

**REPORT ON EXAMINATION**  
**OF THE**  
**DELAWARE LIFE INSURANCE COMPANY**  
**AS OF**  
**DECEMBER 31, 2015**

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 OF EXAMINATION, made as of December 31, 2015 of the

**DELAWARE LIFE INSURANCE COMPANY**

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

Attest By: Rubyann Brown

Date: December 15, 2016



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 15th day of December, 2016.

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

Karen Weldin Stewart, CIR-ML  
Insurance Commissioner



REPORT OF EXAMINATION  
OF THE  
DELAWARE LIFE INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2015

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

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

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

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

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Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Dated this 15th day of December, 2016

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## **SALUTATION**

October 19, 2016

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. 16.003, dated November 17, 2015, an Association examination has been made of the affairs, financial condition and management of the

### **DELAWARE LIFE INSURANCE COMPANY**

hereinafter sometimes referred to as the “Company” or “DLIC” 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 1601 Trapelo Road, Suite 30, Waltham, Massachusetts 02451. The report of this examination is submitted herewith.

### **SCOPE OF EXAMINATION**

We have performed our multi-state examination of Delaware Life Insurance Company. The last examination covered the period of January 1, 2008 through December 31, 2011. This examination covers the period of January 1, 2012 through December 31, 2015.

We conducted our examination in accordance with the NAIC *Financial Condition Examiners Handbook, 2015 Edition* (the Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact as mentioned in 18 Del. C. § 321 and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g. subjective conclusions, proprietary information, etc.) are not included within the examination report, but separately communicated to other regulators and/or the company.

## **SUMMARY OF SIGNIFICANT FINDINGS**

There were no significant findings or material adjustments to the Company's financial statements.

## **HISTORY**

Prior to August 2, 2013, the Company, formerly known as Sun Life Assurance Company of Canada (U.S.) (SLUS), was a member of the Sun Life Financial Group. It was incorporated under the laws of Delaware on January 12, 1970 and commenced business on January 1, 1973.

On December 17, 2012, Sun Life Financial Inc. (SLF) announced the execution of a definitive agreement to sell its domestic U.S. annuity business and certain life insurance business to Delaware Life Holdings, LLC (DLH), a Delaware limited liability company, including all of the issued and outstanding shares of the Company and its subsidiaries, including Sun Life Insurance and Annuity Company of New York (now known as Delaware Life Insurance Company of New York (DLNY)), for approximately \$1.35 billion (the "Sale Transaction"). After receiving all required regulatory approvals, the Sale Transaction closed on August 2, 2013 with an effective date of August 1, 2013. As of the examination date, DLH was ultimately controlled by Messrs. Mark R. Walter and Todd L. Boehly. At the time of the Sale Transaction, Mr. Walter and Mr. Boehly were officers of, and held non-controlling ownership interests in, Guggenheim Capital, LLC, a privately-held investment firm. DLH was formed as an acquisition vehicle for the Sale Transaction.

The purchase received prior approval on June 5, 2013 from the Delaware Department of Insurance under 18 Del. C. §5003.

Effective July 21, 2014, following the receipt of all required board, shareholder, and regulatory approvals, the Company's name was changed from Sun Life Assurance Company of Canada (U.S.) to Delaware Life Insurance Company.

On October 23, 2014, the Company formed a new insurance subsidiary, DL Reinsurance Company (DLRC), which was capitalized with \$30 million. DLRC is a Delaware domestic insurance company licensed to do business only in the State of Delaware.

In June 2015, the Company organized DL Investment Holdings 2015-1, LLC, a Delaware limited liability company, for the purpose of engaging in certain hedging activities associated with the Company's variable annuity products. No capital contributions were made to DL Investment Holdings 2015-1, LLC during 2015.

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 the issuance and administration of a variety of wealth accumulation products, protection products and institutional investment contracts.

### **Common Capital Stock and Paid-in Surplus**

The Company's Amended and Restated Certificate of Incorporation provides that the Company has authority to issue 10,000 common stock shares, par value \$1,000 per share. As of the examination date, the Company had 6,437 shares of common stock issued and outstanding. The capital represented by the 6,437 shares of common stock issued and outstanding was \$6,437,000.

As of December 31, 2015, all issued and outstanding shares of the Company's common stock were owned by DLH.

During the period under examination, the Company received the following contributions/  
(return of capital) from its previous sole stockholder:

<u>Year</u>	<u>Contributions</u>
2013	\$ (82,795,474) <sup>1</sup>

- (1) In 2013, the Company had Paid In Surplus Adjustments consisting of a decrease of \$70.7 million related to the distribution of the Company's former subsidiary, Independence Life and Annuity Company (ILAC), to the Company's former stockholder, Sun Life of Canada (U.S.) Holdings, Inc. (the "Former Parent) and a decrease of \$12.1 million in excess funds paid to the Former Parent from an escrow account (used to settle the Company's obligations) upon maturity of a medium term note program and related funding agreements, interest rate swap, and demand note.

The Company's Board of Directors approved the extraordinary distribution of all of the issued and outstanding shares of ILAC to the Former Parent in December 2013. The Company received regulatory approval and ILAC was distributed, effective January 1, 2013. The net impact to the Company's surplus was a decrease of \$64.2 million. The Company recorded the distribution as a return of gross paid in and contributed surplus.

## Dividends

During the period under examination, the Company paid the following dividends to

DLH:

<u>Year</u>	<u>Dividends</u>
2014	\$ 185,000,000 <sup>1</sup>
2015	\$ 200,000,000 <sup>2</sup>
2015	\$ 75,000,000 <sup>3</sup>
2015	\$ 15,409,985 <sup>4</sup>
2015	\$ 21,132,803 <sup>5</sup>

- (1) On March 20, 2014, the Department approved a \$185 million ordinary dividend. The dividend was paid to DLH on March 26, 2014.
- (2) On March 20, 2015, the Department approved a \$200 million ordinary dividend. The dividend was paid to DLH on March 26, 2015.
- (3) On September 11, 2015, the Department approved a \$75 million ordinary dividend. The dividend was paid to DLH on September 17, 2015.
- (4) & (5) On October 13, 2015, the Department approved a \$36,542,788 dividend, of which \$15,409,985 was an extraordinary dividend and \$21,132,803 was an ordinary dividend. The dividend was paid to DLH on November 2, 2015.

## Surplus Notes

As of December 31, 2015, the Company had the following outstanding surplus notes:

Surplus Note Amount	Date Issued	Date Matures	Issued To	Interest Rate	CY Interest Paid
\$ 150,000,000 <sup>1</sup>	12/15/1995	12/15/2027	Numerous (See note)	6.150%	\$ 9,225,000
\$ 150,000,000 <sup>2</sup>	12/15/1995	12/15/2032	Numerous (See note)	7.626%	\$ 11,439,000
\$ 7,500,000 <sup>3</sup>	12/15/1995	12/15/2027	Numerous (See note)	6.150%	\$ 461,250
\$ 7,500,000 <sup>4</sup>	12/15/1995	12/15/2032	Numerous (See note)	7.626%	\$ 571,950
\$ 250,000,000 <sup>5</sup>	12/22/1997	11/6/2027	Numerous (See note)	8.625%	\$ 21,562,500

- (1) Per this surplus note, interest is payable semi-annually in arrears on each June 15<sup>th</sup> and December 15th. The note holders of this note were Security Benefit Life Insurance Company, Heritage Life Insurance Company, EquiTrust Life Insurance Company, Guggenheim Life and Annuity Company, DLICM, LLC, DLICT, LLC and DLPR, LLC. The interest paid on this surplus note was approved by the Delaware Insurance Department.
- (2) Per this surplus note, interest is payable semi-annually in arrears on each June 15th and December 15th. The note holders of this note were Midland National Life Insurance Company and North American Company for Life and Health Insurance. The interest paid on this surplus note was approved by the Delaware Insurance Department.
- (3) Per this surplus note, interest is payable semi-annually in arrears on each June 15th and December 15th. The note holder of this note was Security Benefit Life Insurance Company. The interest paid on this surplus note was approved by the Delaware Insurance Department.
- (4) Per this surplus note, interest is payable semi-annually in arrears on each June 15th and December 15th. The note holder of this note was Paragon Life Insurance Company of Indiana. The interest paid on this surplus note was approved by the Delaware Insurance Department.
- (5) Per this surplus note, interest is payable semi-annually in arrears on each May 6 and November 6. The note holders of this note were Security Benefit Life Insurance Company, EquiTrust Life Insurance Company, Heritage Life Insurance Company, Guggenheim Life and Annuity Company, DLICM, LLC, DLICT, LLC and DLPR, LLC. The interest paid on this surplus note was approved by the Delaware Insurance Department.

## Borrowed Money

As of December 31, 2015, the Company had an outstanding liability for borrowed money in the amount of \$25,000,000 due to Société Générale. The principal amount is due December 12, 2019. Interest is paid monthly and calculated using LIBOR plus 1.15%. The Company is required to maintain a collateral security deposit with Société Générale. At December 31, 2015, \$37,609,882 was on deposit with the lender. This borrowed money is part of the Company's overall liquidity management strategy.

## **MANAGEMENT AND CONTROL**

### **Stockholder**

Article 2 of the Company's Amended and Restated bylaws states that 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 of the stockholders, for any purpose or purposes, unless otherwise prescribed by statute or by the Certificate of Incorporation, may be called by the chief executive officer and shall be called by the chief executive officer 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. Special meeting notices shall be given not less than ten nor more than sixty days before the date of the meeting. Any action required to be taken at any annual or special meeting of stockholders of the Company, or any action which may be taken at any annual or special meeting of such stockholders, may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted.

