap Agreement 18
- Guarantee Agreements 18
- Income Tax Allocation Agreement 19

TERRITORY AND PLAN OF OPERATION 20

Territory 20
Plan of Operation 20
Change in Business Strategy 24
Agency Relations 25
Best's Rating 25

GROWTH OF THE COMPANY 26

LOSS EXPERIENCE 28

REINSURANCE 29

ACCOUNTS AND RECORDS 33

Accounting System and Information 33
Independent Accountants 34
Actuarial Opinion 34

STATUTORY DEPOSITS 35

FINANCIAL STATEMENTS 35

SCHEDULE OF EXAMINATION ADJUSTMENTS 42

NOTES TO FINANCIAL STATEMENTS 43

Assets – General Account 43
Liabilities – General Account 44
Liabilities – Separate Account 53

SUMMARY OF RECOMMENDATIONS 55

CONCLUSION 55

SALUTATION

November 28, 2012

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 statutory provisions contained in Certificate of Authority No. 12.004, dated February 14, 2012, an Association examination has been made of the affairs, financial condition and management of the

SUN LIFE ASSURANCE COMPANY OF CANADA (U.S.)

hereinafter referred to as "Company" or "SLUS", 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 19801. The examination was conducted at the main administrative office of the Company, located at One Sun Life Executive Park, Wellesley Hills, MA 02481. The report of this examination is submitted herewith.

SCOPE OF EXAMINATION

We have performed our multi-state examination of Sun Life Assurance Company of Canada (U.S.). The last examination of the Company was conducted as of December 31, 2007. This examination covers the period since that date through December 31, 2011, and including any material transactions and/or events noted occurring subsequent to December 31, 2011.

This examination was conducted in accordance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook* (NAIC Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance

Laws and Regulations of the State of Delaware. The NAIC Handbook requires the examiners to perform an examination to evaluate the financial condition and identify prospective risks of the Company. In doing so, the examiners reviewed corporate governance, identified inherent risks of the Company, and evaluated the controls and procedures used to mitigate the identified risks. The examination also included assessing 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 applicable annual statement instructions.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

The Company's external auditor Deloitte & Touche LLP (D&T) made available for review, all work papers pertinent to its audit of the Company's financial statements for the year ended December 31, 2011. Certain work papers prepared by the external accounting firm were incorporated into the examiners' work papers if deemed appropriate and in accordance with the NAIC Handbook.

In addition to items hereinafter incorporated as a part of this report, the following were reviewed without exception and made part of the work papers of this examination.

Fidelity Bonds and Other Insurance
Officers', Employees' and Agents' Welfare
Legal Actions
All Asset & Liability items not mentioned

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings.

COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS

A review was performed of appropriate balance sheet and forepart files to verify corrective action had been taken with regard to prior examination report comments and recommendations.

Reinsurance:

Prior Exam Comment: It is recommended that the Company comply with Title 18 Del.C. §1002 (5.1 and 5.2) whereby reinsurance agreements must be duly executed by both parties no later than the "as of date" of the financial statement. In the case of a letter of intent, the reinsurance agreement or amendment must be executed within a reasonable amount of time, not exceeding ninety (90) days from the execution date of the letter of intent in order for credit to be granted for the reinsurance ceded.

Current Exam Finding: The Company has complied with this recommendation.

Prior Exam Comment: It is recommended that the Company complete its Schedule S in accordance with NAIC Annual Statement Instructions and 18 Del.C. §526(a), verifying that all financial and non-financial data is reported accurately, completely, and appropriately.

Current Exam Finding: The Company has complied with this recommendation.

Claims:

Prior Exam Comment: It is recommended that the Company ensure proper classification of claims ICOS, by classifying them to the year in which a first notice is received from a claimant.

Current Exam Finding: The Company has complied with this recommendation.

SUBSEQUENT EVENTS

Change in SEC Filing Status

During the first quarter of 2012, the Company and its wholly-owned subsidiary, Sun Life Insurance and Annuity Company of New York (SLNY), received all necessary insurance regulatory approvals to amend the fixed investment option period in their combination fixed and variable annuity contracts and other contracts to remove any negative market value adjustment (MVA) that can decrease the amount of the withdrawal proceeds. The Company and SLNY filed amendments to the necessary registration statements to include the contract amendments and to remove from registration any fixed investment options that remained unsold. The Securities and Exchange Commission declared the associated amended registration statements effective on March 22, 2012. As a result of the foregoing, the fixed investment option period in the contracts is no longer considered a "security" under the Securities Act of 1933, and the Company and SLNY subsequently filed Form 15 on March 23, 2012 to provide notice of suspension of their duty to file reports under Section 15(d) of the Securities Exchange Act of 1934. No other changes were made to the contracts, and all other terms and conditions of the contracts remain unchanged. The MVA amendment described above did not have a material impact on the Company's financial position.

Following the successful completion of the MVA floor project described above, the Company is no longer directly subject to the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 and the regulations promulgated there under (SOX) and is no longer required to prepare financial statements on the basis of U.S. generally accepted accounting principles (GAAP). NOTE: Although the Company is no longer directly subject to SOX requirements, the Sun Life Financial U.S. Operations (SLF U.S.) business group, of which the Company and SLNY are a part, continue to be in scope for purposes of Sun Life Financial Inc. (SLF)

compliance with SOX on the basis of International Financial Reporting Standards (IFRS). Accordingly, all IFRS-related SOX monitoring, testing and reporting for SLF U.S. will continue unchanged. Additionally, the Company and SLNY will continue to be subject to the internal control over financial reporting requirements set forth in Delaware Regulation 301 and New York State Insurance Department Regulation No. 118, to the extent that they meet the requisite premium thresholds set forth therein.

Surplus Notes

During the quarter ended September 30, 2012, the Company applied for and received approval for certain modifications to two surplus notes payable to Sun Life Financial (U.S.) Finance, Inc., an affiliate. The modifications will extend the maturity dates on both surplus notes from December 15, 2015 to December 15, 2032, will change the interest rates from 6.125% per annum and 7.25% per annum to 7.626% and will modify the prepayment language in both surplus notes. These changes are effective October 1, 2012.

HISTORY

The Company is a member of the Sun Life Financial Group and was incorporated under the laws of Delaware on January 12, 1970, and commenced business in 1973. The Certificate of Authority authorized the Company to transact the business of life insurance and variable annuities. The certificate was amended in 1986 to include the authority to transact the business of variable life insurance, and in 2003 to include the authority to transact the business of health insurance.

The Company is a direct, wholly-owned subsidiary of Sun Life of Canada (U.S.) Holdings, Inc. (the “Parent”). The Company is an indirect, wholly-owned subsidiary of Sun Life Assurance Company of Canada – U.S. Operations Holdings, Inc. (U.S. Holdco) and is an

indirect, wholly-owned subsidiary of SLF, a reporting company under the Securities and Exchange Act of 1934.

On June 21, 2003, the Company received approval from the Delaware Department of Insurance to merge with its affiliate, Keyport Life Insurance Company (Keyport), with the Company as the surviving entity. The merger was completed on December 31, 2003.

As of December 31, 2004, U.S. Holdco was a direct, wholly-owned subsidiary of Sun Life Assurance Company of Canada (SLOC), a life insurance company incorporated pursuant to an Act of Parliament of Canada in 1865, and a direct, wholly-owned subsidiary of SLF.

On January 4, 2005, a reorganization was completed under which most of SLOC's asset management business in Canada and the U.S. was transferred to Sun Life Financial Corp., a newly incorporated direct, wholly-owned subsidiary of SLF. On November 8, 2007, the name of Sun Life Financial Corp. was changed to Sun Life Global Investments Inc. The Company is now an indirect subsidiary of Sun Life Global Investments Inc., and continues to be an indirect subsidiary of SLF.

On October 31, 2007, the Company subscribed to $250,000 worth of shares and contributed $150 million of paid-in capital to a newly formed, wholly-owned subsidiary, Sun Life Financial (U.S.) Reinsurance Company (SLFRC). SLFRC is a Vermont-domiciled special purpose financial captive insurance company, and was then, a direct subsidiary of the Company.

On December 30, 2009, SLFRC paid a $100.0 million cash distribution to the Company. On December 31, 2009, the Company paid a dividend of all the issued and outstanding common stock of SLFRC to the Parent. The fair value of SLFRC at the time of the dividend was determined to be $0; therefore the Company recorded the investment in subsidiary at $0 and the value of the dividend was $0. However, the Company received a cash distribution of $100.0 million after investing $190.3 million in SLFRC, and as such the Company recorded a realized

loss of $90.3 million as a result of this dividend transaction. SLFRC is no longer a wholly-owned subsidiary of the Company.

The Company is authorized as a stock insurer to transact the business of life insurance, including annuities, variable annuities and variable life as defined in 18 Del. C. §902 ""Life insurance" defined" and 18 Del. C. §903 ""Health insurance" defined". The business of the Company and its subsidiaries includes a variety of wealth accumulation products, protection products and institutional investment contracts.

CAPITALIZATION

Common Capital Stock and Paid-in Surplus

The Certificate of Incorporation provides that the authorized capital stock of the Company shall be 10,000 shares of $1,000 par value common stock. At December 31, 2011, 6,437 shares were issued and outstanding, resulting in total capital stock of $6,437,000.

At December 31, 2011, all the outstanding shares of the Company's common stock were owned by the Parent.

During the period under examination, the Company received the following capital contributions from the Parent:

Year	Contribution
2008	$725,000,000
2009	$748,652,000
2010	$400,000,000

The Company did not receive any capital contributions in 2011.

Dividends

The Company paid $300,000,000 in stockholder dividends in 2011 to its Parent; no dividends were paid in 2008, 2009 or 2010. All dividends paid during the examination period

received proper regulatory approval from the State of Delaware, as required under 18 Del.C. §5004(e)(1), which states,

> "(e) Reporting of dividends to shareholders. –
>
> (1) Subject to §5005(b) of this title, each registered insurer shall provide notice to the Commissioner of all dividends and other distributions to shareholders within 5 business days following the declaration thereof and at least 10 days prior to the payment thereof."

Surplus Notes

As of December 31, 2011, the Company had the following surplus notes outstanding:

Issue Date	Payees	Principal	Interest Rate	Maturity Date
12/15/1995	Sun Life Financial (US) Finance, Inc.	$ 150,000,000	6.15%	12/15/2027
12/15/1995	Sun Life Financial (US) Finance, Inc.	150,000,000	7.25%	12/15/2015 (1)
12/15/1995	Sun Life Financial (US) Finance, Inc.	7,500,000	6.15%	12/15/2027
12/15/1995	Sun Life Financial (US) Finance, Inc.	7,500,000	6.13%	12/15/2015 (1)
12/22/1997	Sun Life Financial (US) Finance, Inc.	250,000,000	8.63%	11/6/2027
		$ 565,000,000		

(1) During the quarter ended September 30, 2012, the Company applied for and received approval for certain modifications to two surplus notes payable to Sun Life Financial (U.S.) Finance, Inc., an affiliate. The modifications will extend the maturity dates on both surplus notes from December 15, 2015, to December 15, 2032, will change the interest rates from 6.125% per annum and 7.25% per annum to 7.626% and will modify the prepayment language in both surplus notes. These changes are effective October 1, 2012.

