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Savings Bank Life Insurance Co. of Massachusetts

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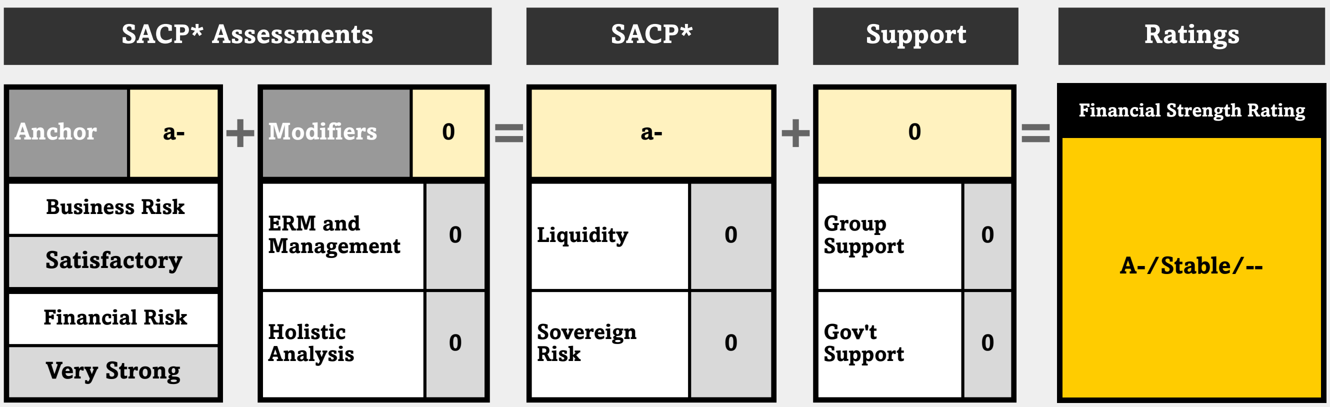

*Stand-alone credit profile.
See Ratings Detail for a complete list of rated entities and ratings covered by this report.

Rationale

Business Risk Profile: Satisfactory

- Adequate competitive position, benefitting from a diverse and highly productive direct and independent distribution network
- Strong brand name and recognition in the New England and Mid-Atlantic regions with rapidly growing presence nationally
- Modest operating performance when compared with peers, pressured by reliance on XXX/AXXX reserve financing and reinsurance structures
- Moderate geographic diversification with more than 40% of in-force business attributed to Massachusetts

Financial Risk Profile: Very Strong

- Very strong capital adequacy as measured by our risk-based capital (RBC) model
- Well-balanced investment portfolio, consisting of high credit quality and a well-diversified asset base
- Adequate financial flexibility with relatively limited access to public equity markets, utilizing internally generated cash flow and earnings to fund near-term capital needs

Other Factors

- Satisfactory management and governance as a result of management's focus on expanding product offerings that decrease reliance on XXX/AXXX reserve financing activities
- Adequate enterprise risk management (ERM) practices and continues to maintain both a conservative risk and prudent investment culture
- Exceptional operating company liquidity in excess of immediate needs

Outlook: Stable

The stable outlook reflects Standard & Poor's Ratings Services' view that we are unlikely to change our ratings on Savings Bank Life Insurance Co. of Massachusetts (SBLI) during the next 18-24 months. Through 2016, we expect the company to continue improving its competitive position through persistent efforts to diversify both its product portfolio and geographic reach. We expect the company to diversify into additional life product offerings, which decreases reserve strain, while also maintaining profitability in line with its robust term life product. We also expect the company to continue diversifying nationally by bringing the percentage of in-force business attributable to Massachusetts to less than 30% while expanding operations through additional national marketing organization (NMO) distribution.

In our base-case economic forecast, we expect SBLI to continue executing top-line revenue growth through continued diversification efforts as measured by both product and premium per policy, which translates to annual revenue between $350 million and $375 million. We also expect the company to continue improving its operating performance as measured by statutory net income between $10 million and $14 million, translating to a statutory return on assets (ROA) of more than 36 basis points (bps). We also expect SBLI to maintain capitalization in excess of our 'AA' ratings confidence level.

