STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

SBLI USA MUTUAL LIFE INSURANCE COMPANY, INC.

AS OF

DECEMBER 31, 2000

DATE OF REPORT:	AUGUST 3, 2001
EXAMINER:	EDWARD J. TASKER

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

August 3, 2001

Honorable Gregory V. Serio
Superintendent of Insurance
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 21675, dated January 10, 2001 and annexed hereto, an examination has been made into the condition and affairs of SBLI USA Mutual Life Insurance Company, Inc., hereinafter referred to as "the Company," at its home office located at 460 West 34th Street, New York, New York 10001.

Wherever "Department" appears in this report, it refers to the State of New York Insurance Department.

The report indicating the results of this examination is respectfully submitted.

1. EXECUTIVE SUMMARY

The Company formerly operated as the Savings Bank Life Insurance Fund. A conversion plan was submitted to the issuing banks and to the Superintendents of Insurance and Banking of the State of New York to convert to a mutual life insurance company. The issuing banks unanimously approved the plan on May 6, 1999. The New York Banking Department approved the plan on June 11, 1999, and the Department approved the plan on July 6, 1999. The conversion was completed in December 1999. The Company then became licensed to transact life, annuities and accident and health insurance business under Section 1113(a) of the New York Insurance Law, effective December 28, 1999. (See item 3A of this report) This was the first examination of the Company as a domestic mutual life insurer.

The examiner's review of a sample of transactions did not reveal any differences that materially affected the Company's financial condition as presented in the December 31, 2000 filed annual statement. (See item 4 of this report)

The Company violated Section 91.4(c)(2) of Department Regulation No. 33 by using a method not described in the Regulation to distribute its net investment income to major annual statement lines of business. (See item 4 of this report)

The examiner's review of the Company's market conduct activities did not reveal significant instances which deviated from the New York Insurance Law, Department regulations and circular letters and the operating rules of the Company. (See item 6 of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1995. This examination covers the period from January 1, 1996 through December 31, 2000. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2000 but prior to the date of this report (i.e., the completion date of the examination). This was the first examination of the Company as a domestic mutual company.

The examination comprised a verification of assets and liabilities as of December 31, 2000 to determine whether the Company's 2000 filed annual statement fairly presents its financial condition. The examiner reviewed the Company's income and disbursements necessary to accomplish such verification and utilized the National Association of Insurance Commissioners' Examiners Handbook or such other examination procedures, as deemed appropriate, in such review and in the review or audit of the following matters:

Company history
Management and control
Corporate records
Fidelity bond and other insurance
Territory and plan of operation
Market conduct activities
Growth of Company
Business in force by states
Mortality and loss experience
Reinsurance
Accounts and records
Financial statements

The examiner reviewed the corrective actions taken by the Company with respect to violations, recommendations and/or comments contained in the prior report on examination. The results of the examiner's review are contained in item 7 of this report.

This report on examination is confined to financial statements and comments on those matters which involve departure from laws, regulations or rules, or which require explanation or description.

3. DESCRIPTION OF COMPANY

A. History

The System of Savings Bank Life Insurance in New York State ("System") was established by an Act of the Legislature, Chapter 471 of the Laws of 1938, which became effective on January, 1, 1939 under Article X-A (later recodified as Article IX-D) of the New York Insurance Law. The Act created a Division of Savings Bank Life Insurance within the Department, headed by a Deputy Superintendent. It also created a corporation, the General Insurance Guaranty Fund, within the Division of Savings Bank Life Insurance, and provided for the creation of two funds; one for the payment of expenses incurred in the operation of the life insurance department and one for the payment and satisfaction of losses and obligations.