### **Board of Directors**

Pursuant to the General Corporation Laws of the State of Delaware, as implemented by the Company's Amended and Restated Certificate of Incorporation and Amended and Restated bylaws, all corporate powers are exercised by or under the direction of the board of directors.

The bylaws, as amended July 21, 2014, provide that the Company's business and affairs shall be managed by the Board of Directors (Board). Subject to restrictions imposed by law, the Amended and Restated Certificate of Incorporation, or the Amended and Restated bylaws, the Board can exercise all of the powers of the Company. The number of directors which shall constitute the whole Board shall not be less than three. The number of directors shall be determined by resolution of the Board or by the stockholders at the annual meeting.

At December 31, 2015, the members of the Company's Board of Directors together with their principal business affiliations were as follows:

<b>Name and Location</b>	<b>Principal Occupation</b>
Dennis A. Cullen Northbrook, Illinois	Independent Director Retired
David E. Sams, Jr. Waltham, Massachusetts	Chief Executive Officer Delaware Life Insurance Company
Daniel J. Towriss Indianapolis, Indiana	President and Chief Risk Officer Delaware Life Insurance Company

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

### **Committees**

Article III of the Company's Amended and Restated bylaws states that the Board of Directors may designate one or more committees. Each committee shall consist of one or more of the directors of the Company. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee.

As of December 31, 2015, the Board had designated only one committee, an audit committee.

During the period covered by this examination, there was one member of the audit committee. The sole member of the audit committee was considered independent.

### **Officers**

Article V of the Company's Amended and Restated bylaws states that the Company's officers shall consist of a chief executive officer, president, treasurer, and secretary elected by the Board and who shall hold office until their successors are elected and qualified. The Board may also appoint a Chairman, one or more vice presidents, and such other officers as are from time to time desired.

The Board of Directors at its first meeting after each annual meeting of stockholders shall choose a chief executive officer, a president, a secretary, a treasurer and such other officers as it shall deem necessary.

The officers of the Company shall hold office until their successors are chosen and qualified or until their earlier resignation or removal. Any officer elected or appointed by the Board of Directors may be removed at any time by the affirmative vote of a majority of the whole Board of Directors. Any vacancy occurring in any office of the Company shall be filled by the Board of Directors.

At December 31, 2015, the Company's principal officers and their respective titles were as follows:

<b>Name</b>	<b>Principle Occupation</b>
David Eugene Sams, Jr.	Chief Executive Officer
Michael Scott Bloom	Senior Vice President and General Counsel and Secretary
Michael Kevin Moran	Senior Vice President and Chief Accounting Officer and Treasurer

Daniel Jonathan Towriss	President and Chief Risk Officer
Keith Anthony Dall	Executive Vice President, Chief Actuary
Andrew Francis Kenney	Chief Investment Officer
James Darrell Purvis	Chief Operating Officer
Robert Sabatino	Senior Vice President, Information Technology and Operations
Michelle Beth Wilcon	Senior Vice President, Human Resources

In addition to the above officers, additional vice presidents, assistant vice presidents and other officers were appointed.

### **Conflicts of Interest**

The Company maintains a formal written Code of Conduct, which sets out minimum standards of ethical conduct that applies to all employees, officers and directors. Incorporated into the Code of Conduct is a conflict of interest policy. Each year, all officers and directors are required to complete a Code of Conduct Annual Compliance Confirmation, confirming their compliance with the Code of Conduct. The Vice President and Chief Compliance Officer of the Company provides an annual report to the Board concerning compliance with the Code of Conduct, as required by the code.

In accordance with Section 12 of the Delaware Insurance Department Examination Handbook, a review of the Company's annual Compliance Confirmations with the Code of Conduct 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 conflict of interest disclosure statements was conducted for all years under examination with no concerns or issues identified.

### **Articles of Incorporation and bylaws**

On May 22, 2014, the Company filed an Amended and Restated Certificate of Incorporation with the Delaware Secretary of State, changing the name of the Company from Sun Life Assurance Company of Canada (U.S.) to Delaware Life Insurance Company. Similarly, in connection with the Company's name change, the bylaws were amended and restated.

### **Corporate Records**

The recorded minutes of the sole stockholder 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 2014 revealed that the Company had materially complied with 18 Del. C. §5004 and 18 Del. Admin. Code §1801.

### **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 timely filed with the Delaware Insurance Department for the years under examination.

### **Organization Chart**

The following presentation of the holding company system reflects the identities and interrelationships between the Company, DLH, affiliated insurers and other members of the holding company system as of December 31, 2015:

Delaware Life Insurance Company

<u>Company</u>	<u>Domicile</u>	<u>% own</u>
Mr. Mark R. Walter (individual)		
Delaware Life Holdings Manager, LLC <sup>1</sup>	Delaware	50%
DLICM, LLC	Delaware	100%
Delaware Life Equity Investors, LLC <sup>2</sup>	Delaware	50%
Mr. Todd L. Boehly (individual)		
Delaware Life Holdings Manager, LLC <sup>1</sup>	Delaware	50%
DLICT, LLC	Delaware	100%
Delaware Life Equity Investors, LLC <sup>2</sup>	Delaware	50%
Delaware Life Holdings Parent II, LLC <sup>3</sup>	Delaware	35%
Delaware Life Holdings Parent, LLC	Delaware	100%
Delaware Life Holdings, LLC	Delaware	100%
<b>Delaware Life Insurance Company</b>	<b>Delaware</b>	<b>100%</b>
Delaware Life Insurance Company of New York	New York	100%
DL Reinsurance Company	Delaware	100%
DL Information Services Canada Inc.	Canada	100%
DL Private Placement Investment Company I, LLC	Delaware	100%
Clarendon Insurance Agency, Inc.	Massachusetts	100%
DL Investment DELRE Holdings 2009-1, LLC	Delaware	100%
DL Services Holdings, LLC	Delaware	100%
IDF, IX LLC	Delaware	100%
IDF, X LLC	Delaware	100%
DL Investment Holdings 2015-1, LLC	Delaware	100%
Delaware Life (Bermuda) Holdings, Inc.	Delaware	100%
Delaware Life Ins. and Annuity Company (Bermuda) Ltd.	Bermuda	100%
Delaware Life Reinsurance (Barbados) Corp.	Barbados	100%
Armstrong STF IV, LLC	Delaware	100%
Marcy STF I, LLC	Delaware	100%
Redfield STF II, LLC	Delaware	100%
Wright STF III, LLC	Delaware	100%

- (1) Delaware Life Holdings Manager, LLC has no ownership; it is the designated Manager of (1) Delaware Life Holdings Parent II, LLC, (2) Delaware Life Holdings Parent, LLC and (3) Delaware Life Holdings, LLC.
- (2) Ownership of entities under Delaware Life Equity Investors, LLC, is shown only once.
- (3) Delaware Life Holdings Parent II, LLC has a 65% economic / non-voting ownership held by Delaware Life Partners, LLC. Delaware Life Equity Investors, LLC has a 35% economic / 100% voting ownership in Delaware Life Holdings Parent II, LLC.

## **Affiliated Management and Service 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 agreements were entered into prior to the period covered by this examination, but were terminated effective August 2, 2013, upon the acquisition of the Company by DLH.

<b><u>Description</u></b>	<b><u>Effective Date</u></b>
Service Agreement with SLNY and SLOC	July 1, 1999
Services Agreement with SLOC and SL Ireland	November 16, 2001
Administrative Services Agreement with SLOC US	July 1, 2001
Administrative Services Agreement with ILAC	October 31, 2001
Administrative Services Agreement between SLUS and SLOC	January 1, 2002 <sup>(1)</sup>
Administrative Services Agreement between SLOC and SLUS	January 1, 2002 <sup>(2)</sup>
Administrative Services Agreement with Sun Capital Advisors, LLC	January 1, 2002
Product and Marketing Support Services Agreement with SLOC (BB)	October 1, 2002
Management Services Consulting with SLOC (BB)	May 1, 2003
Insurance Management Services Consulting Agreement with SLOC (BB)	May 1, 2003
Services Agreement with Sun Life Investments LLC	August 30, 2005
Administrative Services Agreement with SLIS	December 6, 2004
Administrative Services Agreement with MTN III	December 1, 2004
Administrative Services Agreement with California Benefits Dental Plan	May 31, 2007
General Services Agreement with Professional Insurance Company	May 31, 2007
General Services Agreement with Sun Life Administrators (U.S.), Inc.	May 31, 2007
General Services Agreement with SLHIC	May 31, 2007
Administrative Services Agreement with SLFR	November 8, 2007
Administrative Services Agreement with SLIS	August 1, 2008
Information Technology Services Agreement with SLIS	April 1, 2008
Administrative Services Agreement with SLI US-RE	February 5, 2009
Administrative Services Agreement with SLFD and Sun Life Services	January 1, 2009
Administrative Services Agreement with Sun Life Services	December 31, 2009
Administrative Services with SL Finance	January 1, 2010
Investment Advisory Agreement with Sun Capital Advisers, LLC	January 1, 2002
Wholesaling Agreement with Clarendon Insurance Agency, Inc. and SLFD	January 1, 2003
Product and Marketing Support Services Agreement with SLFI Bermuda	May 1, 2003

(1) Under terms of this agreement, the Company provided administrative services to SLOC.

