TO: Benjamin Lawsky, Superintendent,
New York State Department of Financial Services

FROM: Richard Hoffman, an SBLI USA Mutual Life Insurance Co. (SBLI USA) policyholder.
99 Clent Road # B107, Great Neck, NY 11021

RE: <u>Public Hearing on the Demutualization of SBLI USA</u> DATE: August 21, 2014

When Savings Bank Life Insurance of New York was mutualized in 1999 and became SBLI USA policyholders were told that the *mutualization* would be in our best interest and we would prosper. Now policyholders are being told just the opposite. “After careful consideration, the board of directors unanimously determined that the proposed sponsored demutualization is in the best interests of SBLI USA and its Policyholders.”

What’s missing from the proposal (and SBLI USA’s web site) is an explanation of <u>what caused the SBLI USA Mutual Life Insurance Company to demutualize.</u> Policyholders, who most likely are or were citizens of New York State, have a right to know what happened. The answer to that question, simply stated is that the Management and Board of Directors did not operate in the best interest of the policyholders.

Now, management and the Board of Directors want us to believe that they are finally doing the right thing for policyholders by recommending that the demutualization of SBLI USA is in the best interests of policyholders. Really?

From 1999 to 2012, when SBLI USA was a mutual insurance company, employee’s salaries and benefits exceeded $265,000,000. That’s over a quarter of a billion dollars! During this same time, SBLI USA’s investment accounts declined by $89 million, cumulative net income was a negative $439,000, annual policyholder dividends declined from $37 million to $8.5 million; whole life premium, number of policyholders and life insurance in-force, all declined by over 33%.
This correspondence describes why I believe the demutualization of SBLI USA will not benefit policyholders. Actually, in my opinion the best course of action would be for policyholders to vote No on the demutualization, and petition the New York State Department of Financial Services to take control of SBLI USA and manage the Company for the sole benefit of policyholders.

In this presentation I will discuss some of the more egregious decisions made by management and approved by the Board of Directors which caused SBLI USA to demutualize.

Members of SBLI USA’s Board of Directors from 1999 to Present

Deborah Aguiar-Velez

Samuel M. Bemiss III

Evelyn F. Murphy

Rev. Dr. David Jefferson Sr.

G. Thomas Rogers

The information contained in this report is for year end, December 31, 2012. It was prepared under the assumption that the demutualization vote would take place in 2013. To adjust this presentation the following information is available for December 31, 2013. (All statistics continued slowly declining)

Net Income $(2,228,569)
Dividends $8,075,922
Life Insurance Premiums $46,196,591
Death Benefits Paid $42,994,820
Employee Compensation $14,341,797

To determine the reason for the reduction in policyholder dividends and ultimate demutualization of SBLI USA, I began researching the Company's operations in about 2005. My comments are based on analyzing public documents about the Company's operations, during the previous nine years. I spent numerous hours researching and reviewing company press releases, Annual Reports, Annual Statements, newspaper articles, attended annual meetings; wrote numerous complain letters to the NYS Insurance Department, and thoroughly reviewed the voluminous amount of information available on the internet. The views and opinions expressed in this presentation are my own. The information contained in this presentation is for general information purposes only.

Richard Hoffman, CPA (Retired)
99 Clent Road # B107
Great Neck, NY 11021
AceHoffman@mail.com

Mr. Benjamin Lawsky, superintendent August 21, 2014
New York State Department of Financial Services
One State Street
New York, NY 10004

RE: Demutualization of SBLI USA Mutual Life Insurance

Dear Superintendent Lawsky:

OVERVIEW

QUESTION # 1
Will the management and Board of Directors (Board) of SBLI USA Mutual Life Insurance (SBLI USA) be unjustly enriched if Prosperity Life Insurance Group is allowed to acquire SBLI USA through a demutualization process?

QUESTION # 2
If the Board is not independent, not capable of assisting management in achieving its strategic goals and growth objectives, and not operating in the best interest of policyholders, why should policyholders rely on the Board's unanimous decision that the demutualization of SBLI USA would benefit policyholders?

For more than twelve years the current management of SBLI USA, with the approval of the Board has been making decisions which did not benefit the policyholders or the Company. The result is that SBLI USA's finances and policyholder's assets have deteriorated to the point that the Company's operations are no longer sustainable and SBLI USA needs to be acquired by a strategic partner (Prosperity Life Insurance Group) or face possible remediation.

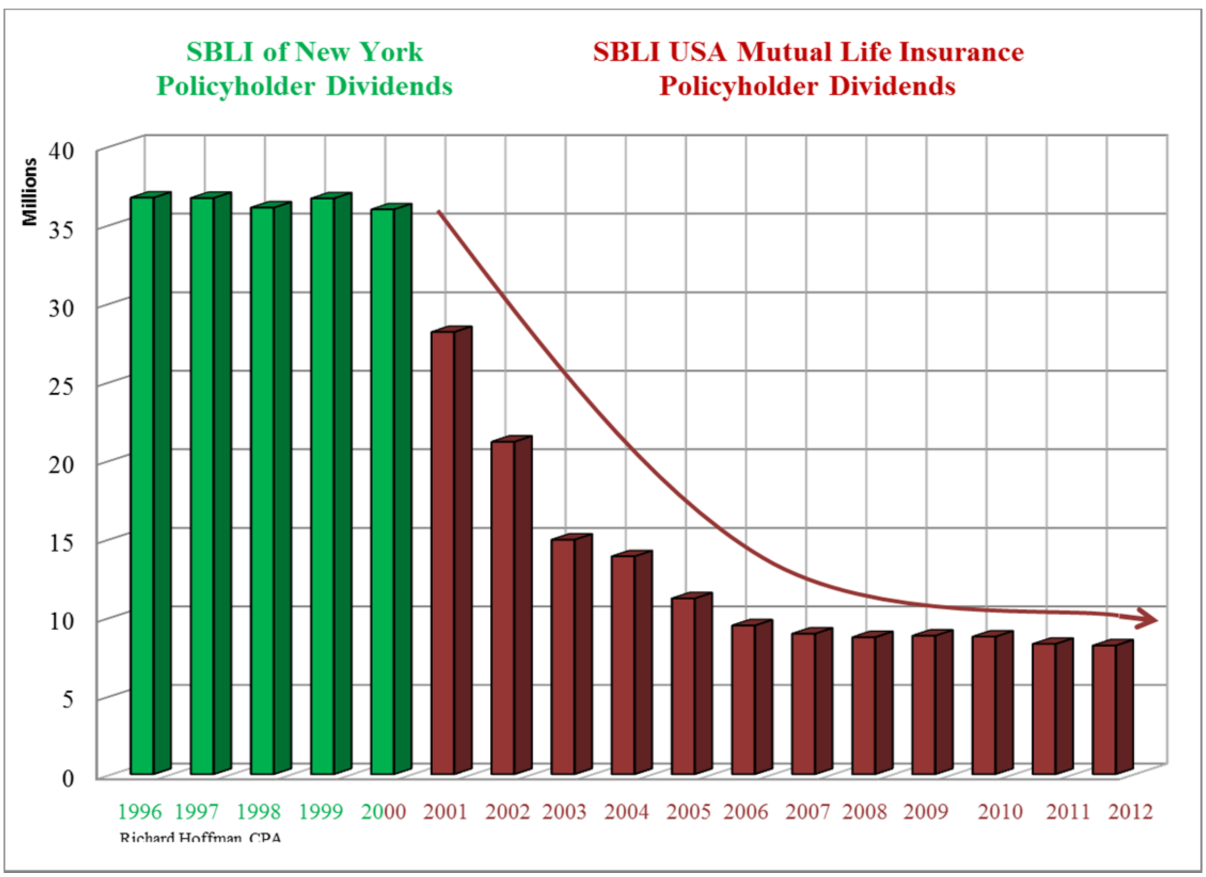
Now, management and the Board of SBLI USA want policyholders to believe that their decision to demutualize is in our best interest. Nothing can be further from the truth. Policyholders will continue to suffer if the demutualization is approved.

DISCUSSION

I have been a policyholder of SBLI of New York (SBLI) and SBLI USA for about forty years. In 2005 I became concerned about the financial stability of SBLI USA when I realized that my dividends and those of other policyholders had been declining steadily for the past few years. To determine the reason for the decline I reviewed: 1) Annual Statements and Annual Reports, 2) independent auditor reports and NYS Insurance Examinations, 3) company press releases, and 4) internet and newspaper documents. I also submitted Freedom of Information Law requests to the NYS Insurance Department, and questioned and challenged management's decisions at SBLI USA's Annual Meetings.

When the operations of SBLI were supervised by the New York State Banking Department and the New York State Insurance Department, the Company was run for the benefit policyholders, and policyholders prospered. After SBLI transitioned into a mutual life insurance company, the new management team decided that it would be in the best interest of SBLI USA if it re-directed its efforts to benefit the "underserved community" and not current policyholders. By not operating in the best interest of policyholders, who are the owners of SBLI USA, management and the Board violated their fiduciary responsibilities, and policyholders suffered.

The chart below (Exhibit #1) shows how policyholder dividends declined, and policyholders suffered when SBLI was mutualized and became SBLI USA.



Eventually, the New York State Department of Financial Services also became concerned about the decline in policyholder dividends, and in June of 2010, after lengthy discussions with Company management, SBLI USA agreed to cease writing new business and to try and arrange a strategic partnership with another insurance company (Exhibit 29 Part A).

It is worth noting that SBLI USA's current management team including the new President and CEO and the Board, have been with SBLI USA since 2000 when SBLI was converted into a mutual life insurance company. During this 12 year period (2000 to 2012) policyholder dividends declined by 75% (Exhibit #1), whole life premium declined by 38% (Exhibit #17) the number of policyholders declined by 35% (Exhibit #16) and life insurance in-force declined by 32% (Exhibit 29 Part D). Management and Board have had more than ample time to demonstrate their inability to properly manage SBLI USA.

I believe that the Board and management of SBLI USA violated their fiduciary responsibilities to policyholders in the following ways: (This list highlights some of the more egregious transactions sanctioned by management and the Board).

A. Using company funds to sponsor lavish Annual Gala events to raise money for "worthy charities" - and to also recognize the hard work of SBLI USA's employees. (Exhibit # 2 & #3)

America's Second Harvest (4th Annual Gala)

Alzheimer's Association (5th Annual Gala)

It is important to note that at each Annual Gala SBLI USA presents a check of approximately $100,000 to the "worthy charity." It is statistically unlikely given the many variables; number of people attending the event, location of the event, theme of the event, meal selection, etc., that each event would raise a similar amount. The probable scenario is that SBLI USA donated the $100,000, (of policyholder assets) and also had to contribute a significant amount to pay for the cost of the event. Certainly, you are not going to ask your employees to pay for a charitable event that also recognized their hard work. The amounts SBLI USA donated, and the other out of pocket costs, not including employees time to plan the events, means that SBLI USA spent well over $800,000 of policyholder's money on Annual Recognition Galas. $800,000 is a lot of dividends.

One can only wonder what each event actually cost. Clearly, management was not operating in the best interests of their policyholders. The following chart lists the Worthy Charity and the contribution they received.

YEAR	WORTHY CHARITY	$ AMOUNT
2001	No Information Available	
2002	National Conference for Community Justice	84,000 +
2003	Habitat for Humanity	100,000 +
2004	America's Second Harvest	100,000 +
2005	Alzheimer's Association	100,000 +
2006	First Book	100,000 +
2007	Earth Day	100,000 +
2008	Big Brothers and Big Sisters	100,000 +

In my opinion, it is a misuse of corporate assets and violation of good governance principles for SBLI USA to be spending lavishly on these charitable events, while dividends to policyholders are in a continuous state of decline. Furthermore, I was not able to determine if SBLI USA has a policy on how to evaluate or determine what is a "worthy organization"? Most likely it was left to the discretion of the President and CEO, to determine who got the $100,000. Is the Board of Directors aware of this potential "conflict-of-interest"?

In 2008 the New York State Insurance Department notified SBLI USA that it would have to improve its current financial position or the State could require the Company to discontinue selling life insurance policies or submit a plan for the run-off of liabilities (Exhibit 30 Part A). In an attempt to reduce expenses and increase Capital and Surplus, SBLI USA discontinued holding Annual Galas and making donations to "worthy organizations".

B. Opening unprofitable Customer Service Centers, when a simple breakeven analysis would have shown that it was impossible for these operations to be successful.

"A customer service center is a combination retail store and customer service and sales support location. The designs of the Customer Centers are relaxed, yet professional environments where customers can feel at ease while making important decisions about their financial futures. These state of the art establishments feature kiosks, where customers can quickly and simply take financial self-assessment quizzes, learn about SBLI USA's or S.USA's products and services, and obtain insurance quotes. The Centers also have a children's play area with games and plasma TV to keep the children occupied while parents discuss insurance needs. In addition, the centers will offer educational seminars, health fairs and other features to get people thinking about their general health and what type of life insurance they should be buying. Associates, including several professional, licensed insurance agents provide information on insurance products, in English and Spanish, perform financial needs analysis and issue policies on the spot" (Exhibit #5). Below is an example of Customer Service Centers in Buffalo, and Chicago.

Customer Service Center (Entrance)   Customer Service Center (Interior)

Design specifications for Customer Service are similar to each other.

BUFFALO, NY: "the Walden Galleria (Buffalo) site was chosen because *I'm from the area* and am familiar with the malls in Western New York and particularly around Buffalo and the traffic that comes through there" said Michael Lane VP at SBLI USA. Also *familiar with the area* is SBLI USA's past President and CEO who graduated from the State University of New York at Buffalo, and maintains close ties to the Buffalo community.

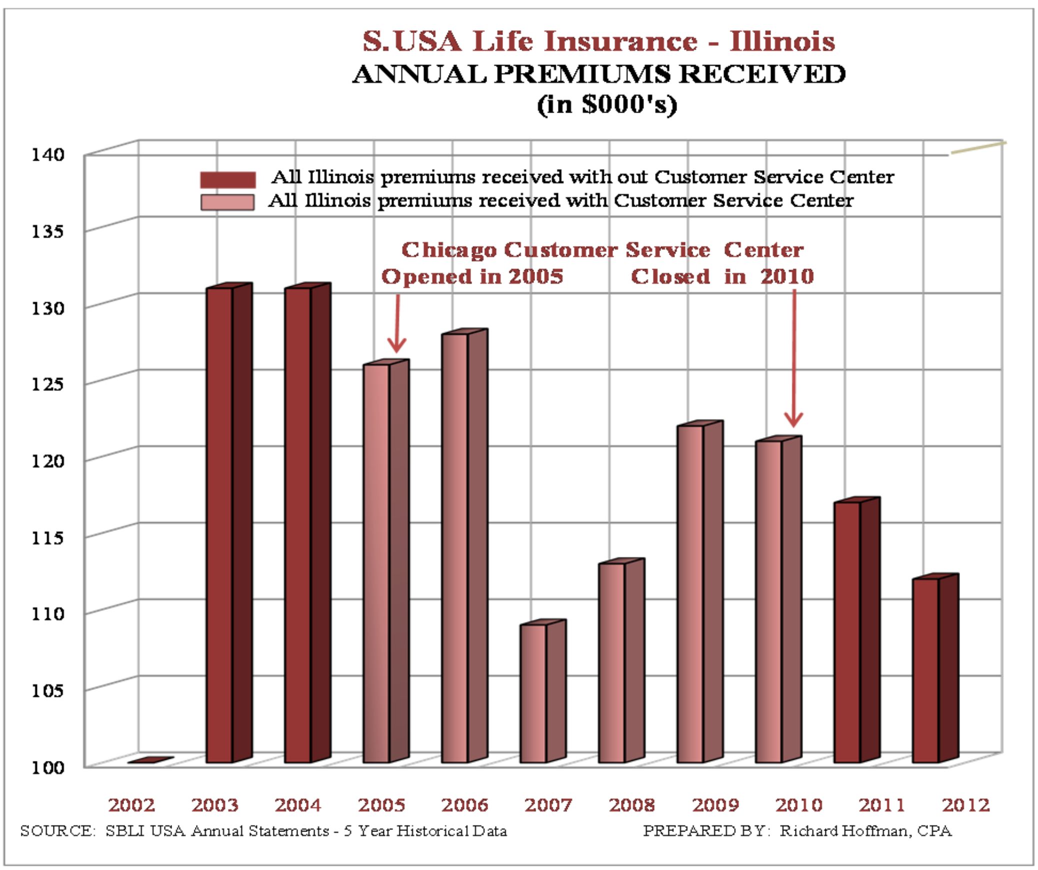
SBLI USA's products are also offered through three bank insurance agencies: First Niagara Securities, Inc. (First Niagara Savings Bank); M&W Agency, Inc. (Evans National Bank); and Charter One Securities, Inc. (Charter One Bank).

It was not possible to determine the actual loss from operations at the Buffalo, NY, Customer Service Center because the life insurance premiums generated at the Customer Service Center are combined with all other premiums received in New York State.   For reporting purposes, premiums received are reported on a state-wide basis. In 2004 when the Customer Service was opened, life insurance premiums received in New York State were $90 million. In 2010 when the Buffalo Service Center was closed, life insurance premiums received in New York State were $72 million. Premiums declined $18 million even with the establishment of the Customer Service Center.

The operations in Buffalo are identical to those in Chicago, and while it is not possible to determine an actual loss – I am able to demonstrate that the Chicago Customer Service Center operated at a considerable loss.

