S&P Global
Ratings

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Savings Bank Life Insurance Co. of Massachusetts

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Savings Bank Life Insurance Co. of Massachusetts

SACP* Assessments				SACP*		Support		Ratings
Anchor	a-	Modifiers	0	a-		0		Financial Strength Rating
Business Risk		ERM and Management	0	Liquidity	0	Group Support	0	A-/Stable/--
Satisfactory								
Financial Risk		Holistic Analysis	0	Sovereign Risk	0	Gov't Support	0	
Very Strong								

*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 focused on diversifying distribution, products, and geographic mix
- Very low-risk mortality-based product offering
- Moderate operating performance when compared to peers'

Financial Risk Profile: Very Strong

- Extremely strong capital adequacy offset by small total adjusted capitalization susceptible to adverse mortality and reliance on XXX/AXXX reserve-financing transactions
- Well-balanced and highly rated investment portfolio, relatively protected against low interest rates
- Development of new products that rely less on reserve financing likely as company focuses on principles-based reserving regulatory standards

Other Factors

- Satisfactory management and governance practices remain focused on core market segment and risk mitigation
- Adequate enterprise risk management (ERM) practices remain focused on risk mitigation and avoidance
- Exceptional liquidity in excess of immediate needs

Outlook: Stable

The stable outlook on Savings Bank Life Insurance Co. of Massachusetts (SBLI) reflects S&P Global Ratings' view that the company will maintain capital at the 'AAA' level, per our capital model, through 2019, despite our expectation for modest net income declines due in part to a transition to principles-based reserving. We assume management will profitably execute its diversification plans while maintaining underwriting and investment discipline. Additionally, SBLI's recent completion of its mutualization initiative does not affect our view of its risk profile.

Downside scenario

We may lower our ratings in the next 24 months if SBLI's capitalization erodes or if we no longer view its captive reinsurance structures as sufficiently isolated from its operating entities. We could also lower our ratings on SBLI if, contrary to our expectations, the company's geographic and product diversification efforts reverse course such that any one product becomes a significant(more than 80%) contributor to gross premiums.

Upside scenario

We are unlikely to raise our ratings in the next 24 months because we do not expect the company to improve its diversification meaningfully or grow net income sustainably.

Base-Case Scenario

Macroeconomic Assumptions

- Real U.S. GDP growth of about 2.2% in 2017 and 2.3% in 2018
- Average 10-year Treasury note yield of about 2.4% in 2017 and 2.7% in 2018
- Average 'AAA' corporate bond yield of about 3.3% in 2017 and 3.9% in 2018
- S&P 500 level of 2,379.1 in 2017 and 2,411.6 in 2018
- Average payroll employment of 146.4 million in 2017 and 148.1 million in 2018

Company-Specific Assumptions

- Continued profitable execution of life product diversification focused on products that create less reserve strain
- Continued geographic diversification outside the New England and Mid-Atlantic regions
- Reported annual gross premiums and deposits of $375 million-$425 million through 2019
- Annual net income declines through 2019 as we expect no captive financing post-2017

Key Metrics

	--Year ended Dec. 31--				
(Mil. $)	**2018***	**2017***	**2016**	**2015**	**2014**
Financial leverage (%)	19	20	0	0	0
Fixed-charge coverage (x)	6	13	NA	NA	NA
S&P Global capital adequacy/redundancy	AAA	AAA	AAA	AAA	AAA
Gross premiums and annuity considerations	Up 3-5%	Up 3-5%	368.7	416.9	392.3
EBIT	15-20	15-20	26	15	9.4
Total adjusted capital (TAC)	250-275	250-275	275	268	301
Return on revenue (%)	>5	>5	8	4	2.6
Return on assets (excluding realized gains/losses) (%)	>0.5	>0.5	0.9	0.5	0.4
Return on capital and surplus (%)	>8	>8	11.8	4.9	5.5
Net investment yield (%)	>3.9	>3.9	3.9	4.1	4.1

*Forecast data reflect S&P Global Ratings base-case assumptions.

Business Risk Profile: Satisfactory

Competitive position: Continued growth in distribution, product, premium levels, and geographic reach

In our view, SBLI's competitive position is adequate. It is focused on the term, bank-owned, whole life insurance, and annuities markets. We acknowledge the company's effort to diversify its product offering and premium distribution nationally. Furthermore, we expect SBLI to continue to diversify, in part by growing products that create less statutory reserve strain than its core term life product. Its prior term-life growth resulted in a dependence on reinsurance and XXX/AXXX reserve financing solutions to manage internal and regulatory capitalization requirements. We believe the company will pursue growth in new higher-margin and less-capital-intensive products, largely through its partnerships, as it remains focused on the regulatory environment surrounding principles-based reserving standards.

We expect SBLI to grow its top line by about 3%-5% through 2018, largely through increasing the number of policies sold, as we expect the average face amount to remain near current levels. Continued improvements to accelerate the underwriting process will strengthen the company's existing competitive advantage in turnaround time.