Downside scenario

We may lower our ratings if SBLI's operating performance as measured by statutory net income and ROA metrics deteriorate to significantly less than our expectations for a prolonged period of time. If such deterioration occured, directly impacting total adjusted capital (TAC) and, in turn, our RBC model view to materially below the 'AA' ratings confidence level for an extended period of time, we may also consider lowering our ratings.

Upside scenario

We may raise our ratings on SBLI if the company is to continue executing on profitable product diversification built on its strength of underwriting term life products. We would also expect the organization to diversify nationally at a more rapid pace, driven by additional NMO carrier volume and increased marketing efforts. We would also expect the organization to improve its operating performance to a level that is consistently in line with or exceeds our expectations or the level of its peers. This would materialize through expense ratios significantly below peers, with adjusted EBIT in excess of $20 million, resulting in an ROA in excess of 75 bps or return on capital in excess of 10%.

Base-Case Scenario

Macroeconomic Assumptions

- Real GDP growth of 3.4% and 2.9% in 2015 and 2016, respectively
- Average payroll employment of 141.5 million and 143.0 million, respectively
- Average unemployment of 5.7% and 5.5%, respectively
- A 10-year Treasury note yield of 2.6% and 2.9%, respectively
- Equity market gains in the S&P 500 Index estimated around 9% in 2015, followed by a more moderate but still beneficial 6% return in 2016
- Consumer price index at 1.4% and 1.8%, respectively

Company-Specific Assumptions

- Continued profitable execution of life product diversification focused on products that create less reserve strain
- Continued geographic diversification outside of the New England and Mid-Atlantic regions
- Reported net premiums between $200 million and $215 million through 2016
- Execution of the company's most recent XXX/AXXX reserve financing transaction covering business through 2017
- Total revenues reported between $350 million and $375 million through 2016
- Net income reported between $10 million and $15 million through 2016
- Capital adequacy in excess of our 'AAA' ratings confidence threshold through 2016

Key Metrics

	--Year ended Dec. 31--				
(Mil. $)	**2016***	**2015***	**2014**	**2013**	**2012**
Net premiums earned	208.0	203.0	199.0	169.1	207.9
Total revenue	379.0	366.0	359.9	335.3	354.6
Net income	14.0	10.0	13.0	17.9	22.6
Return on assets (%)	0.4	0.4	0.4	0.7	0.9
S&P capital adequacy/redundancy	AAA	AAA	AAA	AAA	AAA

*Forecast data reflect Standard & Poor's base-case assumptions.

Company Description The No-Nonsense Term Life Insurance Company

SBLI was founded in 1907 by U.S. Supreme Court Justice Louis D. Brandeis. SBLI is currently licensed in 49 states and the District of Columbia, and is a leading provider of safe, low-cost life insurance products. The company primarily sells low-cost level term life insurance, but also offers bank-owned life insurance, annuities, and whole life products.

Business Risk Profile Niche Player Focused on Term Life Insurance, Showcasing Strong Operational Capabilities

We regard SBLI's business risk profile as adequate. The company operates in the U.S. life insurance market, which we view as low risk. SBLI's adequate business risk profile reflects our view of the company's satisfactory competitive position in the term and whole life insurance markets, also acknowledging the company's market penetration in New England and the Mid-Atlantic region, coupled with its direct distribution capabilities.

Insurance industry and country risk: Low

We believe SBLI faces low industry and country risk based on our low risk assessment for the U.S. life insurance sector. Our view of SBLI's low country risk stems from the economic growth prospects, relatively effective and stable political institutions, sophisticated financial system, and strong payment culture in the U.S. SBLI's insurance operations are exposed to low industry risks as a result of moderate product risk, demonstrated by a strong track record of maintaining asset-liability mismatch within one year. The availability of fixed-income instruments of sufficient duration to match insurance liabilities in the capital markets greatly supports this capability. But, we see sensitivity to interest rates and equity market volatility as offsetting this somewhat, burdening long-term operating return prospects. We believe a weak global economy, persistent low interest rates, and intense competition will limit the sector's growth prospects and potential for higher operating margins.