CHICAGO, IL. "Strengthening our retail presence (in Chicago) is part of our plan for growth. For S.USA Life Insurance to succeed and increase our brand awareness, we have to put our Customer Service Centers right where the people are," said Executive Vice President of Marketing and Sales, M. Nasim Ali. Also familiar with this area is SBLI USA's past President and CEO who was born in Chicago, and lived on its West Side. She graduated from the University of Illinois at Chicago and maintains close ties to the Chicago community.

S.USA Life Insurance products are also offered in Illinois/Chicago by Banco Popular, Wells Fargo and CitiBank.



In Illinois, total premiums received were never more than $131,000. When you realize that the cost to operate each Customer Service Center's include: design and construction costs, salaries and benefits for a staff of five to seven associates working a minimum of five days per week; rent in upscale malls or high end retail locations; utilities, furniture and equipment costs, and promotional expenses – it should be obvious that cost to operate Customer Services are greater than the premiums received. Expenses for the Chicago Customer Service Center were likely more than all combined insurance premiums received in Illinois from 2003 to 2012 (Exhibit #6).

Therefore, with the likely approval of the Board, management decided to open another (unprofitable) customer service center, this time in St. Louis Mo.!

Why continue to expand when it is obvious that opening additional Customer Service Centers will harm policyholders and the Company. Why open Customer Service Centers in locations where SBLI USA will compete against its best customers, local banks offering their products? What was management thinking? Who actually made the decision? And most important who benefits from opening additional Customer Service Centers? **The real tragedy is that if SBLI USA is taken over by Prosperity, nobody will be held accountable or answerable for these and other decisions.**

Luckily for policyholders the New York State Department of Financial Services again got involved and noted "While some of the reduction in dividends could be attributed to declines in net asset yields, the Department was concerned that the reduction in dividends was primarily to fund marketing and expansion initiatives and to maintain surplus." Ultimately, SBLI USA closed their Customer Service Centers and agreed to cease writing new business (Exhibit 29 Part C).

It is noteworthy that executives at SBLI USA refused to accept responsibility for the poor performance at Customer Service Centers. In a press release SBLI USA said "…executives made the decision, {to close Customer Service Centers} in conjunction with the State Insurance Department, because they realized that they would need more capital to grow and invest in the business, and given the economic environment, the capital they needed to access was difficult to access."

Eventually, all of the employees at the Customer Service Centers lost their jobs except the Senior VP, Marketing & Sales, who was responsible for these operations. A new position was created for him in New York, Senior VP, Administrative Services & Facilities.

C. Another example of how the management and Board of SBLI USA operated in their own best interest relates to the Phantom Stock Plan; a deferred compensation plan designed to reward senior managers for exceeding performance expectations.

Unfortunately, management's performance did not even exceed the low expectations they set for themselves and the plan became worthless. The fact that these plans lost all their value, says a lot about their ability to manage SBLI USA. The fact that policyholders had to pay for the legal fees incurred for the Phantom Stock Plan shows management's disdain for policyholders.

D. In January 2012, I filed a Whistleblower Complaint with the Chairman of SBLI USA's Audit Committee alleging that at the Company's Annual Meeting, SBLI USA's President and CEO violated the Company's Reporting Concerns Policy.(Exhibit #10)

I have not been able to get a satisfactory answer to my complaint other than "your comments concerning the Company's operations and financial condition have been noted and processed in accordance with the Company's standard operating procedures."

E. I also believe that the Board is not independent and policyholders should ignore their unanimous decision to approve the demutualization. (Exhibit #8)

According to New York State Insurance Law the members of the Board of a mutual life insurance company must be independent. However, there is no definition in the law of what independent means. Therefore, I will attempt to demonstrate the opposite, that the Board is not independent.

For example, after reading the other sections of this presentation and viewing the web cast presentation you are most likely questioning the competence of the Board and their independent decision making abilities. In addition:

Mr. Michael Akker (CEO) and Mr. Robert Damante (CFO) are not independent because they are members of management.

To be independent, means that the fees receive by board members should not be a major source of their annual income; otherwise they become dependent on the money received. An independent board member should have another major source of income.

1) The current members of SBLI USA Board have been receiving compensation for their services for over 12 years. I believe that a reasonable person would conclude that after 8, 9 or even 10 years, board members have become dependent on receiving these fees.

2) After doing a considerable amount of research I was not able to find any employment or other sources of income for three of SBLI USA's Board members. I questioned Michael Akker about this at the Annual Meeting, and he said SBLI USA is not concerned about other sources of income for Board members. The three Board members I referred to could have other sources of income, but without this information SBLI USA can't say they, or for that matter other members of the Board are independent.

3) When you realize that Board members (as policyholders) can also vote in annual elections, and you compare the number of votes board members have in relation to the total votes cast, it is clear that Board members by definition, are not independent because they can vote to approve their own decisions. For example, in the 2011 annual election 8 of the approximately 100[1] votes cast, were most likely from board members. Therefore, each board member controls about 1 percent of the vote, or about 8 percent as a group. Board members are therefore not independent, because, as a voting block they can approve their own decisions.

[1] 98 of a possible 240,000 voted in the election (FOIL request).

4) Do you believe that the president would “hire” a Board that was not loyal to her or supportive of her decisions; even if they may not be in the best interest of policyholders?

SBLI USA says the Board is qualified and independent, and capable of overseeing the operations of the Company. However, just saying that Board is independent with no evidence to support this assertion does not persuade me that the Board is really independent. SBLI USA has a responsibility to policyholders and employees to demonstrate that the Board is really independent.

F) I also believe that the Board is not capable of providing the necessary guidance and advice to management?

As a matter of fact in April of 2003, the President and CEO of SBLI USA came very close to agreeing with my opinion when the Company appointed an Advisory Board (Exhibit # 7) ”…to assist management in achieving its strategic goals and growth objectives. The individuals were chosen because they have the knowledge and expertise in those areas that complement existing management.”

At the Annual Meeting in June of 2003 I commented that if the Board needed help from an Advisory Board, the proper course of action would have been to replace the Board of Directors – not hire an Advisory Board. Next year SBLI USA disbanded the Advisory Board and made no changes to the Board.

To me, as a CPA, it’s also interesting to note that financial statements of SBLI USA are prepared accordance with the accounting practices and procedures of the National Association of Insurance Commissioners. These procedures are different from Generally Accepted Accounting Principles and are unique to the insurance industry. However, no *independent* member of SBLI USA’s Board has any experience or expertise in life insurance accounting.

And finally, if you decide to do some research on your own, you may be out of luck. SBLI USA has removed all press releases, financial information, and any other pertinent information from their web site. For example: SBLI USA seeks to deny history by erasing all references to Ms. Pryor, on their internet site. Ms. Vikki L. Pryor was SBLI USA’s President and CEO for 10 years and removing any references to her reminds me of how the history of the Communist Party was revised, by Joseph Stalin, to delete references to leaders purged from the party.

Fortunately for SBLI USA policyholders, the NYS Department of Financial Services is aware of how SBLI USA conducts business, and concluded that it makes sense for policyholders, to have SBLI USA acquired, by a financially responsible life insurance company with professional management (Exhibit 30 Part D).

DEMUTUALIZATION PACKAGE COMMENTS

SBLI USA Mutual Life Insurance announced on July 18, 2014 the proposed merger with Prosperity Life Insurance Group has been approved their Board of Directors. An informational package was sent to policyholders asking them to approve the merger. (No Press release was issued – only policyholders were notified).
For policyholders of SBLI USA the two most important items to consider in the demutualization process are:
A) the amount of dividends you will receive as a policyholder,
B) the value of shares you receive in the new company as a stockholder.

A) When we were policyholders of Savings Bank Life Insurance of New York, annual dividends paid were about $35 million. After SBLI USA took control our dividends rapidly declined to $8.5 million. Now, SBLI USA's has established a Closed Block of Securities which will continue to yield about $8.5 million in dividends; with no chance of a dividend increase. We will receive the lower dividend forever.

Accepting the $8.5 million annually, is like saying, I am powerless and it O.K for you to continue to take advantage of me. Policyholders can, and should VOTE NO.

B) Policyholders of SBLI USA will not receive any stock or equity interest in the new company. Vote No.

What we will get is $190 to give up our Membership Interest in the company. Or to put it in plain English we give up all rights and interests in the new company, including our right to vote for or against directors. After paying my premium for over 30 years; I find it insulting to be offered such a small sum

CONCLUSION

It would be offensive to expect policyholders to accept the proposed demutualization when SBLI USA's management and the Board refuse to accept responsibility for their prior actions. Management and the Board have already been well compensated for their sub-par efforts. Therefore, if any members of SBLI USA's management or Board are unjustly compensated by receiving: 1) termination bonuses, 2) executive positions in the new company, 3) stock options in the new company, or 4) other forms of deferred compensation I would vote against the demutualization.

I believe that the Board is not independent, not qualified or capable of assisting management, and violated their fiduciary responsibility to policyholders. Therefore, the Board does not represent policyholders and this demutualization may be technically invalid.

It is important to remember the information in this correspondence are from externals sources, which are available to the public. I shudder to think about what actually happened behind closed doors.

RECOMMENDATION

As a long time policyholder I believe that the ideal situation would be for policyholders to reject the demutualization and have the NYS Department of Financial Services take control of SBLI USA, and manage SBLI USA for the benefit of all policyholders.

OTHER

SBLI USA (and S.USA Life) are registered trademarks of the SBLI USA Mutual Life Insurance Company, Inc. Rather than indicating every occurrence of a trademarked name as such, this correspondence uses the names only in an editorial fashion with no intention of infringement of the trademark or copyright.

The views and opinions expressed in this correspondence are my own. The information contained in this this correspondence is for general information purposes only.

Respectfully submitted,

Richard Hoffman, CPA (Retired), CFE (Retired)

TABLE OF CONTENTS - EXHIBITS

PRESENTATION TAB

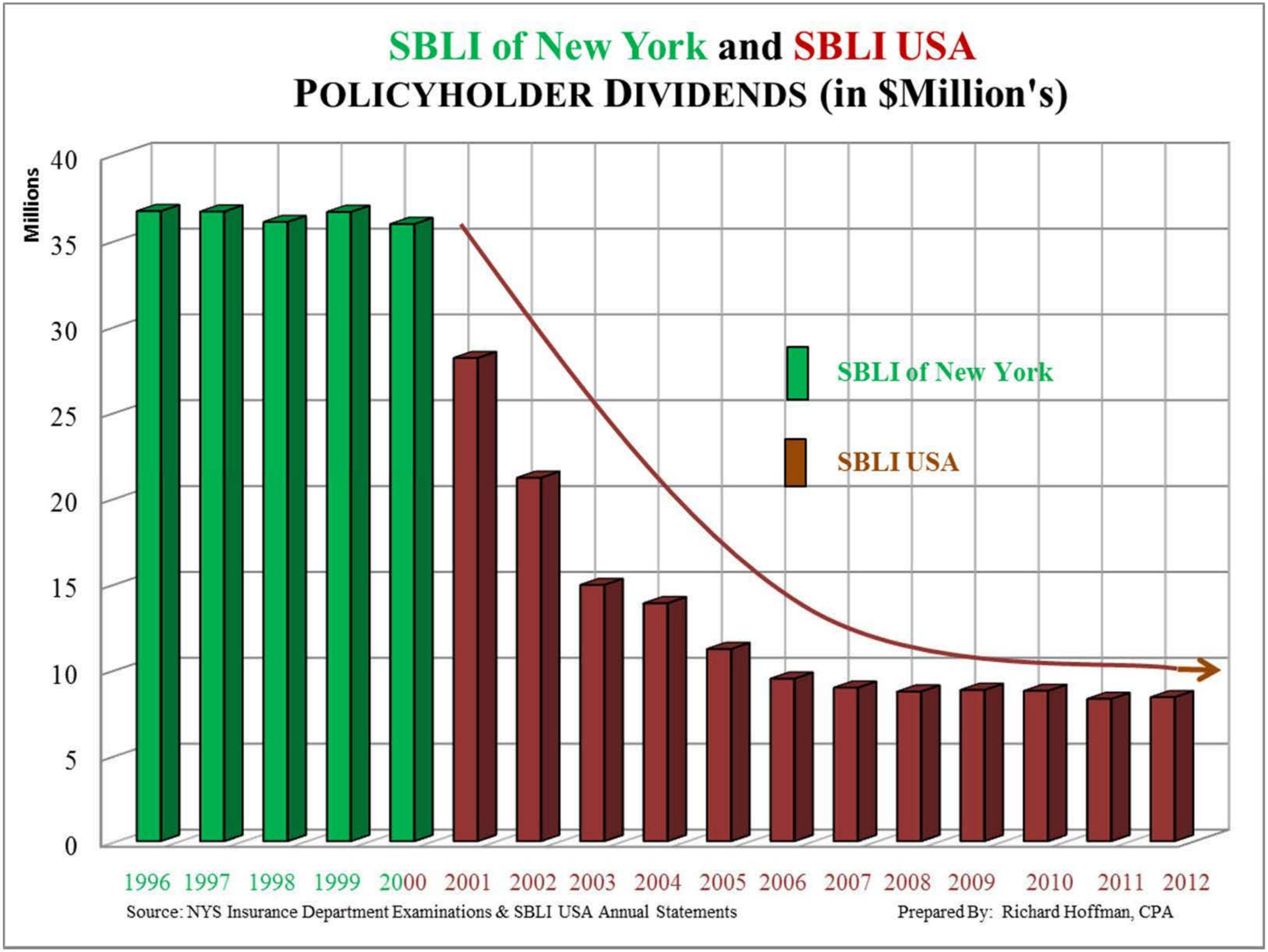
CORRESPONDANCE TAB

CORRESPONDANCE TAB (continued)

15. From: SBLI USA's General Counsel to Richard Hoffman	The Board has approved a new mission statement incorporating your idea of including policyholder value.

OTHER ISSUES TAB

EXHIBIT # and PAGE DESCRIPTION	SUBJECT MATTER
16. SBLI USA's Mission Statement	"We are committed to helping value-conscious consumers plan their lives, build their future and achieve their dreams."
17. Number of Policyholders	The number of policyholders declined when SBLI of NY was mutualized and became SBLI USA.
18. Whole Life Premiums	Whole life premiums declined steadily when SBLI of NY was mutualized and became SBLI USA.
19 Death Benefits Paid	Death Benefits paid averaged $55 million annually.
20. Cash Flow – Whole Life Analysis	SBLI USA is starting to pay out more in Death Benefits than they are receiving in Insurance Premiums.
21. Net Income	From 2000 to 2012 SBLI USA lost $439,000.
22. Cash Available	Chart shows relationship between investment income and general expenses.
23. Marquis Miller- VP Sales	Does the Board of Directors understand that this hiring decision is not in the best interests of SBLI USA?
24. Marie Nesbitt – Promise Prize	Does the Board of Directors understand that SBLI USA's involvement with the Promise Prize is an ethic violation?
25. $5 Million to fund minority-busines	Did the Board of Directors approve this risky investment?
26. Why are they laughing?	The Board of Directors is not held accountable or responsible for their actions. They have been receiving directors pay for over 12 years.
27. These individuals played a major role in mutualizing SBLI USA	NYS Senator Guy Velella, Vikki Pryor, President & CEO (1999-2010) Clifford Miller, Board Chairman(1999-2006) Joseph Mancino, Board Chairman (2006-2010).
28. An insurer reals from market beating	Capital poor SBLI USA seen by some experts as a potential candidate for state takeover.
29. Is life insurer on life support	A.M. Best lowers its grade for SBLI USA to 'vulnerable'
30. NYS Department of Financial Services – Audit Examination	NYSDFS issues audit examination with comments on operations of SBLI USA.
31. Deloitte - Audit Reports (Footnotes are very important)	Footnote 13 – highlights potential financial problems at SBLI USA


SBLI of New York and SBLI USA
POLICYHOLDER DIVIDENDS (in $Million's)
Millions
40
35
30
25
20
15
10
5
0
SBLI of New York
SBLI USA
1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012
Source: NYS Insurance Department Examinations & SBLI USA Annual Statements
Prepared By: Richard Hoffman, CPA

SBLI USA's 4th Annual Black Tie Recognition Gala

At the Annua Gala SBLI USA presented its Goodwill Ambassaror award to Joseph L. Mancino, Vice Chairman of SBLI USA's Board of Directors and raised over $100,000 for Americas Second Harvest.

There are at least 48 tables, with seating for 10 guests. Each guest receives a gift bag.

Sheraton Hotel & Towers Imperial Ballroom in New York City

SBLI USA's 4th Annual Black Tie Recognition Gala

Since 1999, SBLI USA has donated over $750,000 to local and national charities. Among these are included: AIDS Walk New York, Alzheimer's Association, American Cancer Society, American Diabetes Association, American Red Cross, America's Second Harvest, Boys and Girls Clubs of America, Children's Charities of America, Earth Day Network, First Book, Food Banks of Western New York and New Jersey, Habitat for Humanity International, Newark Cares, and United Way. (Below is a typical example, of a press release about the 4th Annual Recognition Award event).

PRESS RELEASE / / New York, February 2, 2004 / / SBLI USA Mutual Life Insurance Company, Inc. presented its 2004 Community Service Award and raised more than $ 100,000 to benefit Americas largest hunger organization, Americas Second Harvest, at its fourth annual Recognition Gala on Saturday, January 31st. *The company also presented its Goodwill Ambassador Award to Joseph L. Mancino, vice chairman of SBLI USA's board* and president and chief executive officer of the Roslyn Savings Bank. The black-tie event brought together more than *500* of SBLI USAs Associates, business partners and friends.