Borrowed Money

As of December 31, 2011, the Company had $118 million in borrowed money consisting of the following:

Issue Date	Payees	Type	Interest Rate	Maturity Date	Principle	Interest Expense	Interest Paid
7/22/2002	Sun Life Assurance Company of Canada [1]	Promissory	5.71%	6/30/2012	$ 18,000,000	$ 1,027,800	$ 1,027,800
12/15/1995	Sun Life Global Funding II, LLC [2]	Demand	7.25%	12/15/2015	-	309,973	311,563
12/15/1995	Sun Life Global Funding III, LLC [3]	Demand	6.15%	12/15/2027	100,000,000	664,240	660,783
					$ 118,000,000	$ 2,002,013	$ 2,000,146

(1) On June 2, 2011, SLOC bought the $18 million note from Sun Life (Hungary) Group Financing Limited Liability Company. On June 29, 2012, the Company paid the $18.0 million of outstanding principal, plus $513,900 in accrued interest, to SLOC.
(2) On July 19, 2011, the Company paid $100 million to Sun Life Financial Global Funding II, LLC, including $18,000 in interest due to the maturity of the floating rate demand note.
(3) Refer to details of this demand note in the "Intercompany Agreements" section of this Report, under the caption "Floating Rate Demand Note and Interest Rate Swap Agreement" for additional comments.

CORPORATE RECORDS

The recorded minutes of the sole shareholder and Board of Directors were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, including the authorization of investments as required by 18 Del.C. §1304 "Authorization; record of investments".

A review of the Insurance Holding Company Annual Registration Statement filings (Form B and Form C) made by and on behalf of the Company for all years under examination, revealed that the Company had complied with the requirements of 18 Del. Admin. Code 1801.

MANAGEMENT AND CONTROL

Stockholder

Article 2, Section 2.02 of the Company's amended bylaws, states, "Annual meetings of stockholders shall be held in each year on such date and at such time as shall be determined from time to time by the board of directors and stated in the notice of the meeting or in a duly executed waiver of notice thereof. At each annual meeting the stockholders shall elect by a

plurality vote a Board of Directors, and transact such other business as may properly be brought before the meeting." Special meetings may be called by the president and shall be called by the president or secretary at the request in writing of a majority of the Board of Directors or at the request in writing of the holders of a majority of the outstanding stock.

Board of Directors

Pursuant to the General Corporation Laws of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, all corporate powers are exercised by or under the direction of the Board of Directors (Board). The bylaws, as amended and restated as of March 19, 2004, provide that the number of directors is established by the Board to consist of not less than three directors with the authorized number determined by resolution of the Board or by stockholders at the annual meeting. Directors are elected annually and hold office until the next annual meeting of shareholders or until their successors have been elected and qualified. The number of directors constituting a quorum for the transaction of business is not less than one-third of the Board, but in any event not less than two.

At December 31, 2011, the members of the Board of Directors together with their principal business affiliations were as follows:

Name	**Principal Occupation**
Thomas Anthony Bogart	Executive Vice President, Business Development and General Counsel for Sun Life Financial Inc.
Scott Michael Davis	Senior Vice President and General Counsel for Sun Life Financial Inc.'s U.S. Operations
Stephen Luke Deschenes[1]	Senior Vice President and General Manager, Retirement Income Solutions for Sun Life Financial Inc.'s U.S. Operations
Colm Joseph Freyne	Executive Vice President and Chief Financial Officer for Sun Life Financial Inc.
Larry Richard Madge	Senior Vice President and Chief Financial Officer for Sun Life Financial Inc.'s U.S. Operations
Westley Vander Thompson	President of Sun Life Financial Inc.'s U.S. Operations; Chairman of the Board of Directors of the Company

1. On March 28, 2012, Kenneth Allen McCullum replaced Stephen Luke Deschenes as a director.

The minutes of the meetings of the shareholders and Board, which were held during the period of examination, were read and noted. Attendance at meetings, election of directors and officers, and approval of investment transactions were also noted.

Receipt by the Board of the Report on Examination as of December 31, 2007, was noted in the minutes of the Board as of August 12, 2009.

Committees

Article 3, Section 3.09 of the amended and restated bylaws, states "The board of directors may, by resolution passed by a majority of the whole board, designate one or more committees, each committee to consist of one or more of the directors of the corporation."

As of December 31, 2011, the Board had one designated committee; the Officer Appointment Committee, which was to oversee all appointments of officers except for principal officers. The sole member appointed was Westley Vander Thompson.

During the period covered by this examination, the full Board served as the Audit Committee of the Company. As the Company is an indirect, wholly owned subsidiary of SLF, this designation is appropriate and meets the requirements of 18 Del. Admin. Code 301 §4.0 "General Requirements Related to Filing and Extensions for Filing of Annual Audited Financial Reports and Audit Committee Appointment." None of the members of the Audit Committee were considered independent.

Officers

Article 5, Section 5.01 of the Company's bylaws states; "The officers of the corporation shall include a president, a secretary and a treasurer." The board of directors may also appoint a chairman, one or more vice-presidents, and such other officers as are from time to time desired.

Any number of offices may be held by the same person, unless the certificate of incorporation or these bylaws otherwise provide."

At December 31, 2011, the Company's principal officers and their respective titles were as follows:

Name	**Title with the Company**
Kerri Riley Ansello	Senior Counsel and Secretary
Priscilla Sims Brown	Senior Vice President and Head of U.S. Marketing
Scott Michael Davis	Senior Vice President and General Counsel
Stephen Luke Deschenes	Senior Vice President and General Manager, Retirement Income Solutions
David James Healy	Senior Vice President, Sun Life Financial U.S. Operations
Larry Richard Madge	Senior Vice President and Chief Financial Officer and Treasurer
Kenneth Allen McCullum	Senior Vice President and General Manager, Inforce Management
Stephen Clarkson Peacher	Executive Vice President and Chief Investment Officer
Michael Edward Shunney	Senior Vice President and General Manager, U.S. Distribution
Fred Mehrdad Tavan	Vice President, Chief Actuary
Westley Vander Thompson	President, SLF U.S.
Janet Veal Whitehouse	Senior Vice President and General Manager, Individual Solutions
Sean Nigel Woodroffe	Vice President, Human Resources

In addition to the above officers, additional Vice Presidents, Assistant Vice Presidents and other officers were also appointed.

Numerous changes in directors and officers occurred during the period under review. As required, proper notification was provided to the Delaware Department of Insurance with no exception.

Conflicts of Interest

The Company maintains a formal written Code of Business Conduct, which sets out minimum standards of ethical conduct that apply to all employees, officers and directors. Incorporated into the Code of Business Conduct is a conflict of interest policy. Each year, all officers and directors are required to complete an Annual Code Acknowledgement, re-affirming

the commitment to comply with the Code and reporting any Code breaches of which they are aware. The Vice President and Chief Compliance Officer of the Company provides an annual report to the Board concerning the compliance with the Code of Conduct, as required by the Company's Risk Management Policies

In accordance with the Delaware Insurance Department Examination Handbook, Section 12, a review of the Company's Annual Code Acknowledgement Statements for officers, directors and key employees was performed for the purpose of identifying anyone with a felony conviction involving dishonesty or a breach of trust. There was no indication of any criminal conviction in any of the responses reviewed. A review of executed disclosure statements was conducted during the examination period without exception.

Articles of Incorporation and bylaws

The Company did not amend its Articles of Incorporation or bylaws during the exam period.

HOLDING COMPANY SYSTEM

The Company is a member of an insurance holding company system as defined in 18 Del.C. §5001(4) "Insurance Holding Company System". The Company's Holding Company Registration Statements were properly filed with the Delaware Insurance Department for the years under examination. The immediate parent of the Company at December 31, 2011, was the Parent. The Company had two insurance subsidiaries as of December 31, 2011.

Organization Chart

The following abbreviated presentation of the holding company system reflects the identities and interrelationships between the Company, the Parent, affiliated insurers and other members of the holding company system as of December 31, 2011:

Company	Domicile	% own
Sun Life Financial Inc.	Canada	
Sun Life Global Investments Inc.	Canada	100%
Sun Life Assurance Company of Canada – U.S. Operations Holdings, Inc.	Delaware	100%
Sun Life Financial (U.S.) Holdings, Inc.	Delaware	100%
Sun Life Financial (U.S.) Investments LLC	Delaware	100%
Sun Life of Canada (U.S.) Holdings, Inc.	Delaware	100%
Sun Life Assurance Company of Canada (U.S.)	Delaware	100%
7101 France Avenue Manager, LLC	Delaware	100%
7101 France Avenue, LLC	Delaware	100%
Clarendon Insurance Agency, Inc.	Massachusetts	100%
Independence Life and Annuity Company	Rhode Island	100%
SL Investment DELRE Holdings 2009-1, LLC	Delaware	100%
SLF Private Placement Investment Company I, LLC	Delaware	100%
Sun Life Insurance and Annuity Company of New York	New York	100%
SLNY Private Placement Investment Company I, LLC	Delaware	100%
Sun MetroNorth, LLC	Delaware	100%

INTERCOMPANY AGREEMENTS

The Company was party to numerous inter-company agreements, which were disclosed in the Form B filings with the Delaware Insurance Department.

