



Ultimate Parent: Sample Insurance Group, Inc

## SAMPLE LIFE INSURANCE COMPANY

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## BEST'S FINANCIAL STRENGTH RATING

Based on our opinion of the consolidated Financial Strength of the company and its major affiliated life/health companies, the company is assigned a Best's Financial Strength Rating of A (Excellent). The company's Financial Size Category is Class XI.

## RATING RATIONALE

**Rating Rationale:** The rating assignment of the Sample Life Insurance Company (SLIC) and Sample Life Insurance Company (ALIC), both operating as part of Sample Financial Resources, Inc. (SFRI), is based on being market leaders in the individual tax-deferred market, continuing growth of fixed and indexed annuity products and much improved operating income. Offsetting factors include the ongoing challenges in the 403(b) market; investment exposure to real estate-related investments, in particular, residential and commercial mortgage-backed securities; and its concentrated business profile.

SLIC and its wholly owned subsidiary, ALIC, continue to be market leaders of fixed annuity products in the 403(b) market. Despite recent regulatory and budgetary challenges facing the public education marketplace, the companies remain leading providers of qualified (tax-deferred) annuity products to teachers in the primary and secondary grade levels. Strong persistency of the companies' two-tiered annuities has enabled them to offset the decrease in first-year premiums within the 403(b) marketplace. In addition to strong renewals of qualified annuity products within the public education marketplace, SLIC and ALIC have reported a significant increase in single premium fixed and indexed annuity products. Due to higher than expected spreads, both companies were able to become more competitive in the pricing of the single premium annuity products, especially during the first half of 2010. As a result, SLIC and ALIC reported record fixed and indexed annuity sales last year. Additionally, the companies have also reported a significant increase in bank market annuity sales. The increase in SLIC's and ALIC's annuity sales has enabled both companies to report a much improved operating income compared to prior years. In addition to the strong premium growth, a sizeable increase in net investment income has also contributed to the much improved earnings for both companies.

The uncertainty of the labor and financial markets has put a strain on new annuity premiums, specifically in the 403(b) market. School districts continue to be challenged by budget constraints in this current economy, often leading to layoffs of teachers. These school budget constraints have had a direct impact on the amount of new premiums entering the 403(b) marketplace. As a result, SFRI (especially SLIC) has seen a sizeable decrease in its direct premiums. A.M. Best does note that although premiums have declined, SLIC continues to report favorable operating earnings. In addition to the uncertainty of the 403(b) marketplace, one concern continues to be the potential for realized losses and asset impairments in both companies' investment portfolios. Even though the investment portfolios generated realized gains in 2010 and have a small percentage of mortgage loans, real estate and equities, they maintain a higher percentage of non-agency residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS) relative to their peers. Although the amount of fixed maturity impairments and subprime mortgage downgrades have improved significantly during the latter part of 2010, the potential additional asset impairments could have a material impact on long-term capital growth. A.M. Best does note, however, that both companies have gone from having aggregate unrealized capital losses in the third quarter of 2009 to a modest unrealized gain position at the end of 2010. Even with annuities in the 403(b) marketplace declining, the increase in fixed and indexed annuities has made the group even more dependent on its annuity products for growth and profitability. Over ninety percent of direct premiums and three-quarters of operating earnings for the companies now originate from their annuity products. This percentage is expected to grow as the group's secondary lines of business continue to run-off.

**Best's Financial Strength Rating: A**

**Outlook: Stable**



## FIVE YEAR RATING HISTORY

Date	Best's
02/14/11	FSR
05/10/10	A
03/27/09	A g
12/17/07	A g
11/28/06	A g

	Current Year			N
	1	2	3	
<b>ASSETS</b>				
	Assets	Nonadmitted Assets	Net Admitted Assets (Cols. 1, 2)	
1. Bonds (Schedule D)	17,380	0	17,380	
2. Stocks (Schedule D):				
2.1 Preferred stocks	0	0	0	
2.2 Common stocks	0	0	0	
3. Mortgage loans on real estate (Schedule B):				
3.1 First liens	0	0	0	
3.2 Other than first liens	0	0	0	
4. Real estate (Schedule A):				
4.1 Properties occupied by the company (less \$0 encumbrances)	0	0	0	
4.2 Properties held for the production of income (less \$0 encumbrances)	0	0	0	
4.3 Properties held for sale (less \$0 encumbrances)	0	0	0	
5. Cash (\$09, Schedule E - Part 1), cash equivalents (\$0, Schedule E - Part 2) and short-term investments (\$840, Schedule DA)	558	0	558	
6. Contract loans (including \$0 premium notes)	0	0	0	
7. Derivatives	0	0	0	
8. Other invested assets (Schedule BA)	0	0	0	
9. Receivables for securities	0	0	0	
10. Securities lending receivable collateral assets	0	0	0	
11. Aggregate write-ins for invested assets	0	0	0	
12. Subtotals, cash and invested assets (Lines 1 to 11)	17,937	0	17,937	
13. The plus/less \$0 charged off for file insurers only	0	0	0	
14. Investment income due and accrued	0	0	0	
15. Premiums and considerations:				

... to see the statutory data.

