

## 2012 Company Report



## BUILDING ON A SOLID FOUNDATION

**SBLI**<sup>®</sup> | THE NO NONSENSE  
LIFE INSURANCE  
COMPANY<sup>®</sup>

[www.SBLI.com](http://www.SBLI.com)



## **BUILDING ON A SOLID FOUNDATION**

Like a family's home, a company can only be as strong as its foundation. For SBLI, the foundation that has been meticulously constructed for over a century is now supporting a thriving, national company. In the years to come, SBLI will continue to prosper, building on the founding mission set forth by Justice Louis D. Brandeis — to provide affordable, dependable life insurance to all families who need it.

**SBLI**<sup>®</sup>  
THE NO NONSENSE  
LIFE INSURANCE COMPANY<sup>®</sup>



## PRESIDENT'S MESSAGE

### BUILDING ON A SOLID FOUNDATION

As great years go, 2012 was a particularly historic one for SBLI. The retirement of Bob Sheridan in November, following 20 years as the Company's President and CEO, brought to a close a remarkable career during which he oversaw the growth of SBLI from a single-state operation to the national insurer that it is today. And history was made again when the Company ended the year with its highest annual earnings ever and record insurance in force, adding a fitting exclamation point to Bob's legacy.

Last year was noteworthy for SBLI in other ways as well:

- 2012 was the second-best year in the Company's history for ordinary life insurance sales in the categories of issued policies and volume;
- Direct new business life insurance premiums increased by 40% over 2011, driven primarily by a 150% increase in sales of Bank-Owned Life Insurance;
- The Company received a license to do business in the state of Minnesota, expanding our geographic footprint to 49 states and the District of Columbia;
- A number of technological initiatives were completed that enable the Company to service its clients and process data more efficiently in response to the needs of the marketplace, including E-signature capabilities for our internal agents, E-delivery of policy packages for our agents, electronic application submission, and electronic two-way communication on outstanding requirements.

I am truly privileged to have inherited a great organization and a company whose financial strength is exemplary,

earning it consistently high ratings from such organizations as A.M. Best, Standard & Poor's, and Weiss Ratings. SBLI's solid financial footing is a distinct advantage, as it provides us with a firm foundation upon which to build the Company and the flexibility to take advantage of growth opportunities.

While there is merit in the adage, "If it ain't broke, don't fix it," there is also danger in resting too heavily on one's laurels. SBLI is hardly broken, as attested by the results cited above and in the pages that follow. But as we move into the future, I believe it will be necessary for us to make some course adjustments that will enable us to continue to meet the challenges we face in an increasingly competitive marketplace.

SBLI has prospered by depending primarily on one type of product -- level premium term life insurance -- for the majority of its sales. In business, however, there is a significant risk in staying only within the confines of one's comfort zone; and in our business, that risk comes mainly from heightened competition in the term life market. I am certainly not suggesting that SBLI attempt to be all things to all people by expanding into a variety of exotic and complicated product offerings -- far from it. The life insurance and annuity space is our natural habitat, and we should remain focused on it. But within that space, we can benefit by diversifying our product line into areas that present clear opportunities for growth.

Over the next twenty years, an average of 10,000 Americans will reach age 65 each day. Many of these people do not own a life insurance policy, and many also will face a shortage of funds due to the long-term effects of the weakened economy on their investments. These needs could be filled by SBLI with the development of a senior life product to help fund final expenses.

Many people feel that the life insurance buying process is complicated and intimidating, a perception that could be addressed with a simplified issue term product. And our whole life product should be emphasized for its benefits as a savings tool and a source of stable, guaranteed returns. As a result of such product diversification, our goal over the

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next five years is to have no more than 20% of new premium come from any one product.

We also need to become more geographically diverse, in order to be perceived as a true national insurer rather than just a regional player. Much progress has been and continues to be made toward this goal -- Texas and California have joined Massachusetts as states where we issued more than \$1 billion in face amount sold, and before the end of 2013, Massachusetts will account for less than 50% of our total insurance in force. These trends show that SBLI has indeed achieved a national reach, but there is still much work that needs to be done in order to take advantage of the growth opportunities that exist in many other states.