The following twenty-nine agreements were entered into prior to the period covered by this examination and remained in effect as of December 31, 2011:

Description	**Effective Date**
Services Agreement with SLNY and SLOC	July 1, 1999
Amended and Restated Administrative Services Agreement with SLNY	November 21, 2000
Amended and Restated Administrative Services Agreement with SLOC and SL Ireland	November 16, 2001
Administrative and Investor Services Agreement with US Holdco	July 1, 2001
Administrative Services Agreement with ILAC	October 31, 2001
Administrative Services Agreement with SLOC	January 1, 2002 (1)
Administrative Services Agreement with SLOC	January 1, 2002 (1)
Administrative Services Agreement with Sun Capital	January 1, 2002
Administrative Services Agreement with SLFAIC	January 1, 2002
Product and Marketing Support Services Agreement with SLOC	October 1, 2002
Management Services Consulting Agreement with SLOC	May 1, 2003
Insurance Management Services Consulting Agreement with SLOC	May 1, 2003
Letter Agreement with Sun Capital Advisers Trust	July 1, 2001 (2)
Servicing Agreement with Clarendon	February 15, 2005
Services Agreement with SLI	August 30, 2005
Administrative Services Agreement with SLISC	December 6, 2004
Administrative Services Agreement with MTN Companies	January 1, 2006 (3)

Administrative Services Agreement with MTN II Companies	December 1, 2006 (4)
Administrative Services Agreement with MTN III Companies	December 1, 2006 (5)
Administrative Services Agreement with CBDP	May 31, 2007 (6)
Administrative Services Agreement with PIC	May 31, 2007 (6)
Administrative Services Agreement with SLA	May 31, 2007 (6)
Administrative Services Agreement with SLHIC	May 31, 2007 (6)
Administrative Services Agreement with SLFRC	November 8, 2007
Investment Management Agreement with Sun Capital	May 30, 2000
Investment advisory Agreement with Sun Capital	January 1, 2002
Principle Underwriters Agreement with Clarendon	April 1, 2002
Wholesaling Agreement with Clarendon and SLFD	January 1, 2003
Product and Marketing Support Servicing Agreement with SLFIB	May 1, 2003

(1) Under terms of the first agreement, the Company performs various administrative services on behalf of SLOC. Under terms of the second agreement SLOC performs various administrative services on behalf of the Company.
(2) Under terms of the letter agreement, the Company performs various administrative services for the Sun Capital Advisers Trust for variable life and annuity contracts supported by the Company's Variable Accounts F, G and I.
(3) MTN Companies consist of Sun Life Financial Global Funding, L.P., Sun Life Financial Global Funding, U.L.C, and Sun Life Financial Global Funding, L.L.C. This agreement terminated effective October 23, 2012.
(4) MTN II Companies consist of Sun Life Financial Global Funding II, L.P., Sun Life Financial Global Funding II, U.L.C, and Sun Life Financial Global Funding II, L.L.C. This agreement terminated effective October 23, 2012.
(5) MTN III Companies consist of Sun Life Financial Global Funding III, L.P., Sun Life Financial Global Funding III, U.L.C., and Sun Life Financial Global Funding III, L.L.C.
(6) These agreements were initiated in connection with SLF's purchase through assignees of five Genworth Financial, Inc. companies in 2007.

Acronym Legend
ILAC – Independence Life and Annuity Company
SL Ireland – Sun Life Information Services Ireland Limited
Sun Capital – Sun Capital Advisers LLC (formerly, Sun Capital Advisers, Inc.)
SLFIAC – Sun Life Insurance and Annuity Company (Bermuda) Ltd., (formerly, Keyport Ltd.)
Clarendon – Clarendon Insurance Agency, Inc.
SLI – Sun Life Investments LLC (formerly, Sun Life Canadian Investments LLC)
SLISC – Sun Life Information Services Canada, Inc.
CBDP – California Benefits Dental Plan
PIC – Professional Insurance Company
SLA – Sun Life Administrators (U.S.), Inc. (formerly, Genworth Administrators, Inc.)
SHLIC – Sun Life and Health Insurance Company (U.S.) (formerly, Genworth Life and Health Insurance Company)
SLFRC – Sun Life Financial (U.S.) Reinsurance Company
SLFD – Sun Life Financial Distributors, Inc. (formerly, MFS/Sun Life Financial Distributors, Inc.)
SLFIB – Sun Life Financial Investments (Bermuda) Ltd.

The terms of the above agreements have previously been reviewed; however, balances associated with the above agreements as of December 31, 2011, were reviewed as part of this examination.

In addition to the above, the Company entered into nine new agreements during the period covered by this examination, which remain in effect as of December 31, 2011. These are summarized as follows:

Administrative Service Agreements

The Company has entered into the following Administrative Service Agreements with affiliates during the examination period:

- Effective January 1, 2008, the Company entered into an administrative services agreement with SLISC under which the Company provides services to SLISC on a cost reimbursement basis.

- Effective December 1, 2008, the Company entered into an administrative services agreement with Clarendon under which the Company provides services and facilities in connection with Clarendon's business of supporting the wholesale distribution of the Company's variable insurance and annuity products.

- Effective February 5, 2009, the Company entered into an administrative services agreement with SL Investment US-RE Holdings 2009-1, Inc. under which the Company provides personnel, facilities, accounting, legal, and other administrative services to SL Investment US-RE, Holdings 2009-1, Inc. on a cost reimbursement basis.

- Effective January 1, 2009, the Company entered into an administrative services agreement with SLFD and Sun Life Financial (U.S.) Services Company, Inc. (Sun Life Services) under which the Company and Sun Life Financial (U.S.) Services Company, Inc. provide upon request, certain administrative services to Sun Life Financial Distributors, Inc. on a cost reimbursement basis.

- Effective December 31, 2009, the Company entered into an administrative services agreement with Sun Life Services under which Sun Life Services provides human resource services to the Company.

- Effective December 31, 2009, the Company entered into an administrative services agreement with MFS Fund Distributors, Inc. whereby the Company receives a fee for services performed with respect to the MFS Variable Insurance Trust II for which MFS Fund Distributors, Inc. is the distributor.

- Effective January 1, 2010, the Company entered into an administrative services agreement under which the Company provides general administrative services to its affiliates, SL Finance 2007-1, Inc.; SL Investment 2007-1 ULC; and SL Investment Holdings 2008-1, LLC on a cost reimbursement basis.

Information Technology Service Agreement

Effective April 1, 2008, the Company entered into an information technology services agreement with SL Ireland, whereby SL Ireland provides information technology services to the Company on a cost reimbursement basis.

Administrative and Tax Service Agreement

Effective January 1, 2010, the Company entered into an administrative and tax service agreement with Sun Life Reinsurance (Barbados) No. 3 Corp. under which the Company provides administrative and tax services to Sun Life Reinsurance (Barbados) No. 3 Corp. on a cost reimbursement basis.

For all of the above newly entered agreements, and amendments to previously approved agreements, the Company submitted notification to, and received approval from the Delaware Insurance Department in accordance with 18 Del.C. §5005(a)(2)(d).

All thirty-eight of the aforementioned agreements require quarterly or more frequent settlement and include a thirty, sixty, ninety day or other appropriate termination clause. The Company is party to the following other intercompany agreements:

Terms Agreements and Funding Agreements:

On September 12, 2006 (a), and September 21, 2006 (b), the Company entered into two separate Terms Agreements (a and b) with the following affiliates:

- (a and b) - Sun Life Financial Global Funding III, L.P. (Issuer III), Sun Life Financial Global Funding III, U.L.C. (ULC III) and Sun Life Financial Global Funding III, L.L.C. (LLC III), collectively known as the "MTN III Companies"; and

- Various investment banks and banking institutions in connection with the offer and sale by Issuer III of:
  (a) $750 million of Series 2006-1 Floating Rate Notes due 2013; and
  (b) a second tranche of $150 million of Series 2006-1 Floating Rate Notes due 2013 (collectively, the "Notes").

The payment of the obligations of Issuer III are unconditionally guaranteed by LLC III pursuant to a "Secured Guarantee", and the obligations of LLC III under the "Secured Guarantee" (with respect to the Notes) are secured by floating rate Funding Agreements issued by the Company to LLC III on September 19, 2006 (a), and September 29, 2006 (b), respectively.

Along with the Terms Agreements, the Company entered into an Administrative Service Agreement with the MTN III Companies effective December 1, 2006, under which the Company provides facilities and services on a cost-reimbursement basis.

Floating Rate Demand Note and Interest Rate Swap Agreement

In conjunction with the aforementioned Terms Agreements and Funding Agreements, the Company entered into the following:

- A $100 million floating rate demand note on September 19, 2006, payable to LLC III; and
- An interest rate swap agreement with LLC III, with an aggregate notational amount of $900 million that effectively converts the floating rate payment obligations under the aforementioned Funding Agreements to fixed rate obligations.

Guarantee Agreements

As of December 31, 2011, the Company had five guarantee agreements in place with subsidiaries as follows:

- Effective June 25, 1998, amended and restated November 11, 2001, the Company entered into two separate guarantee agreements, under which the Company guarantees the payment of obligations in connection with any insurance policy or annuity contract issued by (1) ILAC on or after June 25, 1998, and (2) the former Keyport Benefit Life Insurance

Company (KBL) on policies issued prior to its merger with and into SLNY on December 31, 2002.

- The Company's wholly-owned subsidiary, SLNY, issued, among other products, combination fixed and variable annuity contracts in the State of New York. These contracts contain a fixed investment option, where interest is paid at a guaranteed rate for a specified period of time, and withdrawals made before the end of the specified period may be subject to a market value adjustment that can increase or decrease the amount of the withdrawal proceeds (the "fixed investment option period"). Effective September 27, 2007, the Company provided a full and unconditional guarantee of SLNY's obligations related to SLNY contracts' fixed investment option period for policies in-force prior to September 27, 2007, or sold on or after September 27, 2007, through two separate guarantee agreements.
- The Company is party to a guarantee agreement under which it guarantees the payment obligations of its affiliate, SLFD, under an office lease dated April 13, 2007.

Income Tax Allocation Agreement

Effective January 1, 2000, and as amended, the Company entered into a tax allocation agreement with U.S. Holdco and other affiliates and subsidiaries of U.S. Holdco, whereby the parties to the agreement file a consolidated federal income tax return. The Company’s tax liability is calculated based upon its respective share of consolidated taxable income. The agreement further provides that the Company shall receive reimbursement to the extent that its losses and other credits result in a reduction of the current year’s consolidated tax liability, not to exceed its liability as if filed on an individual basis. The Company has the enforceable right to recoup federal income taxes paid in prior years in the event of future net losses, which it may

incur, or to recoup its net losses carried forward as an offset to future net income subject to federal income taxes.

TERRITORY AND PLAN OF OPERATION

Territory

As of December 31, 2011, the Company was licensed to transact multiple lines of insurance business in all states other than New York, as well as the District of Columbia, Puerto Rico, and the U.S. Virgin Islands. The Company's wholly-owned subsidiary, SLNY, was licensed only in New York and Rhode Island, and was an accredited reinsurer in Connecticut. No new jurisdictions were added during the examination period.

The Company is authorized as a stock insurer to transact the business of life insurance, including annuities, variable annuities and variable life as defined in 18 Del. C. §902 ""Life insurance" defined" and 18 Del. C. §903 ""Health insurance" defined". The business of the Company and its subsidiaries includes a variety of wealth accumulation products, protection products and institutional investment contracts. These products include individual and group fixed and variable annuities, individual and group variable life insurance, individual universal life insurance, group life, group disability, group dental and medical stop loss insurance and funding agreements.