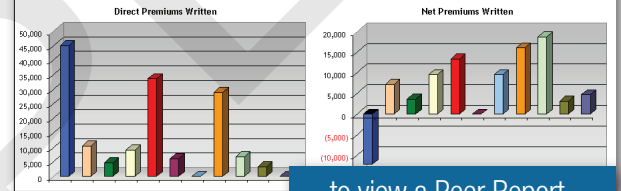
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Rank (PHS)	AMB#	Name	Best's Financial Strength Rating & Modifier	Direct Premiums Written	Net Premiums Written	Pretax Operating Income	Net Income	Total Admitted Assets	Policyholders	Surplus
419	000184	Professional Direct Insurance Company	A r	45,095	(12,204)	916	2,619	18,588	18,537	
420	001999	Terra Insurance Co (A RRG)	A	10,484	7,236	1,461		26,564	18,463	
421	002192	Wisconsin Lawyers Mutual Insurance Co	A	4,716	3,601	979		756	27,233	18,354
422	002647	Pioneer Specialty Insurance Company	A p	9,114	9,548	1,598	1,460	35,391	18,282	
423	002536	Western National Assurance Company	A p	33,594	13,368	2,055	1,697	42,997	17,905	
424	0	Sample Insurance Company	A r	6,166	0	615	302	17,854	17,852	
425	003561	Western Home Insurance Company	A p	0	9,548	2,184	1,899	34,446	17,684	
426	002636	Association Casualty Insurance Company	A- p	28,969	16,000	1,880	2,845	44,852	17,663	
427	000410	Geograph Casualty & Surety Company	A- p	6,799	18,747	353		1,613	37,946	17,256
428	012451	Petroleum Marketers Management Inc CCE+	A	3,371	3,130	2,792	2,047	25,033	17,017	
429	011321	AM-Continent Assurance Company	A p	17	4,733	3,653	2,249	31,063	16,828	



... to view a Peer Report.

## KEY FINANCIAL INDICATORS (\$000)

Year	Assets	Total Capital Capital Surplus Funds	Condit'l Reserve Funds	Net Premiums Written	Net Invest Income	Net Income
2005	8,243,030	669,149	85,388	640,348	510,147	150,857
2006	8,805,808	643,816	89,032	1,088,091	480,026	124,178
2007	9,295,574	732,328	59,817	1,230,271	523,026	43,978
2008	9,648,623	794,257	17,093	1,187,434	557,453	-3,980
2009	9,962,026	874,636	12,904	911,617	551,266	-31,555
09/2009	10,088,545	905,635	13,008	797,145	407,116	-81,539
09/2010	11,107,514	942,982	23,394	1,398,473	495,241	122,840



## BUSINESS REVIEW

Prior to 2010, Sample Financial Resources Inc. (SFRI), a member of Sample Financial Group (SFG), made several significant business strategy changes. Individual life and long-term care products are no longer sold at any of the supplemental insurance subsidiaries located in Texas, including Sample Association (SA), Sample Life Insurance Company, Sample Life Assurance Company, and the Ceres companies (Ceres), which includes Sample Insurance Company, Sample Life Insurance Company and Sample Life & Health Insurance Company. These companies will focus on selling Medicare supplemental insurance products. In addition, STA will be the only SFRI subsidiary in Texas to sell annuities. As a result of these business decisions, STA and Loyal American, which used to report directly to Sample Life Insurance Company (SLIC), now report directly to AAG Holding Company, Inc., a member of SFRI. S

FRI concentrates on building its annuity lines of business through SLIC and Sample Investors Life Insurance Company (SLIC). The company will focus its annuity operations on three product lines: fixed and fixed indexed products and a new bank market product. Initiated in 2006, the bank market products are simple five- and seven-year annuities with a bailout provision. The bank market products have contributed over \$700 million annually in net premium for 2010. Variable annuities, life and supplemental insurance products will, to a lesser extent, also contribute towards SFRI's total net premium.

Annuity production comprised over four-fifths of SFRI's net premium in 2010. The company had traditionally concentrated its activities on the sale of tax-sheltered annuities (TSAs) to employees of qualified not-for-profit institutions under section 403(b) of the Internal Revenue Code, primarily employees of primary and secondary schools (K-12). Through both flexible premium and single premium contracts, the pre-tax payroll deduction contributions create a steady flow of renewal premium for the company. A majority of existing annuity reserves are based on prior sales of two-tiered annuity products to this market, where policyholders benefit from a higher crediting rate if the contracts are converted to payout annuities, rather than withdrawn or rolled over, resulting in strong persistency on this product. In diversifying its product offerings, sales of single-tier annuity products, primarily equity-indexed annuities, continue to make up most of first-year annuity premium. Due to the declining 403(b) market, annuity sales within the 403(b)/457 channels produce less than 14% of total annuity premium, down from one-fifth of the total statutory net premium a year ago. First-year and single-sum 403(b) premiums continue to be adversely impacted by the new 403(b) regulations, financial challenges in the public school sector, large layoffs and additional school budget concerns. A.M. Best does note that renewal premiums within the 403(b) market remain strong, despite the challenges within the marketplace. SFRI's 403(b) annuity products continue to be marketed through managing general agents who supervise independent agents targeting various school districts.

While flexible premium 403(b) products continue to produce a good percentage of SFRI's existing business, SFRI derives the vast majority of its annuity deposits and new sales from single premium products. Single premium sales continue to comprise over 90% of new fixed annuity premium, with SLIC writing almost 95% of the total single fixed annuity premium. A significant portion of the single premium production is represented by rollovers of qualified contracts that were previously maintained by policyholders with other insurers, and non-qualified individual retirement deposits. As a result, more normal levels of surrender activity and new single premium sales have increased fixed annuity reserves despite the continued low interest rate environment.