The theme of this years' event was "There's No Place Like Home", in a tribute to the American film and novel "The Wizard of Oz." SBLI USA chose to base this year's gala on the Wizard of Oz because like the scarecrow, the tin man, and the lion – who helped "Dorothy achieve her goal of returning to her family -- SBLI USA believes that through the courage, compassion, and brainpower of its Associates the company can help educate people to realize their financial dreams. Attendees began the night's journey by registering in front of Auntie Em's house and then following the yellow brick road into the multi-colored land of the Munchkins, where they participated in silent auctions to raise money for Americas Second Harvest.

Associates and partners were honored amidst the glittering green lights of the Emerald City, after which they went on to earn more money for hunger relief playing casino games in the heart of the Enchanted Forest. / /

Ultimately, numerous media outlets receive and re-publish SBLI USA's press release about the Annual Gala, and before you know it, SBLI USA and its President and CEO are applauded in the underserved and the philanthropic community for their charitable efforts. There is no apparent benefit to policyholders. The only real beneficiary of these events, besides the "worthy organizations" was the President and CEO of SBLI USA.

In my opinion it is a misuse of corporate assets and violation of good governance principles for SBLI USA to be spending lavishly on these events, while dividends to policyholders are in a continuous state of decline. Furthermore, I was not able to determine if SBLI USA has a policy on how to evaluate or determine what is a "worthy organization"? Most likely it was left to the discretion of the President and CEO, to determine who got the $100,000. Is the Board of Directors aware of this potential "conflict-of-interest"?

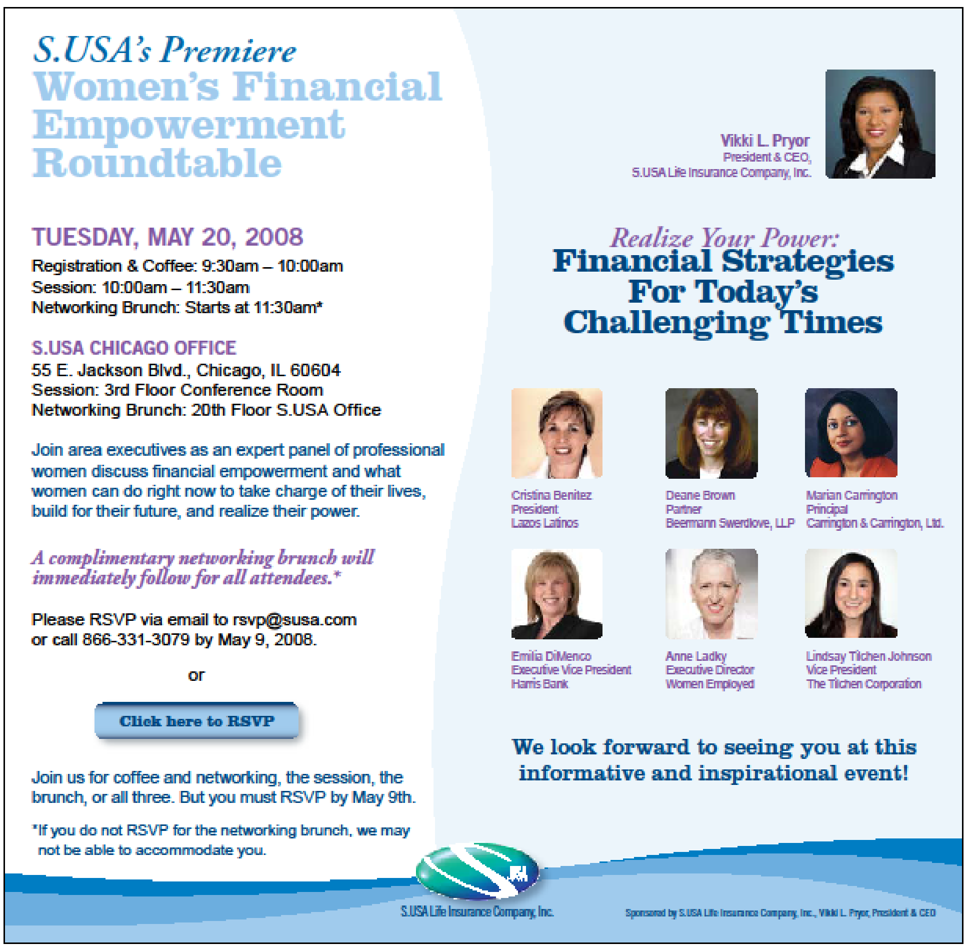
(PHOTO) (L to R) Clifford Miller, Chairman of the Board, Mrs. Carter (Second Harvest), Joseph L. Mancino, Vice Chairman of the Board, Vikki Pryor, President and CEO.

S.USA Life Sponsors Financial Roundtable for Women

S.USA Life Insurance Company, Inc. will continue to reach out to women in support of their financial futures through seminars and community involvement. To fulfill this objective S.USA formed the S-Women's Advisory Board consisting of 16 of Chicago's most influential and successful women. The group is sponsored by SBLI USA Mutual Life Insurance Company, Inc.

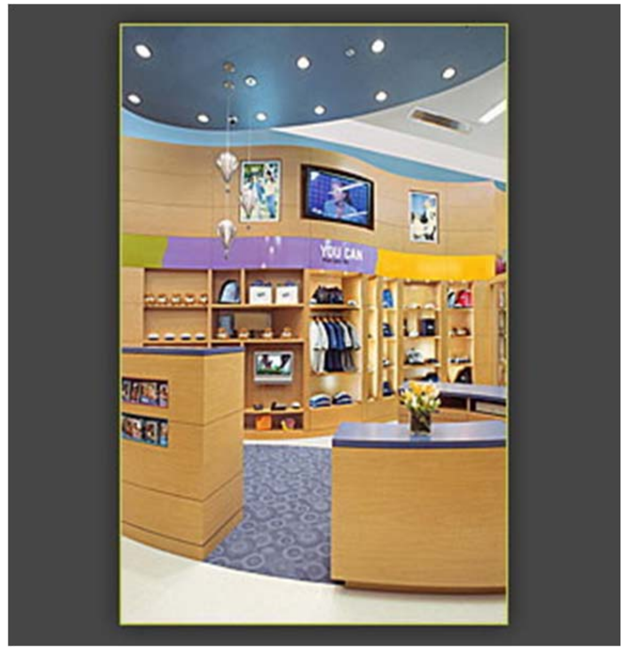
S-Women's first Financial Empowerment Roundtable, was held at the Palmer House Hilton and featured a panel of six expert senior executive women discussing current financial trends that affect women specifically. (There were an additional two costly events held at other five-star hotels.)

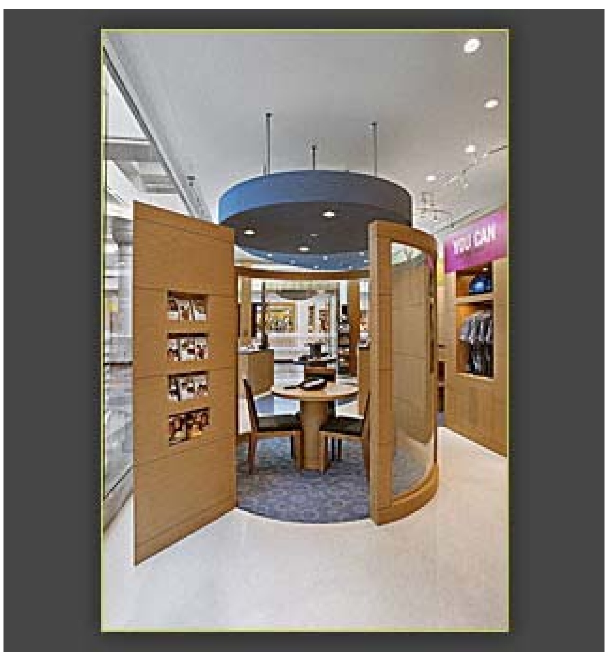
How could S.USA, with the support of SBLI USA (and their Board) hold seminars explaining to women how to manage their finances, when S.USA Life never earned a profit and SBLI USA's finances were in a continuous state of decline? These seminars do conform to SBLI USA's new mission to help women and the "underserved community" but, what about working for the benefit of policyholders?



"The Roundtable committed to reconvene May 19, 2009 and is considering assembling a group of women leaders to lobby Washington on behalf of women regarding financial empowerment." Can anyone guess who would pay for the trip? The correct answer is the policyholders of SBLI USA. (I was not able to determine if the group actually visited Washington, DC.)

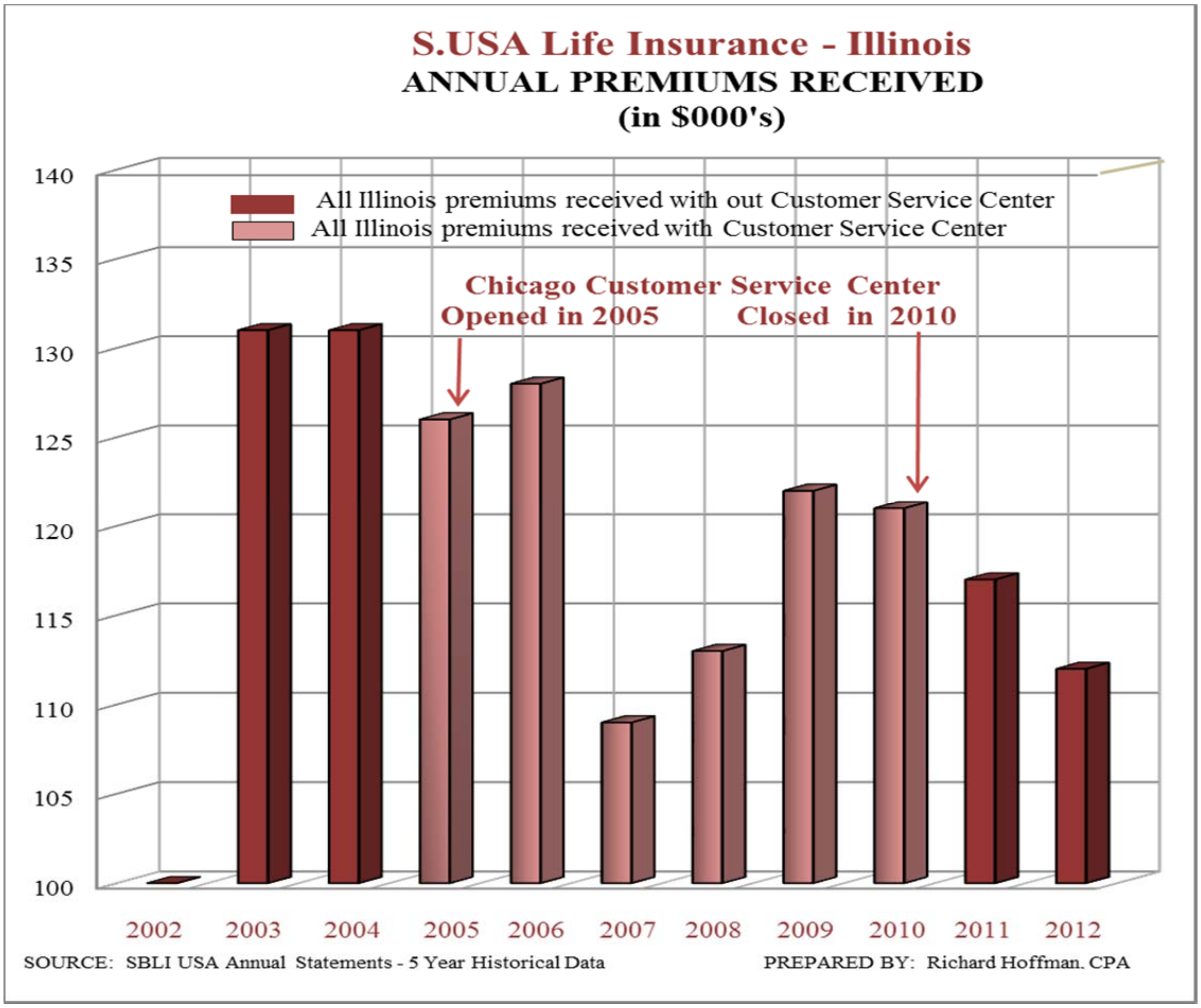
S. USA CHICAGO, CUSTOMER SERVICE CENTER





CUSTOMER SERVICE CENTERS: The state-of-the-art retail store features kiosks, where customers can quickly and simply take financial self-assessment quizzes, learn about SBLI USA's products and services, and obtain insurance quotes. The Center also has a play area to entertain children with games while their parents are occupied. S.USA/SBLI USA employs Associates, including several professional, licensed insurance agents who can provide information on insurance products and planning, perform financial needs analysis and issue policies on the spot.

The Chicago Customer Service Center is Unprofitable



It is difficult to evaluate the actual performance of operations at Customer Service Centers because life insurance premiums generated are consolidated on a statewide basis. Further complicating calculations is the fact that in Illinois, Banco Popular, Wells Fargo and CitiBank, issue S.USA Life Insurance policies. The question then becomes, what portion of premiums generated in Illinois was from S.USA's Chicago Customer Service Center? The answer to that question may not be that relevant when you realize that the costs incurred to operate the Chicago Customer Service Center, exceeded <u>all premiums received in Illinois</u>. For example the Customer Service Center is located in Chicago's high rent Loop District; and in addition to design and construction costs, there are costs for rent, salaries and benefits for a staff of 6, utilities, equipment costs, and promotional expenses. Annual costs had to exceed the amount of premiums received.

SBLI USA, with Board approval was planning to open another (unprofitable) Customer Service Center in St. Louis, Mo. <u>*when the NYS Department of Financial Service intervened*</u>, and reminded SBLI USA that is should not use policyholder dividends for company expansion plans. In 2010 SBLI USA closed all Customer Service Centers.

SBLI USA's President and CEO Concedes Company's Board of Directors Is lacking In Necessary Skills

Excerpt from SBLI USA Press Release

SBLI USA Mutual Life Insurance Company, Inc. Forms New Corporate Advisory Board. Financial Services Firm Taps Experts in Risk Management, Educational Finance, to Assist in Growth, and Strategic Planning.

NEW YORK, N.Y. April 30, 2003 SBLI USA Mutual Life Insurance Company, Inc. today announced the formation of a new corporate advisory board **to assist management in achieving its strategic goals and growth objectives.** SBLI USA's mission is to provide quality insurance and financial services products to value-conscious consumers.

Serving on the board will be distinguished experts from risk management, educational finance, law and communications. **The individuals were chosen because they have knowledge and expertise in areas that complement those of SBLI USA's existing management. The new board members include:**

Ellen E. Thrower**,** executive director of the School of Risk Management, Insurance and Actuarial Science at St. John's University in New York City, and one of the nation's top educators and professionals in the area of risk management;

Carol L. Coffman, a leader in financial aid administration and student lending for over 20 years who currently serves as president and chief executive officer of San Francisco-based Chela Financial, one of the key players in the secondary student loan market;

Robert D. Mercurio, a litigator specializing in insurance, benefits and employment at Windels Marx Lane & Mittendorf, LLP in New York City; and

Timothy J. Trainor, president and chief creative officer of Trainor Associates, one of the most innovative and successful advertising firms in the Northeast.

We are extremely pleased and fortunate to have such knowledgeable experts in their fields join our advisory board, said Vikki L. Pryor, President and CEO of SBLI USA Mutual Life Insurance Co.

At SBLI USA's 2004 Annual Meeting **I noted that if the Board of Directors does not have the necessary experience and qualifications to oversee Company compliance** or monitor the effectiveness of management's actions **- the solution was not to form a Corporate Advisory Board, but to replace the Board of Directors.**

Instead, SBLI USA disbanded the Corporate Advisory Board.

Is SBLI USA's Board of Directors Independent?

Definition of Independent: According to New York State Insurance Law the members of the Board of Directors of a mutual life insurance company must be independent. While there is no clear definition of what independent means I believe I can demonstrate the opposite, that the Board of Directors of SBLI USA is not completely independent.

For example, after listening to my presentation you are most likely already questioning the competence of the Board of Directors and trying to understand why they did not challenge management's decisions. Do you really believe that the Board was representing the best interests of the policyholders, or just "rubber-stamping management's decisions? To begin with:

- Mr. Akker (President and CEO) and Mr. Damante (CFO) are not independent because they are members of management.

To be independent, means that the fees receive by Board members should not be a major source of their annual income; otherwise they become dependent on the money received. An independent Board member should have another major source of income.

1) The current members of SBLI USA Board of Directors have been receiving compensation for their services for over 12 years. I believe that a reasonable person would conclude that after 12 years, board members have become dependent on receiving these fees, and have every reason to expect to continue to serve on the Board.
2) After doing a considerable amount of research I was not able to find any employment or other sources of income for three members of SBLI's Board. I questioned Mr. Akker, SBLI USA's President and CEO about this at the Annual Meeting. He said SBLI USA "is not concerned about outside sources or other sources of income for Board members." These three Board members, may in-fact have other sources of income, but without this information SBLI USA can't say they are independent.
3) When you realize that board members can vote in annual elections, and you compare the number of votes board members have in relation to the total votes cast, it is clear that board members, by definition, are not independent because they can vote to approve their own decisions. In the 2011 annual election 8 of the (only) 98 votes cast; were likely from Board members. Therefore, each Board member controls over 1 percent of the vote, or about 9 percent as a group.
4) Do you believe that the president would "hire" a Board that was not loyal to her or supportive of her decisions; even if they may not be in the best interest of policyholders?