Table 1

Industry And Country Risk		
Insurance sector		**Business mix (%)**
U.S. life	Low risk	100

Competitive position: Rapidly growing organization – by premium and geographic penetration

We view SBLI's competitive position as adequate based on the organization's strong presence and expertise in the commoditized term and whole life market segments. The company continues to expand its reach nationally, adding Florida and New Jersey, with each contributing more than $900 million in issued volume through year-end 2014. SBLI also continues to maintain a strong hold as measured by brand name and reputation in the New England and Mid-Atlantic markets. The company has made efforts to further decrease its in-force business concentration in Massachusetts, which accounted for more than 80% of the in-force business at its peak in 2003. As of year-end 2014, this has improved significantly to 41.5% of in-force business attributed to Massachusetts.

Table 2

The Savings Bank Life Insurance Co. of Massachusetts -- Competitive Position					
	--Year ended Dec. 31--				
(Mil. $)	**2014**	**2013**	**2012**	**2011**	**2010**
Gross premiums and annuity considerations	392	342	358	314	322
Change in gross premiums and annuity considerations (%)	14.7	(4.4)	14.0	(2.6)	(1.6)
Net premiums and annuity considerations	199	169	208	188	215
Change in net premiums and annuity considerations (%)	17.5	(18.7)	10.7	(12.4)	(0.2)
Total assets under management	2,796	2,534	2,406	2,396	2,563
Growth in total assets under management (%)	10.3	5.3	0.4	(6.5)	16.3
Reinsurance utilization (%)	69.8	63.1	55.6	49.5	26.9

SBLI's market position remains strong and benefits greatly from its product offering, which remains focused on permanent life (term life, whole life, and bank owned life) and deferred annuity products. The company maintains a disciplined approach to both pricing and distribution, offering insurance through direct response marketing, commissioned sales agents, fee-based distribution relationships, and NMOs. This approach provides SBLI the ability to grow its business and presence nationally while decreasing reliance on direct-response leads and the New England market. This has been exhibited by decreases in the company's in-force business within this region. This approach also provides SBLI the ability to compete in the term insurance market based on price and service. A direct result of this competitive environment is the company's overdependence on reinsurance and XXX/AXXX reserve financing solutions to fund redundant reserves while managing capital requirements.

The company's operating performance remains in line with peers as it continues to reach new records in term life insurance sales volumes as well as a renewed focus on enhanced profitability through various expense management programs and higher-margin product offering expansion during the next few years. As of year-end 2014, SBLI reported a statutory net income of $13 million, which translates to an ROA of 34 bps, a decrease from the prior period. This decrease in margin was primarily because of increases in death benefits, lower reinsurance expense allowances, and higher cash levels, which leads to decreases in net investment income. Through year-end 2014, SBLI continued to exhibit growth in gross premiums written, and ended the year at $392.3 million, an increase of 15% from the prior year. The increase was primarily because of the introduction of new distribution channels and recent NMO relationship additions.

Through 2016, we expect SBLI to grow its presence in the term life market, leveraging the various distribution capabilities to further diversify its product offering and geographic scope. We believe the company will continue to build upon its earnings profile, reporting statutory net income of between $10 million and $14 million annually, equating to an ROA in excess of 36 bps. We also expect SBLI to continue executing on margin expansion while at the same time offering new products that are less reliant on XXX/AXXX reserve financing structures.

Financial Risk Profile : Very Strong

SBLI's financial risk profile reflects the company's extremely strong capital adequacy, intermediate risk position, and adequate financial flexibility. Offsetting factors include SBLI's reliance on captive XXX/AXXX reserve financing structures, which the company historically has been able to execute on with strong counterparties and relatively low costs of financing. Regulatory concerns remain prominent in the sector because of potential principles-based reserving, increased scrutiny on term writers, and heightened oversight from state regulators.