Effective July 1, 1940, Article IX-D of the New York Insurance Law relating to savings bank life insurance, was amended and redesignated Article VI-A of the New York Banking Law by Chapter 449 of the Laws of 1940. The principal effect of this change was the elimination of the Division of Savings Bank Life Insurance within the Department and the creation of a corporation in the State of New York Banking Department ("Banking Department") called the Savings Bank Life Insurance Fund ("Fund"). The Fund was a "body corporate" operating as a not-for-profit service organization for members of the Savings Bank Life Insurance System. The Fund was charged with the responsibility of carrying out the duties previously performed by the Division of Savings Bank Life Insurance within the Department. As a result of this change, the System was subject to examination by both the Banking and Insurance Departments.

Due to the declining number of banks, increased competition from other insurers, and a decrease in new business, legislation was introduced and passed in 1998 by the New York State Legislature to allow the consolidation of the Life Insurance Departments of the Savings Bank Life Insurance System issuing banks ("LIDs") and the Fund into a single mutual life insurance company. A plan of conversion and transfer was submitted to the issuing banks and to the Superintendents of Insurance and Banking of the State of New York. On May 6, 1999, the issuing banks voted unanimously to approve the plan of conversion and transfer. The Banking Department approved the plan on June 11, 1999, and the Insurance Department approved the plan on July 6, 1999. SBLI Mutual Life Insurance Company, Inc. was incorporated on August 30, 1999 and was licensed to issue life, annuities and accident and health insurance on December 28, 1999. On January 1, 2000, the LIDs ceased to exist. As of the same date, the

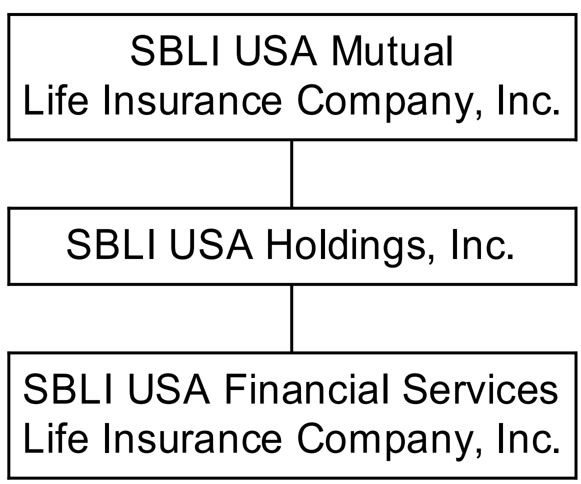
Company became the successor in interest of the LIDs and the Fund. The Company adopted its present name in April 2000.

B. Subsidiaries

On October 31, 2000, the common capital stock of SunAmerica Life Insurance Company, Inc. ("SunAmerica") was purchased by the Company. Upon completion of the sale, SunAmerica's name was changed to SBLI USA Financial Services Life Insurance Company, Inc. ("FINSERV"). On December 18, 2000, the common capital stock of FINSERV was contributed to SBLI USA Holdings, Inc. ("Holdings"), a wholly owned subsidiary of the Company. All outstanding shares of FINSERV's common stock are now owned by Holdings, a non-insurance holding company incorporated in the state of Delaware.

FINSERV was valued at $7,805,734 as of December 31, 2000. FINSERV is licensed in 40 states and will be utilized by the Company to expand its customer base throughout the United States.

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2000 follows:



The Company had three service agreements in effect as of December 31, 2000: a tax allocation agreement; a service and expense allocation agreement; and an investment advisory agreement.

The tax allocation agreement provides for the filing of a consolidated federal income tax return among the Company, Holdings and FINSERV.

The service and expense allocation agreement, among the Company, Holdings, FINSERV and SBLI USA Diversified Services Company, Inc. ("SBLI USA Services"), states that the entities will provide and make available to each other facilities, equipment and personnel services.

The investment advisory agreement appoints the Company to act as investment adviser, agent and attorney-in-fact for FINSERV and Holdings.

C. Management

The Company's by-laws provides that the board of directors shall be comprised of not less than 13 and not more than 30 directors. Directors are elected for a period of one year at the annual organization meeting held in June of each year. As of December 31, 2000, the board of directors consisted of 16 members. Meetings of the board are held quarterly.