SBLI USA says the Board of Directors is qualified and independent, and capable of overseeing the operations (not the finances) of the Company. However, just saying that the Board is independent with no evidence to support this assertion would not persuade me or any other policyholder that the Board is really independent. SBLI USA Mutual Life Insurance Company had a responsibility to policyholders to demonstrate that it has an independent and capable Board of Directors.

SBLI USA EMPLOYEE COMPENSATION

(SBLI USA spent over a quarter of a billion dollars in 10 years)

Year	Salaries and Wages	Contribution To Employee Benefit Plan	Other Employee Welfare	Totals
2000	Information Not Available			
2001				
2002	18,073,018	3,096,401	169,846	21,339,265
2003	17,175,617	3,505,968	219,367	20,900,952
2004	20,604,604	5,829,048	278,637	26,712,289
2005	21,516,833	5,958,026	278,637	27,753,496
2006	22,188,363	6,097,603	352,936	28,638,902
2007	24,187,389	5,789,733	325,729	30,302,851
2008	17,312,791	5,282,352	185,158	22,780,301
2009	16,242,042	1,328,841	200,897	17,771,780
2010	21,779,561	7,233,068	139,535	29,152,164
2011	11,156,512	3,831,887	102,215	15,090,614
2012	10,934,192	4,105,518	79,153	15,118,863
	$ 201,170,922	$52,058,445	$2,332,110	$255,561,477

Limited Information on Presidents Compensation

Year	$ Base Salary	$ Bonus	$ Signing Bonus	$ Total
1999	400,000	100,000	100,000	600,000
2000	600,000	200,000		800,000
2001	616,000	200,000		816,000
2002	725,000	700,000		1,425,000
2003	830,000	800,000		1,630,000
2004	830,000			

“"The Presidents employment contract[1] includes an "evergreen" clause. The five-year contract term automatically renews annually and extends for an additional five years. If the President were terminated from her employment, she would receive 5 times her base salary and annual bonus compensation, payable over a five year period. In addition her supplemental executive retirement plan (SEPR) entitlement would jump from her current vesting percentage to one hundred percent vesting

From 1999 to 2003 **the President’s compensation more than doubled, while policyholder dividends declined by more than 50%. Do you think the Board of Directors is operating in the best interest of policyholders, or are they beholding to the President?**

Exhibit A

[1] Anthony O. Harris v. Vikki L. Pryor 2004 Superior Court of Connecticut, Judicial District of Stamford-Norwalk

IS SBLI USA MISUSING POLICYHOLDER DIVIDENDS?

Year	Actual Dividends for SBLI of New York & SBLI USA 1996-2012		From 1996 to 1999 dividends paid by SBLI of NY averaged $36,527,071. Without demutualization I believe that dividends would remain constant.	Subtracting the actual dividends of SBLI USA from estimated dividends of SBLI of New York is a good indication of a failed mutualization.
1996	SBLI of NY	36,703,278		
1997		36,678,888		
1998		36,070,540		
1999		35,954,982		
2000	SBLI USA	35,427,893	Annual Dividends for years 2000 through 2012 are estimated to be $36,527,071	(527,089)
2001		28,149,055		(8,378,016)
2002		21,168,661		(15,358,410)
2003		14,931,133		(21,595,938)
2004		13,867,934		(22,659,137)
2005		11,195,257		(25,331,814)
2006		9,469.696		(27,057,375)
2007		8,947,612		(27,579,459)
2008		8,720,117		(27,806,954)
2009		8,831,909		(27,713,162)
2010		8,758,193		(27,768,878)
2011		8,293,670		(28,233,401)
2012		8,195,000		(28,332,071)
	Actual Dividends paid by SBLI USA from 2000 to 2012 is:		Estimated Dividends of SBLI of NY without demutualization is:	Management used (our) policyholder dividends to fund failed operations
		$ 185,696,130	$ 474,851,923	($ 288,895,793)

The NYS Department of Financial Services was also concerned that SBLI USA was misusing policyholder dividends. In their audit examinations, they noted that:

- "Over the ten year period from 1998 – 2007, SBLI USA has reduced annual policyholder dividends by 75%. Reductions of this magnitude in policyholder dividends are of significant concern to the Department."
- "the Department was concerned that a reduction in dividends was primarily to fund marketing and expansion initiatives and to maintain surplus."
- "Funds available for dividends should not serve as the main funding mechanism for the acquisition of new business over an extended period of time (especially when significant new business fails to materialize)."

There is no mention in the Department's examination, that SBLI USA was also indirectly using policyholder dividends to fund employee compensation, which was more than a quarter of a billion dollars. (See previous Exhibit).

RICHARD HOFFMAN, CPA, CFE
[redacted]

WHISTLEBLOWER COMPLAINT

Mr. G. Thomas Rogers January 5, 2012
Chairman – Audit Committee
c/o Ms. Debra Klugman
General Counsel and Secretary
SBLI USA Mutual Life Insurance Company
460 West 34th Street, Suite 800
New York, NY 10001-2320

RE: SBLI USA's CEO Violated the Company's Policy on Reporting Concerns and other Comments

Dear Mr. Rogers and Ms. Klugman:

In February 2011, SBLI USA Mutual Life Insurance Company (SBLI USA) issued a Reporting Concerns Policy. The Policy noted that "it is the policy of SBLI USA to observe high ethical standards in all of its activities. It is also important to SBLI USA that it maintains the confidence of employees, vendors, regulators and the public in the quality of SBLI USA's accounting and reporting."

The Reporting Concerns Policy does not mention that SBLI USA has a responsibility to also provide policyholders with quality reporting and accounting. Previously SBLI USA's Mission Statement made no mention of policyholders, and you changed the Mission Statement to acknowledge your responsibility to policyholders. Please change your Reporting Concerns Policy to include policyholders. For example: "maintains the confidence of (add) policyholders, employees, vendors …." How much confidence can anyone have in SBLI USA's reporting when, as a mutual insurance company, management continues to overlook its commitment to provide policyholders with accurate financial information?

ANNUAL MEETING - REPORTING CONCERNS

The Annual Meeting should be an opportunity for management to demonstrate to stakeholders (policyholders, employees, vendors, regulators and the public) how the company is managed, to highlight the results of operations, discuss the successes, challenges, and opportunities in the future. At the Annual Meeting management should comment on the Annual Statement filed with the NYS Department of Financial Services and the Audit Report issued by SBLI USA's public accountants. The financial information contained in these reports is critical to understanding the operations of SBLI USA.

The Annual Meeting is also a time when stakeholders can express their views to managers, directors, and employees. If the Annual Meeting is held in the proper cooperative spirit, this meeting can be beneficial to all. However, after attending the last six Annual Meetings I got the distinct impression that management considers the Annual Meeting a burden and would take pleasure in omitting it from SBLI USA's calendar.

At the 2010 Annual Meeting, (held on June 29, 2011) SBLI USA's Chief Executive Officer (CEO) violated SBLI USA's Reporting Concerns Policy in the following manner:

- The CEO neglected to mention that SBLI USA no longer sells insurance. This is the biggest event in the Company's 72 year history, and not reporting this fact is shocking and misrepresents the truth. What happened to Corporate Governance? What happened to ethical and honest reporting of financial information?
- Last year SBLI USA did not publish an Annual Report. SBLI USA has a responsibility to provide policyholders with the necessary financial information to understand how the Company operates and manages its business. If the intent of not publishing an Annual Report was to save or reduce costs, financial information could have been easily published on your web site. Not providing this information violates the principle and spirit of the Reporting Concerns Policy.
- At last year's Annual Meeting the CEO noted that A.M. Best's rating for SBLI USA was B (Good). I mentioned that in a story about SBLI USA in Crain's New York Business, A.M. Best reported SBLI USA's rating as B (Fair), and your long term outlook as Negative. (*Is life insurer on life support? A rater lowers its grade for SBLI USA to 'vulnerable."* Crain's New York Business, Sunday, Mar. 27, 2011). Rather than deal with the disagreement about ratings, he dismissed the article as unreliable. Regardless of any attempt to discredit the article itself, the independent rating issued by A.M. Best is indisputable. By not being forthcoming and acknowledging the reduced ratings, the CEO's comments attempt to misrepresent the truth, and again violates the intent of SBLI USA's Reporting Concerns Policy.
- At last year's Annual Meeting I questioned why SBLI USA keeps reporting that it has over 300,000 ordinary policies in-force, when the information in the NYS Annual Statement (Exhibit of Life Insurance) notes that SBLI USA has 241,973 ordinary policies. Mr. Damante (CFO) mentioned that the difference is made up of Group Policy Holders. This is incorrect. Ordinary life policies and group policies are two distinct lines of insurance business and SBLI USA has always reported each separately. For consistency and accuracy in financial reporting SBLI USA should continue to report these items separately. Otherwise SBLI USA would have to restate our financials to be consistent. Was Mr. Damante's comment an attempt to deceive individuals attending the Annual Meeting into overlooking an error in SBLI USA's financial reporting?

- At last year's presentation the CEO mentioned the $64,520,000 balance in the Surplus Account, but failed to mention that in the prior year the balance in the Surplus Account was $113,065,000, resulting in a gigantic decrease in Surplus of about $49,000,000. Not mentioning the enormity of the decline is intentionally misleading, and not mentioning last year's Surplus account balance violates the Generally Accepted Accounting Principle of consistency when reporting financial data.
- I also noted at last year's Annual Meeting that the Company Background Section on SBLI USA's web site still showed a Surplus Account balance of $113,065,000. This amount should have been updated in January or February 2011 to reflect the new Surplus Account balance of $64,520,000. Mr. Akker (SBLI USA's CEO) agreed and said the change will be made. Not updating SBLI USA's financial information to reflect this change is another violation of the Reporting Concerns Policy. How is it possible that an error of this magnitude could go unnoticed for 5 or 6 months?
- At last year's annual meeting I also tried to explain that there was no longer a need for a large management team, because SBLI USA no longer sold insurance and did not have Customer Service Centers. The CEO noted that even before the Customer Service Centers were established, SBLI USA had the same size staff. He ignored the fact that SBLI USA no longer sells insurance, again obfuscating the facts. [See Cost Saving Recommendation]
- Also worth noting is that Michael Akker's Biography page mentions that SBLI USA:
    1. "A mutual life insurance organization with more than 70 years of proven financial sustainability." This statement is correct, but SBLI USA has been in business for 72 years. Again, SBLI USA tries to hide the truth that for the past two years SBLI USA experienced financial difficulties and stopped selling insurance.
    2. "SBLI USA has over 280,000 policyholders." This statement is not true. SBLI USA has 241,973 Ordinary Policyholders and 116 Group Policyholders, for a total of 242,089 Policyholders. The 280,000 policyholders mentioned by SBLI USA's CEO most likely include 33,724 Certificate Holders. However, Certificate Holders are not Policyholders, and SBLI USA's CEO should understand the difference.

The financial information that SBLI USA files with State of New York (Exhibit of Life Insurance) and certified to by the CEO lists Ordinary Policyholders, Group Policies and Certificate Holders separately. How is it possible that the CEO reports one set of numbers for policyholders to the State of New York, and another set of numbers for policyholders at SBLI USA's Annual Meeting and on his web page?

Ethical reporting of financial and operational information at SBLI USA should not be a topic subject to debate or interpretation by the CEO. Of ethics and truth in reporting:

John Henry Newman: said “Let us take things as we find them: let us not attempt to distort them into what they are not... We cannot make facts.”
In John 8:32 “Then you will know the truth, and the truth will set you free.”

There are others I could quote. However, from the Board of Directors (Board) perspective it should be obvious that SBLI USA’s CEO is trying to twist the facts to show how he and his management team are doing a good job. They are not.

What I also find distressing is that the CEO’s presentation and the CFO’s comments are made while the Board is present. Hopefully the Board understands that management’s comments contain inaccuracies. Does the CEO choose to ignore the Board or just take it for granted?

SBLI USA’s CEO should be held accountable for statements (or misstatements) made to stakeholders, including the Board at the Annual Meeting. If the Audit Committee agrees with my observations, and concludes that the CEO was less than truthful in reporting; or that his presentation did not meet “high ethical standards established by SBLI USA in the Reporting Concerns Policy, then this matter should be referred to the Executive Committee of the Board for further action.

RELATED – REPORTING CONCERNS

Related to the Reporting Concerns Policy is the following question: Does anyone check the accuracy of information published by others about SBLI USA? It is equally damaging if others report inaccurate information: For example:

1) On December 28th 2011, Bloomberg Businessweek noted that SBLI USA still sells insurance and has sales offices in Buffalo, NY; Bayamon, PR; and Chicago, IL;. Hopefully, they will update and correct their reporting.
2) For many years prior to the issuance of the Reporting Concerns Policy, numerous identical news articles and press releases about Ms. Pryor, SBLI USA’s previous CEO mentioned that “she repositioned this 71-year old company into a national provider of financial services to underserved markets and audiences, a strategy which resulted in the reversal of a 10 year business decline.” This statement is not correct, but SBLI USA’s management and the Board chose to ignore it.
3) SBLI USA’s publications and press releases continue to report that “SBLI USA Mutual Life Insurance Company, Inc. is a financial services company that is committed to value-conscious consumers. The company is dedicated to building lifelong relationships with customers and empowering them with the education and tools they need to take control of their financial destinies.” Is SBLI USA in the business of providing educational tools? Is it too difficult for management and the Board to be honest and ethical and state the obvious truth? SBLI USA no longer sells insurance! Why not be straightforward and forthcoming and say:

As a result of significant changes in the Company's business profile, effective June 30, 2010, SBLI USA will no longer be accepting new business but will continue to administer the existing businesses with no policy changes in contractual guarantees; or something similar.

4) SBLI USA's web site (Company Background section) still makes no mention of the fact that SBLI USA was required to stop selling insurance. Does the Board even look at the Company's web site? Or are you in cahoots with management to overlook the obvious?

Where were SBLI USA's high ethical standards on reporting before the Reporting Concerns Policy was issued?

RECOMMENDATION

The Board should either resign or "take charge" and become active in providing direction, guidance, and oversight to SBLI USA's senior managers. If you feel that you are not up to the task I recommend that the Board hire an outside independent consulting firm to determine: a) how to reduce overhead costs and increase operating efficiency, and b) if it is in the best interests of our policyholders to distribute any Surplus Capital to existing policyholders and voluntarily go out of business.

Maybe the Board needs to reinstate the Advisory Board to help the Board accomplish its mission, which is to (?).

I am just writing what the employees at SBLI USA already know, as in the *Emperor has No Clothes*, if you continue with a "business as usual attitude": insurance in-force, dividends, net income, and the number of policies outstanding will continue to spiral downward. It will not be long before SBLI USA is forced into liquidation and there will be no surplus to distribute among policyholders. Will the demise of SBLI USA be the result of poor decisions made by senior managers, lack of oversight by the Board, or will SBLI USA again try to blame it on economic conditions beyond your control?

COST SAVING RECOMMENDATIONS

- At every Annual Meeting (for the past 8 or 10 years) the CEO reports on the Customer Satisfaction Rating for SBLI USA's Call Center. The ratings have always been in the high 90 percentages. I think it is reasonable to conclude that the Call Center is functioning properly, and that SBLI USA should not use funds for another survey. Instead these funds could be directed towards hiring a stenographer for the Annual Meeting, to make sure that all questions and answers are completely and accurately recorded.
- Insurance policies that have been in force for two years can't be cancelled, (Standard Incontestability Clause) even if the policyholder concealed important

facts. SBLI USA has not written any new policies in the last year and a half, so logically there is no need to devote resources to finding insurance fraud, and with a small headquarters staff, I wouldn't expect financial fraud to be perpetrated by management. Therefore, the individuals who were assigned to detect insurance fraud could be reassigned to other more productive tasks.

- Now that SBLI USA no longer sells insurance it may be possible to eliminate some positions and consolidate others. Certainly, there is no need to create new positions. The Board should request the CEO to evaluate the staffing needs of SBLI USA.
- It is standard business practice for organizations that suffered major financial setbacks and had their Capital Account reduced by over 40% to look at ways to reduce overhead expenses and try to restore the balance in their Capital Account. A common approach taken by most companies to reduce expenses is to suspend the company's contribution to the employees' 401(k) Plan. However, in SBLI USA's case the majority of the Company's 401(k) contributions are made to the same senior executives who are also responsible for administering the plan. This results in a conflict of interest. Does management do what is best for themselves (continue the 401(k) Plan) or what is best for the Company (suspend the 401(k) Plan). The decision on whether or not it is in the best interest of the Company to continue the 401(k) Plan should be made by the Board, not SBLI USA's management.

The information and conclusions that I reached are from external sources, such as Annual Meetings, the Annual Statement filed with New York State, SBLI USA's press releases and your company's web site. I shudder to think about what's really happening inside SBLI USA. Unfortunately, the only conclusion that one can draw from all these misstatements and mistakes, is that they are intentional.

Very truly yours,

Richard Hoffman, CPA, CFE
Policy # [redacted]

P.S. My frustration with SBLI USA's management and Board stems from my desire, as a long time policyholder, to help restore SBLI USA to profitability and see it again thrive to become a successful mutual life insurance company.