Variable annuity products, which now account for less than 3% of the total statutory net premium, are distributed by registered representatives, through broker/dealers, one being SFRI's wholly owned broker/dealer, Sample Advisors, Inc. Additionally, SFRI introduced a guaranteed minimum withdrawal benefit rider available for its individual variable annuity products in 2007. The company has recently discontinued the benefit rider and has limited exposure to secondary guarantees in guaranteed minimum death benefits. Variable annuity products are offered through a subsidiary, SLIC.

SFRI's life insurance statutory net premium has continued its declining trend over the past five years, with modest declines in both 2009 and 2010. Life insurance represented approximately 1% of SFRI's total statutory net premium in 2010. Traditional term life insurance and universal life products had been marketed through national marketing organizations. SFRI suspended new sales of its remaining life products in 2009, but the company will continue to service all of its in-force block of policies.

SFRI's supplemental insurance businesses write primarily through STA and Sample, and Sample General, a life/health subsidiary of Sample Group, Inc. The supplemental health insurance lines of business contributed over 15% of SFRI's total statutory net premium. STA sells mostly supplemental health products along with some retirement annuity products through independent agents to active and retired teachers. Acquired in late 1999, the STA acquisition was a strategic expansion of SFRI's education-based retirement savings market and created the potential for greater earnings diversification by providing more scale in supplemental insurance. Sample is the primary writer of first-year Medicare supplemental insurance in addition to being the lead writer of critical illness and accident insurance for SFRI. A.M. Best notes that S



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FRI suspended new sales of its long-term care in 2009, with STA reinsuring the block of business from SLIC and Loyal American.

A.M. Best notes that while SFRI has expanded its operations and broadened its product line and distribution scope, both internally and through acquisitions, the group still remains highly concentrated in the individual annuity segment. SLIC is licensed in 49 states, the District of Columbia, Guam, and the U.S. Virgin Islands.

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## PREMIUM AND RESERVE ANALYSIS

<u>Direct Premiums (000)</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Ordinary life	67,029	72,552	75,842	80,382	86,370
Group life	-11	61	398	584	1,681
Individual annuities	938,073	1,086,182	1,069,472	951,617	495,155
Group annuities	32,208	39,282	53,956	72,444	88,895
Individual A&H	47,752	38,152	30,293	24,066	16,463
Group A&H	526	521	531	538	567
<b>Total</b>	<b>1,085,578</b>	<b>1,236,751</b>	<b>1,230,492</b>	<b>1,129,631</b>	<b>689,131</b>

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<u>Reins Assumed Prens (000)</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Ordinary life	3	3	3	3	...
Individual annuities	16,319	13,106	38,974	757	-4,830
Group annuities	...	...	2	105	3,405
<b>Total</b>	<b>16,322</b>	<b>13,109</b>	<b>38,978</b>	<b>865</b>	<b>-1,425</b>

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<u>Reins Ceded Prens (000)</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Ordinary life	46,224	62,314	38,994	42,008	47,012
Group life	-10	59	182	394	346
Individual annuities	49	44	23	1	...
Group annuities	...	...	...	2	0
Individual A&H	137,433	9	...	...	...
Group A&H	6,586	...	...	...	...
<b>Total</b>	<b>190,282</b>	<b>62,426</b>	<b>39,199</b>	<b>42,404</b>	<b>47,358</b>



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<u>Net Premiums &amp; Deposits (000)</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Ordinary life	20,809	10,241	36,851	38,377	39,358
Group life	-1	2	215	190	1,334
Individual annuities	968,027	1,126,243	1,146,930	996,931	512,648
Group annuities	32,208	39,282	53,958	72,547	92,300
Individual A&H	-89,682	38,143	30,293	24,066	16,463
Group A&H	-6,059	521	531	538	567
Total	925,302	1,214,433	1,268,778	1,132,649	662,671
Deposits (incl. above)	13,684	26,999	38,507	44,558	22,323

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<u>General Account Reserve Distribution (000)</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Ordinary life	128,168	123,663	136,705	127,764	118,313
Group life	2,460	2,582	2,694	2,839	2,970
Supplementary contracts	53	55	48	63	81
Individual annuities	7,297,130	6,911,513	6,570,119	6,146,201	5,697,782
Group annuities	1,036,426	1,057,635	1,078,333	1,117,634	1,096,444
Deposit type contracts	516,577	544,842	542,972	497,438	422,402
Individual A&H	679	99,886	82,563	56,485	36,871
Group A&H	...	6,046	5,047	4,100	2,994
Total	8,981,493	8,746,222	8,418,483	7,952,523	7,377,857

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**Geographical breakdown of direct premium writings (\$000):** Ohio, \$134,788 (12.2%); Michigan, \$96,190 (8.7%); California, \$91,090 (8.3%); Florida, \$85,283 (7.8%); Washington, \$73,341 (6.7%); other jurisdictions, \$619,633 (56.3%).



## EARNINGS

SFRI continues to generate strong operating profitability, driven largely by its lead company, SLIC. Fixed annuities sold via agents continue to comprise the majority of SFRI's pre-tax GAAP operating earnings, with supplemental insurance products contributing over 15%. SLIC's fixed annuities sold through bank channels continue to grow. These bank annuities comprise over 8% of SFRI's pre-tax GAAP operating earnings in 2010, compared to less than 5% the prior year.

SFRI has seen strong growth in its fixed annuity premiums in 2010. Statutory earned premiums have increased due to more competitive pricing of its fixed and indexed annuities due to higher spreads SLIC and SLIC have been able to earn during the year. In addition, bank market annuities more than doubled, compared to the prior year, due to its partnerships with several outside institutions. The growth in those annuity products were partially offset by the decrease in variable annuities as well as the decrease in annuities within the 403(b) marketplace. Recent expense initiatives, improved market conditions and strong annuity persistency have also contributed to SFRI's strong pre-tax GAAP operating earnings. A.M. Best notes that although operating earnings have improved over the years, SFRI's net income could be adversely impacted by net realized capital losses on invested assets.