(2) Under terms of this agreement, SLOC provided administrative services to the Company.

The following agreements were entered into prior to the period covered by this examination and remained in effect as of December 31, 2015:

<b><u>Description</u></b>	<b><u>Effective Date</u></b>
Management Services Agreement with SLNY	November 21, 2000
Administrative Services Agreement with DLAC (Bermuda)	January 1, 2002
Administrative Services Agreement with Clarendon Insurance Agency, Inc.	December 1, 2008
Administrative and Tax Services Agreement with Barbco	January 1, 2010
Investment Management Agreement with Sun Capital Advisers, LLC	May 30, 2000 <sup>(1)</sup>
Principal Underwriter's Agreement with Clarendon Insurance Agency, Inc.	April 1, 2002

(1) Effective August 2, 2013, this agreement was no longer an inter-company agreement; however, it remains in effect as of December 31, 2015, as a third-party agreement.

#### **Acronym Legend**

SLNY – Sun Life Insurance and Annuity Company of New York, now known as DLNY  
SLOC – Sun Life Assurance Company of Canada  
SL Ireland – Sun Life Information Services Ireland Limited  
SLOC US – Sun Life Assurance Company of Canada – U.S. Operations Holdings, Inc.  
ILAC – Independence Life and Annuity Company  
DLAC (Bermuda) – Delaware Life Insurance and Annuity Company (Bermuda) Ltd. (formerly known as Sun Life Insurance and Annuity Company (Bermuda) Ltd.)  
SLOC (BB) – Sun Life Assurance Company of Canada (Bermuda Branch)  
SLIS – Sun Life Information Services Canada Inc.  
MTN III – 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  
SLHIC – Sun Life and Health Insurance Company (U.S.)  
SLFR – Sun Life Financial (U.S.) Reinsurance Company  
SLI US-RE – SL Investment US-RE Holdings 2009-1, Inc.  
SLFD – Sun Life Financial Distributors, Inc. (formerly known as MFS/Sun Life Financial Distributors, Inc.)  
Sun Life Services - Sun Life Financial (U.S.) Services Company, Inc.  
Barbco – Delaware Life Reinsurance (Barbados) Corp. (formerly known as Sun Life Reinsurance (Barbados) No. 3 Corp.)  
SL Finance – SL Finance 2007-1, Inc., SL Investment 2007-1 ULC and SL Investment Holdings 2007-1 LLC  
SLFI Bermuda – Sun Life Financial Investments (Bermuda) Ltd.

The above agreements were reviewed in connection with earlier examinations; however, balances associated with the above agreements as of December 31, 2015, were reviewed as part of this examination.

Affiliate and related party agreements newly entered into during the period covered by this examination and remaining in effect as of December 31, 2015, are summarized as follows:

Service Agreements

*Administrative and Distribution Services Agreement*

Effective January 1, 2012, the Company entered into an Administrative and Distribution Services Agreement with Massachusetts Financial Services Company (MFS) and MFS Fund Distributors, Inc. (MFD), whereby the Company receives a fee for administrative and distribution services performed with respect to the MFS Variable Insurance Trust and the MFS Variable Insurance Trust II, for which MFS serves as the investment adviser and MFD serves as the distributor.

*Services Agreement*<sup>(1)</sup>

Effective August 1, 2013, a Services Agreement was entered into by the Company and Guggenheim Insurance Services, LLC (GIS), whereby GIS provides certain personnel, facilities, systems and equipment in conjunction with the provision of accounting and general services, insurance services and other advisory services to the Company.

*Services Agreement*

Effective August 1, 2013, a Services Agreement was entered into by the Company and DL Information Services Ireland Limited (DL Ireland), pursuant to which DL Ireland provides administrative and support services to the Company and its U.S. affiliates. This agreement terminated with the sale of DL Ireland in October 2015.

*Services Agreement*

Effective August 1, 2013, a Services Agreement was entered into by the Company and DL Information Services Canada Inc. (DL Canada), pursuant to which DL Canada provides administrative and support services to the Company and its U.S. affiliates.

*Services Agreement*<sup>(1)</sup>

Effective August 1, 2013, a Services Agreement was entered into by the Company and Guggenheim Commercial Real Estate Finance, LLC (GCREF), whereby GCREF provides mortgage loan sourcing, origination and administration services to the Company.

*Assignment and Assumption Agreement and Purchaser Transition Services Agreement*

Effective August 2, 2013, an Assignment and Assumption Agreement was entered into between the Company and DLH, pursuant to which DLH assigned to the Company all of DLH's rights, title and interest in and to, and the Company assumed the obligations of DLH under a "Purchaser Transition Services Agreement" between DLH and SLOC US, also dated as of August 2, 2013.

*Services (Selling) Agreement*<sup>(1)</sup>

Effective December 1, 2014, the Company entered into a Services (Selling) Agreement with GIS, and South Blacktree Agency LLC (Agency), whereby GIS and Agency will offer, sell and service certain private placement variable universal life insurance policies and funding agreements that are deemed to be securities under the Securities Act of 1993, as amended (including rules thereunder), but are exempt from registration.

*Administrative Services Agreement*

Effective December 22, 2014, an Administrative Services Agreement was entered into by the Company and DLRC, pursuant to which the Company furnishes certain investment, actuarial, and administrative services to DLRC.

Investment Management Agreements

*Investment Management Agreement*<sup>(1)</sup>

Effective August 2, 2013, an Investment Management Agreement was entered into by the Company and Guggenheim Partners Investment Management, LLC (GPIM), whereby GPIM provides investment management services for certain of the Company's investments.

*Investment Services Agreement*<sup>(1)</sup>

Effective October 1, 2013, an Investment Services Agreement was entered into by the Company and GPIM, whereby GPIM provides services to the Company with respect to certain general account assets that GPIM does not manage for the Company under other agreements.

*Investment Management Agreement*<sup>(1)</sup>

Effective October 1, 2014, an Amended and Restated Investment Management Agreement was entered into by the Company and GPIM, whereby GPIM provides investment management services for certain of the Company's investments.

Master Agency Agreements

*Master Agency Agreement*<sup>(1)</sup>

Effective February 1, 2014, a Master Agency Agreement was entered into between the Company and Dunbarre Insurance Agency, LLC (Dunbarre), together with a related commission payment facility agreement and an assignment and assumption agreement, under which the Company appointed Dunbarre as an independent master agency for the purposes of recruiting

producers to solicit and sell life insurance policies and annuity contracts written by the Company and accepting assignments from the Company of existing producers and agencies.

*Master Agency Agreement*<sup>(1)</sup>

Effective May 18, 2015, a Master Agency Agreement was entered into by the Company and Divinshire Insurance Agency, LLC (Divinshire), together with a related commission payment facility agreement and an assignment and assumption agreement, under which the Company appointed Divinshire as an independent master agency for the purposes of recruiting producers to solicit and sell life insurance policies and annuity contracts and accepting assignments from the Company of existing producers and agencies.

Tax Allocation Agreements

*Federal Tax Allocation Agreement*

Effective December 15, 2014, a federal tax allocation agreement was entered into between the Company as the common parent of an affiliated group of companies that includes DLNY and DLRC.

For the affiliated and related party agreements noted above that were newly entered into, 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).

Furthermore, all of the aforementioned agreements require quarterly or more frequent settlement and include a thirty, sixty, ninety day or other appropriate termination clause.

(1) DLIC agreed to comply with the filing and other requirements contained in 18 Del. C. §5005(a) with respect to transactions between DLIC and members of the Sammons Enterprises Group and/or Guggenheim Capital Group, pursuant to the terms of a letter agreement dated as of May 17, 2013 among the Department, DLIC, DLH and certain persons with direct and indirect ownership interest in DLH.

## **TERRITORY AND PLAN OF OPERATION**

### **Territory**

As of December 31, 2015, the Company was licensed to transact multiple lines of insurance business in 49 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands. The Company was not licensed in New York. 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 life insurance, variable annuities and health insurance as defined in 18 Del. C. § 902 "Life insurance" and 18 Del. C. § 903 "Health insurance."

The principal office facilities of the Company are located in Waltham, Massachusetts.

### **Plan of Operation**

At December 31, 2015, approximately forty-five percent (45.23%) of direct premiums were produced in five states. The geographical breakdown of direct written premiums as of December 31, 2015 was: Pennsylvania, \$188,052,171 (13.67%); Massachusetts, \$138,751,123 (10.09%); Ohio, \$136,178,419 (9.90%); New Jersey, \$90,773,574 (6.60%); North Carolina, \$68,343,177 (4.97%); and other jurisdictions, \$753,402,411 (54.77%).

The business of the Company and its insurance subsidiary, DLNY, includes a variety of wealth accumulation products, protection products and institutional investment contracts. These products include individual and group variable life insurance, individual and group universal life insurance, individual and group fixed and variable annuities and funding agreements.

The Company had ceased writing new individual life and other annuity business effective December 31, 2011; however, it continued accepting limited applications for certain private placement variable annuities until mid-2012. On September 27, 2013, following completion of

the sale of the Company to DLH, the Company's Board of Directors authorized the Company to issue funding agreements, fixed annuities, variable annuities, single premium life insurance and private placement products on a fixed and variable basis and to utilize its existing separate accounts in conjunction therewith.