The 16 board members and their principal business affiliation as of December 31, 2000 were as follows:

Name and Residence	Principal Business Affiliation	Year First Elected
Deborah Aguiar-Velez* Kendall Park, NJ	President and Chief Executive Officer Sistemas Corporation	1999
Samuel M. Bemiss* Richmond, VA	Managing Director Ewing, Monroe, Bemiss & Company	1999
Dudley P. Cooke* Ardmore, PA	Chief Executive Officer Liberty Business Strategies Ltd.	1999
Harry P. Doherty Staten Island, NY	Chairman and Chief Executive Officer Staten Island Savings Bank	1993
David L. Hinds Riverdale, NY	Member of the Board Carver Federal Savings Bank	1999

Name and Residence	Principal Business Affiliation	Year First Elected
Daniel J. Hogarty, Jr. Troy, NY	President and Chief Executive Officer Troy Savings Bank	1997
David Jefferson, Sr.* Randolph, NJ	Executive Vice President AT&T Broadband Affiliates & Commercial Sales	1999
Joseph L. Mancino Garden City, NY	President and Chief Executive Officer Roslyn Savings Bank	1991
Dennis M. W. McIntosh New York, NY	Executive Vice President and Chief Financial Officer SBLI USA Mutual Life Insurance Company	1999
Clifford M. Miller Hurley, NY	President and Chief Executive Officer Ulster Savings Bank	1993
Evelyn F. Murphy* Brookline, MA	Visiting Scholar Brandeis University	1999
Vikki Lynn Pryor Stamford, CT	President and Chief Executive Officer SBLI USA Mutual Life Insurance Company	1999
Albert J. Regen Staten Island, NY	President Northfield Savings Bank	1996
George T. Rogers* Chicago, IL	Adjunct Professor of History School of Art Institute of Chicago	1999
Wesley D. Stisser, Jr. Cortland, NY	President and Chief Executive Officer Cortland Savings Bank	1995
Lawrence J. Toal New York, NY	President and Chief Executive Officer The Dime Savings Bank of New York, FSB	1993

* Not affiliated with the Company or any other company in the holding company system

The examiner's review of the minutes of the meetings of the board of directors and its committees indicated that meetings were generally well attended, although director David L. Hinds did not attend a majority of meetings in calendar year 2000.

The examiner recommends that all members of the board of directors attend a majority of meetings within a calendar year.

The following is a listing of the principal officers of the Company as of December 31, 2000:

Name	Title
Vikki Lynn Pryor	President and Chief Executive Officer
Theodore P. Manno	Executive Vice President, General Counsel and Secretary
Mohammed Nasir Ali	Executive Vice President, Marketing and Sales
Dennis M. W. McIntosh	Executive Vice President, Chief Financial Officer
Armen G. Bodossian	Vice President – Controller
Robert F. Brawders	Senior Vice President – Director of Sales
Ann Won Sun Joo Kim	Vice President – Strategic Planning
Debra E. Klugman *	Vice President – Deputy General Counsel
John F. Vernaleken	Vice President – Technology
Michael Lane	Vice President – Chief of Staff
Ralph Meola	Senior Vice President and Chief Actuary
Cynthia Steer	Senior Vice President and Chief Investment Officer

* Designated consumer services officer per Section 216.4(c) of Department Regulation No. 64

In May 2001, Robert M. Damante became Vice President of Finance, and in July 2001, David J. Walsh became Executive Vice President, General Counsel and Secretary, replacing Theodore P. Manno.

D. Territory and Plan of Operation

The Company is authorized to write life insurance, annuities and accident and health insurance as defined in paragraphs 1, 2 and 3 of Section 1113(a) of the New York Insurance Law.

The Company is licensed to transact business in six states; namely New York, Pennsylvania, Illinois, Michigan, New Jersey and South Dakota. It has license applications pending in Florida, Ohio, Vermont and Puerto Rico. In 2000, 99.15% of all life premiums were received from New York. Policies are written on a participating basis.