SFRI's ordinary life insurance operations continue to be led by universal and term-life products. Life products have decreased in recent years due to the line of business being in run-off mode. Life business comprises less than 4% of the 2010 pre-tax operating earnings and less than 1% of direct premiums. A.M. Best expects to see these percentages continue to decline as SFRI's life insurance policies run-off its books.

SFRI's growing supplemental health insurance operations, which are primarily made up of Medicare supplemental insurance, have become more significant contributors to earnings over the past few years. The company's supplemental products represent approximately 15% of the 2010 pre-tax operating earnings and over 15% of total statutory net premiums. A.M. Best notes that this group continues to provide material earnings diversification to SFRI. However, future loss ratios -- particularly in the Medicare supplement and long-term care lines -- are subject to potential volatility in the near to medium term. Additionally, these products are subject to regulatory and market-related concerns, which have the potential to impact retention and profitability. Due to these concerns, SFRI has recently discontinued new sales of long-term care products and has consolidated new sales of its Medicare supplement insurance to only a few of its subsidiaries.

Like SFRI, SLIC has reported profitable, yet fluctuating, statutory operating earnings in each of the past five years primarily due to its individual and group annuity products. The company's ordinary life business does provide some earnings diversification to the company, but its percentage of earnings has continued to decline as the line of business is in run-off mode. In addition, operating earnings from the company's net investment income have been steadily increasing in recent years due to growth in its admitted assets.

In 2010, SLIC reported a significant increase in operating earnings, compared to prior years, due to higher earned premiums, favorable expense management and improved investment income. The higher operating earnings in the company's fixed annuity and supplemental health insurance businesses were partially offset by lower earnings in its variable annuity operations.

SLIC's net income has also been fluctuating over the past five years due to realized losses within its investment portfolio. The company reported statutory net losses in 2008 and 2009 due to sizeable net realized losses, which more than offset its operating earnings. The most significant loss came in 2009 when SLIC's \$107.7 million in net realized losses more than offset its \$76 million in net operating earnings. The company returned to profitability in 2010 due to much improved net operating earnings and a small amount of realized gains. A.M. Best notes that with SLIC's exposure to RMBS and CMBS investments, the potential for additional realized losses remains.



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## PROFITABILITY TESTS

Year	Ben Paid to NPW & Dep	Comm & Exp to NPW & Dep	NOG to Tot Assets	NOG to Tot Rev	Operating Return on Equity	Net Yield	Total Return
2005	118.4	13.9	1.6	10.8	20.0	6.53	5.97
2006	86.8	11.7	0.7	3.5	8.6	5.83	7.11
2007	87.1	12.5	0.9	4.5	11.7	6.03	5.07
2008	93.0	11.4	1.7	9.0	21.0	6.21	3.57
2009	105.5	12.7	0.8	5.1	9.1	5.96	5.80
09/2009	96.1	12.2	0.3	2.5	3.6	4.33	3.62
09/2010	49.8	8.3	1.1	5.9	12.5	4.93	4.89

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## PROFITABILITY ANALYSIS

Net Operating Gain (000)	2009	2008	2007	2006	2005
Ordinary life	6,544	14,763	12,120	11,012	6,977
Group life	14	-2,071	-2,293	-1,564	-1,285
Supplementary contracts	63	81	99	68	-10
Individual annuities	58,605	129,973	44,694	39,882	102,214
Group annuities	11,836	11,133	32,653	10,333	21,716
Individual A&H	-1,017	7,150	-6,471	-3,165	-2,267
Group A&H	76	-598	-384	-335	-353
Total	76,121	160,431	80,416	56,232	126,992




## CAPITALIZATION

SLIC maintains an adequate level of risk-adjusted capital to support its current rating, as measured by Best's Capital Adequacy Ratio (BCAR). The capital demands of the company's primary product line are mitigated somewhat by the surrender protection inherent in the long-term nature of its two-tier annuity liabilities. SLIC has made sizeable stockholder dividend payments to SFRI, consistent with SFRI's overall capital management strategy, which involves upstreaming capital in excess of internal targets in order to provide greater flexibility in deploying it when and where it is needed. Despite the dividend payments, as well as realized losses in its investment portfolio over the past few years, the company's capital and surplus grew over 55% from 2005 through 2010. The company was able to grow its capital and surplus during that time driven primarily by higher operating earnings and contributions received from SFRI.

SLIC's capital and surplus increased by more than 10% in 2010. The increase in surplus for 2010 has been due to SLIC's operating earnings more than offsetting dividend payments paid out to SFRI and unfavorable changes in asset valuation reserves and non-admitted assets. A.M. Best notes that although SLIC did pay dividends to SFRI in 2010, the amount of those dividends was considerably less than what was paid out in prior years. In addition, the company's realized losses have decreased substantially compared to prior years. Due to the increase in SLIC's surplus, premiums and earnings, A.M. Best has seen improvement in the company's risk-adjusted capitalization in 2010.

Following the merger with SFG, debt is managed on a consolidated basis at the SFG corporate level. Approximately \$200 million of debt was repaid in 2009, leaving SFG with \$832 million of debt remaining on its books. Of the remaining debt at SFG, \$200 million of the debt resides as Holding Company, Inc., a subsidiary of SFRI. A.M. Best notes that SFG has committed to targeting financial leverage at or below 22% for the foreseeable future, with the financial leverage lower than this target at year-end 2010 at approximately 18% primarily due to an increase in shareholder equity resulting from record operating earnings and the partial pay down of its debt. The leverage measures are still well below the maximum permitted for SFG's current rating level, and the insurance operations continue to produce favorable results.