Capital and earnings: Strong balance sheet fundamentals as showcased by continued execution on captive reserve financing transactions

SBLI's extremely strong capital and earnings capabilities are primarily driven by the company's year-end capital base of $257 million. The company's RBC ratio ended 2014 at an estimated 633%, an increase from 560% for the prior year. This increase was primarily attributed to SBLI's consolidation of prior captive reinsurance transactions to the company's new RNB1 structure. The new structure encompasses all life policies retroceded from SBLI's prior reinsurance entities through year-end 2014, leaving the company with an increase in capital of about $40 million. We expect SBLI will not maintain capitalization at these heightened levels as it further invests in diversification and works to complete new reserve financing structures by year-end 2015. Offsetting this favorable view is the company's relatively small capital base, leaving it susceptible to single-event risk exposures.

Table 3

The Savings Bank Life Insurance Co. of Massachusetts -- Capitalization Statistics

	--Year ended Dec. 31--				
(Mil. $)	**2014**	**2013**	**2012**	**2011**	**2010**
Total assets	2,796	2,534	2,406	2,396	2,563
Adjusted total assets	2,749	2,519	2,392	2,368	2,558
Capital and surplus	257	214	203	194	159
Change in capital and surplus (%)	20.2	5.3	4.8	21.5	(2.3)
Total adjusted capital (TAC)	301	256	240	229	188
Change in TAC (%)	17.5	6.7	4.9	22.1	(4.8)
Reinsurance and reserves					
Reinsurance utilization (%)	69.8	63.1	55.6	49.5	26.9
Reinsurance recoverables to capital and surplus (%)	10.1	7.9	7.9	6.9	3.5

Table 4

The Savings Bank Life Insurance Co. of Massachusetts -- Earnings Statistics

	--Year ended Dec. 31--				
(Mil. $)	**2014**	**2013**	**2012**	**2011**	**2010**
Total revenue	360	335	355	336	355
EBIT	9	18	21	13	5
Net income	13	18	23	18	12
Return on revenue (%)	2.6	5.3	5.8	3.7	1.5
Return on revenue (including realized gains/losses) (%)	3.5	5.3	6.3	4.4	1.4
Return on assets (excluding realized gains/losses) (%)	0.4	0.7	0.9	0.5	0.2
Return on capital and surplus (%)	5.5	8.6	11.4	10.0	7.6
Expense ratio (%)	11.4	11.7	14.4	15.2	19.5
General expense ratio (%)	24.7	30.4	21.9	24.6	23.1
Prebonus pretax earnings/total assets (%)	1.9	2.3	2.5	2.0	1.8

Through 2016, we expect SBLI to begin writing additional business in less capital-sensitive products while at the same time contributing capital to help set up its most recent captive reinsurance structure. The company is working to close this new structure by year-end 2015, and it will provide capital relief on business written from 2015-2017. As a result of these growth and capital initiatives, we expect SBLI to exhibit capital and surplus strain. This strain will lead to short-term RBC decreases between 525%-575% by year-end 2016, which equates to the 'AA' ratings confidence threshold as measured by our RBC model.

Risk position: Well balanced and diversified portfolio focused on liquidity

We view SBLI's risk position as intermediate, primarily driven by the organization's high-quality and well-diversified investment portfolio. The company's portfolio is invested in 86.4% bonds with more than 65% of the portfolio rated National Association of Insurance Commissioners (NAIC) 1, with a strong yield of 4.10% and minimal impairments, which compares favorably with peers based on yield, duration, and quality. SBLI also has minimal exposure to residential mortgage-backed securities and commercial real estate, with no exposure to commercial-mortgage-backed securities. The company carefully selects all securities in its portfolio and monitors them for yield-enhancing benefits. As a result, only 3.4% of its portfolio is of speculative grade. We expect that SBLI's investment portfolio will remain of high credit quality. However, we expect the company's investment income to decrease and exhibit yield strain as its portfolio matures and the investment environment offers lower availability of bonds with appropriate levels of yield given certain risk characteristics of these offerings. As a result, we do not expect SBLI's investment philosophy to change dramatically in response.