Plan of Operation

At December 31, 2011, approximately forty percent (39.7%) of the Company's direct premium was produced in five states. The geographical breakdown of the Company's direct written premiums as of December 31, 2011 ($000 omitted) was: California, $419,207 (12.5%); Pennsylvania, $288,922 (8.6%); Florida, $248,215 (7.4%); Texas, $187,186 (5.6%); North Carolina, $186,288 (5.6%); other jurisdictions, $2,019,622 (60.3%).

The Company is part of the SLF U.S. business group. During the period under examination, the insurance entities within the SLF U.S. business group focused on the delivery of innovative protection and wealth accumulation products to individuals and businesses. At December 31, 2011, the Company and its subsidiaries conducted business primarily in three operating segments. The three operating segments were: (1) Wealth Management; (2) Individual Protection; and (3) Group Protection (Employee Benefits Group). The Company also maintained a Corporate segment to provide for the capital needs of the three operating segments and to engage in other financing related activities. These segments were managed separately because they provide different products and services, require different strategies or have different technology requirements. Net investment income is allocated based on segmented assets, including allocated capital, by line of business. Allocations of operating expenses among segments are made using both standard rates and actual expenses incurred.

Wealth Management: Consists of retirement-oriented annuity products that provide fixed, indexed or variable returns to policyholders. This segment also issues funding agreements to both related and unrelated third parties. The segment's principal products are:

a) **Variable Annuities** offer a selection of underlying investment alternatives that may satisfy a variety of policyholder risk/return objectives. Under a variable annuity, the policyholder has the opportunity to select separate account investment options (consisting of underlying mutual funds), which pass the investment risk directly to the policyholder in return for the potential of higher returns. Variable annuities also include guaranteed fixed interest options and benefits. Over the past several years, the Company de-risked and simplified its variable annuity product portfolio. Effective December 30, 2011, the Company discontinued the sales of its variable annuity products.

b) **Fixed Annuity** products are primarily single premium deferred annuities (SPDA). An SPDA policyholder typically makes a single premium payment at the time of issuance. The Company obligates itself to credit interest to the policyholder's account at a rate that is guaranteed for an initial term and is reset annually thereafter for certain of the Company's annuity products, subject to a guaranteed minimum rate. Effective January 1, 2010, the Company discontinued the sale of certain of its fixed annuity products. Effective December 30, 2011, the Company discontinued the sale of all remaining fixed annuity products.*

*Existing legal, business and contractual requirements called for the Company to, among other things, continue accepting limited applications for (1) certain private placement variable annuities until July 14, 2012, and (2) new employees of Corporate Owned Life Insurance (COLI) customers. Subject to these and other existing obligations, the Company ceased writing all other COLI new business effective January 31, 2012, and all other individual life and annuities new business effective December 30, 2011.

c) **Fixed Index Annuities** credit interest to the policyholder using a formula based upon the positive change in value of a specified equity index. The Company's fixed index annuity products calculate interest earnings using the S&P 500 Index. The Company's fixed index products also provide a guarantee of principal (less withdrawals) at the end of the term or surrender charge period. Effective January 1, 2010, the Company discontinued the sale of certain of its fixed index annuity products. Effective December 30, 2011, the Company discontinued the sale of all remaining fixed index annuity products.

d) **Institutional Investment Products** are funding agreements issued to institutional investors or to entities that in turn issue promissory notes to unrelated third parties. These contracts may contain any of a number of features including variable or fixed interest rates and fixed index options, and may be denominated in foreign currencies. The Company uses derivative instruments to manage the risks inherent in the contract

options of many of these products. In 1997, the Company discontinued the marketing of group pension products in the United States. Although these products are not currently sold in the U.S., the Company administers an in-force block of U.S. group retirement business. A significant portion of these pension contracts are non-surrenderable, resulting in limited liquidity exposure to the Company.

e) **Other** The Company manages a closed block of single premium whole life (SPWL) insurance policies. Sales were discontinued in response to certain tax law changes in the 1980s. The Company had SPWL policyholder balances of $1.3 billion and $1.5 billion at December 30, 2011 and 2010. This entire block of business is reinsured on a funds-withheld, coinsurance basis with SLOC.

Individual Protection: Consists of in-force individual life insurance products, including participating whole life insurance, universal life insurance (UL), variable universal life insurance (VUL), no-lapse guarantee universal life (NLG UL), COLI, and bank-owned life insurance (BOLI). The majority of the Company's individual life insurance products were distributed through general agents and third-party intermediaries. Effective December 31, 2011, the Company discontinued the sale of its individual life insurance products.*

*Existing legal, business and contractual requirements called for the Company to, among other things, continue accepting limited applications for (1) certain private placement variable annuities until July 14, 2012, and (2) new employees of COLI customers. Subject to these and other existing obligations, the Company ceased writing all other COLI new business effective January 31, 2012, and all other individual life and annuities new business effective December 30, 2011.

Group Protection (Employee Benefits Group): Offers group life insurance, medical stop loss insurance, group dental and group short-term and long-term disability insurance products, and has historically been focused on small and medium-size employers. This segment operates only in the State of New York through the Company’s subsidiary, SLNY.

Corporate: Consists of the unallocated capital of the Company, its debt financing and items not otherwise attributable to the other segments.

Change in Business Strategy

On December 12, 2011, SLF announced the completion of a major strategic review of its businesses. As a result of this strategic review, SLF announced that it would close its domestic U.S. variable annuity and individual life products to new sales effective December 30, 2011. The decision to discontinue sales in these lines of business was based on unfavorable product economics which, due to ongoing shifts in capital markets and regulatory requirements, no longer enhanced shareholder value. This decision reflects SLF's intensified focus on reducing volatility and improving the return on shareholders' equity by shifting capital to businesses with superior growth, risk and return characteristics.

The decision to stop selling variable annuity and individual life products in the U.S. will not impact existing customers and their policies. The Company will continue to provide service to its policyholders, while focusing on the profitability, capital efficiency and risk management of its in-force business. The Company will continue to earn revenue and to provide policyholder benefits on its in-force business.

A summary of premiums and annuity considerations for 2011 is described as follows:

	Ordinary Life Insurance	Ordinary Individual Annuities	Group Life Insurance	Group Annuities	Total
Direct	$304,950,972	$81,658,800	$35,256,756	$2,927,574,037	$3,349,440,565
Reinsurance Assumed	0	0	0	0	0
Reinsurance Ceded	76,199,000	0	40,376,045	2,647,070	119,222,115
Net Premiums Written	$228,751,972	$81,658,800	($5,119,289)	$2,924,926,967	$3,230,218,450

Agency Relations

As of December 31, 2011, the Company distributed its products through independent appointed producers. Wholesalers employed by Company affiliates provided marketing support, for example by providing product information to the independent producers. The Company had recently established a centralized sales organization, combining wholesaler functions for the products issued by the Company, as well as other products issued by affiliates of the Company, to promote the products to the appointed producers.

Annuity products were offered through three primary channels: wirehouses, independent agencies and banks. Marketing goals were to offer sustainable, innovative annuity product solutions, based on customer needs for their personal retirement planning.

The Company's focus for individual life insurance products was on COLI products, sold primarily through specialty brokers for executive benefits in middle to larger markets.

As noted elsewhere in this report, SLF made a strategic decision to close its U.S. variable annuity and individual life products to new business, effective December 30, 2011. Consequently, subject to the following limited exceptions, no new sales of the Company’s annuity and individual life products are being made. The Company had a limited agreement in place with M Financial Group whereby the Company agreed to continue to accept new Private Placement Variable Annuity (PPVA) sales through June 30, 2012, and through July 14, 2012, for sales of a certain PPVA product through JP Morgan. Further, through the ordinary course of service arrangements for in-force COLI cases, the Company will continue to receive new money when new participants are added.

Best’s Rating

Based on A.M. Best's current opinion of the consolidated financial condition and operating performance of the life and health members of the Sun Life Financial Group, which

operate under a group structure, the Company was assigned a Best's rating of A+ (Superior) for the year ending 2011, with a stable outlook. On April 11, 2012, A.M. Best downgraded the financial strength rating of both the Company and SLNY to A (Excellent) from A+ (Superior), with a stable outlook.

The downgrades of the U.S. subsidiaries of SLF reflects A.M. Best's view of the diminished strategic significance of the U.S. operations given SLF's plans to discontinue certain key business lines in the United States including its core individual life and variable annuity operations. For the year ended 2011, SLF's U.S. operations reported an aggregate statutory net loss. The Company and SLNY are now effectively in runoff and subsequently are not viewed as core to the group.

Given the downgrades, A.M. Best believes that the Company and SLNY are well positioned at their current rating level and relative to peers given their current run-off status for the near to medium term. Further negative rating actions could occur should equity market volatility and low interest rates continue to negatively impact earnings and capital levels or should run-off experience be worse than A.M. Best's expectations.

GROWTH OF THE COMPANY

The following information was extracted from copies of the Company's filed Annual Statements, for each year indicated, and covers the period from the Company's last examination.

Year	Net Admitted Assets	Total Liabilities	Total Capital and Surplus	Premiums and Annuity Considerations	Deposit-Type Funds	Net Income / (Loss)
2011	$43,017,229,612	$41,701,959,394	$1,315,270,218	$3,230,218,450	$1,159,838,580	($517,050,800)
2010	48,259,078,119	46,379,221,849	1,879,856,270	3,466,690,245	2,435,244,048	(135,801,630)
2009	42,453,648,635	40,703,810,954	1,749,837,681	4,207,661,603	3,397,877,425	(44,014,137)
2008	39,669,903,931	38,402,810,550	1,267,093,381	2,831,485,651	3,500,387,199	(988,347,637)
2007	44,700,805,700	43,526,661,682	1,174,144,018	6,492,113,984	3,708,355,007	(55,000,122)

Note: Schedule does not include adjustments as a result of the prior or current examinations

Since year-end 2007, net admitted assets have decreased by $1.67 billion or 3.8% while total liabilities decreased proportionately by $1.82 billion or 4.2%. During the exam period, the Company had seen increasing separate account investments due to increased sales in variable annuity business as well as improved market driven investment performance. This market improvement has also facilitated the growth of its general account investments.

During the examination period, total capital and surplus increased $141.1 million or 12.0%. The increase in capital and surplus was primarily due to capital contributions received from the Parent in 2008 and 2009 (totaling over $1.89 billion) provided to maintain Risk-Based Capital ratios and offset surplus strain resulting from equity market fluctuations, declining interest rates and their effects on both fixed and variable annuities, and continued impairment losses on structured asset investments in fixed annuities.