If additional capital is needed, SLIC has historically received contributions from SFG, and can be expected to receive them in the future.

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## LEVERAGE TESTS

Year	C&S to <u>Liabilities</u>	Surplus <u>Relief</u>	Reins <u>Leverage</u>	NPW & Dep <u>to Capital</u>	Change in NPW & Dep	Change in <u>Capital</u>
2005	10.1	1.2	41.5	0.9	17.2	12.0
2006	9.1	1.4	46.3	1.5	70.9	-2.9
2007	9.3	1.1	43.1	1.6	12.0	8.1
2008	9.2	1.5	43.3	1.5	-4.3	2.4
2009	9.8	2.3	60.4	1.0	-23.8	9.4
09/2009	10.0	0.8	XX	0.9	-14.8	13.2
09/2010	9.5	1.3	XX	1.4	75.4	8.9

2009 BCAR: 205



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### SOURCES OF CAPITAL GROWTH (\$000)

Year	Net <u>Gain</u>	Realized Capital <u>Gains</u>	Unrealized Capital <u>Gains</u>	Change <u>AVR</u>	Other <u>Changes</u>	Change in <u>C&amp;S</u>
2005	126,992	23,865	-77,632	-14,727	7,482	65,981
2006	56,232	67,946	33,915	-3,644	-179,782	-25,333
2007	80,416	-36,438	-51,162	29,214	66,482	88,512
2008	160,431	-164,411	-79,764	42,724	102,950	61,929
2009	76,121	-107,675	94,197	4,189	13,548	80,379
09/2009	30,800	-112,339	45,432	XX	XX	XX
09/2010	113,874	8,966	-13,313	XX	XX	XX

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### CAPITAL TRENDS (\$000)


Year	Year end <u>C&amp;S</u>	Surplus <u>Notes</u>	Stock- holder <u>Divs</u>	Policy- holder <u>Divs</u>	Asset Valuation <u>Reserve</u>	Interest Maintenance <u>Reserve</u>
2005	669,149	...	...	...	85,388	11,267
2006	643,816	...	147,750	...	89,032	580
2007	732,328	...	30,000	...	59,817	...
2008	794,257	...	72,500	...	17,093	...
2009	874,636	...	104,703	...	12,904	7,392
09/2009	905,635	XX	...	...	13,008	5,245
09/2010	942,982	XX	10,000	...	23,394	23,679



## INVESTMENTS AND LIQUIDITY

SLIC's investment portfolio in 2010 consisted primarily of investment grade, fixed income investments, which are primarily corporate fixed income securities as well as commercial mortgage-backed securities (CMBS) and residential mortgage-backed securities (RMBS). Approximately 95% of SLIC's bonds are investment grade, and over 90% of its investment portfolio is invested in publicly traded securities. The common stock portfolio, which is less than 2% of invested assets, is mainly comprised of its life insurance subsidiaries. SLIC also maintains a nominal exposure to direct real estate-related assets, with real estate and mortgage loans representing roughly 3% of total invested assets. The remainder of SLIC's investment portfolio is made up of policy loans as well as cash and short-term equivalents, none of which have greater than a 2% allocation.

At December 31, 2010, CMBS and RMBS represented one-third of SFRI's fixed maturity portfolio. The company's mortgage-backed securities (MBS) portfolio is of high quality which is evidenced by the fact that approximately 98% are rated either NAIC 1 or 2. A.M. Best notes that the company invests almost exclusively in senior tranche MBSs that were AAA rated at issuance. SFRI's exposure to subprime and Alt-A and MBSs is approximately 16% of the total investment portfolio as of December 31, 2010. The company's MBS exposure, when combined with the interest-sensitive annuity liabilities SFRI has, exposes the company to some interest rate risk. A.M. Best does acknowledge the company has been actively managing this exposure, particularly as it is faced with lower interest rates and volatile equity markets. However, the cash flow and disintermediation risks associated with SLIC's and SLIC's annuity business are somewhat mitigated by the relatively stable liability characteristics associated with the company's tax-sheltered annuity operations, the two-tiered crediting structure of in-force business and the surrender charges imposed on the annuity products.

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- [Peer Report](#)

### LIQUIDITY TESTS

Year	Operating Cash Flow (\$000)	Quick Liquidity	Current Liquidity	Non-Inv Grade Bonds to Capital	Delnq & Foreclsd Mtg to Capital	Mtg & Cred Ten Lns & RE to Cap	Affil Invest to Capital
2005	309,888	66.9	76.8	62.0	1.2	22.7	28.6
2006	398,751	70.9	80.2	59.0	0.7	37.8	31.5
2007	418,139	67.3	77.0	64.8	...	41.3	30.2
2008	373,195	67.2	76.5	76.0	...	33.8	24.1
2009	212,447	71.0	80.3	57.7	0.1	32.4	21.7
09/2009	366,398	XX	XX	89.7	0.1	27.9	XX
09/2010	1,185,186	XX	XX	64.2	0.1	37.7	XX



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As of Monday, March 07, 2011