### **Lines of Business and Products**

The Company's previous existing business includes a closed block of variable annuities and individual life insurance products, which prior to the acquisition by DLH had been placed in run off by SLF. The individual life block includes a large block of single premium whole life business, along with a closed block of bank-owned (BOLI) and corporate-owned (COLI) variable universal life insurance business which is reinsured to Barbco, an affiliated off-shore Barbados insurance company. Additionally, there is a modest block of private placement variable universal life and annuities issued by another affiliated off-shore company, DLAC (Bermuda), which is entirely separate account business.

The Company's legacy variable annuity (VA) business includes three types of guarantees: Guaranteed Minimum Death Benefits, which makes up approximately 60% of the book of business; Guaranteed Minimum Withdrawal Benefits, which makes up approximately 30% of the VA business; and a modest amount of Guaranteed Minimum Accumulation Benefits. Prior to the acquisition of the Company by DLH from SLF, the VA block was sold through banks, wire-houses and independent brokers. Additionally, there is a large legacy block of fixed annuities including a modest amount of fixed index annuities (FIA) and a modest amount of pension products. The legacy fixed annuity block is roughly 75% traditional fixed annuities and 25% FIAs.

During November 2013, the Company began marketing a multi-year guaranteed annuity (MYGA) called Pinnacle. Pinnacle is a single premium deferred annuity with a market value adjustment (MVA) that earns a fixed rate of interest guaranteed for a period. The product offers multiple guarantee periods (from 3 to 10 years) to align with the Company's customers specific needs. It was launched in November 2013 and is marketed through select independent marketing organizations (IMOs) and financial institutions.

During 2015, the Company began selling new FIA products referred to as Retirement Chapters 10 and Retirement Stages 7. These products are flexible premium FIAs that protect principal from market losses, while offering the opportunity to earn interest based on the performance of a stock market index. Retirement Chapters 10 adds a five percent bonus on the first-year premium payments. Both products offer a Guaranteed Living Benefit option to guarantee growth on an income base at an additional cost.

### **Distribution System**

The Company distributed its current fixed annuity and FIA product offerings through three primary distribution channels: banks, IMOs, and broker/dealers.

Bank distribution was marketed through a third-party wholesaler agreement with Midwood Financial Services, Inc. At December 31, 2015, 11 banks and 4,108 agents were contracted to sell the Company's fixed annuities and FIAs within this channel.

The IMO channel was marketed through agreements with third-party IMOs. At December 31, 2015, 13 IMOs and 4,951 agents were contracted to sell the Company's fixed annuities and FIAs within this channel. The Company also contracts with broker/dealers directly and in conjunction with the IMOs.

The Company supported these third-party distribution agreements with three field relationship managers and six internal distribution services representatives. These individuals were employed by the Company to act as conduits and service/marketing liaisons between the Company and its distribution firms.

### **A.M. Best's Rating**

Based on A.M. Best's current opinion of the financial condition and operating performance of the Company, the Company was assigned an A.M. Best rating of A- (Excellent) for the year ending December 31, 2015, with a stable outlook.

### **REINSURANCE**

For 2015, the Company reported the following distribution of net premiums written:

Direct	\$ 1,369,406,431
Reinsurance assumed (from affiliates)	-
Reinsurance assumed (from non-affiliates)	-
Total direct and assumed	\$ 1,369,406,431
Reinsurance ceded (to affiliates)	33,973,888
Reinsurance ceded (to non-affiliates)	14,249,975
Net premium written	\$ 1,321,182,568

The Company had the following reinsurance program in effect as of December 31, 2015:

### **Assumed**

The Company assumes a small block of single life deferred annuity business on a 100% coinsurance basis under a reinsurance agreement effective July 26, 1996. This currently is the only treaty where the Company assumes business. The Company has indicated that it does not have any current plans to acquire any assumed or assumption reinsurance.

## **Ceded**

### *Life Block*

The Company's retention limits are set periodically by resolution of the Board of Directors. Retained amounts in excess of the retention limit are ceded to the U.S. Branch of SLOC, a former affiliate, on a yearly-renewable term (YRT) basis.

For most of the variable life products, multiple reinsurers are engaged, generally through the use of an automatic first dollar quota share (FDQS) pool structure with an immaterial amount of risk ceded on a facultative basis. For the most part, the form of reinsurance has been YRT.

For universal life products, two 50% modified coinsurance treaties were entered into in 2007. These arrangements were recaptured by the Company effective June 1, 2013. This reinsurance was replaced by a YRT reinsurance treaty as of June 1, 2013.

For COLI variable universal life products, a reinsurance agreement was entered into between the Company and Barbco, effective December 31, 2008. General account reserves are ceded 100% on a funds withheld basis, and 100% of separate account risks are ceded, after third party YRT cessions. This agreement, effective in 2008, is a combination of coinsurance and funds withheld coinsurance. Prior to a 2010 amendment, it also included a modified coinsurance component. The Company, as cedant, controls all assets held in relation to the funds-withheld coinsurance.

For BOLI products, the Company entered into a Novation Agreement with SLOC and Barbco effective July 31, 2013. Pursuant to the Novation Agreement, Delaware Life Reinsurance (Barbados) Corp. was substituted as reinsurer under the original June 12, 2000 reinsurance agreement between the Company and SLOC, whereby the Company ceded to SLOC on a YRT basis, certain risks under group flexible premium variable universal life policies.

SLOC transferred \$241 million of invested assets and \$33 million of cash to Barbco to support the assigned liabilities. The Novation Agreement and transfers were effective upon the close of the Sale Transaction.

On February 28, 2013, the Company recaptured from SLOC a large block of single premium whole life business that was 100% coinsured on a funds-withheld basis.

A small block of individual life insurance business was ceded to an external reinsurer under a 100% coinsurance treaty effective December 27, 1984.

#### *Variable Annuity Block*

The Company entered into three treaties effective 1999 covering certain of its variable annuity products, whereby a portion of the reserve was ceded on a YRT basis.

Effective December 31, 2014, the Company entered into a combination modified coinsurance and funds-withheld coinsurance agreement with its wholly-owned subsidiary DLRC. Under this agreement, the Company cedes certain risks of its variable annuity products to DLRC. Approval of this agreement was received from the Delaware Insurance Department on December 29, 2014. It is accounted for using deposit accounting in accordance with Statement of Statutory Accounting Principles (SSAP) No. 61R – *Life, Deposit-Type and Accident and Health Reinsurance*.

#### *Fixed Annuity Block*

A small block of single premium immediate annuity business was ceded to an external reinsurer under a 100% coinsurance treaty effective February 1, 1996.

Effective January 1, 2015, the Company entered into a reinsurance agreement with its wholly-owned subsidiary, DLRC, pursuant to which DLRC assumes and the Company cedes, on an indemnity coinsurance funds-withheld basis, the quota share of risks associated with various

FIA products and associated riders. The reinsurance agreement transfers hedging risk from the Company to DLRC. Approval of this agreement was received from the Delaware Insurance Department on June 30, 2015. It is accounted for using deposit accounting in accordance with SSAP No. 61R.

### **Reinsurance Contract Review**

A review was performed of the two reinsurance contracts put into place during the examination period for compliance with 18 Del. Admin Code §1000, NAIC Guidelines and Statutory Accounting Principles (SSAP). No exceptions were noted.

## **FINANCIAL STATEMENTS**

The following financial statements are based on the statutory financial statements filed by the Company with the Delaware Department of Insurance and present the financial condition of the Company for the period ending December 31, 2015. The accompanying comments on the financial statements reflect any examination adjustments to the amounts reported in the Annual Statements, and should be considered an integral part of the financial statements.

#### 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 – Insulated and Non-Insulated:

- Assets
- Liabilities and Surplus

#### Analysis of Changes in Financial Statements Resulting from Exam

The narrative on the reserve related balances is presented in the Notes to the Financial Statements section of this report.

**Assets**  
**As of December 31, 2015**

	Assets	Nonadmitted Assets	Net Admitted Assets	Notes
Bonds	\$ 5,853,361,724	\$	\$ 5,853,361,724	
Stocks:				
Common stocks	32,633,929		32,633,929	
Common stocks	551,085,166	734,313	550,350,853	
Mortgage loans on real estate				
First liens	492,035,000	1,694,782	490,340,218	
Cash, cash equivalents and short-term investments	1,536,423,445		1,536,423,445	
Contract loans	630,914,304	88,332	630,825,972	
Derivatives	246,436,774		246,436,774	
Other invested assets	529,508,736	100	529,508,636	
Receivables for securities	8,166,993		8,166,993	
Aggregate write-ins for invested assets	3,141,513		3,141,513	
Investment income due and accrued	84,380,270	309,468	84,070,802	
Reinsurance:				
Amounts recoverable from reinsurers	4,281,792		4,281,792	
Other amounts receivable under reinsurance contracts	8,776,571		8,776,571	
Current federal and foreign income tax recoverable and interest thereon	8,071,222		8,071,222	
Net deferred tax asset	278,096,347	64,719,158	213,377,189	
Receivable from parent, subsidiaries and affiliates	1,298,344		1,298,344	
Aggregate write-ins for other than invested assets	1,450,021,211	3,835,189	1,446,186,022	
Total assets excluding Separate Accounts	<u>\$ 11,718,633,341</u>	<u>\$ 71,381,342</u>	<u>\$ 11,647,251,999</u>	
From Separate Accounts	25,229,673,495	-	25,229,673,495	
Total	<u><u>\$ 36,948,306,836</u></u>	<u><u>\$ 71,381,342</u></u>	<u><u>\$ 36,876,925,494</u></u>	