Lastly, we need to continue the process of diversifying and cultivating our distribution channels. In addition to having an outstanding direct sales channel, we have established relationships with independent agents and brokers across the country, who contributed approximately 65% of new individual life ordinary premium in 2012 compared to 50% the previous year. Further expansion of our brokerage network, coupled with the utilization of additional distribution channels, will allow us to reach our customers even more effectively and efficiently.

SBLI is a great company with a great heritage, and I am proud to be the steward of the mission Justice Brandeis set forth for it: to provide affordable, dependable life insurance to all families who need it. Based upon that fundamental premise, I look forward to working with our staff, Board of Directors and partners to build upon the foundation that has been set in place to create a broad-based business that will continue to thrive in both good times and bad.



Sincerely,

Christopher H. Pinkerton  
President and  
Chief Executive Officer

## TREMENDOUS TRIO



## \$1 BILLION ISSUED

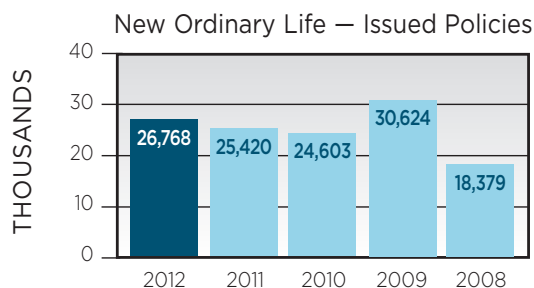
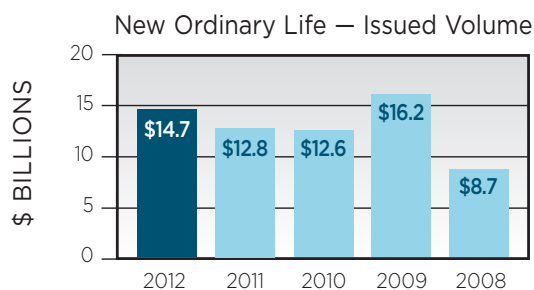
Reflecting SBLI's continued national growth, California and Texas joined Massachusetts as states with \$1 billion or more in issued volume in 2012.



### SBLI maintained its leadership position in Massachusetts with more policies and insurance in force than any other life insurer for the 16th consecutive year.

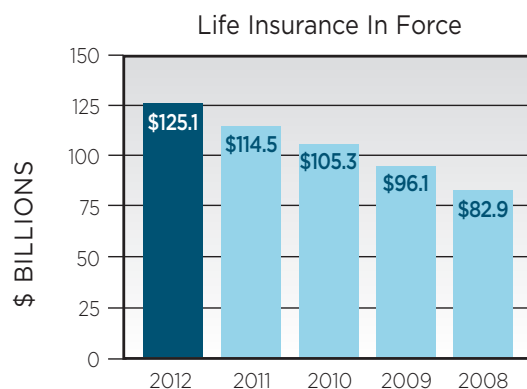
#### Life Insurance Sales

2012 marked the second-best year in SBLI's history for ordinary life insurance sales in the categories of issued policies and volume. In addition, first-year premiums increased \$1.2 million, or 5.7%, to \$22.1 million for the year ended December 31, 2012 compared to 2011. Strong sales in 2012 and 2011 were due to the Company's strong capital position, competitive product pricing, and expanding broker network, as well as continued penetration of new markets. In addition, new term premiums, including paid-up additions purchased with dividends, increased \$0.7 million, or 3.6%, to \$20.2 million for the year ended December 31, 2012 compared to 2011.



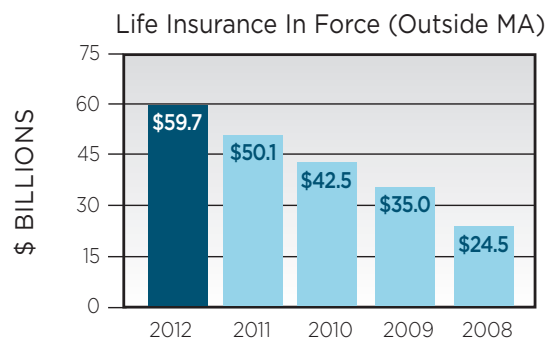
#### Life Insurance In Force

Total life insurance in force increased to \$125.1 billion in 2012 from \$114.5 billion in 2011, a 9.3% increase resulting from a combination of SBLI's continued strong sales growth and its sustained above-average persistency of 97%. New ordinary life insurance of \$14.7 billion was issued during 2012.



