STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

SBLI USA MUTUAL LIFE INSURANCE COMPANY

CONDITION:	DECEMBER 31, 2005
DATE OF REPORT:	AUGUST 11, 2010

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AS OF

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EXAMINER:	DAVID HEE

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

David Paterson
Governor

James J. Wrynn
Superintendent

August 11, 2010

Honorable James J. Wrynn
Superintendent of Insurance
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 22480, dated March 16, 2006 and annexed hereto, an examination has been made into the condition and affairs of SBLI USA Mutual Life Insurance Company, 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 material findings, comments, violations and recommendations contained in this report are summarized below.

- The Company has 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 its concern 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 Department expects the Company to be particularly conscientious in distributing such divisible surplus pursuant to Section 4231(a)(1) of the New York Insurance Law, in light of the many policyholders whose dividends were reduced to zero over the past several years. (See item 7 of this report)
- With respect to reserves, the Department raised various concerns regarding the Company's asset adequacy analysis. At the direction of the Department, the Company incorporated a greater level of conservatism in the asset adequacy analyses. Accordingly, certificates of reserve valuation were issued for reserves as of December 31, 2005 through December 31, 2009. (See item 5D of this report)
- During the period from January 1, 1991 through December 31, 1995, the Company used certain advertisements concerning so-called "vanishing premium" whole life policies which violated the provisions of Department Regulation No. 34-A. The Company entered into a remediation agreement with the Department whereby it would seek to provide remediation to certain policyholders. The examiner reviewed a sample of complaints during the current examination period regarding the handling of the vanishing premium remediation and identified a number of issues. The examiner recommends that the Company re-examine the complaints received regarding the remediation process and correct any failures to offer the appropriate remediation where such a deficiency is identified. (See item 6A of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2000. This examination covers the period from January 1, 2001 through December 31, 2005. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2005 but prior to the date of this report (i.e., the completion date of the examination).

This statutory examination was a "risk based" examination focusing on the assets and liabilities as of December 31, 2005 with higher risk of a material change to surplus in the event of material misstatement as well as the Company's market conduct activities during the examination period. The examiner 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 the violation and recommendation contained in the prior report on examination. The results of the examiner's review are contained in item 8 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 ("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 Insurance 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 of the Fund into a single mutual life insurance company. A plan of conversion and transfer was submitted to the Issuing Banks and to the Superintendent of Insurance and the Superintendent of Banks of the State of New York.

On May 6, 1999, the Issuing Banks voted unanimously to approve the plan of conversion and transfer. The New York State Banking Department approved the plan on June 11, 1999, and the New York State 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 insurance, 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 all the LIDs and the Fund. The Company adopted its present name in April 2000.

B. Subsidiaries

The Company is the parent company of SBLI USA Holdings, Inc., which in turn wholly owns the following subsidiaries: SBLI USA Diversified Services Company, Inc., a company used for the marketing of non-insurance products; SBLI USA Insurance Agency, Inc., an agency supporting SBLI USA's Puerto Rico branch operations; SBLI USA Brokerage Services, Inc., an inactive shell; and S. USA Life Insurance Company ("S. USA"), a stock life insurance company purchased in 2000 to support the Company's growth initiatives outside the State of New York.

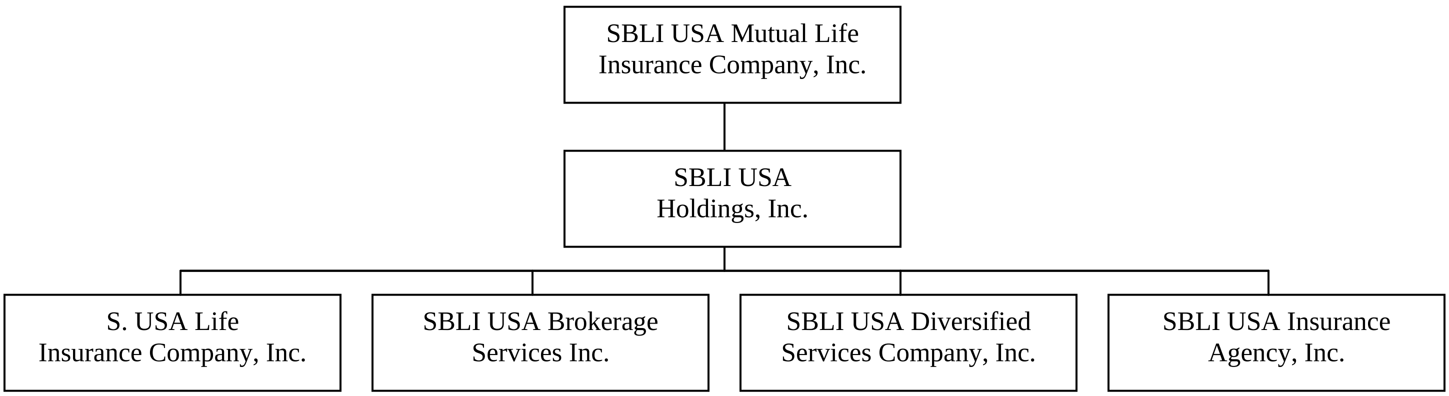
The Company had two service agreements in effect with affiliates during the examination period.