**Liabilities, Surplus and Other Funds**  
**As of December 31, 2015**

Liabilities, Surplus and Other Funds

		<u>Notes</u>
Aggregate reserves for life contracts	\$ 7,811,011,364	1
Liability for deposit type contracts	189,352,721	2
Contract claims:		
Life	45,933,539	3
Contract liabilities not included elsewhere:		
Surrender values on canceled contracts	1,337,090	
Other amounts payable on reinsurance	3,231,589	
Interest maintenance reserve	27,333,065	
Commissions to agents due or accrued	8,357,717	
General expenses due or accrued	51,851,017	
Transfers to Separate Accounts due or accrued	(644,905,293)	4
Taxes, licenses and fees	4,545,166	
Unearned investment income	43,403	
Amounts withheld or retained by company as agent or trustee	1,102,936	
Remittances and items not allocated	31,012,886	
Borrowed money	25,000,000	
Miscellaneous liabilities:		
Asset valuation reserve	151,227,840	
Funds held under reinsurance treaties and unauthorized reinsurers	270,742,153	
Payable to parent, subsidiaries and affiliates	291,533	
Funds held under coinsurance	1,332,097,241	
Derivatives	51,089,581	
Payable for securities	521,987,888	
Aggregate write-ins for liabilities	128,718,000	
Total liabilities excluding Separate Accounts	<u>\$ 10,011,361,435</u>	
From Separate Accounts Statement	<u>25,229,672,269</u>	
Total Liabilities	<u>\$ 35,241,033,704</u>	
Common capital stock	6,437,000	
Surplus notes	565,000,000	
Gross paid-in and contributed surplus	653,698,314	
Unassigned funds	410,756,476	
Capital and Surplus	<u>\$ 1,635,891,790</u>	
Total Liabilities, Capital and Surplus	<u><u>\$ 36,876,925,494</u></u>	

**Summary of Operations  
As of December 31, 2015**

Premiums and annuity considerations for life and accident and health contracts	\$ 1,321,182,568
Consideration for supplementary contracts with life contingencies	28,768,339
Net investment income	381,622,814
Amortization of Interest Maintenance Reserve	18,777,375
Commissions and expense allowances on reinsurance ceded	2,932,182
Miscellaneous income:	
Income from fees associated with investment management, administration and contract guarantees from Separate Accounts	467,433,252
Aggregate write-ins for miscellaneous income	139,396,319
Totals	\$ 2,360,112,849
Death benefits	\$ 142,344,057
Disability benefits and benefits under accident and health contracts	589,119,623
Surrender benefits and withdrawals for life contracts	2,518,026,326
Interest and adjustments on contract or deposit-type contract funds	6,605,781
Payments on supplementary contracts with life contingencies	31,740,315
Increase in aggregate reserves for life and accident and health contracts	536,439,565
Totals	\$ 3,824,275,667
Commissions on premiums, annuity considerations and deposit-type contracts funds	119,118,270
Commissions and expense allowances on reinsurance assumed	122,625
General insurance expenses	231,294,462
Insurance taxes, licenses and fees, excluding federal income taxes	4,697,418
Net transfers to or (from) Separate Accounts net of reinsurance	(2,160,670,213)
Aggregate write-ins for deductions	62,968,968
Totals	\$ 2,081,807,197
Net gain from operations before dividends to policyholders and federal income taxes	\$ 278,305,652
Dividend to policyholders	
Net gain from operations after dividends to policyholders and before federal income taxes	278,305,652
Federal and foreign income taxes incurred	(2,729,506)
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains (losses)	281,035,158
Net realized capital gains (losses)	67,718,869
Net Income	\$ 348,754,027

**Capital and Surplus Account  
As of December 31, 2015**

Capital and surplus, December 31, prior year	\$ 1,591,482,693
Net income (Loss)	348,754,027
Change in net unrealized capital gains or (losses) less capital gains tax of \$ 4,931,389	(5,299,373)
Change in net unrealized foreign exchange capital gain (loss)	(7,317,182)
Change in net deferred income tax	(101,139,901)
Change in nonadmitted assets	107,495,765
Change in liability for reinsurance in unauthorized companies	145,411
Change in asset valuation reserve	3,202,675
Suplus (contributed to) withdrawn from Separate Accounts during period	552,211
Other changes in surplus in Separate Accounts during period	3,105,826
Cummulative effect of changes in accounting principles	6,255,196
Dividends to stockholders	(311,542,788)
Aggregate write-ins for gains and losses in surplus	197,230
Net change in capital and surplus for the year	\$ 44,409,097
Capital and surplus, December 31, current year	\$ 1,635,891,790

**Reconciliation of Capital and Surplus  
From January 1, 2012 to December 31, 2015**

Capital and Surplus, January 1, 2012		\$ 1,315,270,218
Net income		946,639,086
Additions:		
Change in net unrealized capital gains	345,049,632	
Change in nonadmitted assets	669,708,396	
Change in liability for reinsurance in unauthorized companies	7,576	
Change in asset valuation reserve	36,953,510	
Suplus withdrawn from Separate Accounts during period	552,211	
Cummulative effect of changes in accounting principles	28,054,932	
Total Additions		1,080,326,257
Deductions		
Change in net unrealized foreign exchange capital gain (loss)	(9,811,839)	
Change in net deferred income tax	(705,010,944)	
Other changes in surplus in Separate Accounts during period	(400,746)	
Paid in capital	(82,795,474)	
Dividends to stockholders	(496,542,788)	
Net change in capital and surplus for the year	(411,781,981)	
Total Deductions		(1,706,343,771)
Capital and Surplus, December 31, 2015		\$ 1,635,891,790

**Separate Accounts – Insulated and Non-Insulated  
Assets  
As of December 31, 2015**

	General Account <u>Basis</u>	Fair Value <u>Basis</u>	<u>Total</u>	<u>Notes</u>
Bonds	\$572,186,319	\$ 6,660,012,408	\$ 7,232,198,727	
Stocks:				
Preferred stocks	5,195,626	4,828,626	10,024,252	
Common stocks	76,460	15,753,780,649	15,753,857,109	
Mortgage loans	88,322,038	57,954,773	146,276,811	
Cash and cash equivalents	95,388	2,348,897	2,444,285	
Short-term investments	21,228,227	654,968,787	676,197,014	
Other invested assets		206,643,687	206,643,687	
Investment income due and accrued	5,074,552	28,576,218	33,650,770	
Receivable for securities	3,264,652	1,158,596,561	1,161,861,213	
Aggregate write-ins for other than invested assets		6,519,627	6,519,627	
<b>Total</b>	<b>\$695,443,262</b>	<b>\$ 24,534,230,233</b>	<b>\$ 25,229,673,495</b>	

**Liabilities  
As of December 31, 2015**

	General Account <u>Basis</u>	Fair Value <u>Basis</u>	<u>Total</u>	<u>Notes</u>
Aggregate reserve for life, annuity and accident and health contracts	\$539,409,048	\$ 22,084,438,066	\$ 22,623,847,114	5, 8
Liability for deposit-type contracts		29,376,535	29,376,535	6
Interest maintenance reserve	(12,866,897)		(12,866,897)	
Other transfers to general account due or accrued	128,997,600	515,907,703	644,905,303	7, 9
Remittances and items not allocated	12,497	169,279	181,776	
Derivatives	38,320,567		38,320,567	
Payable for securities	367,112	1,783,980,058	1,784,347,170	
Aggregate write-ins for liabilities	1,203,335	120,357,366	121,560,701	
<b>Total liabilities</b>	<b>\$695,443,262</b>	<b>\$ 24,534,229,007</b>	<b>\$ 25,229,672,269</b>	
Unassigned funds		1,226	1,226	
<b>Total</b>	<b>\$695,443,262</b>	<b>\$ 24,534,230,233</b>	<b>\$ 25,229,673,495</b>	

### **Analysis of Changes in Financial Statements Resulting from Exam**

There were no changes to surplus as a result of the financial examination.

### **NOTES TO FINANCIAL STATEMENTS**

#### **Liabilities – General Account**

As of December 31, 2015, the Company's business was primarily comprised of the following products:

1. Life Insurance including universal life (UL), single premium whole life (SPWL), corporate owned and bank owned life insurance (COLI and BOLI), and variable universal life (VUL).
2. Annuities including fixed (DA) and variable deferred annuities (VDA), fixed indexed annuities (FIA), single premium immediate annuities (SPIA), and supplementary contracts with and without life contingencies (SCWLC and SCWOLC).

The Company has in-force variable annuities, fixed annuities, and life insurance. The Company offers a market value adjustment (MVA) annuity and a fixed indexed annuity and plans to offer life insurance and variable annuities in the future.

The Company held general account (GA) reserves, as well as insulated and non-insulated separate account (SA) reserves. The Company established non-insulated and non-unitized separate accounts for certain contracts which contain an MVA feature.

#### **Asset Adequacy Analysis**

The Consulting Actuary reviewed the 2015 Asset Adequacy Analysis (AAA) conducted as required by the Actuarial Opinion Memorandum Regulation (AOMR). As a result of the AAA performed, the Company's Appointed Actuary concluded that additional reserves of

\$236.4 million were required for certain product lines as of December 31, 2015. Based on the Consulting Actuary's review, this conclusion was accepted for examination purposes.

Data Validity, Inclusion Testing and Testing of Reserves – Unusual Circumstances

The examination of the Company was conducted as a Risk-Focused Examination following the procedures as outlined in the Handbook.