SBLI USA Mutual Life Insurance Company, Inc.
S.USA Life Insurance Company, Inc.

It is important to note that nowhere does SBLI USA state that as mutual life insurance company, it is owned by policyholders, and has a responsibility to provide policyholders with accurate financial information.

In addition, this policy has been removed from SBLI USA's web site. Therefore, customers, vendors, regulators, and the public also are not aware that there is a procedure to submit complaints to SBLI USA's about issues relating to accounting, auditing, or corporate governance.

Reporting Concerns

Policy effective date: February 2011

Associated materiel: None

PURPOSE

The purpose of this document is to establish SBLI USA Mutual Life Insurance Company, Inc. and its affiliates (herein after "SBLI USA") policies and procedures for handling non-employee and employee complaints and submissions, including but not limited to accounting, internal control, auditing and other corporate governance matters.

EMPLOYEE/NON-EMPLOYEE CONCERNS AND COMPLAINTS

It is the policy of SBLI USA to observe high ethical standards in all of its activities. In matters of accounting, auditing and corporate governance in particular SBLI USA seeks to ensure that all transactions and corporate assets are properly accounted for and that all audits are thorough and complete. It is also important to SBLI USA that it maintains the confidence of employees, customers, vendors, regulators and the public in the quality of SBLI USA's accounting and reporting. In order to help accomplish these objectives, SBLI USA is establishing a procedure for the confidential, anonymous submission by non-employees and employees of concerns regarding questionable activities, including accounting, internal control, auditing and corporate governance matters including alleged irregularities of a general, operational and financial nature. Consumer complaints, which may be reported to SBLI USA or regulators by SBLI USA customers are handled under a separate process and are not covered under this policy and procedure.

POLICY AND PROCEDURE DETAILS

The following outlines SBLI USA's protocol to facilitate the receipt and treatment by the Audit Committee of complaints and employee concerns regarding accounting, internal control, auditing and corporate governance matters.

Non-Employee Concerns:

All non-employee concerns or submissions regarding accounting, internal control, auditing, corporate governance and other matters should be sent to the attention of the Debra Klugman, Senior Vice President, General Counsel and Secretary at 460 West 34th Street, Suite 800, New York, NY 10001. The General Counsel will then forward the submission to the Chair of the Audit Committee. The General Counsel will retain a copy of all submissions received until the complaint is addressed at a meeting of the Audit Committee or until such time as the Audit Committee Chair confirms that the Audit Committee has satisfactorily addressed the complaint.

Non-employees may also contact SBLI USA's Compliance Officer, Kevin Lamasney (212-356-0316), or Chief Auditor, Russell Johnson (212-624-0737), or confidentially call SBLI USA's Fraud Hotline (1-800-325-7059) to report any concern, including accounting, internal control, auditing and corporate governance concerns.

Employee Concerns:

SBLI USA employees should forward any concerns, including accounting, auditing and corporate governance concerns to the General Counsel in a sealed envelope addressed to the Chair of the Audit Committee care of the General Counsel. The General Counsel will then forward the sealed envelope to the Audit Committee Chair. The employee should mark the envelope "Confidential Employee Concern". The employee should use the SBLI USA internal mail system or external mail for delivery to the General Counsel to ensure anonymity.

Employees may also contact SBLI USA's Compliance Officer, Kevin Lamasney (212-356-0316), or Chief Auditor, Russell Johnson (212-624-0737), or confidentially call SBLI USA's Fraud Hotline (1-800-325-7059) to report any concern, including accounting, internal control, auditing and corporate governance concerns.

Employees who report concerns under this policy and procedure will be protected and will not jeopardize their employment relationship with SBLI USA as a result of their submission. Retaliation as a result of any submission is prohibited. These protections; however, apply only to submissions that are submitted in good faith by the employee. Employees who submit a concern negligently or with fraudulent and punitive intent may be subject to disciplinary action including termination of employment.

Communications:

This Protocol is included in Policy and Procedures Manual for SBLI USA employees so that employees are aware of and able to properly direct individuals on this procedure for forwarding any accounting, internal control and auditing complaints to the General Counsel. This Protocol is also available on the SBLI USA Intranet.

Appendix I

RICHARD HOFFMAN CPA, CFE
[redacted]

Mr. G. Thomas Rogers
Chairman: Audit Committee
Member, Board of Directors
SBLI USA Mutual Life Insurance Company of NY
340 West 34th Street # 800
New York, NY 10001-2320

March 6, 2012

RE: <u>The Board of Directors And Senior Managers Of SBLI USA Can Benefit If The NYS Department of Financial Services Assumes Control Of SBLI USA's Operations.</u>

Dear SBLI USA Board Member:

On February 19, 2012, Aaron Elstein, of Crain's New York Business wrote a story "*Capital poor SBLI* (should be SBLI USA) *seen by some experts as a potential candidate for state takeover*." In this story he reported that SBLI Chief Executive Michael Akker said "the insurer cut annual operating costs by two-thirds since he took the helm in 2010." As you know, the reason for the reduction in operating costs is that in 2010 SBLI USA acknowledged that its expansion plans were a failure and you closed Customer Service Centers in Buffalo, NY; Bayamón, PR; Chicago, IL; and Glendale, CA. Without Customer Service Center, operating costs such as rent, wages, utilities, etc., would decline no matter who took the helm. What is left for the reader and policyholder to contemplate is the role Mr. Akker, and the Board of Directors (Board) played in approving the purchase of the mortgage backed securities, and in establishing the Customer Service Centers.

Your CEO takes credit for reducing operating costs, but blames the decline in the value of SBLI USA's mortgage backed securities on lower interest rates, the collapse of home values or previous management. This is the classic definition of a self-serving bias, "people attribute their successes to personal factors but attribute their failures to situational factors beyond their control."

Another problem affecting the thinking of senior managers, including members of the of SBLI USA's Board is that you most likely rationalize your previous unsuccessful actions, and believe that at the time you made the right decision. Nobody wants to admit the obvious. The management of SBLI USA did not make the proper decisions. The Board probably rubber-stamped these decisions because they were beholding to the previous CEO for their position, or wanted to avoid conflict with the current CEO. Nobody was really operating in the best interests of the policyholders.

But, you did operate in your own best interest by designing deferred compensation plans, such as the Phantom Stock Plan or the Performance Unit Plan, to compensate Board members and senior managers for exceeding performance expectations. Unfortunately, you did not even exceed the low expectations you set for yourselves, and the value of the plan became worthless. The fact that these plans lost all their value, says a lot about your ability to manage SBLI USA.

Being self-serving, selfish and rationalizing the truth is bad enough, but SBLI USA goes one step further and tries to deny history by erasing all references to Ms. Pryor, on your internet site. Ms. Pryor was SBLI USA's CEO for 10 years and removing any references to her reminds me of how the history of the Communist Party was revised, by Joseph Stalin, to delete references to leaders purged from the party.

- Did the Board approve deleting all references to Ms. Pryor from SBLI USA's web site? This type of behavior is clearly unprofessional and highly unethical.
- Did the Board do anything when the current CEO violated SBLI USA's Reporting Concerns Policy?
- Did the Board say anything after the last Annual Meeting, when the presentation by the CEO failed to mention that SBLI USA no longer sold insurance, or suffered a $64 million dollar decline in Capital?
- Did the Board do anything when the previous CEO wanted to open another Customer Service Center, this time in St. Louis?
- Did the Board say anything when Marcus Miller was hired as V.P. of National Sales?
- Did the Board do anything when I complained to Mr. Bemiss that SBLI USA should not be investing in uncertain real estate ventures?
- Did the Board do anything when SBLI USA personnel devoted a significant amount of time and effort to holding charity events, instead of trying to sell life insurance?
- Did the Board do anything when Ms. Pryor used Company resources to promote her own charitable efforts? {Marie Nesbitt – Promise Prize}
- Did the Board ever actually do anything that benefited SBLI USA's policyholders?

I raised these and other objections at your Annual Meetings and in correspondence to the Board. But nobody listened or took action, until the New York State Insurance Department got involved.

It's time to "man-up" and do the right thing for everyone, especially the Board and management. Hand over control of SBLI USA to the NYS Department of Financial Services (Insurance Bureau). This will accomplish the following:

1. It will allow the Board and management to exit gracefully, before you are forced out. While you are in control, you also have the ability to arrange a nice severance package for yourselves.
2. You can also arrange to make certain that everyone is vested in the 401(k) plan before you leave.

3. Policyholders will benefit from more effective and less costly management. Don't forget that before you assumed control, SBLI was managed by the NYS Department of Banking and was a very successful and profitable insurance company.
4. The NYS Department of Financial Services (NYS DFS) will likely look favorably on your request because they realize that the longer you try to manage SBLI USA the larger the liability they will ultimately have to assume.
5. Transferring control may give SBLI USA an opportunity to recover from its weakened financial position. However, SBLI USA has suffered, what could be considered a fatal blow, and its future remains in doubt.

As a long time policyholder I would like to offer my help and support to SBLI USA as it transitions from a private company to one controlled by the NYS DFS. As you know, I have spent countless hours becoming familiar with the operations and finances of SBLI USA. On numerous occasions I challenged and encouraged management and the Board to be more responsive to the needs of policyholders. I have also provided SBLI USA with much needed constructive criticism. Most recently SBLI USA updated the information on its web search page, and revised the information provided to the general public on its internet search engine, at my request.

If SBLI USA thinks it is in the best interests of the policyholders (not management or the Board) to retain control of its operations, I would also like to offer my help and support. SBLI USA needs an <u>independent</u> Board Member, who is knowledgeable in the operations of SBLI USA and is willing and able to devote a significant amount of time and effort to help management oversee the Company. However, even my help is likely too little too late.

As I mentioned in the Crain's New York Business article, hoping for a better day (values of mortgage-backed securities mysteriously appreciate) is not really a management strategy.

The next Annual Meeting should be a good opportunity to announce changes in SBLI USA's management structure.

Very truly yours,

Richard Hoffman CPA

cc: SBLI USA's Board of Directors
D. Klugman, General Counsel

Richard Hoffman, CPA, CFE
[redacted]

Mr. Samuel M. Bemiss
Ewing Bemiss & Company
901 East Byrd Street, Suite 1650
Riverfront Plaza, West Tower
Richmond, VA 23219

RE: <u>SBLI USA Annual Meeting</u>

Dear Mr. Bemiss:

Please give me the opportunity to explain why I am upset with the current management at SBLI USA (SBLI). I am not sure that the concerns I tried to express were presented in a clear or logical manner.

During the previous 60 years, buying life insurance from Savings Bank Life Insurance of New York (SBLI) became synonymous to New Yorkers' with the best place to buy life insurance. In fact, people thought so highly of SBLI that policies were even bought as gifts for infants and newlyweds. Everyone knew that SBLI was a great value.

I purchased my SBLI policy over 35 years ago. During this time, I faithfully paid my premiums and received increasing dividends. SBLI's operations were so successful that by the late 1990'sthe dividends I received actually exceeded my premiums. I used the extra money to buy more life insurance.

Then In 1999/2000 the current management took over and everything changed – for the worst.

For example: using only the 2007 Annual Statement (not the Annual Report) as a reference:

- Management incorporated SBLI USA Holdings (page 64) to expand into other states. S.USA Life, opened offices in Buffalo, Chicago and Puerto. To date, these operations have cost policyholders $16 million (page 38). Based on the insurance being written (page 63) it will be a very long time, if ever, before these operations become profitable. More likely S.USA Life will continue to require additional operating capital
- Dividends to policyholders declined for each of the last five years (page 24). In 1999 policyholder dividends were $36 million, now dividends are $9 million. What's the reason for the decline?
- SBLI USA has agreed to invest a maximum of $50 million (page19.6) in Banyan Mezzanine Fund (Banyan) and Canyon – Johnson Urban Fund (page E06). The Banyan fund based in Miami is to pursue investments in Florida, Georgia, Alabama and South Carolina to assist Hispanic and minority-owned companies. These are

very risky investments at best. SBLI USA is not a venture capitalist, and does not have the experience to make such investments, nor should SBLI USA pay someone else a fee to make these investments. To make matters worse (page 62) SBLI USA does not do business in these states.

Management said at the Annual Meeting that S.USA Life can do business in these states. However, any profit or likely loss from these investments will be charged to SBLI USA. S.USA Life has nothing to do with this investment, as they are a separate corporate entity. Management may be trying to confuse us. Did the Board approve such a risky investment?

These are just the highlights of my concerns. Less important, but also of concern to me is that 1) SBLI USA agreed with my suggestion to issue a new mission statement. Did the Board approve this significant change?, 2) the actuaries do not know the average age of policyholders, 3) S.USA Life just spent over $20,000 sponsoring a financial seminar, explaining cash flow to minority women executives, while S.USA Life continues to lose money, 4) the Board has not been properly instructed by management as to their responsibilities, 5) current management may not be qualified to perform their job duties (page 19.1)

Net income was $5 million in 2007. In 2006 it was $11 million (page 4), resulting in a decrease of $6 million. If net income decreases another $6 million in 2008 we will be operating at a loss!

Respectfully Submitted,

Richard Hoffman
July 3, 2008

Attachment SBLI SA Annual Statement 2007 (relevant pages only)

Debra E. Klugman
Senior Vice President,
General Counsel & Secretary
Phone: (212) 356-0327
Fax: (212) 624-0700
dklugman@sbliusa.com

July 9, 2008

Mr. Richard Hoffman
[redacted]

Dear Mr. Hoffman:

Thank you for your letter of June 27, 2008 addressed to Mr. Samuel M. Bemiss To make it easier for you, we have sent your letter to the entire Board of Directors of SBLI USA Mutual Life Insurance Company, Inc. This letter serves as the response of the entire Board of Directors to your letter.

You are the owner/insured of a whole life insurance policy number 190022521 issued on September 10, 1968 with a face amount of $15,000.00 and are concerned that the reduction in the dividends paid to you individually and the total amount of dividends paid to all policyholders over the past few years have declined. SBLI USA acknowledges that the dividend scale has been reduced several times since the policy was issued.

Following authorizing legislation from the New York State Legislature and approval from the New York Departments of Banking and Insurance, a mutual life insurance company was created in an attempt to remedy problems that had been identified with the Savings Bank Life Insurance Fund and the Savings Bank Life Insurance System. SBLI USA Mutual Life Insurance Company, Inc., ("SBLI USA") a mutual life insurance company organized under the laws of the state of New York, is the successor-in-interest to the former SBLI system. It is the insurer with respect to all SBLI coverage previously issued by any SBLI Savings Bank.

Among the problems was a lack of adequate infrastructure, which necessitated certain investments in the company to update and in some instances install for the first time, the administrative systems and distribution capabilities necessary to a viable company.

In addition to the need to invest in the company, dividends are subject to a variety of changing conditions. After ensuring that current funds are adequate to safely provide for policyholders' needs, our Board of Directors determines if a dividend will be paid and the amount of the dividend to be distributed to policyholders who qualify. Any dividend is a function of many factors including investment income, mortality experience, revenue stream, expenses and taxes. The reduced dividends reflect the Board of Directors' annual analysis of these factors. We believe that the dividends paid to you were apportioned in a fair and equitable manner in compliance with the Insurance statutes of the State of New York.

It is the responsibility of both the Board of Directors and SBLI USA management to manage our dividend payout in compliance with the law and the best interests of all policyholders. The Board of Directors has concluded that the steps taken were necessary to protect the long-term policyholder interests.

In response to your other questions, the Board of Directors approves all investments and as the Chairman of the Board stated at the Annual Meeting, the Board has approved the new mission statement which expressly incorporates your idea of including policyholder value.

Per your request, we are returning the document that you sent to Mr. Bemiss. I trust this information is responsive. If you have any further questions, please do not hesitate to contact the undersigned.

It took SBLI USA 8 years to acknowledge that they had a responsibility to policyholders.

Sincerely,

Debra E. Klugman

Debra E. Klugman

Our Mission Statement

"Empowering the people who make America work. That is what" [our company] "is all about. We are committed to helping value-conscious consumers plan their lives, build their futures, and achieve their dreams. We strive to cultivate lifelong relationships with each and every one of our customers."

Can you guess the name of this company or what product or service they are selling?

As an SBLI USA Policyholder I was surprised to learn that this company, or any company for that matter, thinks they have the ability to take control of the lives of working Americans.

This company believes that it is capable of "empowering the people who make America work." Empowering people is about giving people the ability to control their own lives, and providing them with the knowledge and ability to succeed. No company can empower the working people of America. As Americans we get all the power we need from the Creator as mentioned in the Declaration of Independence.