Type of Agreement and Dept. File No.	**Effective Date**	**Provider(s) of Service(s)**	**Recipient(s) of Service(s)**	**Specific Service(s) Covered**	**Income* For Each Year of the Examination Period**	
Service and Expense Allocation Agreement, File #29579	12/18/2000	SBLI USA Mutual Life Insurance Company, Inc.	SBLI USA Holdings, S. USA, SBLI USA Diversified Services, SBLI USA Brokerage Services, SBLI USA Insurance Agency	Office space, facilities, equipment, underwriting, claims, administration, etc.	2005	$2,542,000
					2004	$1,275,000
					2003	$1,066,000
Investment Advisory Agreement, File #29579	12/18/2000	SBLI USA Mutual Life Insurance Company, Inc.	SBLI USA Holdings, S. USA, SBLI USA Insurance Agency	Investment Advisory	2005	$22,000
					2004	Included in service & expense
					2003	Included in service & expense

* Amount of Income Earned by the Company

The Company is party to a tax allocation agreement with its subsidiaries.

An organization chart reflecting the relationship between the Company and certain significant subsidiaries as of December 31, 2005 follows:



C. Management

The Company's by-laws provide 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 meeting held in June of each year. As of December 31, 2005, the board of directors consisted of 14 members. Meetings of the board are held quarterly.

The 14 board members and their principal business affiliation, as of December 31, 2005, were as follows:

Name and Residence	Principal Business Affiliation	Year First Elected
Deborah Aguiar-Velez* Kendall Park, NY	President and Chief Executive Officer Sistemas Corporation	1999
Samuel M. Bemiss III* Richmond, Virginia	Managing Director Ewing Bemiss & Co.	1999
Harry P. Doherty* Staten Island, NY	Retired (from Staten Island Savings Bank)	1994
David L. Hinds* Riverdale, NY	Retired (from Carver Federal Savings Bank)	1999
David Jefferson, Sr.* Warren, NJ	President and Chief Executive Officer JNET Communications, LLC	1999
Joseph L. Mancino* Garden City, NY	Retired (from Roslyn Savings Bank) (became Chairman of the Board in 2006)	1999
Dennis M. W. McIntosh New York, NY	Executive Vice President, Chief Financial Officer, and Treasurer SBLI Mutual Life Insurance Company, Inc.	1999
Clifford M. Miller* Kingston, NY	Chairman of the Board SBLI Mutual Life Insurance Company, Inc.	1999
Evelyn F. Murphy* Brookline, MA	President The Wage Project	1999
Vikki L. Pryor New York, NY	President and Chief Executive Officer SBLI Mutual Life Insurance Company, Inc.	1999

Name and Residence	Principal Business Affiliation	Year First Elected
Albert J. Regan* Staten Island, NY	Retired (from Northfield Savings Bank)	1997
George T. Rogers* Chicago, IL	Retired	1999
Ellen E. Thrower* New York, NY	Executive Director St. John's University – School of Risk Management	2004
Carol L. Coffman* Mill Valley, CA	Principal FFN Advisors	2005

* 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 well attended and that each director attended a majority of meetings.

The following is a listing of the principal officers of the Company as of December 31, 2005:

Name	Title
Vikki L. Pryor	President and Chief Executive Officer
Dennis M. W. McIntosh	Executive Vice President, Chief Financial Officer and Treasurer
David J. Walsh	Executive Vice President, Administration, General Counsel, and Secretary
Mohammed N. Ali	Executive Vice President, Marketing and Sales
Cynthia G. Lowden	Executive Vice President, Human Resources and Board Relations
Ralph Meola	Senior Vice President and Chief Actuary
Michael Akker	Senior Vice President, Strategic Planning and Investments
Eric J. Bulis	Senior Vice President, Information Technology
Robert M. Damante	Senior Vice President, Finance
Debra E. Klugman*	Senior Vice President, Deputy General Counsel
Michael Lane	Senior Vice President, Real Estate, Customer Centers, and Assistant Secretary

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

Section 1411(a) of the New York Insurance Law states, in part:

> "No domestic insurer shall make any loan or investment . . . unless authorized or approved by its board of directors or a committee thereof responsible for supervising or making such investment or loan . . . ."