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## INVESTMENT YIELDS

Year	Net Yield	Bonds	Stocks	Mort-gages	Cash & Short Term	Real Estate		Invest. Exp. Ratio
						Gross	Net	
2005	6.53	6.09	15.70	8.34	2.37	52.64	9.06	11.22
2006	5.83	5.98	2.30	7.44	3.95	30.47	0.24	8.04
2007	6.03	5.97	4.00	7.36	2.06	37.38	2.84	5.50
2008	6.21	6.40	17.34	8.34	2.48	37.49	2.54	5.28
2009	5.96	6.84	3.96	6.22	0.09	30.24	0.65	7.35

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## INVESTMENT DATA

Current Year Distribution of Bonds By Maturity

	-----Years-----					Yrs-Avg Maturity
	0-1	1-5	5-10	10-20	20-	
Government	3.1	0.2	0.8	0.1	0.1	3
Gov't Agencies & Muni	0.0	0.6	1.3	1.6	0.5	12
Industrial & Misc	1.7	23.6	47.5	11.4	6.6	8
Hybrid Securities	0.1	0.2	...	0.1	0.1	9
Capital Credit Loans	...	...	0.3	...	0.2	15
Affiliated	...	0.0	...	...	...	3
<b>Total</b>	<b>4.8</b>	<b>24.6</b>	<b>49.9</b>	<b>13.3</b>	<b>7.4</b>	<b>8</b>

	2009	2008	2007	2006	2005
<b>Bonds (000)</b>	<b>8,575,235</b>	<b>8,369,089</b>	<b>7,763,957</b>	<b>7,331,609</b>	<b>7,185,426</b>
US Government	1.0	0.2	0.3	2.6	3.3
Foreign Government	0.3	0.2	0.3	0.3	0.4
Foreign - All Other	7.8	6.2	5.7	5.5	4.3
State/Special Revenue - US	4.1	3.3	9.1	11.2	17.2
Public Utilities - US	...	8.4	8.5	9.1	8.9
Industrial & Misc - US	85.8	81.5	75.7	70.8	65.9
Hybrid Securities	0.4	...	...	...	...
Credit Tenant Lns - US	0.5	0.3	0.4	0.5	...
Affiliated	0.0	...	0.0	...	...
Private Issues	2.3	3.0	3.5	2.2	2.3
Public Issues	97.7	97.0	96.5	97.8	97.7



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	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
<u>Bond Quality (%)</u>					
Class 1	67.4	66.5	71.4	75.4	74.4
Class 2	26.8	26.3	22.2	19.0	19.2
Class 3	2.6	3.4	3.9	2.6	2.8
Class 4	1.8	2.4	1.6	2.3	2.9
Class 5	1.0	1.1	0.8	0.5	0.3
Class 6	0.5	0.3	0.1	0.2	0.3
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
<u>Mortgages (000)</u>	159,223	170,580	218,715	162,711	54,279
Commercial	98.0	97.7	97.9	96.6	98.8
Residential	2.0	2.3	2.1	3.4	1.2
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
<u>Mortgage Quality (%)</u>					
90 Days Delinquent	0.5	...	...	0.0	1.9
In Process of Foreclosure	...	...	...	3.1	11.9
Total Delinquencies	0.5	...	...	3.1	13.8
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
<u>Real Estate (000)</u>	82,109	75,871	77,093	77,430	117,087
Property Held for Inc	100.0	100.0	100.0	100.0	98.7
Property Held for Sale	...	...	...	...	1.3
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
<u>Stocks (000)</u>	190,450	233,750	467,194	444,857	406,939
Unaffiliated Common	21.4	5.1	41.8	36.4	33.8
Affiliated Common	77.3	83.6	50.8	51.9	53.0
Unaffiliated Preferred	1.3	11.2	7.4	11.6	13.2
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
<u>Other Inv Assets (000)</u>	566,847	429,504	503,192	634,612	335,073
Cash	-2.8	-5.2	-3.1	0.2	-4.3
Short-Term	46.3	49.9	50.8	56.2	40.2
Schedule BA Assets	12.3	7.1	8.5	6.6	3.5
All Other	44.2	48.3	43.8	36.9	60.6

## HISTORY

**Date Incorporated:** 12/29/1961

**Date Commenced:** 08/13/1963

**Domicile:** OH

**Mergers:** Sample Life Insurance Company, NJ, 1982; Sample Insurance Company, NJ, 1998; Sample Annuity & Life Insurance Company, NJ, 2007.

## OFFICERS

President and Chief Executive Officer, John Smith; Executive Vice President, Treasurer and Chief Financial Officer, Jane Smith; Executive Vice President and Secretary, Peter Smith; Executive Vice Presidents, Mary Smith; Senior Vice President and General Counsel, Paul Smith; Senior Vice President, James Smith; Vice Presidents, Alex Smith, Anne Smith.

## DIRECTORS

John Smith, Jane Smith, Peter Smith, Mary Smith, Paul Smith, James Smith, Alex Smith, Anne Smith



## REINSURANCE


The company cedes over 70% of its ordinary life insurance in force to a variety of professional reinsurers. Maximum net retention on any one ordinary life is \$250,000.

## REGULATORY

An examination of the financial condition was made as of December 31, 2006 by the Insurance Department of NJ. The 2010 annual independent audit of the company was conducted by Ernst & Young, LLP. The annual statement of actuarial opinion is provided by Rick Smith.

**Territory:** The company is licensed in the District of Columbia, Guam, U.S. Virgin Islands, AL, AK, AZ, AR, CA, CO, CT, DE, FL, GA, HI, ID, IL, IN, IA, KS, KY, LA, ME, MD, MA, MI, MN, MS, MO, MT, NE, NV, NH, NJ, NM, NC, ND, OH, OK, OR, PA, RI, SC, SD, TN, TX, UT, VT, VA, WA, WV, WI and WY.