#### Diversification

SBLI's strategic expansion into new markets has continued to diversify our sources for new business. Life insurance in force from markets outside of Massachusetts has increased by a 24.9% compound annual growth rate since 2008.







## INVESTMENT REVIEW

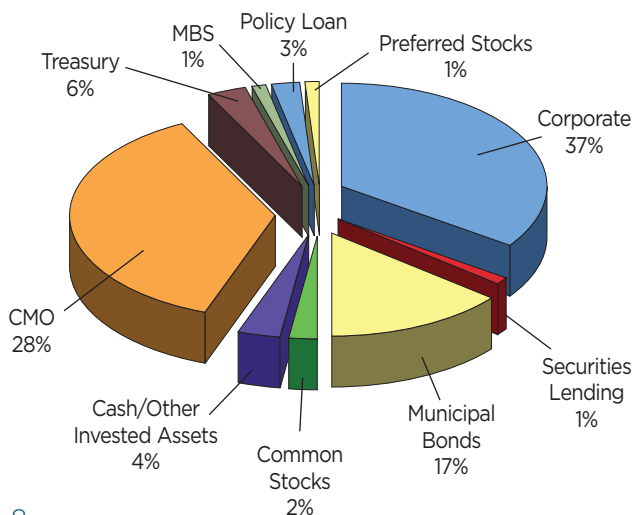
### Bond Quality

The Company's bond portfolio is managed with a heavy emphasis on quality rated issuers. Triple-A rated government securities represent 72% of fixed income investments. The remaining 28% is invested in high-grade corporate and municipal bonds with a composite "A+" rating. The Company maintains a policy of only purchasing bonds with investment grade ratings at the time of purchase.

### Invested Assets

The Company maintains a well-diversified portfolio with investment classes ranging from U.S. Treasury Securities to common stocks. The cornerstone of the portfolio is invested in U.S. Treasuries, Government Agency Securities and Mortgage Backed Securities, inclusive of CMOs, comprising 35% of invested assets. Corporate and municipal bonds (Build America bonds) account for 54% of invested assets. The remaining 11% is comprised of securities lending collateral (1%), policy loans (3%), preferred stocks (1%), common stocks (2%), and cash and other invested assets (4%).

### Invested Asset Distribution



## FINANCIAL STRENGTH & CAPITAL

### Safety Ratings

The Company's solid balance sheet, strong operating performance, and market profile provided for an A+ (Superior)\* rating from A.M. Best Co., at the time of publishing this document. The A+ (Superior) rating is assigned to only those companies viewed as having superior ability to meet their ongoing obligations to policyholders. These ratings place the Company in the top quartile of all rated insurance companies in the country. In addition, the Company is currently rated "A-" (Strong) from Standard & Poor's and "B+" (Good) from Weiss Ratings.

### Total Capital & Surplus

|                       | (\$ MILLIONS) |           |           |           |           |
|-----------------------|---------------|-----------|-----------|-----------|-----------|
|                       | 2012          | 2011      | 2010      | 2009      | 2008      |
| Capital and Surplus   | \$ 202.8      | \$ 193.5  | \$ 159.2  | \$ 162.9  | \$ 160.9  |
| Insurance Reserves    | \$2,003.2     | \$1,919.2 | \$2,049.2 | \$1,949.3 | \$1,865.8 |
| Capital/Reserve Ratio | 10%           | 10%       | 8%        | 8%        | 9%        |