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.

D. <u>Territory and Plan of Operation</u>

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 12 states, namely Illinois, Iowa, Michigan, Mississippi, New Hampshire, New Jersey, New York, North Carolina, Ohio, Pennsylvania, South Dakota, and Vermont, and in Puerto Rico. In 2005, 91.7% of life premiums, 100.0% of annuity considerations, and 91.8% of accident and health premiums were received from New York. The Company wrote its policies on a participating basis.

During the period under examination, the Company marketed primarily in New York to moderate income households, women, mature markets, ethnic groups, and the multi-lingual markets with annual income of $75,000 and less with emphasis on the distribution of needs-based, life event-driven products and services. The Company offered regular forms of individual term life, whole life, senior life, disability income, accidental death and dismemberment and individual single premium deferred annuities. The Company also offered on a group basis, senior life, a variety of term life products, group mortgage, and accidental death and dismemberment policies. The majority of products were offered in both English and Spanish. The Company distributed its products through its traditional agency bank platform as well as direct-to-consumer marketing utilizing bank agency and specialized partner relationships for endorsed mailings, telesales, telemarketing, employee groups, and ecommerce. Additionally, 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.

Since its conversion to a mutual life insurance company structure, the Company incorporated numerous internal and external changes to establish its growth strategies, technology platform, and compatible underwriting standards. The Company revised its organizational infrastructure with a focus on improving its competitiveness through multiple distribution systems, enhanced product portfolio and target markets, and geographic expansion beyond New York.

To support the Company's growth strategies outside New York, the Company purchased a stock life insurance company shell in 2000. The Company named the shell S. USA and prepared the company to be its geographic expansion vehicle. S. USA developed, filed and obtained approximately 650 product approvals in both English and Spanish. The Company, together with S. USA, has a nationwide presence covering 49 states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands.

In recent years, the Company's net premium written increased primarily due to the introduction of a single premium deferred annuity product that offset declines in ordinary life and group life net premium resulting primarily from higher surrenders. The Company sold fixed annuities as an accommodation product focused primarily on the bank channel. Sales of annuities are highly sensitive to changes in interest rates. The single premium deferred annuity product was introduced in 2002 and accounted for nearly all of the Company's growth during the exam period, accounting for a surge in premiums in 2003 and 2004. However, sales of this product dropped from $30.4 million in 2004 to $296 thousand in 2005. The direct premium in 2004 was $45.2 million before reinsurance and $34.9 million after reinsurance (the bulk of which was sold on a 3% guarantee product). In 2005, SBLI issued a product with a guaranteed rate of 1.5%, reflective of the low interest rate environment that year. The product however was not well received by the marketplace. As a result, direct premium (before reinsurance) in 2005 was only $3.1 million. In 2006, the Company reverted back to offering a 3% guarantee product. The resulting direct premium that year increased to $42.5 million before reinsurance and $9.7 million after reinsurance.

The Company's primary distribution channels during the period under examination were: the agency/bank platform, customer centers and telesales, direct response, employee groups, and e-commerce. The agency/bank platform had been the traditional channel utilized by the Company arising from its former status as the SBLI Fund. The Company also offered products through its own website.

The Company's agency operations were conducted on a general agency, branch office, and direct response basis.

Effective July 1, 2010, the Company has ceased selling new business, under agreement with the Department. (See item 7 of this report)

E. Reinsurance

As of December 31, 2005, the Company had reinsurance treaties in effect with nine companies, of which five were authorized or accredited. The Company's life, accident and health business are reinsured on a coinsurance and yearly renewable term basis. Reinsurance is provided on an automatic and 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, 2005 was $3,152,660,870, which represents 18% of the total face amount of life insurance in force. Reserve credit taken for reinsurance ceded to unauthorized companies, totaling $4,906,909, was supported by letters of credit and funds withheld.

The total face amount of life insurance assumed as of December 31, 2005 was $2.82 billion, all from one company.

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. 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 (decline) during the period under review:

	December 31, 2000	December 31, 2005	Increase (Decrease)
Admitted assets	$1,381,778,897	$1,515,654,008	$133,875,111
Liabilities	$1,261,130,695	$1,396,428,670	$135,297,975
Group contingency reserve	13,547,600	12,803,630	(743,970)
Unassigned funds (surplus)	107,100,604	106,421,708	(678,896)
Total surplus	$ 120,648,204	$ 119,225,338	$ (1,422,866)
Total liabilities and surplus	$1,381,778,899	$1,515,654,008	$133,875,109

The Company's invested assets as of December 31, 2005, exclusive of separate accounts, were mainly comprised of bonds (81.3%), and policy loans (8.2%).