In 2015, the Company initiated a transition from its legacy administration systems to se<sup>2</sup>, llc (se<sup>2</sup>) an industry accepted administration system. Some life insurance blocks were transitioned by December 31, 2015. However, the largest blocks of business including payouts, fixed annuities, single premium whole life insurance and variable annuities started the transition on October 1, 2015 but had not completed the transition as of December 31, 2015.

The valuation systems required an extract from the administration system to calculate statutory reserves on a policy-by-policy basis. For the blocks initiating the transition to se<sup>2</sup> on October 1, 2015, the Company separated contracts into three categories: in good order (IGO), watch list, and not in good order (NIGO). Values from se<sup>2</sup> which the Company determined were critical were compared to the prior legacy administration systems. If the critical value was within the greater of +/- \$10 or +/- .50%, then contracts were deemed IGO. If critical values were above the greater of +/- \$50 or +/- %1, then the contract was deemed NIGO. Critical values between IGO and NIGO were placed on a watch list. IGO and watch list contracts utilized the valuation systems, while reserves for NIGO contracts were estimated based on September 30, 2015 information, available December 31, 2015 information, or approximations.

The Company provided a product list by administration system as of December 31, 2015 to the Consulting Actuary. If the valuation system was used at December 31, 2015 to calculate reserves, the Consulting Actuary sample calculations were performed as of December 31, 2015.

Otherwise, the Consulting Actuary based their decision on the fairness and appropriateness of the December 31, 2015 reserves based upon September 30, 2015 sampling and reasonable aggregate reserve trends between September 30, 2015 and December 31, 2015.

#### Summary of the Analysis for the Liability and Asset Balance Sheet Items

The Consulting Actuary reviewed reserves for compliance with standard valuation laws and applicable NAIC Actuarial Guidelines and Model Regulations. The Consulting Actuary's analysis of the aggregate reserves for life and annuity contracts indicated that adjustments were needed for the annuity line of business. VDA had an error in the extract used by the valuation system which impacted reserves for guaranteed benefits. In addition, the mortality tables used for some deferred and payout annuity contracts were incorrect. However, as the total error of adjustment was below examination tolerable error, no financial adjustment was carried to this report.

The Consulting Actuary reviewed the transfers to separate accounts in the general account statement and transfers to the general account in the separate account statements. The Consulting Actuary concluded that the Company made adequate provisions for these liabilities.

The Consulting Actuary reviewed the Company's assets for uncollected premiums, agents' balances and deferred premiums, and agents' balances and installments booked but deferred and not yet due. Based on this review, the Consulting Actuary concluded that the Company made adequate provision for these assets.

#### Reinsurance

The Consulting Actuary reconciled assumed reserves from Exhibits 5, 6 and 7 to the Annual Statement Schedule S – Part 1 – Sections 1 & 2. No exceptions were noted. The

Consulting Actuary reconciled reinsurance ceded reserves from Exhibits 5, 6 and 7 to the Annual Statement Schedule S – Part 3 – Sections 1 & 2. No exceptions were noted.

The Financial Examiners conducted a review of all significant reinsurance treaties and amendments for assumed and ceded business. The examiners selected a judgmental sample of reinsurance treaties to review transfer of risk. No concerns were found. The Consulting Actuary relied on the Financial Examiners’ review for compliance with Delaware Insurance Regulation 1002. The Consulting Actuary reconciled reinsurance ceded reserves to the Annual Statement Schedule S, and concluded that the reserves reported in Schedule S were reasonable.

Summary

The balance sheet items covered in the actuarial examination scope appear fairly stated. Based on the above discussion and analysis performed, the Consulting Actuary concluded that the December 31, 2015 balance sheet items covered in the actuarial examination are accepted as stated.

(1) Aggregate reserves for life contracts (\$7,811,011,364)

The above-captioned amount, which is the same as that reported by the Company in its 2015 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:

<u>Reserve Segment</u>	<u>Total Gross</u>	<u>Reinsurance Ceded</u>	<u>Total Net</u>
Life Insurance	\$ 1,614,419,377	\$ 353,092,656	\$ 1,261,326,721
Annuities	5,647,915,642	0	5,647,915,642
Supplementary Contracts	217,612,853	28,664,107	188,948,746
Accidental Death Benefits	686	0	686
Disability - Active Lives	3,005	0	3,005
Disability - Disabled Lives	571,871	0	571,871
Miscellaneous Reserves	<u>718,043,161</u>	<u>5,798,468</u>	<u>712,244,693</u>
Total	\$ 8,198,566,595	\$ 387,555,231	\$ 7,811,011,364

Aggregate Exhibit 5 reserves were held for UL, COLI and BOLI, the fixed portion of VUL, DA and VDA, FIA, and related ancillary benefits.

As part of the annual certificate of reserve valuation procedure, the Consulting Actuary reviewed the December 31, 2015 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 5. Reserve calculations for some products were based on estimates and did not use the valuation system or reserve parameters.

The primary risks associated with Exhibit 5 business included adverse mortality and persistency, increased expenses, asset default, interest rate volatility, and mismatching of asset and liability cash flows. These risks were reviewed by evaluating the 2015 Actuarial Opinion Memorandum (AOM). Based on that review, the Consulting Actuary accepted the Company's conclusion that additional reserves were required for some lines of business.

Review of reserves was performed through a combination of trend analysis, reconciliation analysis, review of various supporting documentation prepared by the Company and its external auditors, actuarial analysis, and verification of reserves by recalculating the reserve for sampled contracts.

As part of the annual certificate of reserve valuation procedure, the Company provided work papers supporting the ceded reserves and liabilities. The Consulting Actuary reconciled the Exhibit 5 total ceded reserve and the Exhibit 7 total ceded liability to the amount reported in Schedule S-Part 3-Section 1 (reinsurance ceded for life and annuity reserves and deposit-type liabilities) in the Company's December 31, 2015 Annual Statement. The Company provided

work papers supporting the ceded reserves. The Consulting Actuary reviewed these work papers and reconciled them to the ceded reserve total.

The reconciliation between the exhibits and schedule is as follows:

<u>Annual Statement Exhibit</u>	<u>Ceded Reserve</u>
Exhibit 5	\$387,555,231
Exhibit 7	<u>546,566</u>
Schedule S-Part 3-Section 1	\$388,101,797

Unauthorized Reinsurers

About 87% of the reserves ceded involve treaties with the following unauthorized reinsurers:

<u>Company</u>	<u>Reserve Ceded</u>
Delaware Life Reinsurance (Barbados) Corp.	\$ 338,154,403
Other non-affiliates	<u>28,782</u>
Total - Unauthorized Reinsurers	\$ 338,183,185

The Financial Examiners conducted a review of all significant reinsurance treaties and amendments. The Financial Examiners selected a sample of material reinsurance treaties to review transfer of risk. No concerns were found. The Consulting Actuary relied upon the Financial Examiners that the reinsurance treaties are in compliance with Delaware Insurance Regulations. No material exceptions were noted as part of this review.

The most material blocks of reinsurance were with four reinsurers: Fidelity & Guaranty Life Insurance Company, Liberty Life Assurance Company of Boston, Barbco, and DLRC. The Company assumed a block of fixed annuities from Fidelity & Guaranty Life Insurance Company on a 100% coinsurance basis effective in 1999. This block was included in the Company's Asset Adequacy Analysis. The Company ceded to Liberty Life Assurance Company of Boston a block of fixed payout annuities on a 100% coinsurance basis in 1996.

Unauthorized reinsurance can be addressed in the Asset Adequacy Analysis. Since unauthorized reinsurance was not addressed in the 2015 Asset Adequacy Analysis, the Consulting Actuary reviewed the DLRC 2015 Annual Statement and the 2015 Valuation Report for Barbco.

Barbco is a special purpose reinsurer with two treaties in-force. One treaty covers COLI and small BOLI contracts issued by the Company. Effective in 2008, the treaty covers existing and future contracts sold in this segment. The treaty basis is 100% coinsurance with a Funds Withheld Asset (FWA); thus, the Company controls the assets associated with this business. The treaty also requires that Barbco provide a letter of credit, or funds via trust, to cover the excess of the Company's statutory reserve credit taken over the FWA.

The Company paid to Barbco premiums received and loan repayments less yearly renewable term (YRT) premium paid to third party reinsurers for mortality risk. Barbco reimbursed the Company for claims, loans, surrenders, commission expense allowances, premium taxes, and administrative expenses. Risks included mortality risk and repayment of sales loads upon early termination for non-1035 exchanges. The FWA was equal to the gross premium valuation (GPV) reserve required based on prudent estimate assumptions (best estimate assumptions plus margins for adverse deviation). Sensitivity testing of mortality and lapse assumptions was incorporated in the FWA analysis.

A review of reserve assumptions was performed, with the Consulting Actuary accepting the Appointed Actuary's conclusion that no additional reserves were required pertaining to business ceded under the COLI/BOLI treaty to Barbco.

The second treaty covered the Company's private placement variable universal life (PPVUL) contracts which were sold mostly in the BOLI market and closed to new business

effective January 2012. Barbco liabilities associated with this business includes a claims stabilization reserve (CSR) and a YRT reserve to cover mortality risk. These reserves were deemed by the Appointed Actuary as not sensitive to changes in interest rates. The Barbco 2015 Valuation Report noted that adverse deviations from assumptions would force Barbco to use its capital and surplus. The Consulting Actuary accepted the Appointed Actuary's conclusion that Barbco's FWA was sufficient to cover liabilities under moderately adverse conditions.