Table 5

The Savings Bank Life Insurance Co. of Massachusetts -- Risk Position					
	--Year ended Dec. 31--				
(Mil. $)	**2014**	**2013**	**2012**	**2011**	**2010**
Total invested assets	2,590	2,359	2,263	2,251	2,416
Change in total invested assets (%)	9.8	4.2	0.6	(6.8)	18.2
Net investment income	101	100	109	109	111
Realized capital gains/(losses)	4	-	2	2	-
Unrealized gains/(losses)	155	38	191	151	73
Net investment yield (%)	4.1	4.3	4.8	4.7	5.0
Net investment yield including realized capital gains/(losses) (%)	4.2	4.3	4.9	4.8	5.0
Net investment yield including all gains/(losses) (%)	10.5	5.9	13.4	11.2	8.2
Portfolio composition (% of general account invested assets)					
Cash and short-term investments (%)	3.3	2.4	4.1	3.1	2.9
Bonds (%)	86.4	90.8	88.5	89.1	79.0
Unaffiliated equity investments (%)	1.5	1.7	1.5	1.4	1.4
Real estate (%)	0.2	0.2	0.2	0.2	0.1
Mortgages (%)	-	-	-	-	-
Investments in affiliates (%)	3.6	-	-	-	-
Investments in partnerships, joint ventures, and other alternative investments (%)	0.2	0.2	0.2	0.2	0.2
Other investments (%)	4.8	4.8	5.6	6.0	16.3

N.A. -- Not available

Financial flexibility: Continued execution in innovative reserve financing transactions

SBLI's financial flexibility is adequate and neutral to the overall ratings given its non-public status and its primary source of financial flexibility being capital and earnings capabilities. The organization also affords itself significant access to both the securitization and reinsurance markets as measured by its execution of multiple reserve financing transactions. The company continues effectively utilizing reinsurance to increase its underwriting capabilities and as a solution to reserve for noneconomic XXX reserves. As of year-end 2014, the company executed a restructuring of its current reserve financing transactions, issuing a 30-year surplus note at very attractive interest rates while showcasing its accessibility to these specific markets. Through 2016, we expect the company to complete its newest reserve financing structure, covering current business written through 2017 while at the same time decreasing costs of capital. We also expect the company to continue utilizing reinsurance and/or other forms of XXX reserve financing to provide capital relief while boosting its underwriting capabilities.

Table 6

The Savings Bank Life Insurance Co. of Massachusetts -- Financial Flexibility					
	--Year ended Dec. 31--				
(Mil. $)	**2014**	**2013**	**2012**	**2011**	**2010**
EBIT interest coverage (x)	N.A.	N.A.	N.A.	N.A.	N.A.
Debt leverage (%)	N.A.	N.A.	N.A.	N.A.	N.A.
Debt leverage including pension deficit as debt (%)	N.A.	N.A.	N.A.	N.A.	N.A.
Financial leverage (%)	N.A.	N.A.	N.A.	N.A.	N.A.
Financial leverage including pension deficit as debt (%)	N.A.	N.A.	N.A.	N.A.	N.A.
Debt/EBIT including pension deficit as debt (x)	N.A.	N.A.	N.A.	N.A.	N.A.
Debt/EBIT excluding pension deficit as debt (x)	N.A.	N.A.	N.A.	N.A.	N.A.
Cash flows					
Net cash flow from operating activities	46	74	104	80	85
Net cash flow from investing activities	(187)	(111)	(69)	(95)	(66)
Net cash from from financing activities	171	1	(13)	15	(6)

N.A. -- Not available

Other Assessments

Enterprise risk management: Adequate, given product and investment risk profile

SBLI's ERM is adequate and of low importance to the rating based on its size, product, and risk profile. It has a conservative culture and takes measured risks, seeking to limit or minimize other risks. For example, investment risk where the company prudently purchases investment-grade fixed-income securities, limiting exposure by name, credit, and equity limits. SBLI's underwriting is well-disciplined as demonstrated by its history of favorable mortality results.