The Company writes whole life, term life, group life to financial institutions (“FIGLI”), health and accidental death and dismemberment (“AD&D”) insurance.

Prior to becoming a mutual company, products were marketed and sold through the System. The System was composed of: 1) savings banks that acted as issuing banks; 2) savings banks that acted as agency banks; and 3) the Fund. An issuing bank would establish a life insurance department to issue and service insurance policies. An agency bank could accept applications, collect premiums and service policies for the issuing bank of its choice. The Fund would prepare and furnish standard policy forms to be used as the uniform and exclusive forms of all LIDs, determine rates, provide actuarial and underwriting services and conduct statewide advertising campaigns on behalf of all of the banks in the System.

Currently, the Company continues to sell policies through agents at the banks, but now it also sells products through licensed agents unaffiliated with the banks.

E. Reinsurance

As of December 31, 2000, the Company had reinsurance treaties in effect with three companies, all of which were authorized or accredited. Reinsurance of the Company's life, waiver of premium, simple issue term, group life, and group AD&D insurance is ceded on a coinsurance and/or yearly renewable term basis. Reinsurance is provided on an automatic and/or facultative basis.

The maximum retention limit for individual life contracts is $250,000. The total face amount of life insurance ceded as of December 31, 2000, was $1,537,376,000, which represents approximately 8.4% of the total face amount of life insurance in force.

4. SIGNIFICANT OPERATING RESULTS

Indicated below is significant information concerning the operations of the Company during the period under examination as extracted from its filed annual statements. The amounts reported for the years 1995 through 1999 are the combined amounts of the Fund and the LIDs. The amounts for the year 2000 were taken from the Company's filed annual statement. Failure of items to add to the totals shown in any table in this report is due to rounding.

The following table indicates the Company's financial growth during the period under review:

	December 31, 1995	December 31, 2000	Increase (Decrease)
Admitted assets	$1,131,248,228	$1,381,778,899	$250,530,671
Liabilities	$1,020,350,520	$1,261,130,695	$240,780,175
Group contingency reserve	9,808,963	13,547,600	3,738,637
Gross paid in and contributed surplus	50,000	0	(50,000)
Unassigned funds (surplus)	101,038,745	107,100,604	6,061,859
Total liabilities and surplus	$1,131,248,228	$1,381,778,899	$250,530,671

The Company's invested assets as of December 31, 2000, were mainly comprised of bonds (59.8%), cash and short term investments (19.7%), policy loans (10.1%) and mortgage loans (7.8%).

The Company's mortgage loans on real estate comprised 29.1% of the LIDs' invested assets at year-end 1996. This was steadily reduced during the period under examination. At year-end 2000, mortgage loans comprised 7.8% of the Company's invested assets. Cash and short-term investments comprised 19.7% of the Company's invested assets at year-end 2000, compared to 4.7% of the LIDs' invested assets at year-end 1996. This is due in part to the restructuring of the portfolio as described below.

The Company began 2000 with a high concentration of public mortgage-backed securities in its bond portfolio (70% of the bond portfolio). These investments yielded a low portfolio return and were of relatively short duration (2 - 4 years). As part of a restructuring plan, the Company began a program to reduce its exposure to this type of investment (reduced to 24% at the end of 2000). The restructuring of the Company's investment portfolio in 2000 resulted in the Company incurring a $20.7 million realized loss (before Interest Maintenance

Reserve adjustment) but it also diversified the Company's investments and increased its projected yield.

The majority (95.15%) of the Company's bond portfolio as of December 31, 2000 was comprised of investment grade obligations.