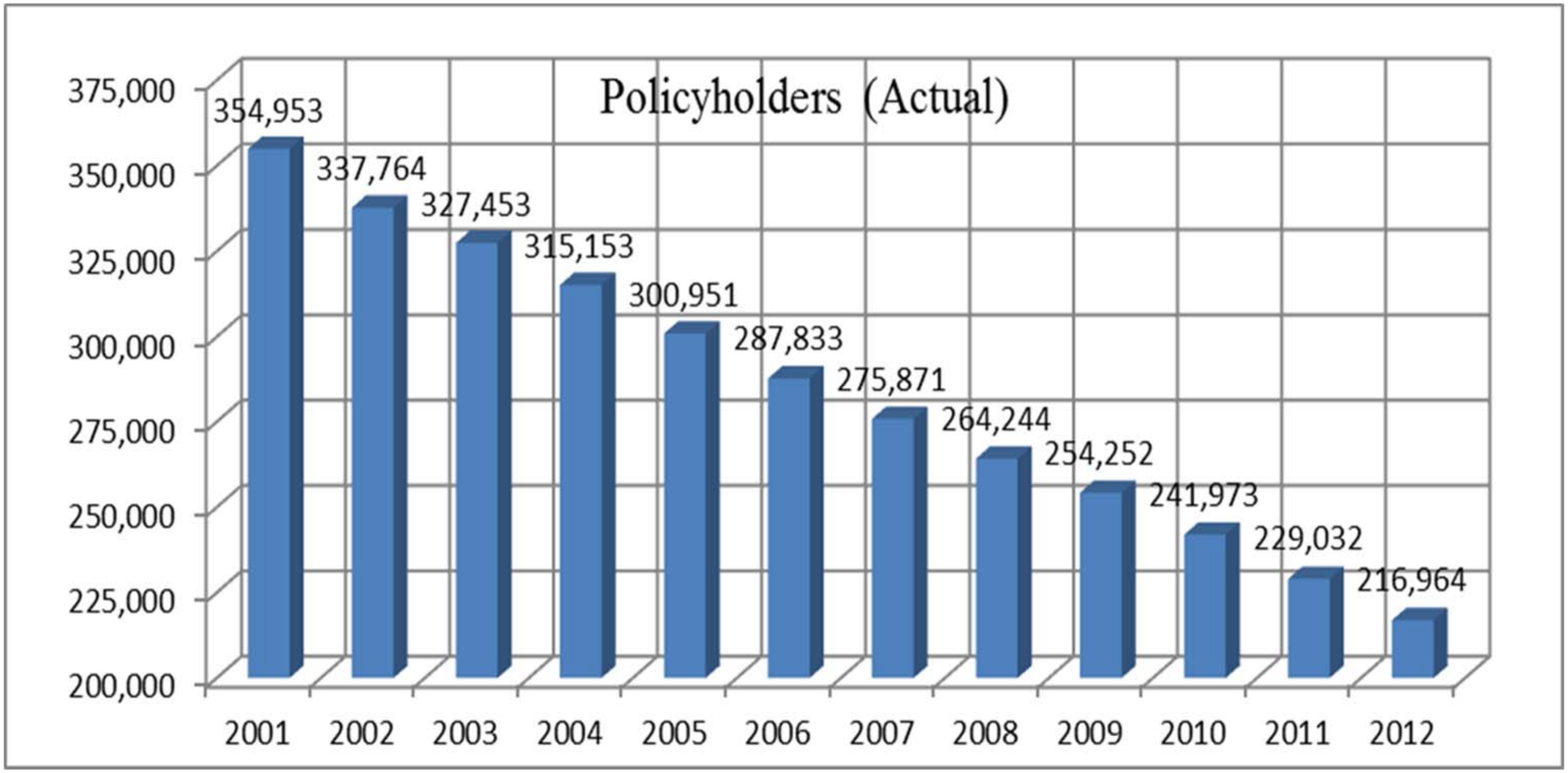
Then, this company thinks it can take away that power and control people's lives by - helping them "plan their lives, build their future, and achieve their dreams."

Do you want any company to know what you dreams are? Do you want any company to plan your life and build your future?

If you guessed that this is the Mission Statement of SBLI USA you are correct.

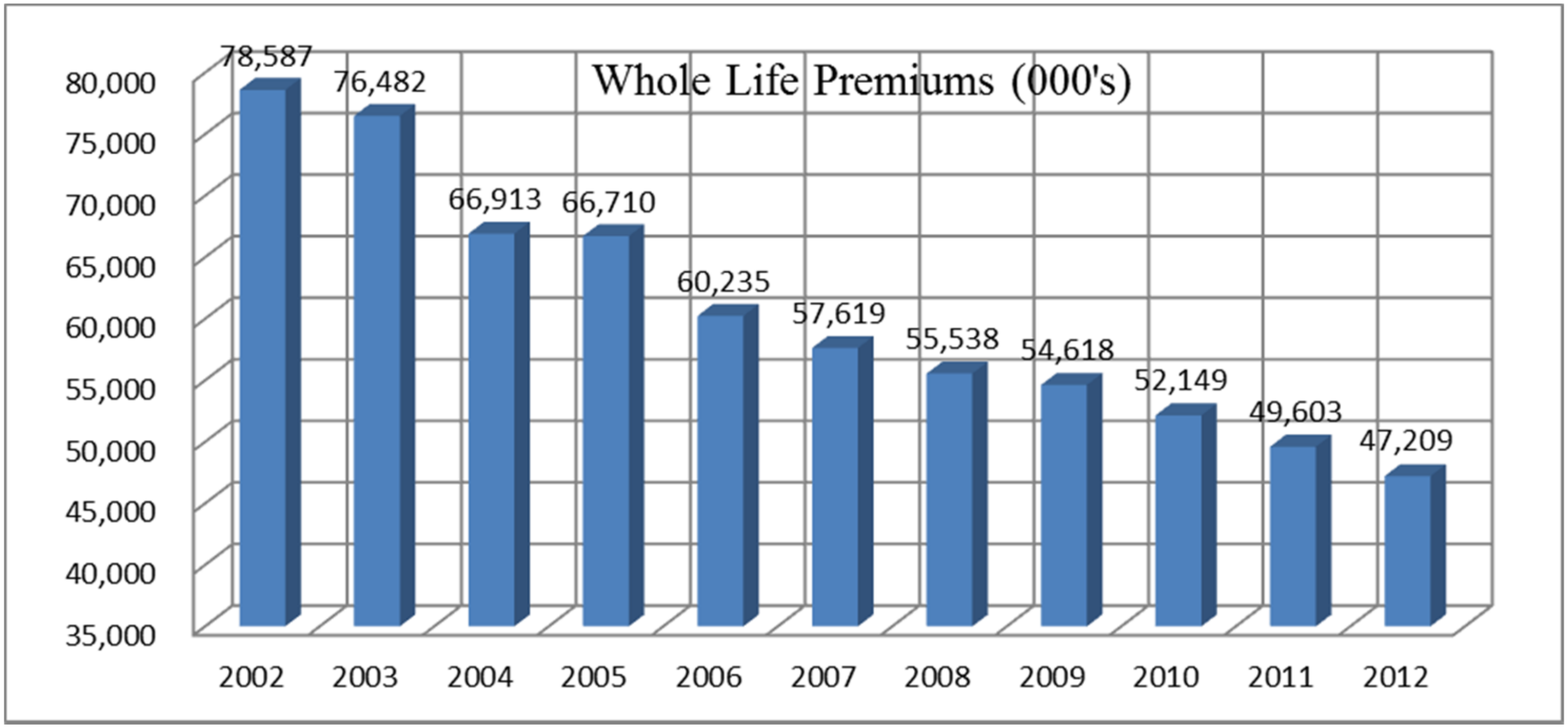
What was the Board of Directors really thinking about when they approved this mission statement?

SBLI USA Mutual Life Insurance – Number of Policyholders



In the January 30, 2013 joint press release announcing that Prosperity Life Insurance Group will Acquire SBLI USA, there is a section about SBLI USA Mutual Insurance Company, Inc. – "Today, SBLI USA has $12.5 billion of insurance in-force, approximately $1.5 billion in assets, and over **250,000 policies**." According to the 2012 Annual Statement (Exhibit of Life Insurance) SBLI USA has 216,964 ordinary policies, 713 credit life policies and 111 group life polcies, for a total of **217,788 policies**. SBLI USA continues to overstate the number of policyholders by including certificate holders in their total. Pronouncements issued by the NAIC, makes a clear distinction between policyholders and certificates – certificate holders are not to be confused with policyholders. Only policyholders can vote and receive dividend distributions.

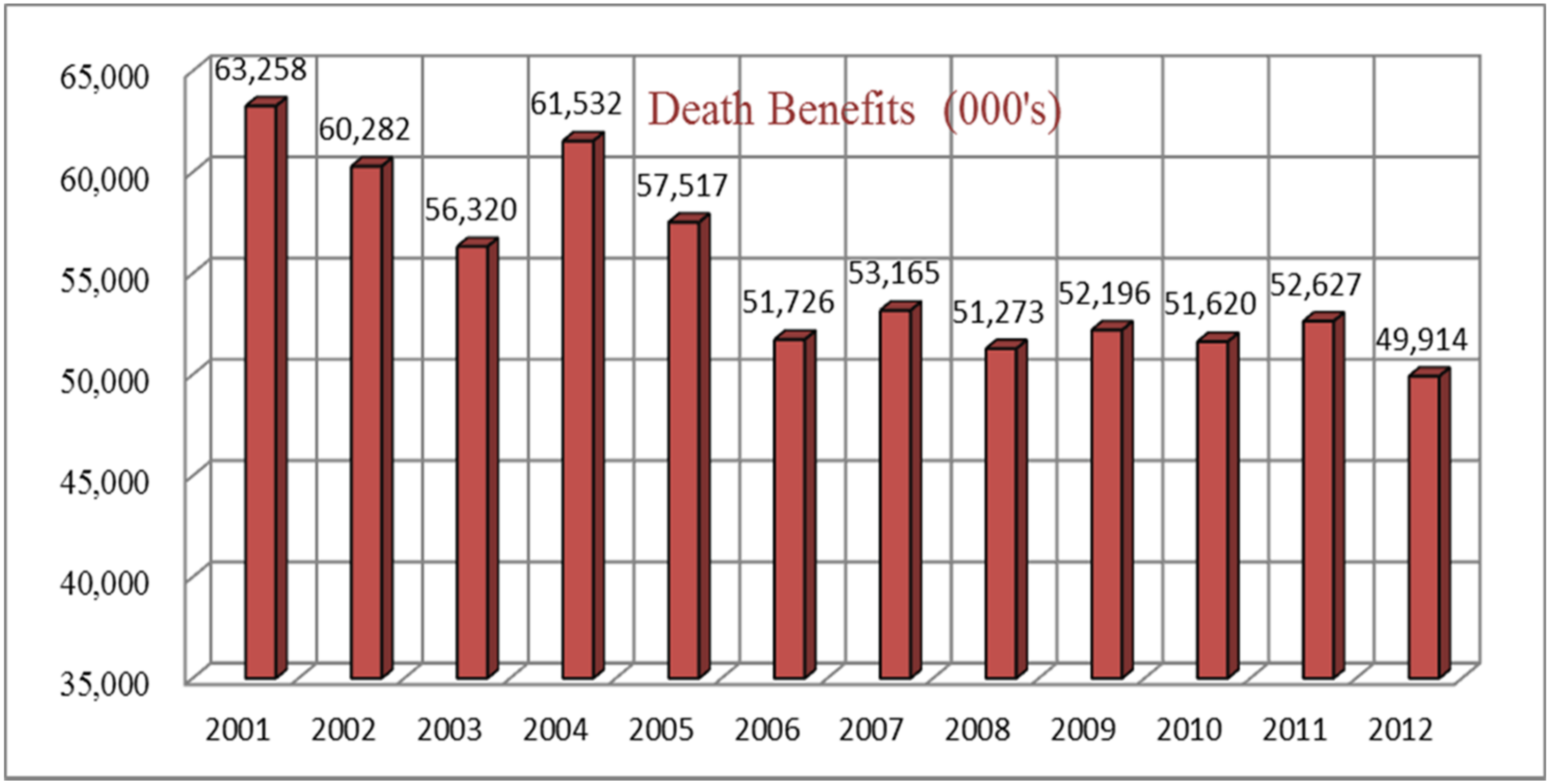
SBLI USA Mutual Life Insurance – Whole Life Premiums



There is a direct correlation between the number of ordinary policyholders and whole life premiums received. One would expect that with fewer policyholders, there would be fewer premiums received. The obvious conclusion is that the management of SBLI USA, with the assistance of the Board was never able to selling enough new policies to make up for the death of policyholders, or policyholders surrendering their policy. Why the decline in policyholders and whole life premiums? SBLI USA indirectly answered this question when they acknowledge that their efforts were directed to help serve the "underserved community" and ignored the fact that SBLI USA need to increases its policyholder base and premiums received to prosper.

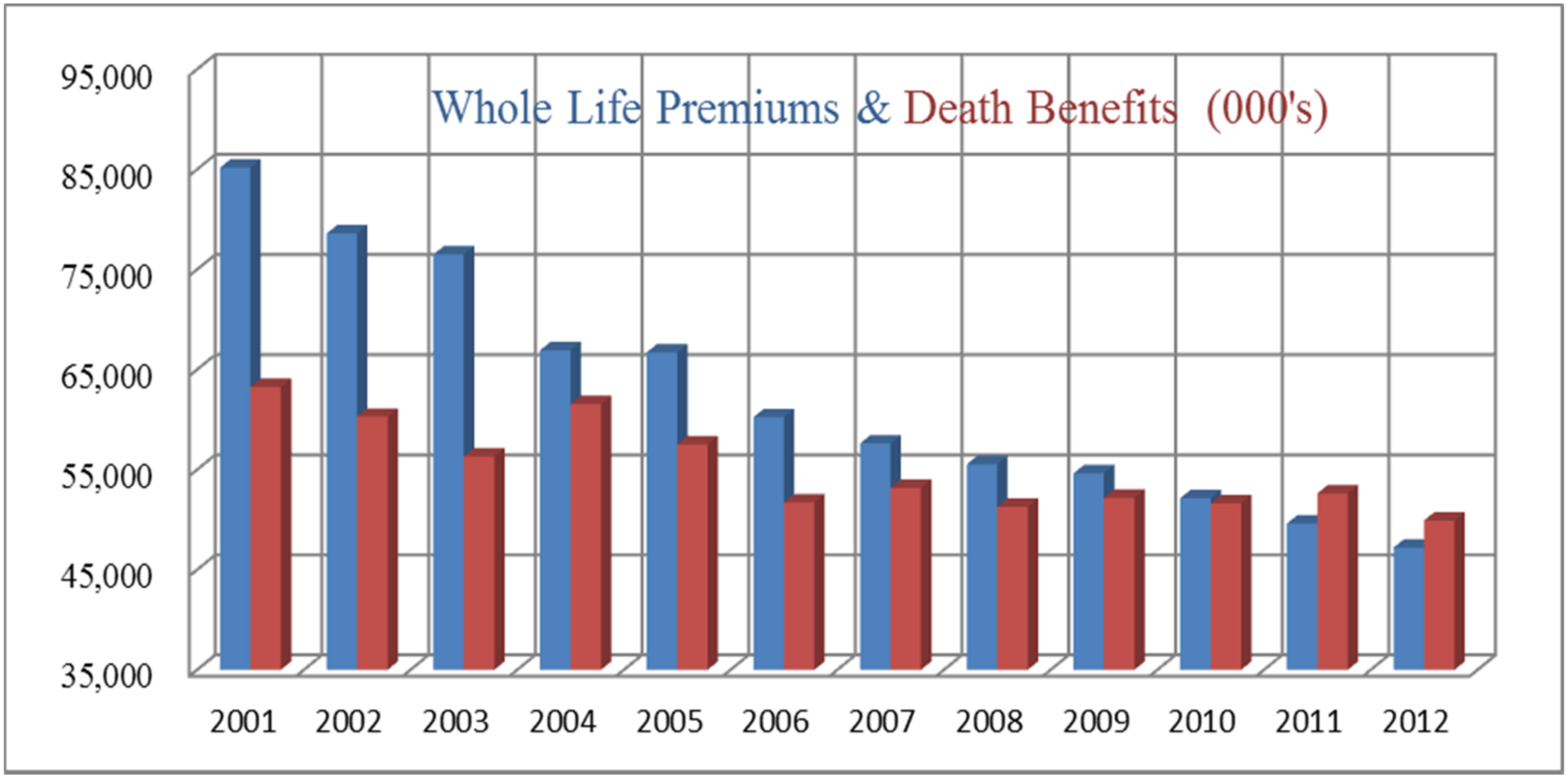
If the management and Board of Directors of a mutual life insurance company do not operate in the best interest of their policyholders are they violating their fiduciary responsibility to policyholders?