SBLI has appropriate controls in place to manage its business and risk exposures. The company uses a variety of scorecards to identify any ERM weaknesses, and management identifies major risks through a formal committee process. Various risks affect the organization, including policy retention limits, investment guidance, and regulatory landscape changes. We expect SBLI's ERM to continue evolving in the long term and to adapt to the company's needs and the changing operating environment.

Management and governance: Recent turnover leaves management philosophy unaffected

SBLI's management and governance practices are satisfactory, given its market position and business risk profile. During the past few years, the company has exhibited some turnover in the executive suite, recently appointing Jim Morgan as president and CEO of the organization. Jim has been with the organization for more than 16 years and brings with him a significant amount of knowledge in both the investment management and life insurance space.

The organization's strategy remains the same through this change, which is to increase its position within the term life insurance market through prudent underwriting and expanded geographic distribution. This strategy continues to gain traction as SBLI focuses on its in-force book outside of Massachusetts and boosts its market share. We believe the strategy is appropriate in light of the firm's business profile, risk tolerances, and operational capabilities.

Key strengths of SBLI's management and governance include its operational effectiveness and financial management. Its operational governance processes are consistent, straightforward, and appropriate given the company's size and resources. Management continues to demonstrate its deep understanding of its chosen market and product offerings. SBLI adheres to strict financial management by maintaining low expense ratios and disciplined underwriting guidelines, which are essential to the company's competitive position. SBLI also has conservative investment governance as shown by its choice to not bring on more risk for higher yields. In the next few years, we expect SBLI to continue managing risks with robust governance practices.

Liquidity: Exceptional

We view SBLI's liquidity as exceptional and expect this to continue in our base-case scenario, providing coverage of both ongoing and contingent liquidity needs. The company's business risk profile, primarily focused on term life insurance, makes its liquidity needs relatively low. However, in terms of SBLI's other businesses (BOLI and annuity products), greater liquidity needs may be necessary. SBLI holds ample liquid assets to cover any needs. The company's asset liability matches, which are specific to the annuity portfolio, require shorter asset duration. This lowers liquidity risk but increases reinvestment risk. We view this mismatch, however, as being well within the company's tolerances. SBLI holds about $91 million in cash and short-term investments, which is ample for immediate needs.

Accounting Considerations

We analyze SBLI's operating subsidiaries on a statutory basis. The statutory financial statements provided are all filed with the Division of Insurance of Massachusetts, the domiciled regulator, as well as the NAIC. Through 2014, SBLI received statutory reinsurance reserve credit of $746.5 million and ceded $116.8 million in premiums to its Vermont-domiciled captive reinsurance subsidiary, SBLI VT Re, LLC, and ceded $76.7 million to unaffiliated third-party reinsurers.

Through our analysis, we conclude SBLI's captive reinsurance subsidiaries (SBLI Re and SBLI VT Re, LLC) as being sufficiently isolated from the overall group. This is predicated on the company's unique structure and the level of reinsurance provided to the organization. As such, we also conclude that should the availability of XXX/AXXX instruments and reinsurance become diminished, SBLI's capitalization, underwriting capabilities, and overall competitive position could be negatively impacted. We expect that in such a scenario, the company will exhibit surplus strain and would be forced to moderate business growth.

Related Criteria And Research

- Insurers: Rating Methodology, May 7, 2013
- Group Ratings Methodology, Nov. 19, 2013
- Enterprise Risk Management, May 7, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

- Use of CreditWatch and Outlooks, Sept. 14, 2009
- Methodology: Treatment of U.S. Life Insurance Reserves and Reserve Financing Transactions, March 12, 2015

Ratings Detail (As Of June 11, 2015)	
Operating Company Covered By This Report	
Savings Bank Life Insurance Co. of Massachusetts	
Financial Strength Rating	
Local Currency	A-/Stable/--
Counterparty Credit Rating	
Local Currency	A-/Stable/--
Domicile	Massachusetts

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.