The Company has experienced softening growth trends in premium volume over the last five years due primarily to slowing growth in its variable annuities business segment, de-emphasis of fixed and fixed index annuity product-lines, exiting of NLG UL business and increased surrenders. For all years under examination, the Company has recorded net losses. While losses are partially explained by strain from new business growth, the Company has also experienced fluctuations in earnings due to low interest rates, narrow credit spreads, market volatility and increases in capital requirements resulting from recent regulatory requirements.

Significant Event Affecting Future Growth

On December 12, 2011, SLF announced the completion of a major strategic review of its businesses. As a result of this strategic review, SLF announced that it would close its domestic U.S. variable annuity and individual life products to new sales effective December 30, 2011, effectively placing the Company in a run-off status. The decision to discontinue sales in these lines of business was based on unfavorable product economics which, due to ongoing shifts in

capital markets and regulatory requirements, no longer enhanced shareholder value. This decision reflects SLF's intensified focus on reducing volatility and improving the return on shareholders' equity by shifting capital to businesses with superior growth, risk and return characteristics.

Of the one-time restructuring costs on a pre-tax basis associated with the discontinuation of these products lines in the U.S., $12.7 million was allocated to the Company. The restructuring costs related primarily to employee severance and other employee benefits, which are expected to be paid in the form of future cash expenditures, as well as other costs.

LOSS EXPERIENCE

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

	Aggr. Reserves for Life Contracts	Liability for Deposit-type Contacts	Contract Claims: Life
December 31, 2010	$6,920,102,355	$ 2,435,244,048	$20,350,964
December 31, 2011	7,300,954,005	1,159,838,580	20,040,422
Increase (Decrease)	$ 380,851,650	$(1,275,405,468)	$ (310,542)

The increase of reserves is generally a result of ongoing analysis of recent loss development trends and strengthening of reserves. Original estimates are increased or decreased as additional information becomes known regarding individual claims. No significant increase or decrease was noted for any particular line of business. The above items are further commented upon in this Report under the section "Notes to Financial Statements".

REINSURANCE

For 2011, the Company reported the following distribution of net premiums written:

Direct business	$3,349,440,565
Reinsurance assumed (from affiliates)	0
Reinsurance assumed (from non-affiliates)	0
Total direct and assumed	$3,349,440,565
Reinsurance ceded (to affiliates)	(98,654,371)
Reinsurance ceded to (non-affiliates)	(20,567,743)
Net premiums written	$3,230,218,451

The Company had the following reinsurance programs and agreements in effect as of December 31, 2011:

Assumed

As of December 31, 2011, the Company had one assumed coinsurance contract in-force effective July 26, 1996. This originally was a Keyport contract that became a Company contract as a result of the merger of Keyport into the Company effective December 31, 2003 (refer to the "History" section of this Report). This contract is terminated for new business, with no premiums received from the ceding company during the period 2008-2011.

Ceded

All contracts with effective dates occurring during the period under examination were reviewed. On a test basis, the financial reporting relating to selected material contracts was validated. All contracts included a proper insolvency clause, and have a true transfer of risk to the reinsurer. Retention limits are set periodically by Board resolution. On November 11, 2009, the Board voted to increase the retention limit from $2 million to $6 million. Amounts in excess of the Company's $6 million limit, but within SLOC's retention limits are ceded to SLOC. Throughout the 2008 to 2010 period, SLOC had a retention limit of $15 million for single life cases and $20 million for survivorship cases. On January 1, 2011, SLOC's retention limit for single life cases was increased to $25 million while the retention limit for survivorship cases was

increased to $30 million. Lower limits were in effect for some low issue ages, high issue ages, substandard ratings, aviation cases, hazardous avocations, foreign nationals, professional athletes, and professional entertainers. A number of former Keyport contracts became Company contracts by way of the merger of Keyport into the Company effective December 31, 2003. Of these contracts, only two remained in effect as of December 31, 2011.

- **Affiliated**

Effective December 31, 2003, the Company ceded a block of SPWL under a 100% coinsurance agreement with SLOC, administered on a funds withheld basis, and covering business originally issued by Keyport. This contract accounted for 72.6% of the 2011 reserve credits taken for all ceded reinsurance, and is terminated for new business. The Company has three other contracts with SLOC, which are not considered material.

Effective December 31, 2008, the Company ceded all of the Corporate VUL, Large Case VUL, Futurity Corporate VUL, and Large Case Private Placement Variable Universal Life (PPVUL) policies to a Barbados affiliate, Sun Life Reinsurance (Barbados) No. 3 Corp., under a 100% coinsurance agreement. This agreement covers all policies issued before April 1, 2010, as well as new policies written with existing cases after that date. Mortality risks that are ceded under external reinsurance agreements are excluded from this agreement.

The Company reports its reinsurance based on two divisions, Individual Insurance and Annuities further broken into business segments. These segments are listed below and a discussion of each follows.

Individual Non-COLI
Individual COLI
Individual PPVUL
Annuities

- **Individual Non-COLI**

The Company has two primary reinsurance programs in this segment. (1) The Company is party to a first dollar quota share pool, automatic yearly renewable term reinsurance agreement (YRT). The program cedes the net amount at risk for the unit's Futurity VUL products. The Company's retention is 10% (2005 and prior) / 15% (2006 to 2009) / 55% (as of April 2010) / 25% (as of June 2010 and forward). (2) The Company is party to an automatic modified coinsurance ("modco") agreement for its Sun Prime Protector VUL program, where the reinsurer has a 50% share of all cash flows relating to the product and reinsured riders. The modco agreement provides automatic capacity up to $50 million (with reductions in that capacity for highly substandard or older age risks) with the reinsurer and the Company each providing $25 million of capacity. The $25 million of capacity provided by SLUS is made up of $15 million first layer and the excess $10 million from three external reinsurers. The Company does have other reinsurance agreements in place that are in run-off and are not considered material.

- **Individual COLI**

The reinsurance program for this segment is a first dollar quota share pool, automatic YRT reinsurance agreement. The program cedes the net amount at risk for the unit's Corporate and Large Case VUL, PPVUL and Futurity Corporate VUL products. The Company's retention is from 15% to 50% depending on treaty year and issue year. Effective March 29, 2007, all third-party reinsurance agreements were terminated for COLI automatic new business, although agreements with two reinsurers have remained open for facultative new business. Fifty percent of COLI VUL written, as well as amounts in excess of the Company's $6 million retention limit is ceded to SLOC. The Company does have other reinsurance agreements in place that are in run-off and are not considered material.

- **PPVUL**

The Company has two reinsurance programs for this segment: an automatic YRT covering its Alternative Advantage PPVUL product, and an automatic modified coinsurance covering the Magnastar PPVUL products. The Company's retention for the Alternative Advantage product is zero, with 90% ceded to external reinsurers and 10% ceded to SLOC. The Company's retention for the modco agreement is 50% with the other 50% ceded to an external reinsurer.

- **Annuities**

The Company has a number of contracts in place for its annuity business, most of which were closed to new business and are in run-off. The majority of these contracts became SLUS contracts as part of the December 31, 2003, merger with Keyport. One contract with significant reserve credits in the prior exam period was a quota share treaty on a certain block of fixed annuity five year products. The assets supporting the business ceded are secured using a trust, which can only be accessed for the payment of policy benefits, ceding allowances and other specified items defined in the treaty. The amount of assets equal to the NAIC reserve is the basis for the trust amount at the end of each quarter. In November 2007, the Company started recapturing the policies reinsured that had reached the end of their fixed term. The reinsurance treaty ended on August 31, 2008, when all the policies were recaptured. A small amount of SPWL insurance business is participating. This block is closed to new business, and is fully reinsured with the assets maintained in a segregated account.

The Company has three 100% quota share YRT agreements for the excess of guaranteed minimum death benefits (GMDB) over account value protection on its Regatta Platinum and Futurity II variable annuity products. These are catastrophic types of coverage on GMDB exposures. Under two of the reinsurance treaties, the reinsurer pays GMDB losses each month.

The amount the reinsurer pays is subject to an annual deductible equal to 50 basis points (bps) of average account value and subject to a limit of 450 bps of average account value. The reinsurer reinsures Regatta Platinum contracts issued before June 1, 1999, or after August 2, 1999 and before October 1, 2001, and all Futurity II contracts issued before October 1, 2001. Under the third reinsurance treaty, the reinsurer pays all GMDB losses each month on Regatta Platinum contracts issued from June 1, 1999 to August 2, 1999.

ACCOUNTS AND RECORDS

Accounting System and Information

Pursuant to various services agreements with SLF affiliates, the affiliates provide services and personnel necessary for the Company to conduct its operations. The accounts and records reviewed during the examination included an evaluation of the Company's operational, organizational and application controls. The areas evaluated included computer and accounting systems, organizational structure, and the information processing structure. SLF U.S. Information Technology operations are primarily housed in Wellesley, Massachusetts (primarily distributed systems) and Waterloo, Ontario (primarily mainframe systems). Management of information technology occurs at both locations. The Company uses both Windows and mainframe based application systems.

A high-level assessment of the internal control structure and process for the Company's accounting and computer systems was discussed with management and reviewed after completion of questionnaires developed by the NAIC and the Delaware Department of Insurance. The discussions and review, which were performed by the consulting firm of INS Services, Inc., did not reveal any material deficiencies in the Company's internal control structure over General Computer Controls (GCC). Based on work performed, the overall strength of risk mitigation strategies/controls related to information systems at the Company was

deemed to be sufficient for those policies and procedures that had been in place during the period from January 1, 2011 to December 31, 2011, and until September 7, 2012.

An external accounting firm audits the statutory-basis financial statements of the Company annually. The Company's external accounting firm reviewed the internal control structure in order to establish the necessary audit procedures required to express an opinion on the December 31, 2011 financial statements. No significant or qualifying deficiencies were found to exist in the design or operation of the internal control structure. The Company's records are also subject to review by the Internal Audit Department of SLF U.S.

Based on the examination review of the filed Annual Statements, observations, and subsequent discussions with management, the accounting system and procedures generally conformed to insurance accounting practices and requirements.

Independent Accountants

The Company's financial statements are audited each year by the firm of Deloitte & Touche (D&T), of Boston, MA. The examiners reviewed the audited statutory financial statements for all years under examination. For all years under review, D&T issued an unqualified opinion. The examiners reviewed D&T's 2011 workpapers, and incorporated their work and findings as deemed pertinent to the current examination.

Actuarial Opinion

The Company's loss reserves and related actuarial items were reviewed by Steven H. Schoen, FSA, MAAA, who issued a statement of actuarial opinion based on the financial information presented by the Company. The opinion stated that the reserves and related actuarial values carried on the balance sheet were fairly stated and met the requirements of the insurance laws of the state of Delaware.