The following is the net gain (loss) from operations by line of business after federal income taxes but before realized capital gains (losses). The amounts reported for the years 1996 through 1999 are the combined amounts of the Fund and the LIDs. The amounts for the year 2000 were taken from the Company's filed annual statement:

	1996	1997	1998	1999	2000
Ordinary:					
Life insurance	$2,479,485	$ 5,267,710	$ 7,509,413	$ 6,110,175	$ (831,085)
Individual Annuities	3,292	(6,655)	19,995	(13,741)	(47,595)
Supplementary Contracts	15,547	(3,427)	4,387	(8,751)	63,851
Total ordinary	$2,498,324	$ 5,257,628	$ 7,533,795	$ 6,087,683	$ (814,829)
Credit life	$ (100,604)	$ (99,498)	$ (161,987)	$ 125,685	$ 17,741
Group:					
Life	$2,674,587	$ 5,893,327	$ 6,646,807	$(5,000,811)	$ 4,408,082
Total group	$2,674,587	$ 5,893,327	$ 6,646,807	$(5,000,811)	$ 4,408,082
Accident and health:					
Group	$ 0	$ 0	$ 0	$ 0	$ 1,939
Other	0	0	0	0	16,732
Total accident and health	$ 0	$ 0	$ 0	$ 0	$ 18,671
Other	$ 0	$ 0	$ 0	$(10,336,902)	$ 0
Total	$5,072,307	$11,051,457	$14,018,615	$ (9,124,345)	$ 3,629,665

The Company sustained a statutory operating loss in 1999. This loss was attributable to the financial adjustments related to the consolidation of member banks and the Fund, an increase in reserves necessitated by a reserve audit and cash flow testing, leasehold improvements and charges associated with a remediation program. Also contributing to the reduction in 1999 earnings were lower net premiums and a reduced level of net investment income.

Section 91.4(c) of Department Regulation No. 33 states in part:

> "(2) Net investment income . . . shall be distributed to major annual statement lines of business either:
> (i) in proportion to the total mean policy reserves and liabilities of each of such major annual statement lines of business or
> (ii) in proportion to the total mean funds of each of such major annual statement lines of business . . . "

The Company uses the portfolio average method to allocate net investment income by line of business.

The Company violated Section 91.4(c)(2) of Department Regulation No. 33 by using a method not described in the Regulation to distribute its net investment income to major annual statement lines of business.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, surplus and other funds as of December 31, 2000, as contained in the Company's 2000 filed annual statement, a condensed summary of operations and a reconciliation of the surplus account for each of the years under review. The amounts reported in the condensed summary of operations and the reconciliation of surplus for the years 1996 through 1999 are the combined amounts from the Fund and the LIDs. The amounts for the year 2000 were taken from the Company's filed annual statement. The examiner's review of a sample of transactions did not reveal any differences which materially affected the Company's financial condition as presented in its financial statements contained in the December 31, 2000 filed annual statement.

A. ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS AS OF DECEMBER 31, 2000

Admitted Assets

Bonds	$ 805,831,606
Stocks:	
Preferred stocks	6,543,695
Common stocks	16,462,960
Mortgage loans	
First liens	105,294,486
Policy loans	136,232,033
Cash and short term investments	264,720,217
Other invested assets	152,798
Receivable for securities	11,725,469
Reinsurance ceded	
Amounts recoverable from reinsurers	180,000
Electronic data processing equipment	1,152,825
Federal income tax recoverable	2,016,677
Life insurance premiums and annuity considerations	
deferred and uncollected on in force business	17,887,419
Investment income due and accrued	12,727,286
Net adjustment in assets and liabilities due to foreign exchange rates	597
Recoverable from insurer	376,343
SERP/COLI	367,695
Miscellaneous assets	106,791
Total admitted assets	$1,381,778,899