#### Funds Held Under Coinsurance - DLRC

The Company ceded funds held under coinsurance of \$1.3 billion to DLRC, a wholly-owned subsidiary of the Company licensed only in Delaware to transact life and annuity business. The Company and DLRC entered into reinsurance arrangements with the main purpose to reinsure hedging risks associated with the Company's VDA (effective December 31, 2014) and FIA (effective December 31, 2015) contracts. Hedging risk is defined as unrealized gains or losses from hedging instruments on funds withheld and realized gains or losses from hedging instruments sold.

Prior to the establishment of DLRC, statutory accounting for hedging activities and the change in reserves created significant volatility in the Company's Annual Statement. The volatility resulted because certain hedging activities were recorded in net income while other activities were recorded in surplus.

Hedging activities are managed by the Company's investment team. The Company pays DLRC an annual risk charge equal to  $\frac{1}{4}$  of 1 bps of account value quarterly. DLRC pays the Company all administration expenses. A refund may be paid by DLRC or the Company, based on experience.

To qualify as reinsurance, the treaty must provide indemnification (meaning DLRC must potentially have significant losses associated with insurance risk). Due to the definition of the experience refund, the treaties do not qualify as a transfer of risk agreement per statutory accounting purposes and reinsurance accounting does not apply.

DLRC is exempt from providing its own Asset Adequacy Analysis. In 2015, DLRC showed a small profit, mostly from the annual risk charged paid to DLRC by the Company. Since DLRC's purpose is primarily related to accounting only, the Consulting Actuary accepted the conclusion of the Company's Appointed Actuary that no additional reserves were required to support the business reinsured from the Company to DLRC.

Based on the above analysis, the Consulting Actuary concluded that the above GA Exhibit 5 reinsurance reserve credits were reasonable and were fairly stated.

Based on procedures performed, the Consulting Actuary concluded that the aggregate reserve for life contracts as reported on Page 3, Line 1 and in Exhibit 5 of the Company's December 31, 2015 Annual Statement appears fairly stated, and has been accepted for examination purposes.

(2) Liability for deposit-type contracts (\$189,352,721)

The above-captioned amount, which is the same as that reported by the Company in its 2015 Annual Statement, is reported on Page 3, Line 3 and in Exhibit 7. The reserve breakdown in Exhibit 7, by type of benefit (difference due to rounding), is as follows:

<u>Liability Item</u>	<u>Total Gross</u>	<u>Reinsurance Ceded</u>	<u>Total Net</u>
Annuities Certain	\$ 21,357,227	\$ 0	\$ 21,357,227
Supplemental Contracts	163,213,932	546,566	162,667,366
Premium and Other Deposit Funds	<u>5,328,128</u>	<u>0</u>	<u>5,328,128</u>
Totals	\$189,899,287	\$ 546,566	\$189,352,721

This liability represented contracts in payout status which do not involve life contingencies. 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 payout contracts reported in Exhibit 5 annuities and supplementary contracts which have life contingences.

As part of the annual certificate of reserve valuation procedure, the Consulting Actuary reviewed the December 31, 2015 deposit-type contract liabilities. During that process, valuation files and summary work papers were reviewed and found to be in order. Due to system conversions, some reserve calculations were estimates and did not use the valuation system and reserve parameters. Reserves were reconciled from the summary work papers to Exhibit 7.

To address the primary actuarial risks associated with Exhibit 7 reserves, the Consulting Actuary used sampling techniques and trend analysis. Payout reserves were not systematically calculated at December 31, 2015. Therefore, testing was based on the last valuation date when reserves were systematically calculated (September 30, 2015). The payout annuity sample of 22 contracts included nine supplementary contracts without life contingencies (seven Exhibit 7 fixed payout contracts and two Exhibit 4 variable payout contracts). Sample contracts selected represented plan codes which comprised about 70% of all payout annuities. The Consulting Actuary verified reserves for each of the sample contracts as of September 30, 2015 without exception. Trend analysis compared September 30, 2015 to December 31, 2015 aggregate reserves. Generally, the trends were reasonable. No further examination work was deemed necessary and the reserves were accepted as stated.

Based on procedures performed, the Consulting Actuary concluded that the aggregate reserve for accident and health contracts as reported by the Company on Page 3, Line 3 and in Exhibit 7 of the Company's December 31, 2015 Annual Statement appears fairly stated, and has been accepted for examination purposes.

(3) Contract claims - Life (\$45,933,539)

The above-captioned amount, which is the same as that reported by the Company in its 2015 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:

<u>Liability Type</u>	<u>Total Gross</u>	<u>Reinsurance Ceded</u>	<u>Total Net</u>
Due and unpaid	\$ 3,951,481	\$ 0	\$ 3,951,481
In course of settlement (ICOS)	30,633,082	4,986,796	25,646,286
Incurred but unreported (IBNR)	<u>17,365,772</u>	<u>1,030,000</u>	<u>16,335,772</u>
Totals	\$51,950,335	\$6,016,796	\$45,933,539

The liabilities were reconciled from the summary work papers to Exhibit 8. The due and unpaid and ICOS liabilities are inventory items which do not involve actuarial judgment; they were reviewed by the Financial Examiners and accepted as stated.

The Consulting Actuary reviewed the Company's Variable Annuity (VA) IBNR work papers and found them to be in order. VA IBNR was based on a rolling 12 month average of claims applied to a lag factor. The lag factor was last updated in September 2013. Due to the se<sup>2</sup> administration conversion, claims were backlogged in 2015 and into 2016. The Company added the claims for the first ten days of January 2016 to the 2015 VA IBNR reserve. Per the Company, the 2015 life IBNR was kept comparable to the 2014 reported reserve because the Company did not have refreshed data due to the se<sup>2</sup> administration conversion. The Appointed Actuary deemed the life IBNR reserve as sufficient because the closed block had decreased but the reserve was kept comparable. No additional testing of the data supporting the claim reserves

or the claim reserve calculation was required. The Consulting Actuary concluded that the methods used by the Company to determine the IBNR produced reasonable results and the IBNR liability on December 31, 2015 was sufficient.

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, Part 1 of the December 31, 2015 Annual Statement appears fairly stated, and has been accepted for examination purposes.

(4) Transfers to Separate Accounts due or accrued (net) \$644,905,293

The above-captioned amount, which is the same as that reported by the Company in its 2015 Annual Statement, is reported on Page 3, Line 13.

The Company provided work papers which support the detail of this liability, which the Consulting Actuary reviewed and found them in order. The transfers to SA due or accrued included \$248,760,641 of Commissioners Reserve Valuation Method / Commissioners Annuity Reserve Valuation Method (CRVM / CARVM) expense allowances for individual and group VUL and VDA contracts, which was the difference between the account values and the associated reserves held for such contracts in Exhibit 3 of the Insulated SA Annual Statement. The remaining balance of this liability included \$396,144,652 of settlements for both the Insulated and Non-Insulated SA Annual Statements.

The entry on Page 3, Line 13 of the GA Annual Statement equaled the parenthetical entry shown on Page 3, Line 10 of the Insulated and Non-Insulated SA Annual Statement as of December 31, 2014, but with the sign changed. The Consulting Actuary verified this for the reported amounts.

Based on the above discussion and analysis, the Consulting Actuary concluded that the

transfers to SA due or accrued as reported on Page 3, Line 13 of the Company’s 2015 Annual Statement appears fairly stated, and has been accepted for examination purposes.

**Liabilities - Separate Accounts – Insulated Separate Accounts**

(5) Aggregate reserve for life, annuity and accident and health contracts (\$21,854,341,887)

The above-captioned amount, which is the same as that reported by the Company in its 2015 Insulated SA Annual Statement, is reported on Page 3, Line 1 and in Exhibit 3. The reserve breakdown in Exhibit 3, by reserve segment, is as follows:

<u>Reserve Segment</u>	<u>Total Gross and Net</u>
Life Insurance	\$ 7,465,073,886
Variable Deferred Annuities (VDA)	14,368,430,986
Supplementary Contracts	<u>20,837,015</u>
Total	\$ 21,854,341,887

The aggregate net reserve was held primarily for VDA and life insurance, with smaller amounts for supplementary contracts. The unitized funds were carried at fair value and the investment risk associated with variable funds was borne by the contract holders. These contracts may provide guaranteed minimum benefits. Any reserves associated with guaranteed minimum benefits were held in the GA.

As part of the annual certificate of reserve valuation procedure, the Consulting Actuary reviewed the December 31, 2015 SA reserves. During that process, valuation files and work papers were reviewed and found to be in order. Reserves were reconciled from the summary work papers to Exhibits 3 and 4 of the Insulated SA Statement. Some reserve calculations were estimates and did not use the valuation system and reserve parameters.

Examination work performed on each of the Insulated SA Exhibit 3 segments was performed using trend analysis, review of the 2015 Asset Adequacy Analysis, review of the AG

43 methodology and assumptions, and sample testing performed as part of a review of the GA aggregate reserve for life contracts.

Based on the above discussion and analysis, the Consulting Actuary concluded that the aggregate reserve for life and annuity reported by the Company on Page 3, Line 1 and in Exhibit 3 of the 2015 Insulated SA Annual Statement appears fairly stated, and has been accepted for examination purposes.

(6) Liability for deposit-type contracts (\$29,376,535)

The above-captioned amount, which is the same as that reported by the Company in its 2015 Insulated SA Annual Statement, is reported on Page 3, Line 2 and in Exhibit 4.