STATUTORY DEPOSITS

The following statutory deposits were on file with the following states:

	Deposits For the Benefit of All Policyholders		All Other Special Deposits	
State	Book/Adjusted Carrying Value	Fair Value	Book/Adjusted Carrying Value	Fair Value
Arkansas			$ 170,263	$ 170,519
Delaware	$ 1,502,319	$ 1,504,575		
Georgia			40,062	40,122
Massachusetts			500,773	501,525
New Mexico			110,023	151,516
North Carolina			801,237	802,440
Virginia			600,927	601,830
US Virgin Island			500,773	501,525
TOTAL DEPOSITS	$ 1,502,319	$ 1,504,575	$ 2,724,058	$ 2,769,477

FINANCIAL STATEMENTS

The following pages contain a statement of assets, liabilities, surplus and other funds as of December 31, 2011, as determined by this examination, along with supporting exhibits as detailed below:

General Account:
- Assets
- Liabilities, Surplus and Other Funds
- Summary of Operations
- Capital and Surplus Account
- Reconciliation of Capital and Surplus for the Examination Period

Separate Accounts:
- Assets
- Liabilities and Surplus

Schedule of Examination Adjustments

The narratives on the individual accounts, with the exception of the reserve related balances, are presented on an “exception basis” in the Notes to the Financial Statements section of this report.

General Account
Assets
As of December 31, 2011

	Assets	Nonadmitted Assets	Net Admitted Assets	Notes
Bonds	$ 7,455,225,589		$ 7,455,225,589	
Preferred stocks	23,330,000		23,330,000	
Common stocks	372,408,526		372,408,526	
Mortgage loans on real estate				
First liens	967,479,756		967,479,756	
Real estate				
Properties occupied by the company	57,588,064		57,588,064	
Properties held for the production of income	129,783,443	$ 2,756,857	127,026,586	
Cash, cash equivalents and short-term investments	747,160,637		747,160,637	1
Contract loans	582,586,037	10,575	582,575,462	
Derivatives	415,678,533		415,678,533	
Other invested assets	121,555,813	265,122	121,290,691	
Receivables for securities	3,843,918		3,843,918	
Aggregate write-ins for invested assets	-0-		-0-	2
Investment income due and accrued	114,117,938	99,052	114,018,886	
Premiums and considerations:				
Uncollected premiums and agents' balances in course of collection	-0-	-0-	-0-	
Deferred premiums, agents' balances and installments booked but deferred	-0-		-0-	
Reinsurance:				
Amounts recoverable from reinsurers	5,659,925		5,659,925	
Other amounts receivable under reinsurance contracts	4,518,184		4,518,184	
Current federal and foreign income tax recoverable and interest thereon	6,075,820		6,075,820	
Net deferred tax asset	902,363,231	687,332,540	215,030,691	
Receivable from parent, subsidiairies and affiliates	54,033,152		54,033,152	
Aggregate write-ins for other than invested assets	22,770,798	16,938,305	5,832,493	
Total assets excluding Separate Accounts	$ 11,986,179,364	$ 707,402,451	$ 11,278,776,913	
From Separate Accounts	31,623,647,210	-	31,623,647,210	
Total	$ 43,609,826,574	$ 707,402,451	$ 42,902,424,123	

Liabilities, Surplus and Other Funds
As of December 31, 2011

Liabilities, Surplus and Other Funds			Notes
Aggregate reserves for life contracts	$	7,300,954,005	3
Aggregate reserves for accident and health contracts		-0-	
Liability for deposit type contracts		1,159,838,580	4
Contract claims:			
Life		20,040,422	5
Premiums and annuity considerations for life and accident and health contracts received in advance		-0-	
Contract liabilities not included elsewhere:			
Provision for experience rating refunds		-0-	
Other amounts payable on reinsurance		10,322,283	
Interest maintenance reserve		36,659,837	
Commissions to agents due or accrued		8,222,774	
Commissions and expense allowances payable on reinsurance assumed		-0-	
General expenses due or accrued		20,812,356	
Transfers to Separate Accounts due or accrued		(953,501,251)	6
Taxes, licenses and fees		15,438,420	
Unearned investment income		39,257	
Amounts withheld or retained by company as agent or trustee		248,237	
Remittances and items not allocated		6,682,553	
Borrowed money		118,005,296	
Miscellaneous liabilities:			
Asset valuation reserve		188,181,350	
Reinsurance in unauthorized companies		7,576	
Funds held under reinsurance treaties and unauthorized reinsurers		324,335,124	
Payable to parent, subsidiaires and affiliates		27,914,633	
Funds held under coinsurance		1,416,540,011	
Derivatives		132,639,048	
Payable for securities lending		-0-	
Aggregate write-ins for liabilities		130,528,138	7
Total liabilities excluding Separate Accounts	$	9,963,908,649	
From Separate Accounts Statement		31,623,245,256	
Total Liabilities	$	41,587,153,905	
Common capital stock		6,437,000	
Preferred capital stock		-0-	
Surplus notes		565,000,000	
Gross paid-in and contributed surplus		2,588,377,077	
Aggregate write-ins for special surplus funds		71,676,897	
Unassigned funds		(1,916,220,756)	
Surplus	$	1,315,270,218	
Total Liabilities, Capital and Surplus	$	42,902,424,123	

Summary of Operations
As of December 31, 2011

Premiums and annuity considerations for life and accident and health contracts	$	3,230,218,450
Consideration for supplementary contracts with life contingencies		11,474,160
Net investment income		605,357,417
Amortization of Interest Maintenance Reserve		15,204,625
Commissions and expense allowances on reinsurance ceded		1,788,913
Reserve adjustments on reinsurance ceded		3,115,076
Miscellaneou income:		
Income from fees associated with investment management, administration and contract guarantees from Separate Accounts		524,948,449
Aggregate write-ins for miscellaneous income		129,179,134
Totals	$	4,521,286,224
Death benefits	$	29,375,878
Annuity benefits		765,760,564
Disability benefits and benefits under accident and health contracts		-0-
Surrender benefits and withdrawals for life contracts		2,713,461,956
Interest and adjustments on contract or deposit-type contract funds		2,746,907
Payments on supplementary contracts with life contingencies		12,560,851
Increase in aggregate reserves for life and accident and health contracts		380,851,650
Totals	$	3,904,757,806
Commissions on premiums, annuity considerations and deposit-type contracts funds	$	272,446,521
Commissions and expense allowances on reinsurance assumed		132,444
General insurance expenses		207,334,537
Insurance taxes, licenses and fees, excluding federal income taxes		16,521,660
Increase in loading on deferred and uncollected premiums		-0-
Net transfers to (from) Separate Accounts net of reinsurance		463,338,698
Aggregate write-ins for deductions		80,009,635
Totals	$	4,944,541,301
Net gain from operations before dividends to policyholders and federal income taxes	$	(423,255,077)
Dividend to policyholders		-0-
Net gain from operations after dividends to policyholders and before federal income taxes		(423,255,077)
Federal and foreign income taxes incurred		(37,925,794)
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains (losses)		(385,329,283)
Net realized capital gains (losses)		(131,721,517)
Net Income (Loss)	$	(517,050,800)

Capital and Surplus Account
As of December 31, 2011

Capital and surplus, December 31, prior year	$1,879,856,270
Net income (Loss)	(517,050,800)
Change in net unrealized capital gains or (losses)	
less capital gains tax of $117,188,394	230,011,168
Change in net unrealized foreign exchange capital gain (loss)	(5,353,508)
Change in net deferred income tax	169,379,370
Change in nonadmitted assets	(40,194,242)
Change in liability for reinsurance in unauthorized companies	(7,576)
Change in asset valuation reserve	(106,042,522)
Other changes in surplus in Separate Accounts statement	(14,481)
Surplus adjustment	
Change in surplus as a result of reinsurance	-0-
Dividends to stockholders	(300,000,000)
Aggregate write-ins for gains and losses in surplus	4,686,539
Net change in capital and surplus for the year	(564,586,052)
Capital and surplus, December 31, current year	$1,315,270,218

Reconciliation of Capital and Surplus
From December 31, 2007 to December 31, 2011

Capital and Surplus, December 31, 2007		$1,174,144,018
Net income (Loss)		(1,685,214,204)
Additions:		
Change in net unrealized capital gains	22,745,552	
Change in net deferred income tax	441,269,928	
Change in liability for reinsurance in unauthorized companies	552	
Change in asset valuation reserve	63,848,127	
Cumulative effect of changes in accounting principles	60,846,107	
Surplus adjustment: Change in surplus as a result of reinsurance	117,528,575	
Surplus Adjustment: Paid-in	1,886,675,663	
Total Additions		2,592,914,504
Deductions:		
Change in net unrealized foreign exchange capital gain (loss)	(11,358,013)	
Change in non-admitted assets	(386,363,748)	
Surplus (contribution to) withdrawn from Separate Accounts during period	(27,984)	
Other changes in surplus in Separate Accounts statement	(11,013,036)	
Dividends to stockholders	(300,000,000)	
Aggregate write-ins for gains and losses in surplus	(57,811,319)	
Total Deductions		(766,574,100)
Capital and Surplus, December 31, 2011		$1,315,270,218

Separate Accounts
Assets
As of December 31, 2011

	General Account Basis	Fair Value Basis	Total
Bonds	$1,576,729,438	$6,538,754,402	$8,115,483,840
Preferred stocks	616,000	-0-	616,000
Common stocks	3,412,923	20,042,396,128	20,045,809,051
Mortgage loans on real estate	166,434,627	147,432,939	313,867,566
Real estate:			
Properties held for the production of income	-0-	540,000	540,000
Cash and cash equivalents	9,144,649	195,944,832	205,089,481
Short-term investments	1,562,853	559,177,587	560,740,440
Derivatives	-0-	6,725,629	6,725,629
Other invested assets	-0-	744,175	744,175
Aggregate write-ins for invested assets:			
Derivative collateral		8,197,745	8,197,745
Investment income due and accrued	20,399,741	28,264,284	48,664,025
Receivable for securities	572,129	2,312,069,893	2,312,642,022
assets:			
Receivable for variable annuity contracts		3,992,751	3,992,751
Miscellaneous receivable		533,001	533,001
Prepaid expense	-0-	1,484	1,484
Total	$1,778,872,360	$29,844,774,850	$31,623,647,210