**Reserve basis:** (Current ordinary business): 1980 CSO, 4.00-4.50%; CRVM. (Current annuity business): a-2000, 4.25-5.50%; CARVM.

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## FINANCIAL INFORMATION

### BALANCE SHEET (\$000) - December 31, 2009

Assets		Liabilities	
*Total bonds	8,575,235	+Net policy reserves	8,464,917
*Total preferred stocks	2,565	Policy claims	38,534
*Total common stocks	187,886	Deposit type contracts	516,577
Mortgage loans	159,223	Interest maint reserve	7,392
Real estate	82,109	Comm taxes expenses	23,292
Contract loans	168,120	Asset val reserve	12,904
Cash & short-term inv	246,735	Other liabilities	23,775
Premis and consids due	15,875	Total Liabilities	9,087,390
Accrued invest income	102,212	Common stock	2,513
Other assets	422,068	Paid in & contrib surpl	704,978
		Unassigned surplus	147,816
		Other surplus	19,330
Assets	<u>9,962,026</u>	Total	<u>9,962,026</u>

\*Securities are reported on the bases prescribed by the National Association of Insurance Commissioners. + Analysis of reserves; Life \$121,206; annuities \$8,333,557; supplementary contracts with life contingencies \$53; accidental death benefits \$96; disability active lives \$77; disability disabled lives \$713; miscellaneous reserves \$8,537; accident & health \$679.



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- [Peer Report](#)

### SUMMARY OF OPERATIONS (\$000)

Premiums:		Death benefits	20,054
Ordinary life	20,809	Matured endowments	10
Individual annuities	954,343	Annuity benefits	153,098
Group life	-1	Surrender benefits	674,388
Group annuities	32,208	Group conversion	3
Acc & health group	-6,059	Acc & health benefits	6,723
Acc & health other	-89,682	Int on policy funds	122,138
Total premiums	911,617	Supplementary contracts	7
Net investment income	551,266	Incr life reserves	373,142
Amort interest maint res	-3,060	Incr a & h reserves	-105,254
Comm & exp reins ceded	19,735	Commissions	78,421
Res adj on reins ceded	-358	Comm exp reins assumed	-1,260
Reinsurance income	3,124	Insur taxes lic & fees	6,127
Other income	17,541	General ins expenses	53,567
Mgt and/or service fee	105		
Total	1,499,970	Total	1,381,163
		Gain from operations before FIT & div to policyholders	118,807
		Federal income taxes incurred	42,686
		Net gain from operations after federal income taxes	76,121

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### CASH FLOW ANALYSIS (\$000)

Funds Provided		Funds Applied	
Gross cash from oper	1,628,423	Benefits paid	863,644
Long-term bond proceeds	2,033,084	Comm, taxes, expenses	137,522
Other cash provided	265,431	Long-term bonds acquired	2,306,226
		Other cash applied	564,444
		Incr cash & short-term	55,103
Total	3,926,937	Total	3,926,937



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000000 Sample Life Insurance Company

As of Monday, March 07, 2011

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## INTERIM BALANCE SHEET (\$000)

<u>Assets</u>	<u>03/31/2010</u>	<u>06/30/2010</u>	<u>09/30/2010</u>
Total bonds	8,839,532	9,117,662	9,834,744
Total preferred stocks	2,565	2,565	...
Total common stocks	193,061	192,736	206,033
Mortgage loans	189,759	257,112	282,828
Real estate	82,013	82,370	81,520
Contract loans	164,477	162,328	158,847
Cash & short-term inv	245,256	236,681	120,969
Derivatives	75,448	41,603	57,178
Accrued invest income	108,354	108,556	119,322
Other assets	296,847	289,796	246,072
<b>Assets</b>	<b>10,197,312</b>	<b>10,491,410</b>	<b>11,107,514</b>
<u>Liabilities</u>	<u>03/31/2010</u>	<u>06/30/2010</u>	<u>09/30/2010</u>
Net policy reserves	8,605,162	8,919,212	9,416,587
Liab for deposit-type contracts	510,068	503,109	498,375
Policy claims	47,432	49,320	50,935
Interest maint reserve	15,386	19,361	23,679
Comm taxes expenses	38,334	24,769	37,366
Asset val reserve	17,717	21,916	23,394
Other liabilities	75,043	68,531	114,195
<b>Total liabilities</b>	<b>9,309,143</b>	<b>9,606,217</b>	<b>10,164,532</b>
Common stock	2,513	2,513	2,513
Paid in & contrib surpl	704,978	704,978	704,978
Unassigned surplus	160,865	157,414	215,353
Other surplus	19,814	20,289	20,139
<b>Total</b>	<b>10,197,312</b>	<b>10,491,410</b>	<b>11,107,514</b>



# AMB Credit Report - Insurance Professional

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As of Monday, March 07, 2011

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## INTERIM SUMMARY OF OPERATIONS (\$000)