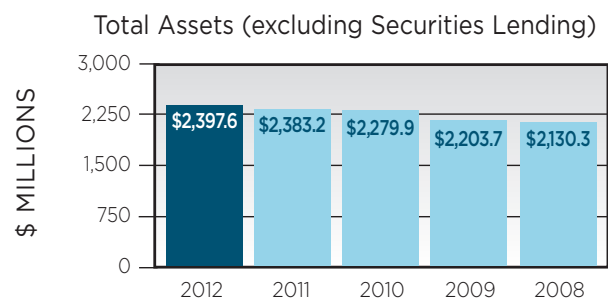
In 2012, total capital and surplus reached \$202.8 million, the highest level in the Company's history. The Company holds insurance reserves to assure that all future policy benefits and obligations are paid. Annual benefit payments to policyholders have averaged about 7% of total insurance and contract reserves over the past five years, evidencing the Company's superior claims-paying ability. The Company continues to be well capitalized and utilizes reinsurance to ensure sufficient capital levels are maintained.

\*See [www.ambest.com](http://www.ambest.com) for more information on The Savings Bank Life Insurance Company of Massachusetts (SBLI).



### Asset Growth

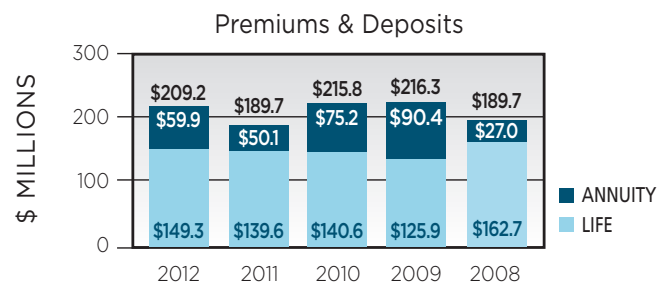
Total assets, excluding securities lending, increased \$14.4 million primarily due to invested asset growth driven by new premiums and deposits and the reinvestment of portfolio cashflows. Total assets have increased by a 3% compound annual growth rate since 2008.



### Premiums & Deposits

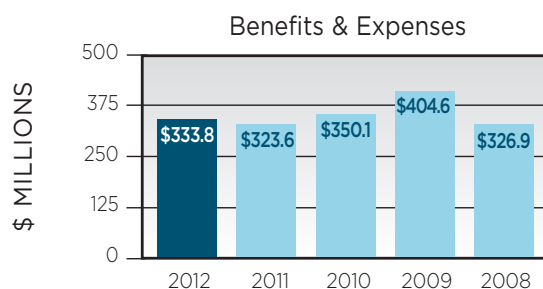
The Company's primary product, individual term insurance, has produced consistent growth over the past five years driven by continued sales in new markets. Increased direct life premiums have been offset by increased reinsurance premiums, but net life premiums experienced a 7% increase due to increased Bank Owned Life Insurance premiums.

Annuity deposits were \$9.8 million higher than the prior year due to an increase in Lottery annuity deposits. This product is a large-deposit, single-premium immediate annuity and is used as a funding vehicle for Lottery structured settlements.



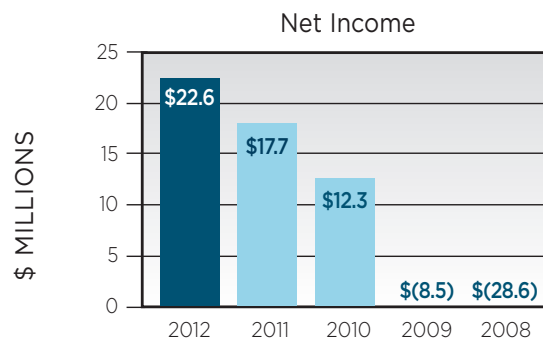
### Benefits & Expenses

Total benefits and expenses increased to \$333.8 million in 2012, up from \$323.6 million in 2011. The Company's profitable growth has been achieved by balancing revenue growth and benefit and expense increases through good mortality and expense controls. SBLI's commitment to policyholders is demonstrated by its highly competitive dividend scale, which places the Company in the top 10% of life insurance companies in the country.



### Net Income

The Company's record net income of \$22.6 million as of December 31, 2012 increased \$4.9 million over the prior year. This increase was driven by improved mortality experience compared to the prior year.