Liabilities, Surplus and Other Funds

Aggregate reserve for life policies and contracts	$ 991,097,242
Aggregate reserve for accident and health policies	42,068
Supplementary contracts without life contingencies	1,178,621
Policy and contract claims	
Life	14,091,002
Policyholders' dividend and coupon accumulations	120,207,113
Policyholders' dividends and coupons due and unpaid	128,072
Provision for policyholders' dividends and coupons payable in following calendar year – estimated amounts:	
Dividends apportioned for payment	15,859,797
Dividends not yet apportioned	22,203,716
Premiums and annuity considerations received in advance	2,025,681
Policy and contract liabilities	
Other amounts payable on reinsurance assumed	579,590
Commissions to agents due or accrued	203,257
General expenses due or accrued	9,826,282
Taxes, licenses and fees due or accrued	169,241
Unearned investment income	3,608,654
Remittances and items not allocated	2,736,638
Miscellaneous liabilities:	
Asset valuation reserve	8,551,782
Payable for securities	66,496,742
Guaranteed interest on supplemental contracts without life contingencies	15,146
Interest accrued on death claims, SGLI conversion costs	581,920
Other liabilities	628,131
General contingency for legal matters	900,000
Total liabilities	$1,261,130,695
Group contingency reserve	$ 13,547,600
Unassigned funds (surplus)	107,100,604
Total surplus and other funds	$ 120,648,204
Total liabilities, surplus and other funds	$1,381,778,899

B. CONDENSED SUMMARY OF OPERATIONS

	1996	1997	1998	1999	2000
Premiums and considerations	$142,515,050	$139,528,994	$136,355,368	$133,846,915	$128,550,307
Investment income	75,474,814	78,750,449	81,574,020	81,117,031	84,643,821
Commissions and reserve adjustments on reinsurance ceded	0	0	0	0	413,771
Miscellaneous income	57,382	112,179	45,330	15,437,900	413,909
Total income	$218,047,246	$218,391,622	$217,974,718	$230,401,846	$214,021,808
Benefit payments	$ 90,826,677	$ 89,031,590	$ 91,410,872	$ 91,628,553	$ 94,196,018
Increase in reserves	39,093,796	33,921,600	32,744,642	28,585,855	29,974,891
Commissions	0	0	0	0	630,160
General expenses and taxes	43,323,597	43,278,033	41,489,678	77,687,186	48,593,869
Increase in loading and cost of collection	75,498	1,293,915	(93,245)	396,546	(89,431)
Miscellaneous deductions	(562,448)	(71,851)	8,382	4,236,207	876,351
Total deductions	$172,757,120	$167,453,287	$165,560,329	$202,534,347	$174,181,858
Net gain	$ 45,290,126	$ 50,938,335	$ 52,414,389	$ 27,867,499	$ 39,839,950
Dividends	36,703,278	36,678,884	36,070,540	36,655,579	35,945,982
Federal income taxes	3,514,542	3,207,993	2,325,233	153,800	264,306
Net gain (loss) from operations before net realized capital gains	$ 5,072,306	$11,051,458	$ 14,018,616	$ (8,941,880)	$ 3,629,662
Net realized capital gains (losses)	216,611	26,315	632,546	(182,465)	(566,663)
Net income	$ 5,288,917	$11,077,773	$14,651,162	$ (9,124,345)	$ 3,062,999

The majority of the miscellaneous income for 1999 (99%) is a one time reimbursement of expenses from member banks due to the conversion of the LIDs to a mutual company.