	Period Ended <u>09/30/2010</u>	Period Ended <u>09/30/2009</u>	Increase/ <u>(Decrease)</u>
Prem & ann consid	1,398,473	797,145	601,328
Total premiums	1,398,473	797,145	601,328
Net investment income	495,241	407,116	88,126
Amort interest main res	292	-2,217	2,508
Comm & exp reins ceded	12,263	7,447	4,816
Res adj on reins ceded	-365	-819	455
Other income	13,240	16,894	-3,654
Total	1,919,144	1,225,566	693,578
Death benefits	13,025	14,351	-1,326
Matured endowments	31	34	-3
Annuity benefits	146,122	111,993	34,130
Surrender benefits	430,529	539,736	-109,207
Disability and A&H ben	7,768	7,190	578
Group conversions	1	2	-1
Int on policy funds	98,280	92,882	5,398
Supplementary contracts	5	5	...
Change in reserves	951,671	284,602	667,069
Commissions	92,724	59,044	33,679
Comm exp reins assumed	-1,346	-1,101	-245
Insur taxes lic & fees	4,531	5,596	-1,066
General ins expenses	33,072	41,162	-8,090
Total	1,776,414	1,155,498	620,916
Gain from operations before federal income taxes	142,731	70,068	72,662
Federal income taxes incurred	28,857	39,268	-10,412
Net gain from operations after federal income tax	113,874	30,800	83,074



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## ORDINARY LIFE STATISTICS

Year	Ord. Lapse Ratio %	Average Ord. Policy (in dollars) Issued	In Force	Avg. Prem (\$/M)	1st Yr Prem / Total Prem	1st Yr Comm / 1st Yr Prem	Gen. Exp. / Policies In Force
2005	7.2	12,907	194,190	3.67	0.4	146.9	68.34
2006	5.8	138,667	193,746	3.63	0.7	44.7	44.67
2007	5.2	147,484	193,453	3.62	1.0	46.4	19.68
2008	6.9	25,381	191,523	3.73	1.5	41.0	35.48
2009	8.0	12,717	187,143	3.75	1.4	128.8	27.32

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Year	# Policies Issued (000)	# Policies in Force (000)	First Year Premium (000)	Gen'l Exp/ Reserves (%)	Return on Reserves (%)
2005	1	121	388	7.01	5.90
2006	0	114	560	4.00	8.62
2007	0	108	743	1.56	8.87
2008	1	102	1,107	2.92	11.94
2009	2	95	962	2.04	5.11



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### INDIVIDUAL ANNUITY STATISTICS

Year	NPW & Dep (000)	Res & Dep Liab (000)	Exp to Res & Dep Liab (%)*	Comm & Exp to NPW & Dep (%)	Benefits & Wdrwls to NPW & Dep (%)	Benefits & Wdrwls to Res & Dep Liab (%)*
2005	512,648	6,120,265	0.4	12.5	134.1	11.2
2006	996,931	6,643,701	0.4	10.9	87.2	13.1
2007	1,146,930	7,113,140	0.5	11.5	83.8	13.5
2008	1,126,243	7,456,410	0.5	10.2	87.9	13.3
2009	968,027	7,773,842	0.5	10.5	89.1	11.1

\* Includes Separate Account reserves.

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### GROUP ANNUITY STATISTICS

Year	NPW & Dep (000)	Res & Dep Liab (000)	Exp to Res & Dep Liab (%)*	Comm & Exp to NPW & Dep (%)	Benefits & Wdrwls to NPW & Dep (%)	Benefits & Wdrwls to Res & Dep Liab (%)*
2005	92,300	1,096,444	1.0	16.4	76.3	6.4
2006	72,547	1,117,634	1.0	17.8	124.7	8.1
2007	53,958	1,078,333	1.1	24.2	213.4	10.7
2008	39,282	1,057,635	0.9	27.0	276.0	10.3
2009	32,208	1,076,345	1.1	40.0	265.5	7.9

\* Includes Separate Account reserves.



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### TOTAL ANNUITY ACTUARIAL RESERVES AND DEPOSIT TYPE LIABILITIES BY WITHDRAWAL CHARACTERISTICS

Year	Total Annuity Res & Dep Liab (000)	Min or No Surrender Charge (%)*	With Surrender Charge 5% or more (%)*	With MVA (%)*	No Surrender Allowed (%)*
2005	7,224,542	29.5	66.8	...	3.7
2006	7,770,233	32.0	64.5	...	3.6
2007	8,199,776	32.5	64.0	...	3.5
2008	8,522,025	31.4	62.5	...	6.1
2009	8,857,893	31.5	62.7	...	5.7

\* Includes Separate Account reserves.

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### NEW LIFE BUSINESS ISSUED (\$000)

Year	Whole Life & Endow	Term	Credit	Group	Industrial	Total Insurance Issued	Non-Par (%)	Par (%)
2005	11,308	3,238	...	452	...	14,998	100	...
2006	16,948	3,020	...	...	...	19,968	100	...
2007	20,212	3,238	...	...	...	23,450	100	...
2008	17,697	2,151	...	...	...	19,848	100	...
2009	23,172	3,522	...	...	...	26,694	100	...



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### LIFE INSURANCE IN FORCE (\$000)

Year	Whole Life Endow & Adds	Term	Credit	Group	Industrial	Total Insurance In Force
2005	2,170,282	21,390,569	...	39,724	...	23,600,575
2006	2,043,881	20,111,583	...	37,404	...	22,192,868
2007	1,961,581	19,011,629	...	35,056	...	21,008,266
2008	1,889,336	17,577,432	...	33,143	...	19,499,911
2009	1,800,831	16,065,107	...	31,162	...	17,897,100

The Best's Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Best's Financial Strength Rating is not a recommendation to purchase, hold, or terminate any insurance policy, contract, or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser. In arriving at a rating decision, A.M. Best relies on third-party audited financial data and/or other information provided to it. While this information is believed to be reliable, A.M. Best does not independently verify the accuracy or reliability of the information. For additional details, see A.M. Best's Terms of Use at [www.ambest.com/terms.html](http://www.ambest.com/terms.html)

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