## SUMMARY BALANCE SHEET

|                                      | Year ended December 31 |                    |
|--------------------------------------|------------------------|--------------------|
| (\$ Thousands)                       | 2012                   | 2011               |
| <b>Assets</b>                        |                        |                    |
| Bonds & Debt Securities              | \$2,002,164            | \$2,006,418        |
| Other Investments                    | 252,340                | 231,570            |
| Securities Lending Collateral Assets | 8,894                  | 12,790             |
| Other Assets                         | 143,067                | 145,194            |
| <b>Total Assets</b>                  | <b>\$2,406,465</b>     | <b>\$2,395,972</b> |

## Liabilities, Capital & Surplus

|                                                 |                    |                    |
|-------------------------------------------------|--------------------|--------------------|
| Life Insurance Reserves & Liabilities           | \$1,268,265        | \$1,223,771        |
| Annuity Reserves & Deposit Liabilities          | 774,170            | 733,574            |
| Payables for Securities Lending                 | 9,002              | 12,790             |
| Other Liabilities                               | 152,231            | 232,329            |
| <b>Total Liabilities</b>                        | <b>2,203,668</b>   | <b>2,202,464</b>   |
| <b>Total Capital &amp; Surplus</b>              | <b>202,797</b>     | <b>193,508</b>     |
| <b>Total Liabilities, Capital &amp; Surplus</b> | <b>\$2,406,465</b> | <b>\$2,395,972</b> |

## SUMMARY INCOME STATEMENT

### Revenues

|                                   |                  |                  |
|-----------------------------------|------------------|------------------|
| Premiums & Annuity Considerations | \$209,227        | \$189,691        |
| Net Investment Income             | 109,413          | 110,067          |
| Fees and Other Income             | 35,936           | 36,432           |
| <b>Total Revenues</b>             | <b>\$354,576</b> | <b>\$336,190</b> |

### Benefits & Expenses

|                                      |                 |                 |
|--------------------------------------|-----------------|-----------------|
| Benefits and Reserves                | \$220,293       | \$212,717       |
| Operating Expenses                   | 75,174          | 73,816          |
| Policyholder Dividends               | 38,369          | 37,058          |
| <b>Total Benefits and Expenses</b>   | <b>333,836</b>  | <b>323,591</b>  |
| <b>Net Gain from Operations</b>      | <b>20,740</b>   | <b>12,599</b>   |
| Federal Income Tax Expense/(Benefit) | 0               | (2,785)         |
| <b>Net Gain after Taxes</b>          | <b>20,740</b>   | <b>15,384</b>   |
| Net Realized Capital Gains           | 1,865           | 2,336           |
| <b>Net Income</b>                    | <b>\$22,605</b> | <b>\$17,720</b> |

The above financial summaries are derived from SBLI's Statutory Basis Financial Statement audited by the Company's independent accountants, PricewaterhouseCoopers, LLP. Please visit SBLI.com to review all statutory financial statements and accompanying notes, or requests for printed copies may be directed in writing to: Richard A. Robinson, SVP & CFO, P.O. Box 4046, Woburn, MA 01888.





## OFFICERS

**Christopher H. Pinkerton**  
President & Chief Executive Officer

**Octavio C. Bolivar**  
Senior Vice President &  
Chief Information Officer

**Rosemarie G. Conneely**  
Senior Vice President,  
Underwriting & Customer Service

**Paul M. Fergus, M.D.**  
Senior Vice President &  
Medical Director

**Marybeth P. Leary**  
Senior Vice President,  
Administration &  
Corporate Secretary

**May Lee Low, FSA, MAAA**  
Senior Vice President & Chief Actuary

**James A. Morgan**  
Senior Vice President,  
Chief Investment Officer & Treasurer

**Michael D. O'Neill**  
Senior Vice President,  
Marketing & Distribution

**Richard A. Robinson, CMA, FLMI**  
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Chief Financial Officer

**Peter Scavongelli**  
Senior Vice President & General Counsel

**Sandra L. Williams**  
Senior Vice President, Human Resources

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SBLI

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Director,  
Bank of Canton

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Florence Savings Bank

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Winchester Savings Bank

**Robert K. Sheridan**  
President Emeritus,  
SBLI

**Steven H. Wright**  
Executive Partner,  
Holland & Knight LLP

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