C. SURPLUS ACCOUNT

	1996	1997	1998	1999	2000
Surplus, December 31, prior year	$110,897,708	$115,643,650	$131,190,734	$141,648,399	$136,801,064
Net income	$ 5,288,917	$ 11,077,773	$ 14,651,162	$ (9,124,345)	$ 3,062,999
Change in net unrealized capital gains (losses)	505,741	982,756	916,929	937,280	(3,668,804)
Change in non-admitted assets and related items	0	0	0	(5,018,507)	(24,462,733)
Change in reserve valuation basis	0	0	(6,600,000)	(6,573,582)	10,000,000
Change in asset valuation reserve	(998,691)	3,486,561	(97,676)	349,492	(3,580,388)
Transfer of Guaranty Fund from Savings Bank Life Insurance Fund	0	0	0	17,379,346	0
Surplus changes: Paid in	(50,000)	0	0	0	0
Correction of 1997 Bank 51 surplus discrepancy	0	0	102	0	0
Rounding error	(25)	(6)	0	0	0
Decrease due to adjustment to federal income taxes related to prior year	0	0	1,587,148	(1,244,000)	0
Decrease due to prepaid pension expense	0	0	0	(1,294,018)	406,852
Decrease due to FAS 106	0	0	0	(259,000)	381,108
Prior period adjustment – leasehold improvements and furniture and fixtures	0	0	0	0	1,708,108
Net change in surplus	$ 4,745,942	$ 15,547,084	$ 10,457,665	$ (4,847,334)	$ (16,152,858)
Surplus, December 31, current year	$115,643,650	$131,190,734	$141,648,399	$136,801,064	$120,648,204

6. MARKET CONDUCT ACTIVITIES

The examiner reviewed various elements of the Company's market conduct activities affecting policyholders, claimants, and beneficiaries to determine compliance with applicable statutes and regulations and the operating rules of the Company.

A. Advertising and Sales Activities

The examiner reviewed a sample of the Company's advertising files and the sales activities of the agency force including trade practices, solicitation and the replacement of insurance policies.

Based upon the sample reviewed, no significant findings were noted.

B. Underwriting and Policy Forms

The examiner reviewed a sample of new underwriting files, both issued and declined, and the applicable policy forms.

Based upon the sample reviewed, no significant findings were noted.

C. Treatment of Policyholders

The examiner reviewed a sample of various types of claims, surrenders, changes and lapses. The examiner also reviewed the various controls involved, checked the accuracy of the computations and traced the accounting data to the books of account.

Based upon the sample reviewed, no significant findings were noted.

D. Response to Supplement No. 1 to Department Circular Letter No. 19 (2000)

Supplement No. 1 to Circular Letter No. 19 (2000) (the "Supplement"), issued by the Department on June 22, 2000, notified all licensed life insurers that the Department was investigating allegations of race-based underwriting of life insurance by its licensees. The Supplement directed, pursuant to Section 308 of the New York Insurance Law, each domestic and foreign life insurer to review its past and present underwriting practices regarding race-based underwriting and to report its findings to the Department, no later than August 15, 2000.

Pursuant to Section 308 of the New York Insurance Law, the Company submitted in a timely manner a report of the findings of its review of past and present underwriting practices regarding race-based underwriting made in accordance with the requirements of the Supplement.

In response to the Supplement, the Company indicated that the underwriting, marketing, actuarial and executive departments reviewed materials including, but not limited to, rate charts, mortality tables, labor negotiation documents, agent and broker contracts, compensation schedules, underwriting and agent manuals, applications, policy form filings, board of directors (and committee) minutes, and internal memoranda. The Company accomplished this by reviewing the underwriting and marketing files on site, files imaged into their optical data retrieval system, and files recalled from their off-site storage facility.

Our review of the Company's response to the Supplement and other factors indicated that the Company's review of its past and present underwriting practices complied with the requirements of the Supplement.

7. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the violations, recommendations and comments contained in the prior report on examination and the subsequent actions taken by the Fund in response to each citation:

Item	Description
A	The Fund violated Section 219.4(a)(1) and (2) and (j) of Department Regulation No. 34-A by using advertisements to induce the insurance buying public to purchase ordinary whole life policies with the belief that at a specified time in the future the premiums for these policies would no longer be payable or would vanish. The Fund agreed to a remediation plan with respect to policies sold on the "vanishing premium" method of premium payments. Pursuant to that plan \$4,124,069 has been paid in premium refunds and interest amounts for rescinded policies, and \$2,284,614 has been established as an additional liability for enhanced benefits or refunds under other policies subject to the remediation process as of December 31, 2000.
B	The Fund violated Section 2611 of the New York Insurance Law by not ensuring that a written consent form was obtained from every applicant for life insurance who was required to take an HIV related test, prior to testing. The examiner recommended that the Fund monitor its new system (initiated in February 1997) to ensure that a written informed consent form is signed by and obtained from every individual proposed for life insurance who is required to take an HIV related test prior to testing. This was a repeat violation. A review of a sample of new underwriting files revealed that the Company obtains written consent for those required to take an HIV related test prior to testing.
C	The Fund's dividend formula failed to recognize the individual characteristics of each bank as to interest and expenses, which would have helped to reduce the surplus of each bank below the 10% of policy reserves and liabilities limit prescribed by Section 275 of the New York Banking Law. This was a repeat comment. The Fund stated and the Department agreed that any action would be academic due to the Plan of Conversion to merge the 16 Life Insurance Departments into a single Company in the year 2000.

Item	Description
D	The examiner recommended that the Fund monitor the new 1992 benefits to premiums ratio regarding Department Regulation No. 27A to determine if a dividend should be paid on the Fund's group mortgage insurance business. The Fund actuaries devised a new dividend scale on Group Mortgage Protection Life Insurance coverage to address this recommendation.
E	The examiner recommended that the Fund accurately determine the expenses for the Financial Institutions Group Life Insurance line of business and once established, determine if a dividend should be paid in regards to Department Regulation No. 123. The actuaries reviewed the expenses for FIGLI to determine dividends payable to address this recommendation.
F	The examiner recommended that the Fund follow the method of allocating net investment income to lines of business as prescribed by Department Regulation No. 33 by including all pertinent reserves and liabilities in its calculations. A review of the allocation of net investment income revealed that the Company does not use a method prescribed by Department Regulation No. 33. (See item 4 of this report)
G	The examiner recommended that the Fund assist each bank, as necessary, to arrive at an allocation ratio that is reasonable for each bank from year to year. This was a repeat recommendation. The Fund agreed to review each bank's line-by-line allocation, and to modify such allocations if the facts in the bank's portfolio supported such a change.
H	The examiner recommended that the Fund employ time studies and other more appropriate measures to more accurately reflect the allocation of Fund expenses by line of business. This was a repeat recommendation. A review of the allocation of expenses revealed that the Company distributes its expenses by line of business in accordance with existing Department Regulations and rules.
I	The examiner recommended that the Fund allocate cooperative advertising expenses and the advertising expenses of each of the individual banks in the System to their proper line of business. This was a repeat recommendation. The Fund agreed to a modification of the allocation of percentages for cooperative advertising, and to monitor these figures to insure that they correctly reflect expenses by line of business.

8. SUMMARY AND CONCLUSIONS

Following are the violation and recommendation contained in this report:

Item	Description	Page No(s).
A	The examiner recommends that all members of the board of directors attend a majority of meetings within a calendar year.	7
B	The Company violated Section 91.4(c)(2) of Department Regulation No. 33 by using a method not described in the Regulation to distribute its net investment income to major annual statement lines of business.	12

Respectfully submitted,

/s/
Edward J.Tasker
Associate Examiner

STATE OF NEW YORK)
)SS:
COUNTY OF NEW YORK)

Edward J. Tasker, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

/s/
Edward J.Tasker

Subscribed and sworn to before me

this_________ day of __________________2001 .

APPOINTMENT NO. 21675

STATE OF NEW YORK

INSURANCE DEPARTMENT

I, NEIL D. LEVIN , Superintendent of Insurance of the State of New York,

pursuant to the provisions of the Insurance Law, do hereby appoint:

EDWARD TASKER

as a proper person to examine into the affairs of the

SBLI USA MUTUAL LIFE INSURANCE COMPANY, INC

and to make a report to me in writing of the condition of the said

COMPANY

with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by name
and affixed the official Seal of the Department
at the City of New York

this 10th day of January ,2001

NEIL D. LEVIN
Superintendent of Insurance

*by **GREGORY V. SERIO***
First Deputy Superintendent