SBLI USA Mutual Life Insurance – Death Benefits Paid



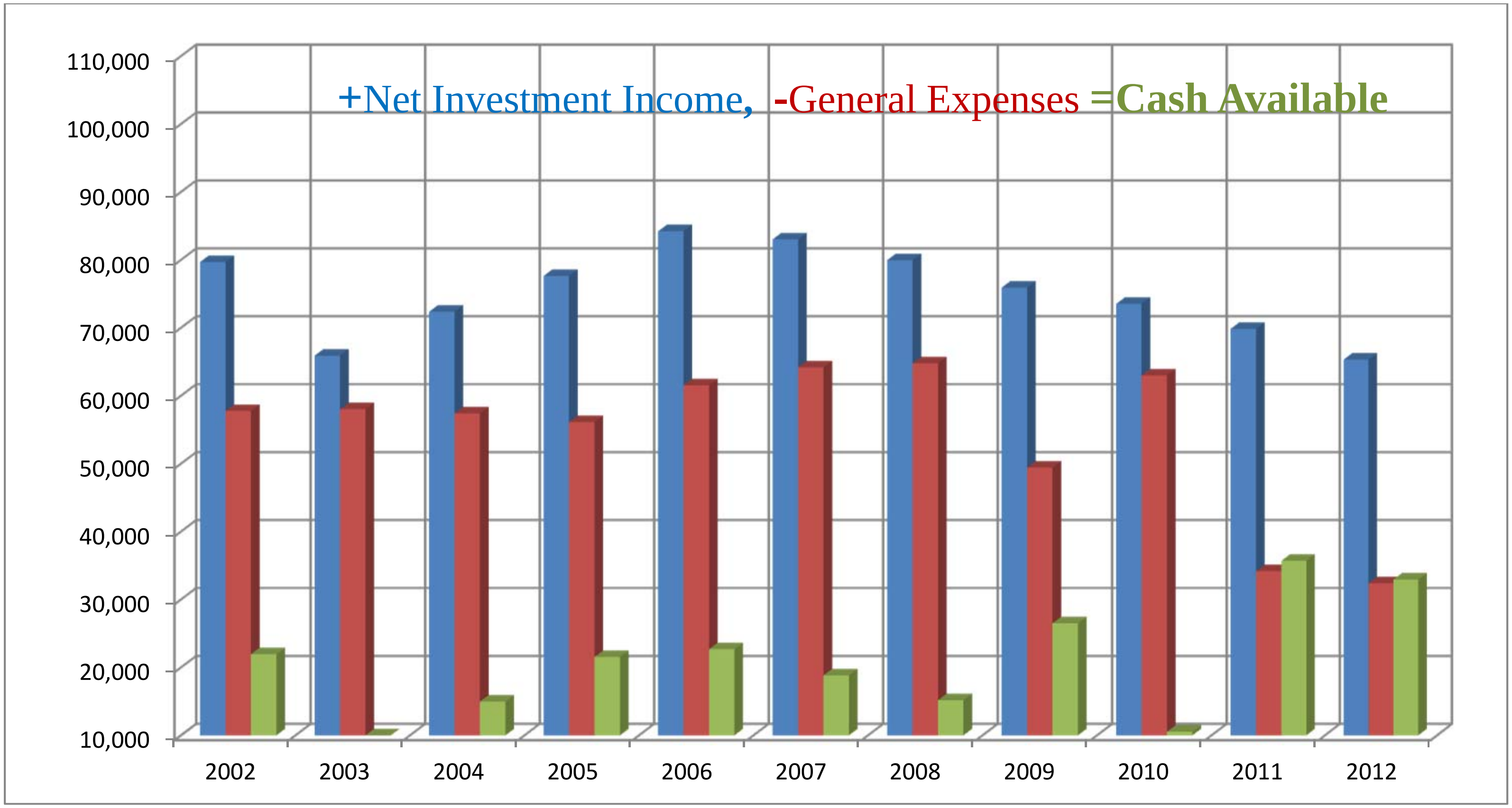
From 2001 to 2012 the average Death Benefits paid was $55,200,000 The fact that death benefits are trending downward may be because older policyholders no longer need insurance and have decided to cancel their policy and receive the cash value. In addition, in 2000 policyholder dividends began declining; resulting in an increased cost to maintain their policy, causing older policyholders to question the value of their policies. Policyholders need to learn what impact the proposed demutualization will have on their dividends

SBLI USA Mutual Life Insurance – Cash Flow Whole Life Analysis



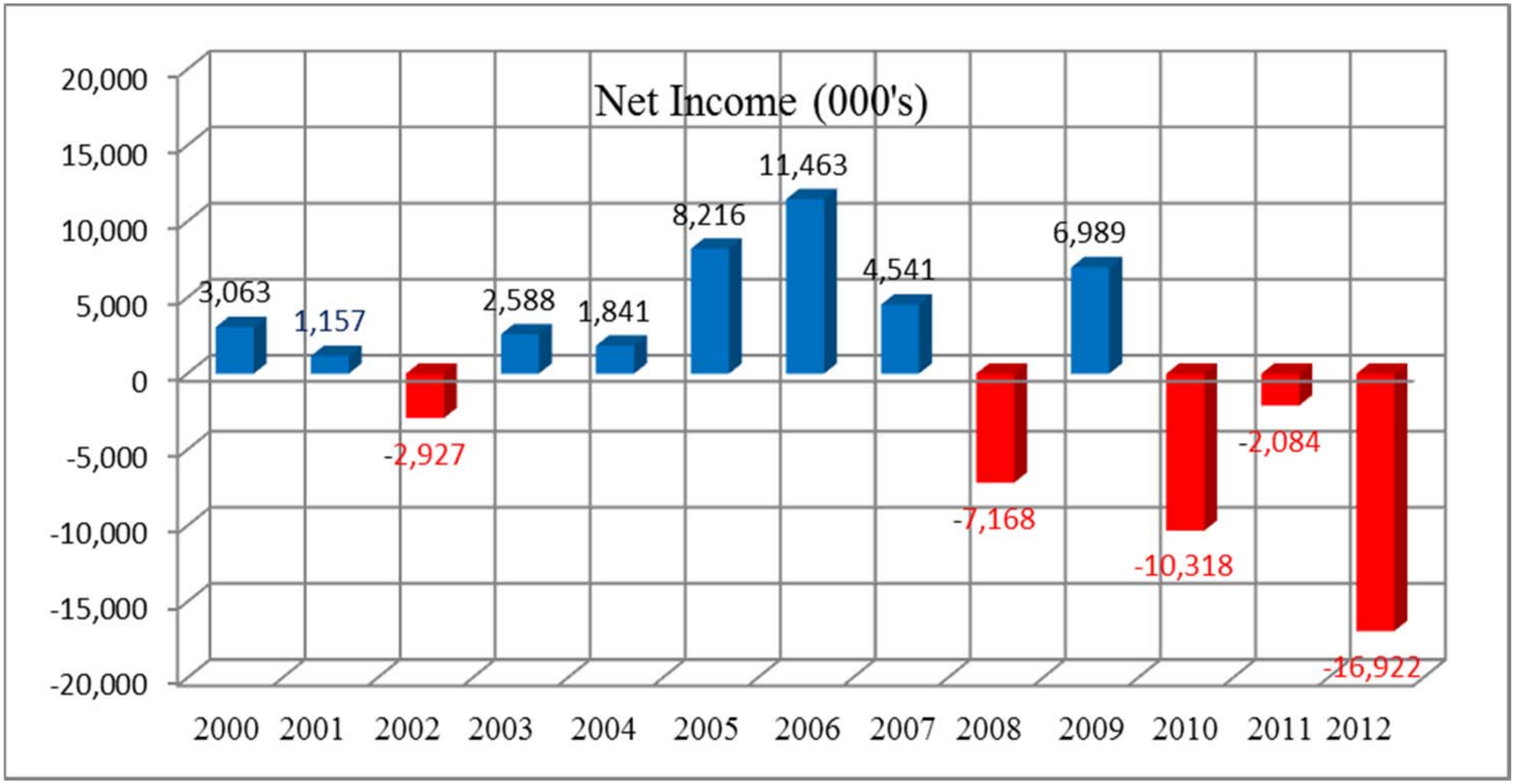
This chart shows that SBLI USA is now starting to pay out more in death benefits than they are taking in premiums. For SBLI USA (the old company or the new company) to survive 1) investment income must be sufficient to pay for all other expenses, such as salaries, rent, utilities and advertising, or 2) SBLI USA will have to use some of its $1.5 billion in assets to cover operating costs. The question to be answered is can new SBLI USA succeed where old SBLI USA failed; and sell enough new policies, so that the additional premiums can be successfully invested, and returned to stakeholders as dividends.

SBLI USA Mutual Life Insurance – Cash available for dividends and other purposes



This chart demonstrates the relationship between the amount of **cash available** for dividends and other corporate uses after deducting **general expenses** from **investment income**. (This chart should be read in conjunction with the previous chart Cash Flow Whole Life Analysis). My conclusion is that: 1) IF SBLI USA is allowed to start issuing new policies, policyholder premiums should exceed death benefits and cash flow would increase. 2) Now that SBLI USA has reduced general expenses, and closed unprofitable operations cash flow is also increasing. What remains to be done is for the State to appoint a receiver for SBLI USA operations, terminate the Board of Directors and management and have the receiver manage SBLI USA for the benefit of the Policyholders. After a few years, SBLI USA will return to profitability and the policyholders will be in a better position to judge what is best for themselves.

SBLI USA Mutual Life Insurance – Net Income – 2001 to 2012



Over the past 13 years SBLI USA cumulative net income was actually $(439,000). The financial statements of SBLI USA are presented on the basis of accounting practices prescribed or permitted by the New York State Insurance Department. They do not conform to GAAP (Generally Accepted Accounting Principles), but for purposes of this presentation they accurately portray the financial condition of SBLI USA. The financial information contained in this presentation was obtained from the Annual Statement filed with the Insurance Department of New York State.

Marquis D. Miller VP Sales SBLI USA

Marquis D. Miller has an extensive and diversified work experience, serving as interim vice president for institutional advancement at Chicago State University (CSU) and as executive director of the CSU Foundation, where he planned and directed all resource development activities, including alumni programs, public and media relations and special events for the University. Prior to this, Miller was the vice president of external affairs for the Chicago Urban League, reporting to the President and CEO. He has also held vice presidential positions with United Negro College Fund (UNCF) and with The Ohio State University.

In 2007 Marquis D. Miller joined SBLI USA Mutual Life Insurance, an organization which has its main offices in New York, NY. Marquis serves as VP National Sales at SBLI USA.

At SBLI USA's Annual Meeting, I questioned the hiring of **Mr. Miller (from Chicago)** because he **had no** sales or **insurance experienced and was not licensed in any state to sell insurance**. Everyone at the Annual Meeting seemed genuinely embarrassed by the question.

His title was later changed to VP of Business Development for S.USA Life, in Chicago's Loop District. S.USA Life is a wholly owned subsidiary of SBLI USA.

As vice president for business development, Mr. Miller has hosted an inaugural Women's Financial Empowerment Roundtable, participated in the Women's Business Development Council's Child Care Expo and celebrated their partnership with the Illinois Hispanic Chamber of Commerce.

I believe that it is either, favoritism, nepotism or just poor management practice to hire an individual for a senior management position such as VP of Sales, when that individual has no formal education or training in selling life insurance. Also, it is unethical, in that it harms the organization because current employees realize that hard work and dedication are not rewarded at SBLI USA.

I also questioned the effectiveness of the Board of Directors; were they aware of the qualifications of the individual selected for vice president of national sales before he was hired? **Do they understand the negative impact this hiring decision has on employee moral? Do they understand that hiring an unqualified individual, conflicts with what is in the best interest of SBLIUSA?**

If I had not brought this matter to everyone's attention, would the Board of Directors or management have taken any action?

Marie Nesbitt Promise Prize
Created by SBLI USA's Past President & CEO

Vikki L. Pryor, President and CEO of SBLI USA Mutual Life Insurance Company, Inc. created the "Promise Prize" award in 2002 in memory of her grandmother, Marie Nesbitt, who was a great granddaughter of slaves and whose formal education stopped at the third grade. Having lived through the Great Depression, World War II, as well as the Jim Crow and Civil Rights eras, Ms. Nesbitt was a woman of strong opinions and deeply held principles who was an inspiration to everyone with whom she came in contact"

The annual Promise Prize is awarded to students of African descent at Bronx Community College, University of Buffalo – Law School, University of Illinois – School of Business, and Newark, NJ Public Schools.

The Promise Prize should not be confused with the Promise Award which is a State sponsored merit-based financial aid program for all students, regardless of race, who reach certain academic goals. Awarding the Promise Prize is a nice gesture on Ms. Pryor's behalf but awarding the prize is not a "charitable" event and the Promise Prize organization is not a registered charity. The award is just another way for Ms. Pryor to enhance her stature in the "underserved community" SBLI USA should not be involved with the Promise Prize.

I am of the opinion that SBLI USA was not acting in good faith or the best interests of SBLI USA or its policyholders, when it used corporate resources and assets to highlight Ms. Pryor's involvement in the Promise Prize. In fact, I believe that **promoting Promise Prize award, because it is only bestowed on students of African descent, violates the high ethical standards SBLI USA set for themselves - of treating everyone equally. Certainly, the Board of Directors was also aware of this potential ethics violation?**

SBLI Mutual Life Insurance Company, Inc. Invests $5 Million In Banyan Mezzanine Fund To Help Grow Hispanic And Minority-Owned Businesses In The Southeast

On Friday, (11/23/2005) SBLI USA President and CEO Vikki L. Pryor presented an enlarged check to Banyan at a Florida minority community economic development summit sponsored by Access Florida. Access Florida is a joint venture between the state's largest African American and Hispanic organizations - the Florida Black Business Investment Board and the Florida State Hispanic Chamber of Commerce.

Based in Miami, Banyan will pursue investments primarily in the southeast, with particular emphasis on the underserved markets in Florida, Georgia, Alabama and South Carolina.

"We are long-term investors pleased to be making this very significant investment, which fits with our investment strategy and is also aligned with our mission and values as a company -- which are to focus on the underserved," said Ms. Pryor. "This investment will allow us to help communities create jobs for their futures, plan for better lives and achieve their dreams."

COMMENT: I corresponded with Mr. Samuel M. Bemiss, a member of SBLI USA's Board of Directors as follows:

> The Banyan fund based in Miami is to pursue investments in Florida, Georgia, Alabama and South Carolina to assist Hispanic and minority-owned companies. These are very risky investments at best. SBLI is not a venture capitalist, and does not have the experience to make such an investment, nor should SBLI pay someone else a fee to make these investments. To make matters worse SBLI does not do business in these states. Did the board approve such a risky investment?

Eventually I received a reply "all investments are approved by the Board of Directors." It is also worth noting that SBLI USA is not licensed to sell insurance in any of these states.

Policyholders can only wonder who really benefits from this investment.

WHY ARE THEY SMILING

The individuals below have been members of SBLI USA's Board of Directors for more than 12 years, and share responsibility for not being able to properly support management in achieving its strategic goals and growth objective. **They most likely acquiesced with the poor choices and bad decisions made by management**; including 1) approving the Company's new mission statement, which ignored policyholders, 2) spending extravagant sums of money on Annual Galas, 3) rewarding the President with excessive salary and bonuses, while policyholder dividends were declining, 4) allowing the Company to expand nationally by opening unprofitable Customer Centers, and 5) approving the purchase of risky securities. (See Below)

Deborah Aguiar-Velez

Samuel M. Bemiss III

Evelyn F. Murphy

Rev. Dr. David Jefferson Sr.

G. Thomas Rogers

"The Company reported impairments to its investments in bonds" as follows:

2008	$13,472,912	2010	$15,158,622	2012	$25,309,227
2009	$11,196,151	2011	$18,389,756	**TOTAL**	**$83,526,672**

As previously noted the purchase or sale of investments is approved by the Board of Directors.

THESE INDIVIDUALS PLAYED A MAJOR ROLE IN THE MUTUALIZATION OF SBLI USA.[1]

Guy Velella

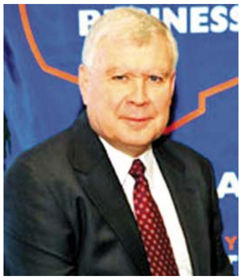
In 1998, at the behest of SBLI and its member banks, **State Senator and Chairman of the NY State's Insurance** Committee Guy Velella sponsored {§Article 7316} (Conversion of savings banks life insurance into a mutual life insurance company) - and the Legislature approved the plan of conversion and transfer, to merge the SBLI Fund with the 16 separate affiliated insurance departments of the issuing banks. In 1999, a single mutual company was formed and renamed SBLI USA Mutual Life Insurance Company. (SBLI USA).

State Senator Guy Velella, was convicted in 2004 on federal bribery charges

Vikki L. Pryor

In 1999 SBLI USA's new **President and CEO** changed the Company's, goal "to establish a national financial service company uniquely dedicated to empowering and serving the underserved community." SBLI USA, with the Board's approval, no longer acknowledged that as a mutual life insurance company, its primary obligation is to benefit policyholders, who are the owners of the Company.

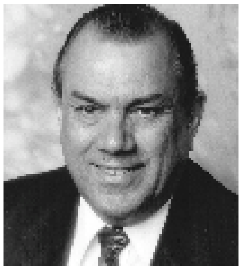
In 2010 the President and CEO resigned after SBLI USA lost over $49 million dollars in mortgaged backed securities. The Company also closed all Customer Service Centers and stopped writing new insurance policies,



Clifford M. Miller

Chairman of the Board from 1999 to 2006. Clifford M. Miller was the president and CEO of Ulster Savings Bank. He held leadership positions in many organizations, which benefit not only the regional business community, but also seek to improve the lives of the people who live and work in the Hudson Valley.

Miller resigned in 2006 after being arrested in downtown Kingston, NY, charged with solicitation. (The case is pending as of 8/26/2006). No further information was obtainable.



Joseph L. Mancino

Chairman of the Board 2006 to 2010. Joseph L. Mancino, the retired CEO and president of The Roslyn Savings Bank; has retired as chairman of SBLI USA after serving on the board since 1991. He will be succeeded by Evelyn F. Murphy.

In SBLI USA 2008 Annual Report he noted that "SBLI USA has been in the business of basics for over 70 years." When asked to explain what "basics" are and how "basics" relate to insurance, he was at a loss for words.