This liability is held for SA supplementary contracts without life contingencies and was part of the business segment (GA Liability for deposit-type contracts) which is discussed previously in the general account section of this report. The Consulting Actuary's analysis focused on the total reserves held in both the GA and SA statements.

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

Based on the above discussion and analysis, the Consulting Actuary concluded that the aggregate reserve for life and annuity reported by the Company on Page 3, Line 2 and in Exhibit 4 of the 2015 Insulated SA Annual Statement appears fairly stated, and has been accepted for examination purposes.

(7) Other transfers to general account due or accrued (\$255,046,627)

The above-captioned amount, which is the same as that reported by the Company in its 2015 Insulated SA Annual Statement, is reported on Page 3, Line 10.

The liability was 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 Statement and settlements. The Company provided summary work papers, which were reviewed by the Consulting Actuary and found them in order. These items are discussed in the GA, Line 13 section of this report.

Based on the above discussion and analysis, the Consulting Actuary concluded that the aggregate reserve for life and annuity reported by the Company on Page 3, Line 10 of the 2015 Insulated SA Annual Statement appears fairly stated, and has been accepted for examination purposes.

**Liabilities - Separate Accounts – Non-Insulated Separate Accounts**

(8) Aggregate reserve for life, annuity and accident and health contracts (\$769,505,227)

The above-captioned amount, which is the same as that reported by the Company in its 2015 Non-Insulated SA Annual Statement, is reported on Page 3, Line 1 and in Exhibit 3. The reserve is for both MVA fixed DA and VDA contracts. The Company established non-insulated and non-unitized separate accounts for certain contracts which contain an MVA feature.

As part of the annual certificate of reserve valuation procedure, the Consulting Actuary reviewed the December 31, 2015 SA reserves. During that process, valuation files and work papers were reviewed and found to be in order. Reserves were reconciled from the summary work papers to Exhibit 3 of the Non-Insulated SA Statement. Some reserve calculations were based on estimates and did not use the valuation system or the reserve parameters.

The Non-Insulated SA Exhibit 3 annuity reserve was broken down as follows:

<u>Product Segment or Reserve Item</u>	<u>Reserve</u>
MVA Fixed DA	\$ 539,409,048
Regatta VDA	197,681,960
Futurity and LFD VDA	<u>32,414,219</u>
Total	\$ 769,505,227

The Consulting Actuary's analysis of the SA annuity products was discussed previously in the GA section of this report.

Assets in the Non-Insulated SA backing the VDA products were carried on a fair value basis. Values of the assets and liabilities moved together as the asset unit values change. Assets in the Non-Insulated SA backing the MVA Fixed DA products are carried at the NAIC GA statement value basis. However, the investment risks associated with the SA funds are borne by the Company and not the contract owners.

Risks inherent in the guaranteed benefit provisions were part of the CARVM reserve calculation, and the Company has borne most of any additional risks associated with guaranteed benefits.

Examination work performed on each of the Non-Insulated SA Exhibit 3 segments was performed using trend analysis, review of the 2015 Asset Adequacy Analysis, review of the AG 43 methodology and assumptions, and sample testing performed as part of a review of the GA aggregate reserve for life contracts.

Based on the above discussion and analysis, the Consulting Actuary concluded that the aggregate reserve for life and annuity reported by the Company on Page 3, Line 1 and in Exhibit 3 of the 2015 Non-Insulated SA Annual Statement appears fairly stated, and has been accepted for examination purposes.

(9) Other transfers to general account due or accrued (\$389,858,676)

The above-captioned amount, which is the same as that reported by the Company in its 2015 Non-Insulated SA Annual Statement, is reported on Page 3, Line 10.

The liability was for the CARVM expense allowances, i.e., the difference between the account values and the associated reserves held in Exhibit 3 of the SA Statement and settlements. The Company provided summary work papers, which were reviewed by the Consulting Actuary and found them in order. These items are discussed in GA Section L13 of this report.

Based on the above discussion and analysis, the Consulting Actuary concluded that the aggregate reserve for life and annuity reported by the Company on Page 3, Line 10 of the 2015 Non-Insulated SA Annual Statement appears fairly stated, and has been accepted for examination purposes.

### **SUBSEQUENT EVENTS**

The following material subsequent events occurred, requiring disclosure in this examination report. Please refer to the summary of recommendations section of this report for examination findings.

#### **Dividends**

As of December 31, 2015, subsequent to the period under examination, the Company paid the following dividends:

<b><u>Year</u></b>	<b><u>Dividends</u></b>
2016	\$ 200,000,000 <sup>1</sup>
2016	\$ 100,000,000 <sup>2</sup>

- (1) On March 18, 2016, the Department approved an ordinary dividend in the amount of \$169,492,370 and an extraordinary dividend in the amount of \$30,507,630. The dividend was paid to the Company's parent, Delaware Life Holdings, LLC, on March 28, 2016.
- (2) On August 16, 2016, the Department approved an extraordinary dividend in the amount of \$100,000,000. The dividend was paid to the Company's parent, Delaware Life Holdings, LLC, on September 7, 2016.

## Divestiture of Todd Boehly's interest in Delaware Life Holdings, LLC

On July 5, 2016, the Delaware Department of Insurance (DEDOI) received a divestiture notice from Todd L. Boehly stating that he would be divesting his indirect controlling interest in DLH, the ultimate controlling person in the Delaware Life Holdings Group. Mr. Boehly informed the DEDOI that no funds would come from DLH or its subsidiaries upon the divestiture, but that the source of funds was from cash and/or securities on hand from proceeds of prior dividend distributions.

No party or person would be acquiring Mr. Boehly's shares, including Mr. Mark Walter himself. In the event that a party or person was to purchase Mr. Boehly's shares, a Form A or other form may need to be filed with the DEDOI.

On September 20, 2016, DLIC filed an amendment to its Form B Insurance Holding Company System Annual Registration Statement as of December 31, 2015 with the DEDOI on behalf of DLIC and DLRC, and DLNY filed an amendment to its Form HC-1 Registration Statement as of December 31, 2015 with the New York State Department of Financial Services.

Following is an updated organization chart as a result of Mr. Boehly's divestiture:

<u>Company</u>	<u>Domicile</u>	<u>% own</u>
Mr. Mark R. Walter (individual)		
DLICM, LLC	Delaware	100%
Delaware Life Holdings Parent II, LLC <sup>1</sup>	Delaware	21.3%
Delaware Life Holdings Parent, LLC	Delaware	100%
Delaware Life Holdings, LLC	Delaware	100%
<b>Delaware Life Insurance Company</b>	<b>Delaware</b>	<b>100%</b>
Conway Capital, LLC	Delaware	50%
Delaware Life Insurance Company of New York	New York	100%
DL Reinsurance Company	Delaware	100%
DL Information Services Canada Inc.	Canada	100%
DL Private Placement Investment Company I, LLC	Delaware	100%
Clarendon Insurance Agency, Inc.	Massachusetts	100%
DL Investment DELRE Holdings 2009-1, LLC	Delaware	100%
DL Services Holdings, LLC	Delaware	100%
IDF, IX LLC	Delaware	100%

IDF, X LLC	Delaware	100%
DL Investment Holdings 2015-1, LLC	Delaware	100%
Ellendale Insurance Agency, LLC	Delaware	100%
Delaware Life (Bermuda) Holdings, Inc.	Delaware	100%
Delaware Life Ins. and Annuity Company (Bermuda) Ltd.	Bermuda	100%
Delaware Life Reinsurance (Barbados) Corp.	Barbados	100%
Armstrong STF IV, LLC	Delaware	100%
Marcy STF I, LLC	Delaware	100%
Redfield STF II, LLC	Delaware	100%
Wright STF III, LLC	Delaware	100%

(1) Delaware Life Holdings Parent II, LLC has a 21.3% economic / 100% voting ownership held by DLICM, LLC. Delaware Life Partners, LLC has a 78.7% economic / non-voting ownership in Delaware Life Holdings Parent II, LLC.

### **COMPLIANCE with PRIOR EXAMINATION RECOMMENDATIONS**

There were no prior examination report recommendations as a result of the examination performed covering the period of January 1, 2008 to December 31, 2011.

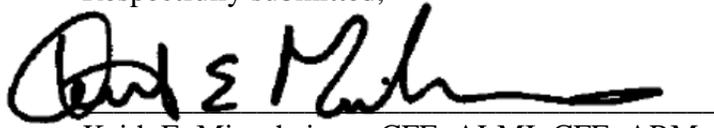
### **SUMMARY OF RECOMMENDATIONS**

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

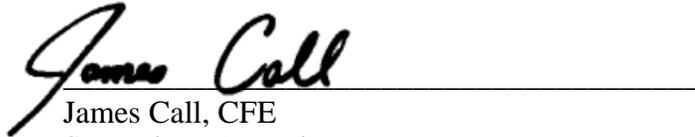
**CONCLUSION**

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc., and consulting investment specialist, Rutter Associates, LLC, is acknowledged. In addition, the assistance and cooperation of the Company's outside audit firm, PricewaterhouseCoopers LLP, and the Company's management and staff were appreciated and are acknowledged.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Keith E. Misenheimer", written over a horizontal line.

Keith E. Misenheimer, CFE, ALMI, CFE, ARM  
Examiner-In-Charge  
Delaware Department of Insurance

A handwritten signature in black ink, appearing to read "James Call", written over a horizontal line.

James Call, CFE  
Supervisory Examiner  
Delaware Department of Insurance