Liabilities and Surplus
As of December 31, 2011

	General Account Basis	Fair Value Basis	Total	Notes
Aggregate reserve for life, annuity and accident and health contracts	$1,697,290,004	$25,887,787,154	$27,585,077,158	8
Liability for deposit-type contracts	-0-	37,103,988	37,103,988	9
Interest maintenance reserve	(25,207,382)	-0-	(25,207,382)	
Other transfers to general account due or accrued	19,337,635	934,163,616	953,501,251	10
Remittances and items unallocated	20,459	37,343	57,802	
Derivatives	84,433,904	-0-	84,433,904	
Payable for securities	2,997,740	2,758,816,220	2,761,813,960	
Aggregate write-ins for liabilities:				
Stable value reserve		218,266,830	218,266,830	
Derivative collateral	-0-	8,197,745	8,197,745	
Total liabilities	$1,778,872,360	$29,844,372,896	$31,623,245,256	
Unassigned funds	-0-	401,954	401,954	
Surplus	$0	$401,954	$401,954	
Total	$1,778,872,360	$29,844,774,850	$31,623,647,210	

SCHEDULE OF EXAMINATION ADJUSTMENTS

Description	Per Examination	Per Company	Surplus Increase (Decrease)
Assets:			
Cash and cash equivalents	747,160,637	664,866,162	82,294,475
Aggregate write-in for invested assets:			
Derivative collateral	-0-	197,099,964	(197,099,964)
Adjusted Admitted Assets	$747,160,637	$861,966,126	($114,805,489)
Liabilities and Surplus:			
Aggr. Write-in for invested liabilities:			
Derivative collateral payable	82,306,297	197,111,786	(114,805,489)
Adjusted Liabilities and Surplus	$82,306,297	$197,111,786	($114,805,489)

NOTES TO FINANCIAL STATEMENTS

Assets – General Account

(1) Cash and cash equivalents $747,160,637

The above-captioned amount is $82,294,475 more than that reported by the Company on Page 2, Line 5 of the 2011 Annual Statement, as a result of reporting a late adjustment related to derivative collateral made by the Company after issuance of its Annual Statement, but prior to issuance of the Company's audited financial statements.

For the issued 2011 Annual Statement, bonds posted by the Company to a counterparty remained on the Company's balance sheet and on Schedule D. Any bonds posted to the Company from the counterparty were off balance sheet. For Annual Statement purposes, the write-in asset reflected collateral receivable that was offset by a write-in collateral payable representing the Company's obligation to return the bond to the counterparty. The net effect was no impact to surplus as the receivables and payables netted to zero.

As part of the preparation and review of the audited financial statements for 2011, the Company refined its interpretation of SSAP 91R, and removed the non-cash collateral from the write-in lines. Additionally, the Company reclassified the cash collateral included in the write-in line to cash equivalents (line 5) based upon footnote (1) included in SSAP 91R. These adjustments resulted in no impact to surplus.

(2) Aggregate write-in for invested assets: Derivative collateral $-0-

The above-captioned amount is $197,099,964 less than that reported by the Company on Page 3, Line 11 of the 2011 Annual Statement, as a result of a late adjustment related to derivative collateral made by the Company after issuance of its Annual Statement, but prior to issuance of its audited financial statements. Refer to comments within this section, under the caption "Cash and cash equivalents" for details regarding this adjustment.

Liabilities – General Account

General

As of December 31, 2011, SLUS held General Account (GA) reserves primarily for fixed deferred annuities and individual life insurance and Separate Accounts (SA) reserves for variable deferred annuities and variable universal life insurance. GA and/or SA reserves were also held for smaller blocks of fixed and variable supplementary contracts.

Certificate of Reserve Valuation

As part of the annual certificate of reserve valuation procedure conducted for the Delaware Insurance Department, the Consulting Actuary reviewed the reserves and liabilities reported in Exhibits 5 and 7 of the Company's December 31, 2011 GA Annual Statement, and in Exhibits 3 and 4 of the Company's December 31, 2011 SA Annual Statement. During that process, SLUS workpapers supporting these reserves and liabilities were reviewed and found to be in order. The Consulting Actuary reconciliation work from that procedure has been relied upon for the current examination.

Asset Adequacy/Cash Flow Testing Analysis

The examination included a review of the asset adequacy testing (AAT) / cash flow testing (CFT) analysis, completed annually as part of the Actuarial Opinion Memorandum (AOM) for 2011. As a result of AAT, the Company's appointed actuary concluded that additional reserves of $135.4 million were required as of December 31, 2011. This conclusion has been accepted by the Consulting Actuary.

Data Validity / Inclusion Testing / Sampling

The Consulting Actuary relied on the work of the Delaware financial examiners (the "examiners") who conducted interviews with senior management and conducted reviews of the Company's internal and independent auditor work papers. A review of the controls that were

considered significant was conducted by the examiners. No significant control weaknesses were noted by the examiners. Reliance on the Company's independent auditors' testing and analysis of the controls on policy and claims systems resulted in a reduction of overall testing conducted by both the examiners and the Consulting Actuarial examination team allowing fewer substantive procedures and more utilization of analytical procedures. In addition, the Consulting Actuary relied on interviews and discussions that were conducted with the Company's actuaries.

Samples of policies from the Company's valuation files were used to test the validity of valuation data. The policy sample tests indicated a general absence of errors in the underlying data used for valuation. Based on the inclusion testing also conducted, it appears that the valuation extract files are generally complete.

Reserve Analysis

Reserves were reviewed for compliance with standard valuation laws, applicable NAIC Actuarial Guidelines and Model Regulations. Reserve trend analyses were also performed and generally produced reasonable results. The Consulting Actuary identified the risks related to reserve determination procedures and methodologies associated with each product segment and certain product types within the product segments. For each product segment, examination procedures were performed by the Consulting Actuary depending on the residual risk assessments as determined by the Consulting Actuary. The Consulting Actuary determined the underlying inherent risks for each segment and concluded that the focus should be on the products with features that created the greatest risk for the Company. The Consulting Actuary's examination procedures called for sample reserve calculations, where appropriate, and reserves for sample contracts were recalculated in accordance with standard actuarial practice. The Consulting Actuary concluded that sample reserve testing was not warranted for certain product

groups and liability items. For these items, the Consulting Actuary relied on general analyses and/or a review of the trend analysis.

Reinsurance

The examiners conducted a review of all significant reinsurance treaties, and obtained and reviewed the independent auditors' test work of reinsurance recoverables. No concerns were identified. The Consulting Actuary relied on the examiners' review of reinsurance agreements for compliance with 18 Del. Admin. Code 1002, which indicated that the agreements in place transferred risk. The Consulting Actuary reconciled reinsurance ceded reserves to the Annual Statement Schedule S, and concluded that the reserves reported in Schedule S for the reinsurance treaties were reasonable.

Summary

The balance sheet items enumerated in the examination scope appear fairly stated and are calculated using valuation parameters, which appear to be free of errors that would affect reserve calculations. The Consulting Actuary concluded that the underlying data provided by the Company is accurate and complete for the purposes of its actuarial review. Based on the above discussion and analysis, the Consulting Actuary has concluded that the December 31, 2011 balance sheet items covered in the examination scope appear fairly stated, and have been accepted for the purpose of this report.

(3) Aggregate reserves for life contracts ($7,300,954,005)

The above-captioned amount, which is the same as reported by the Company in its Annual Statement, is reported on Page 3, Line 1 and in Exhibit 5.

The reserve breakdown of Exhibit 5, by type of benefit, is as follows (differences due to rounding):

Reserve Segment	Total Gross	Reinsurance Ceded	Total Net
Life Insurance	$2,133,260,128	$1,844,820,856	$ 288,439,272
Annuities	5,341,678,702	0	5,341,678,702
Supplementary Contracts	116,886,559	29,723,582	87,162,977
Accidental Death Benefits	1,009	0	1,009
Disability - Active Lives	4,764	0	4,764
Disability - Disabled Lives	603,849	0	603,849
Miscellaneous Reserves	1,719,800,819	136,737,387	1,583,063,432
Totals	$9,312,235,830	$2,011,281,825	$7,300,954,005

An analysis of the individual components comprising this liability was performed by the Consulting Actuary. The analysis included a review of various supporting documentation prepared by the Company, actuarial analysis, and a review of the Company's reserving methodologies as of December 31, 2011.

The aggregate reserve is held for SPWL, UL, the fixed portion of VUL, fixed deferred annuity business (DA), the fixed portion of variable deferred annuity business (VDA) and related ancillary benefits.

As part of the annual certificate of reserve valuation procedure, the Consulting Actuary reviewed the December 31, 2011 life reserves and deposit-type contract liabilities. During that process, valuation files and summary work papers were reviewed and found to be in order. Reserves were reconciled from the summary work papers to Exhibit 5. The Actuarial Opinion was reviewed and found to be in order. The Consulting Actuary performed a trend analysis of the Exhibit 5 life reserves covering the years 2007 through 2011. Samples of contracts were selected from the valuation systems for reserve testing. For UL, VUL, DA and VDA sample contracts, the Consulting Actuary reviewed annual reports sent to contract holders. These were found to be reasonable and consistent with valuation records.

The primary risks associated with Exhibit 5 business are adverse mortality, asset default, interest rate volatility and mismatching of asset and liability cash flows. These risks were further

reviewed by evaluating the 2011 AOM. Based on that review, the Consulting Actuary accepted the Company's conclusion that additional reserves are not required.

The underlying data was verified for the sample contracts. No exceptions were noted in performing data validation or inclusion testing. Based on these results, the Consulting Actuary concluded that the valuation data for life and annuity contracts is substantially free of any material error that would affect reserve calculations.

Based on procedures performed, it appears that the Company's reserves at December 31, 2011 were adequate to meet its future contractual obligations under its policies and contracts. Therefore, the Company's liability as reported on Line 1, Page 3 and in Exhibit 5 has been accepted for examination purposes.

(4) Liability for deposit-type contracts ($1,159,838,580)

The above-captioned amount, which is the same as reported by the Company in its 2011 Annual Statement, is reported on Page 3, Line 3 and in Exhibit 7.

Liability Item	Total Gross	Reinsurance Ceded	Total Net
Guaranteed Interest Contracts	$ 973,862,536	$ 0	$ 973,862,536
Annuities Certain	76,790,523	0	76,790,523
Supplementary Contracts	111,164,624	1,979,103	109,185,521
Totals	$1,161,817,683	$1,979,103	$1,159,838,580

This liability represents contracts in payout status which do not involve life contingencies. Files supplied by the Company and supporting work papers were reviewed and found to be in order.

Guaranteed Interest Contracts (GIC) consist of two Medium Term Notes (MTNs) sold to domestic institutional investors. The reserve of approximately $973.9 million includes $63 million of additional asset adequacy reserves. The MTNs are in U.S. currency and have interim floating rate interest payments. A special purpose vehicle purchases a GIC from the Company, where the GIC provisions exactly match those owed to the investor. The MTNs have no

surrender privileges and no annuitization options. They were first sold by SLUS starting in 2005 and have maturity periods ranging from 5 to 7 years. The Consulting Actuary reviewed the Company's workpapers supporting the calculation of the reserves and found them to be in order. The liabilities have been accepted as stated.