[1]Between 2010 and 2013 management's focus was on finding a strategic partner for SBLI USA. On January 30, 2013, Prosperity Life Insurance Group, LLC and SBLI USA Mutual Life Insurance Company, Inc. announced that they have reached a definitive agreement whereby Prosperity has agreed to acquire SBLI USA through a sponsored demutualization.

crain's new york business.com

An insurer reels from market beating

Capital-poor SBLI seen by some experts as potential candidate for state takeover.

By Aaron Elstein @InTheMkts
February 19, 2012 5:59 a.m

About 35 years ago, Richard Hoffman stopped by his local bank and bought some life insurance from a company that for decades had served New Yorkers of modest means. The policy from SBLI USA Mutual Life Insurance Co. wasn't big at just $15,000, but the price—$18 a month—was right.

"I thought SBLI was one of the greatest companies in the world," said Mr. Hoffman, an accountant now in his mid-60s. "It was based on this wonderful idea that you shouldn't have to be rich to afford life insurance."

Today, SBLI is gasping for air. It is paying dearly for investing its policyholders' money heavily in mortgage-backed securities during last decade's real estate mania. When those securities plunged in value, nearly half of the life insurer's capital was wiped out. Barred by state regulators from selling new policies for the past two years, SBLI has been dipping into reserves to help stay in the black. Influential insurance-rating agency A.M. Best -repeatedly cut the firm's financial-strength rating—until earlier this month, when it said SBLI requested that it no longer be rated.

Unless management can orchestrate a turnaround, some industry experts say, it may be necessary for the state to take over the company in order to ensure that SBLI's 240,000 mostly blue-collar policyholders get paid after they file claims.

SBLI: A HISTORY

The roots of SBLI go back to the progressive era of a century ago. The company was modeled by an insurer that was founded in 1907 by Louis Brandeis, who later became a justice on the U.S. Supreme Court. In the course of doing some legal work for policyholders in a bankrupt life insurer, Mr. Brandeis learned of severe abuses commonplace in the system. All too often, insurers would fail to stop by people's houses to collect their monthly premiums, which enabled them to cancel policies, avoid paying benefits and fatten their profits. Life insurance, he decided, "was simply a bad bargain for the vast majority of policyholders."

To reform the system, Mr. Brandeis helped launched an insurance company in Massachusetts that operated out of banks, so people could pay premiums at the same place they deposited their paychecks. The idea quickly caught on, and in 1939 the state of New York created its own company that provided insurance policies through banks.

SBLI stands for "savings bank life insurance."

"The combination of no new business coming in and their telling A.M. Best not to rate them suggest a company that's headed to runoff or receivership," said Mark Peters, a former head of the New York Liquidation Bureau, the state agency that winds down insolvent insurers. Mr. Peters added that holders of SBLI's policies, which have a collective face value of $14 billion, would be protected in a state takeover, much like depositors after a bank failure.

SBLI Chief Executive Michael Akker disputes the dire assessment. He said the insurer has stabilized and has the resources to meet all its obligations to policyholders. It has shrunk its mortgage exposure and cut annual operating costs by two-thirds since he took the helm in 2010. By continuing to hold the line on costs and with further improvement from its investment portfolio, he said, the company can rebuild its capital base and one day sell insurance again.

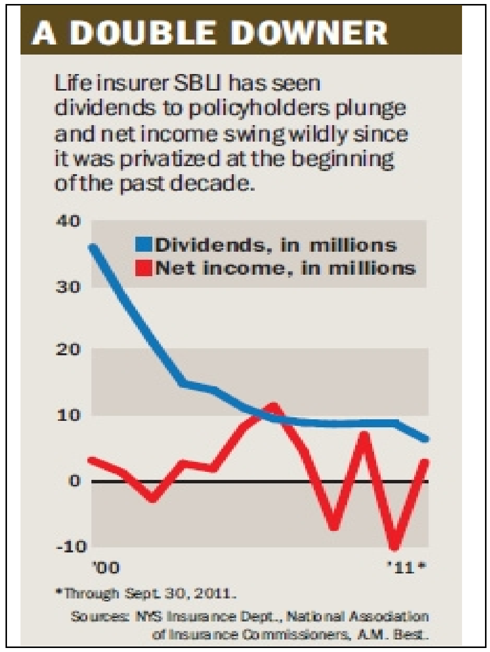
“We feel we've turned the corner,” said Mr. Akker, who has worked at SBLI since 2001 and previously served as chief operating officer.

NOWHERE TO HIDE

SBLI is hardly the only insurer to struggle after mortgage-related missteps. But its unique history and market niche make it something of a special case in the insurance industry.

The company was created by the state of New York in 1939 as a nonprofit and wasn't privatized until 1999. That year, SBLI brought in a chief executive named Vikki Pryor, who tried to expand nationwide.

But SBLI soon ran into a challenge shared by many insurers at the time: The Federal Reserve was slashing interest rates to minimize the damage caused by the collapse of last decade's tech-stock bubble. Yields on most bonds fell, which lowered the returns generated by SBLI's investment portfolio. Dividends to policyholders plunged 75% between 2000 and 2007.



Stretching for higher returns, SBLI began investing in higher-yield, higher-risk instruments, especially mortgage-backed securities. At one point, the securities accounted for nearly half of the insurer's bond portfolio, according to A.M. Best.

Unfortunately, SBLI had nowhere to hide when the market collapsed and the value of mortgage-backed securities sank. In 2010, its base of capital—the amount it has to pay claims—eroded by nearly half, to $65 million from $113 million. That summer, state regulators barred SBLI from selling new policies until it fixed its financial problems, and Ms. Pryor was ousted.

Ms. Pryor, who later became CEO of the American Red Cross in Greater New York, did not comment. The New York State Department of Financial Services, which regulates SBLI, declined to comment.

Mr. Akker said there are many reasons to believe SBLI will recover. He noted that even as A.M. Best withdrew its rating earlier this month, it raised its outlook for the company from “negative” to “stable.” As for A.M. Best's withdrawing SBLI's rating, Mr. Akker said, it made no sense to pay $30,000 a year for a rating that's essentially useless while no one can sell SBLI insurance.

There also are signs the real estate market is improving. Delinquencies for multifamily loans, for instance, fell last month to 12.8%, from 14.4% in December, according to Fitch Ratings. Scenarios like that have enabled SBLI to write up the value of its investment portfolio by $10 million through the nine months ended last Sept. 30, which helped boost the insurer's capital levels.

Still, there is cause for concern. While SBLI recently recorded an “unrealized gain” of $10 million on its investments, it took an even larger “realized loss” of $14 million in its portfolio. That loss was due to the company's writing off securities that will never recover and shows how SBLI's past continues to haunt it.

Further pain may loom because assets equal to about 90% of the company's $74 million in capital are at risk of significant write-downs. Mr. Akker said he is comfortable with SBLI's financial reporting.

Here's the situation: $40 million of SBLI's assets are classified as Level 3, which means there is so little demand that their value can only be guessed at. It also means the assets could well be worth considerably less than $40 million.

Another $26 million of assets are deferred tax assets, which could be used to offset taxes on future earnings. But if SBLI doesn't generate earnings—a possibility, considering that no new business is coming in and the company's exposure to the volatile mortgage-backed securities market continues—then the deferred tax assets would have to be written down.

SBLI barely would have made any money through the nine months ended Sept. 30 had it not dipped into its jar of reserves. Of $2.8 million in net income, $2 million was generated by reserve releases. SBLI officials said reserves were released because the firm's book of insurance shrank.

Such a decline, figures longtime customer Mr. Hoffman, is reason enough for management to hand over control to someone else before the state does it for them.

“Management's strategy is to hope for a better day that probably won't come,” he said. “We all know that hope is not really a strategy.”

crain's new york business.com

By Aaron Elstein

March 27, 2011 5:59 AM

Is life insurer on life support?

A rater lowers its grade for SBLI USA to ‘vulnerable'

When the American Red Cross in Greater New York named Vikki Pryor chief executive last September, the nonprofit noted in its press release that she had been on Crain's list of the city's 50 most powerful women in 2009. It also pointed out that in her previous job, as CEO of SBLI USA Mutual Life Insurance Co., her strategy “resulted in the reversal of a 10-year business decline.”

What the release didn't say was that SBLI had stopped writing policies three months earlier under pressure from New York state regulators and that Ms. Pryor had been forced out. The insurer had made big bets investing in **mortgage-backed securities** to help fund its growth, and the results were gruesome.

Last month, insurance rating service **A.M. Best** downgraded SBLI's financial strength—its ability to pay claims—to “vulnerable” from “secure.” A.M. Best analyst **Steven Faulks** said that he believes SBLI has adequate resources, particularly because of the moratorium on new policies, but added that it “still has quite a bit of residential mortgage-backed securities and limited partnerships in real estate that concern us.” Its outlook for SBLI: “negative.”

Ms. Pryor wasn't available for comment. A spokesman for SBLI said that new CEO **Michael Akker** is working to raise fresh capital and hopes to start writing policies again.

Founded in 1939, SBLI for decades sold life insurance policies through savings banks, mostly to blue-collar New Yorkers. “It was one of the most well-respected insurers in New York,” said longtime policyholder **Richard Hoffman**, a Great Neck, L.I., accountant. “Its product was a bargain because there were no commissions to agents, no stand-alone offices.”

According to a person familiar with Ms. Pryor's side of the story, SBLI had been struggling for years when she took the helm in 1999. New York state regulators soon began leaning on her to sell the company to a larger insurer. She was unable to find a suitable partner, however, and elected to try national sales.

Customer service centers were opened in Buffalo, Chicago, Los Angeles and Puerto Rico. As marketing and other expenses rose, the dividends that some policyholders relied on to help pay their premiums fell - plunging 75% between 2000 and '07, according to a **New York State Insurance Department** report last year.

SBLI has had another problem. Interest rates were so low for much of the last decade that it was hard for the company to earn an adequate return on its investment portfolio. Like many insurers in the same bind, SBLI began investing in riskier assets, such as MBS. But the company's bet was particularly large, Mr. Faulks said. The super-risky securities accounted for nearly half of its bond portfolio, according to A.M. Best.

When the housing bubble burst, the value of SBLI's portfolio sank, and its regulators turned up the heat on Ms. Pryor, said the source. But larger rivals passed and, after a lot of wrangling with the regulators, Ms. Pryor was ousted. Last year, asset write-downs led to a near halving of SBLI's surplus—the amount stashed away to pay claims—to $64 million. In its second annual loss in three years, the company recorded a net loss of $10.3 million for 2010, according to A.M. Best.

It's possible that the value of SBLI's mortgage-backed holdings will recover and that the new management team, which has reduced operating expenses, can also raise fresh capital and get back in the game. Then again, A.M. Best says, further write-downs are also possible.

New York State Department of Financial Services
Audit Examinations of SBLI USA Mutual Life Insurance

The following passages were taken from Audit Examinations issued by the New York State Department of Financial Services. For a copy of the complete examinations go to:
www.dfs.ny.gov/insurance/exam_rpt/60176c05.pdf
www.dfs.ny.gov/insurance/exam_rpt/60176c10.pdf
www.dfs.ny.gov/insurance/exam_rpt/20sblfld.pdf

A. The Company agreed to cease selling new business effective July 1, 2010. The agreement followed lengthy discussions between the Department and the Company during which the Department expressed concerns that the Company cut its policyholder dividends by approximately 75% from 2000 to 2007. While some of the reduction in dividends could be attributed to declines in net asset yields, the Department was concerned that the reduction in dividends was primarily to fund marketing and expansion initiatives and to maintain surplus. As a result of the cessation, expenses that would have been incurred in the pursuit of new business should discontinue after a short transition period, and in turn, pre-dividend net income should increase. The Department believes the increases in net income will generate divisible surplus. The Company is required, pursuant to Section 4231(a)(1) of the New York Insurance Law, to ascertain the amount of divisible surplus that accrues to every participating policy and contract and to distribute it annually to the policyholders who generated such. The Department expects the Company to be particularly conscientious in fulfilling that requirement in light of the many policyholders whose dividends were reduced to zero over the past several years. As agreed to, the Company is not writing any new business. The Company is examining potential strategic partners.

B. A review of minutes of the meetings of the board of the directors and the investment committee revealed that prior to June 2004 neither the board nor its committee voted to approve any of the Company's investment transactions. The Company violated Section 1411(a) of the New York Insurance Law by failing to obtain board approval for any of the investment transactions entered into prior to June, 2004. It is noted that in June 2004, prior to the commencement of the examination, the Company began obtaining board approval for investment transactions.

C. As part of its geographic expansion efforts, the Company had five established customer service centers in New York City, New York, Plaza del Sol Mall in Bayamon, Puerto Rico and Walden Galleria Mall in Buffalo, NY. Customer centers in Chicago and Los Angeles were opened for operation after the date of the on-site examination. The Company has since agreed to close its customer service centers except in New York City.

D. Over the ten year period 1998–2007, SBLI has reduced its annual policyholder dividends by 75%, from $36.0 million in 1998 to only $8.9 million in 2007. Reductions of such magnitude in policyholder dividends are of significant concern to the Department. Although some of the decline in dividends can be attributed to declines in net asset yields and actions by the Company to maintain surplus, the Department was concerned that the reduction in dividends was primarily to fund marketing and expansion initiatives. The Department recognizes that expenditures for the purpose of acquiring business are a normal part of the operation of a viable and thriving insurance company. However, too high of an emphasis on such expenditures can reduce or even eliminate the fair share of profits for current policyholders if the expenditures fail to generate an adequate return in the form of new business. When SBLI was created in 1999, the Department expected high expenses for a few years as a result of the necessity to reorganize from the former savings bank based structure. However, the Department expected that expenses would return to more normal levels after a few years, once the Company had completed its reorganization. Instead, expenses have remained high (1) in relation to the acquisition of new policies and (2) beyond the point in time that the Department expected to continue to see expenses relating to the reorganization. Despite the expenditure of large sums on marketing and other acquisition costs, the number of new sales by the Company has been smaller than the number of policies terminating due to surrender, death or maturity. As a result, total insurance in force declined from $19.1billion in 2001 to $16.8 billion in 2006, and the total amount of new business issued declined from $958 million in 2001 to $673 million in 2006, with new ordinary whole life issues declining from $98 million in 2001 to $53 million in 2006.

Policyholders are the nominal owners of a mutual life insurance company. As such, they are entitled to an equitable share of the profits that are attributable to their policies. Policyholder dividends are the mechanism by which such share of profits is returned to the policyholders who generated them. Funds otherwise available for dividends should not serve as the main funding mechanism for the acquisition of new business over an extended period of time (especially where significant new business fails to materialize). Following lengthy discussions with the Department on this issue, the Company has agreed to cease selling new business effective July 1, 2010. As a result, expenses that would have been incurred in the pursuit of new business should cease after a short transition period. In turn, pre-dividend net income should increase as well. The Department believes the increases in net income will generate divisible surplus. The Company is required, pursuant to Section 4231(a)(1) of the New York Insurance Law, to ascertain the amount of divisible surplus that accrues to every participating policy and contract and to distribute it annually to the policyholders who generated such. The Department expects the Company to be particularly conscientious in fulfilling that requirement in light of the many policyholders whose dividendswere reduced to zero over the past several years.

FINANCIAL STATEMENT FOOTNOTES

The footnotes to the Audited Financial Statements of SBLI USA can provide policyholders with additional financial and operational about the Company. For example, a synopsis of the relevant footnotes, prepared by Deloitte & Touche LLP, (Public Accounts) highlight the challenges facing SBLI USA.

A) FOOTNOTE 13. Contingent Liabilities and Comments (2008 Auditor Financial Report)

On November 18, 2008, the Company informed the New York State Insurance Department that it is seeking to find a potential strategic partner by November 1, 2009. If, by such date, the New York State Insurance Department has approved a transaction with a strategic partner, the company will proceed with a merger. If an appropriate strategic partner is not found or an approval thereof is not received by that date, the Department may either require the Company to discontinue the writing of new business (and submit a plan for the run-off of liabilities), or, at the Department's sole discretion, allow the Company to continue operation and the writing of new business.

B) FOOTNOTE 16. Subsequent Events (2009 Auditors Financial Report)

{Same comment as above plus} On June 1, 2010 the Company announced that effective June 30, 2010 SBLI USA Mutual Life Insurance Company, Inc. and S.USA Life Insurance Company, Inc. would no longer be accepting new business. The Company plans to reduce its work force and consolidate various offices. The effect of this restructuring plan is an incremental reduction of surplus of approximately $7 million in 2010. These actions are expected to reduce operating expenses going forward.

C) FOOTNOTE 1. Organization (2010 Auditors Financial Report)

{Same comments as above}. The effect of this restructuring plan is an incremental reduction of surplus of approximately $10 million in 2010.

D) FOOTNOTE 1. Organization (2012 Auditors Financial Report.)

In 2012, the Company and Prosperity Life Insurance Group, LLC ("Prosperity") reached a definitive agreement whereby Prosperity has agreed to acquire the Company through a sponsored demutualization. Upon the closing of the transaction, and following board, regulatory and policyholder approval for the demutualization, Prosperity will own 100% of the Company.

D1) FOOTNOTE 17. Securities Impaired to Present Value Projected Cash

The following table lists each loan-backed bond and structured security at a cuisp level where the present value of cash flows expected to be collected is less than the amortized cost basis as of December 31, 2012 (in thousands). {Table not presented here}

My analysis – SBLI USA had a realized loss of $27.8 million in 2012 from these loan-backed securities. The question that I have for management is what changed in the valuation of these securities between 2010, and 2011. Why record the loss just before Prosperity will assume control?