The company's distribution also continues to grow. It is diversified across direct-response marketing, commissioned sales agents, fee-based distribution relationships, and national marketing organizations. Controlled distribution currently accounts for about 30% of premium, and we do not expect this to grow to a point of sustainably comprising half of all premiums (the level at which we view distribution as positive versus neutral).

Prospectively, we expect the company's operating performance to remain in line with that of peers similar in size, scope, and nonpublic ownership. The company's 2016 operating results rose year-over-year, due in part to better-than-expected mortality. We project fairly stable operating results (statutory adjusted EBIT between $15 million and $20 million) through 2019. SBLI has undertaken product and revenue diversification while focusing on margin-expansion initiatives through expense reductions and commission program revisions on certain products.

SBLI benefits from the stable economic growth prospects, effective and stable political institutions, sophisticated financial system, and strong payment culture in the U.S.

Financial Risk Profile: Very Strong

Capital and earnings: Extremely strong capitalization offset by the susceptibility of capitalization to adverse mortality events

SBLI's strength remains its extremely strong capitalization and consistent earnings between $15 million and $20 million EBIT annually. SBLI has historically maintained extremely strong capital, and we expect this to continue following the company's conversion to a mutual company from a stock company. SBLI purchased all outstanding shares of its common stock for $57.3 million (raised via a surplus notes offering) to effect the conversion. We view the conversion as a credit-neutral event, whereas the surplus notes result in financial leverage of roughly 20% and fixed-charge coverage of 5x-6x. We expect overall capitalization to remain 'AAA' redundant, although the company's risk-based capital levels decrease slightly each year through our projection period.

Offsetting the strength of capitalization, in our view, is SBLI's relatively small total adjusted capital base ($275 million), which could leave the company more susceptible to remote single-event risk exposures than we assume in our risk-based capital model.

Risk position:Driven by its well-balanced and diversified portfolio focused on liquidity

Our view of the company's intermediate risk position reflects its well-balanced and diversified low-risk investment portfolio. The company remains heavily invested in NAIC 1 rated securities, with a net investment yield of 3.9% and minimal impairment activity. Favorably, SBLI has minimal real estate debt investments, and maintains below-industry-level exposure to noninvestment-grade holdings (less than 5% of invested assets).

Financial flexibility: Strengthened by industry-leading reserve financing transactions

We view SBLI's financial flexibility as adequate and an overall strength to the rating, as it historically has executed various redundant reserve financing and reinsurance transactions, providing reserve relief and a lower cost of capital.

Other Assessments

Enterprise risk management

We assess SBLI's ERM as adequate and of low importance to the rating based on its size, product, and risk profile. The company has appropriate controls in place to manage its risk exposures. Importantly, SBLI's underwriting is well disciplined as demonstrated by its history of favorable mortality results.

Management and governance

We have a satisfactory view of management and governance. The company's diversification and growth initiatives are balanced by its focus on maintaining extremely strong capital. Additionally, we expect the conversion to a mutual company to simplify the organization's legal entity structure and reduce potential conflicts between policyholder and shareholder interests inherent in a stock company.

Liquidity

We assess 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 current product profile primarily consists of term life insurance, with relatively low liquidity needs relative to SBLI's bank-owned life insurance and annuity products.

The company's annuity portfolio asset-liability matching requires shorter asset duration. This lowers liquidity risk but increases reinvestment risk. We view this mismatch, however, as being managed within the company's tolerances.

Accounting Considerations

We analyze SBLI's operating subsidiaries on a statutory basis. Through our analysis, we conclude SBLI's captive reinsurance subsidiaries (SBLI Re and SBLI VT Re LLC) are sufficiently isolated from the overall group. We expect that if availability of reserve management financing transactions were constrained, the company would moderate its business growth to manage surplus strain.

Rating Score Snapshot	
Financial Strength Rating	A-/Stable
Anchor	a-
Business Risk Profile	Satisfactory
IICRA*	Low Risk
Competitive Position	Adequate
Financial Risk Profile	Very Strong
Capital & Earnings	Very Strong
Risk Position	Intermediate Risk
Financial Flexibility	Adequate
Modifiers	0
ERM and Management	0
Enterprise Risk Management	Adequate
Management & Governance	Satisfactory
Holistic Analysis	0
Liquidity	Exceptional
Support	0
Group Support	0
Government Support	0

*Insurance Industry And Country Risk Assessment.

Related Criteria

- Criteria - Insurance - Life: Methodology: Treatment Of U.S. Life Insurance Reserves And Reserve Financing Transactions, March 12, 2015
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013

- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008
- Criteria - Insurance - Life: Liquidity Model For U.S. And Canadian Life Insurers, April 22, 2004

Ratings Detail (As Of August 2, 2017)	
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/--
Subordinated	BBB
Domicile	Massachusetts

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' 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.