Annuities Certain and Supplemental Contracts provide for the payment of contractual amounts at specified intervals until the end of the guaranteed period. The contractual amounts, specified intervals and guaranteed periods were determined at issue of the contracts. These contracts are similar to immediate annuities (which are reported in the annuities segment of Exhibit 5) and all payout annuities were included in the same valuation files as supplied by the Company. As a result, Annuities Certain and Supplemental Contracts were included in the same sampling and reserve testing procedures for payout annuities.

The payout annuity sample included eight Annuities Certain and Supplemental Contracts for data validity and reserve testing. The underlying data for each of the sample contracts was verified and no errors were found. The Consulting Actuary verified reserves for each of the sample contracts without exception.

A trend analysis of the Exhibit 7 liability generally produced reasonable results. The GIC liability decreased in 2011 on account of two maturities for approximately $1.2 billion.

Based on the above discussion and analysis, the Consulting Actuary concluded that the Liability for deposit-type contracts as reported on Page 3, Line 3 and in Exhibit 7 of the Company's December 31, 2011 Annual Statement appears fairly stated, and has been accepted for examination purposes.

(5) Contract claims - Life ($20,040,422)

The above-captioned amount, which is the same as that reported by the Company in its 2011 Annual Statement, is reported on Page 3, Line 4.1 and in Exhibit 8, Part 1 – columns 2 through 8. The liability breakdown by type is as follows:

Liability Type	Total Gross	Reinsurance Ceded	Total Net
Due and unpaid	$ 84,904	$ 0	$ 84,904
In course of settlement (ICOS)	30,795,905	27,513,641	3,282,264
Incurred but unreported (IBNR)	19,423,549	2,750,295	16,673,254
Totals (Gross and net)	$50,304,358	$30,263,936	$20,040,422

The Consulting Actuary reviewed the Company's work papers supporting the above amounts and found all to be in order. The due and unpaid and ICOS liabilities are inventory items which do not involve actuarial judgment. They were reviewed by the examiners and accepted as stated.

The IBNR liability represents the estimate of all claims incurred prior to January 1, 2012 but not reported by the Company as of December 31, 2011. The Consulting Actuary performed an analysis of the life insurance IBNR by comparing the amount of the IBNR liability to both the claims incurred during the year and the net amount at risk in effect at the end of the year for years 2007 through 2011. Based on this analysis, the Consulting Actuary concluded that the methods used by the Company to determine the life insurance IBNR produce reasonable results and that the IBNR liability for life insurance on December 31, 2011 was sufficient.

The Company also holds an IBNR liability for the deferred annuities of approximately $16.7 million. Such liability should be established to the extent that a positive net amount of risk (death benefit minus reserve) exists. The bulk of the deferred annuity reserves have reached durations whereby the surrender charge period has expired. The Consulting Actuary concluded that the IBNR for deferred annuities would be immaterial due to the fact that the there is no

positive net amount of risks associated with most contracts. The Consulting Actuary concluded that the IBNR liability for deferred annuities was reasonable.

A trend analysis of both liability items was performed over the examination period. The Consulting Actuary concluded that the trends are reasonable

The Consulting Actuary reconciled the Contract claims life ceded liability to the amount reported on line 1799999 of Schedule S-Part 2 (reinsurance recoverable and paid and unpaid losses) in the December 31, 2011 Annual Statement without exception.

Based on materiality, no further examination work was deemed necessary and the IBNR liability was accepted as stated.

Based on the above discussion and analysis, the Consulting Actuary concluded that the Contract claims: Life, as reported by the Company on Page 3, Line 4.1 and in Exhibit 8 of the December 31, 2011 Annual Statement appears fairly stated, and has been accepted for examination purposes.

(6) Transfers to Separate Accounts due or accrued (net) $953,501,251

The above-captioned amount, which is the same as that reported by the Company in its 2011 Annual Statement, is reported on Page 3, Line 13. This balance represents the net balance at December 31, 2011 for transfers to separate accounts due or accrued. As is required, this item mirrors the Page 3, Line 10 of the SA Annual Statement, “Other transfers to general account due or accrued (net)”. The Consulting Actuary verified this for the reported amounts.

The transfers to SA due or accrued includes $752,465,481 of Commissioner’s Reserve Valuation Method / Commissioners’ Annuity Reserve Valuation Method (CRVM/CARVM) expense allowances for VUL and VDA contracts, which is the difference between the account values and the associated reserves held for such contracts in Exhibit 3 of the SA Annual Statement. The Consulting Actuary verified that the CRVM/CARVM expense allowances are

consistent with reported SA fund values and reserves. The balance of this liability ($201,035,770) represents various inventory items not involving actuarial judgment. This component involves accrued amounts, payable to the GA and/or receivable from the GA, for business transactions occurring on the last business day of the calendar year (whose cash settlements are delayed until the first business day of the following year). This item was reviewed and based on materiality, accepted as stated.

The Consulting Actuary performed a trend analysis of the liability for year ends 2007 through 2011 inclusive, and found the results appear reasonable.

Risks associated with the SA business are that contractual fees such as mortality and expense charges may be inadequate and/or that surrender charges may not be sufficient to permit recovery of the CRVM/CARVM expense allowances. The ability of reserves to cover such risks was evaluated by asset adequacy testing analysis. Therefore, an important examination focus was the review of the 2011 AOM.

Based on the above discussion, the Consulting Actuary concluded that the Transfers to separate accounts due or accrued as reported by the Company on Page 3, Line 13 appears fairly stated, and has been accepted for examination purposes.

(7) Aggregate write-in for liabilities: Derivative collateral payable ($82,306,297)

The above-captioned amount is $114,805,489 less than that reported by the Company on Page 3, Line 25 of the 2011 Annual Statement, as a result of a late adjustment related to derivative collateral made by the Company after issuance of its Annual Statement, but prior to issuance of its audited financial statements. Refer to comments within this section, under the caption “Cash and cash equivalents” for details regarding this adjustment.

Liabilities – Separate Account

(8) Aggregate reserve for life, annuity and accident and health contracts ($27,585,077,158)

The above-captioned amount, which is the same as that reported by the Company on Page 3, Line 1 and in Exhibit 3 of the SA Annual Statement, represents contractual obligations under separate account life and annuity contracts and policies written directly by the Company.

The reserve breakdown in Exhibit 3, by reserve segment, is as follows:

Reserve Segment	Total Gross and Net
Life Insurance	$ 7,214,762,538
Variable Deferred Annuities	20,368,905,843
Supplementary Contracts	1,408,777
Total	$27,585,077,158

The aggregate net reserve is held primarily for VUL and VDA with smaller amounts for supplementary contracts. Reserves for life contracts in the SA statement represent funds for VUL contracts held in various investments such as mutual funds which are made available to contract owners. The Consulting Actuary's analysis focused on the total reserves held in both the GA and SA statements. Most of the Company's VDA contracts contain GMDB or Guaranteed Living Benefits, which typically are added to the VDA contracts by riders. Reserves for such benefits are reported in the GA Annual Statement. The Consulting Actuary's analysis focused on the total reserves held in both the GA and SA statements.

As part of the annual certificate of reserve valuation procedure, the Consulting Actuary reviewed the December 31, 2011 life and annuity reserves and deposit-type contract liabilities. During that process, valuation files and summary work papers were reviewed and found to be in order. Reserves were reconciled from the summary work papers to Exhibit 3. The Actuarial Opinion was reviewed and found to be in order. A trend analysis over the examination period indicated increasing reserves and appeared reasonable.

Based on procedures, the Aggregate reserve for life, annuity and accident and health contracts as reported by the Company on Page 3, Line 1 and in Exhibit 3 of the December 31, 2011 SA Annual Statement appears fairly stated, and has been accepted for examination purposes.

(9) Liability for deposit-type contracts ($37,103,988)

The above-captioned amount is the same as that reported by the Company on Page 3, Line 2 and in Exhibit 4 of the SA Annual Statement. This liability reserve is held for SA supplemental contracts. These are part of the business segment (GA Liability for deposit-type contracts) which is discussed previously in Note 4.

A reserve trend analysis was performed and produced reasonable results. Reserve amounts in the Annual Statement were reconciled with the amounts obtained from the valuation extracts provided by the Company. No discrepancies were noted.

Based on the above testing done for supplemental contracts and annuities certain liabilities for the GA Annual Statement, the Consulting Actuary concluded that the Liability for deposit-type contracts as reported on Page 3, Line 2 and in Exhibit 4 of the Company's December 31, 2011 SA Annual Statement appears fairly stated, and has been accepted for examination purposes.

(10) Other transfers to general account due or accrued (net) ($953,501,251)

The above-captioned amount, which is the same as that reported by the Company on Page 3, Line 10 of the 2011 SA Annual Statement, represents the net balance at December 31, 2011 for transfers to GA due or accrued. The liability is for the CRVM and CARVM expense allowances, i.e., the difference between the account values and the associated reserves held in Exhibit 3 of the SA Annual Statement.

This item is discussed in Note 6, under the caption "Transfers to Separate Accounts due or accrued (net)" as it represents an offset to line 13 in the 2011 GA Annual Statement. Based on the above discussion and analysis, the Consulting Actuary has concluded that the Other transfers to GA due or accrued (net) as reported on Page 3, Line 10 of the Company's December 31, 2011 SA Annual Statement appears fairly stated, and has been accepted for examination purposes.

SUMMARY OF RECOMMENDATIONS

No examination report recommendations were noted as a result of this examination.

CONCLUSION

The following schedule shows a comparison of the results from the December 31, 2011 examination to the 2007 Annual Statement balances, with changes between:

Description	December 31, 2007	December 31, 2011	Increase (Decrease)
Assets	$44,700,805,700	$42,902,424,122	($1,798,381,578)
Liabilities	$43,526,661,682	$41,587,153,905	($1,939,507,777)
Common capital stock	6,437,000	6,437,000	0
Surplus notes	565,000,000	565,000,000	0
Gross paid in and contributed surplus	689,418,665	2,588,377,077	1,898,958,412
Aggregate Write-in for special surplus funds	0	71,676,897	71,676,897
Unassigned funds (surplus)	(86,711,647)	(1,916,220,756)	(1,829,509,109)
Total Capital and Surplus	1,174,144,018	1,315,270,218	141,126,200
Total Liabilities, Capital and Surplus	$44,700,805,700	$42,902,424,123	($1,798,381,577)

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. is acknowledged. In addition, the assistance and cooperation of the Company's outside audit firm, D&T, and the Company's management and staff were appreciated and are acknowledged.

Respectfully submitted,

Keith E. Misenheimer, CFE, ALMI, CFE
Examiner-In-Charge
State of Delaware
Northeastern Zone, NAIC