The majority (92.3%) of the Company's bond portfolio, as of December 31, 2005, was comprised of investment grade obligations. During 2001, the Company's bond portfolio increased $276.6 million, due primarily to the reinvestment of proceeds from the sale of the mortgage loan portfolio and a shift from short-term investments to bonds. The mortgage loan portfolio decreased $105 million and short-term investments decreased $207.6 million concurrently.

The following is the net gain (loss) from operations by line of business after federal income taxes but before realized capital gains (losses) reported for each of the years under examination in the Company's filed annual statements:

	2001	2002	2003	2004	2005
Ordinary					
Life insurance	$2,220,960	$(1,648,722)	$ 967,961	$ 1,216,462	$2,011,825
Individual annuities	1,276	(336,880)	(620,409)	3,441,088	1,386,827
Supplementary contracts	47,489	72,040	719,174	13,616	2,944
Total ordinary	$2,269,725	$(1,913,562)	$1,066,726	$ 4,671,166	$3,401,596
Credit life	$ (15,353)	$ (27,567)	$ 9,971	$ 2,251	$ 2,895
Group:					
Life	$1,864,888	$ 3,106,973	$ (603,376)	$(2,596,133)	$4,189,778
Accident and health:					
Group	$ 4,071	$ 18,038	$ 3,159	$ 13,373	$ (125,366)
Other	258,123	(681,792)	(85,403)	(218,347)	(24,951)
Total accident and health	$ 262,194	$ (663,754)	$ (82,244)	$ (204,974)	$ (150,317)
Total	$4,381,454	$ 502,090	$ 391,077	$ 1,872,310	$7,443,952

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2005, as contained in the Company's 2005 filed annual statement, a condensed summary of operations and a reconciliation of the capital and surplus account for each of the years under review.

A. ASSETS, LIABILITIES, AND SURPLUS AS OF DECEMBER 31, 2005

Admitted Assets

Bonds	$1,231,992,690
Stocks:	
Preferred stocks	550,500
Common stocks	52,102,816
Mortgage loans on real estate – first liens	20,698,616
Cash, cash equivalents and short term investments	34,689,276
Contract loans	124,435,879
Other invested assets	14,948,424
Receivable for securities	202,798
Investment income due and accrued	13,996,372
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	2,772,175
Deferred premiums, agents' balances and installments booked but deferred and not yet due	13,574,427
Reinsurance:	
Amounts recoverable from reinsurers	1,511,725
Funds held by or deposited with reinsured companies	499,689
Other amounts receivable under reinsurance contracts	885,280
Current federal and foreign income tax recoverable and interest thereon	82,575
Electronic data processing equipment and software	22,988
Receivables from parent, subsidiaries and affiliates	2,687,778
Total admitted assets	$1,515,654,008

Liabilities and Surplus

Aggregate reserve for life policies and contracts	$ 1,146,009,507
Aggregate reserve for accident and health contracts	499,045
Liability for deposit-type contracts	147,701,346
Contract claims:	
Life	13,799,962
Accident and health	525,600
Policyholders' dividends and coupons due and unpaid	159,053
Dividends apportioned for payment	10,150,447
Premiums and annuity considerations for life and accident and health contracts received in advance	2,027,542
Interest maintenance reserve	33,811,791
Commissions to agents due or accrued	1,140
General expenses due or accrued	20,762,522
Unearned investment income	3,174,062
Remittances and items not allocated	1,802,446
Miscellaneous liabilities:	
Asset valuation reserve	13,538,249
Reinsurance in unauthorized companies	351,365
Funds held under reinsurance treaties with unauthorized reinsurers	483,310
Payable to parent, subsidiaries and affiliates	52,802
Interest accrued on death claims, SGLI conversion costs	1,004,167
Deferred compensation	549,313
Other liabilities	25,000
Total liabilities	$ 1,396,428,670
Group contingency reserve	$ 12,803,630
Surplus	106,421,708
Total surplus	$ 119,225,338
Total liabilities and surplus	$ 1,515,654,007

B. CONDENSED SUMMARY OF OPERATIONS

	2001	2002	2003	2004	2005
Premiums and considerations	$ 121,154,400	$125,060,206	$139,889,358	$135,945,284	$ 97,208,583
Investment income	86,478,330	79,809,949	67,062,138	76,439,941	82,272,312
Commissions and reserve adjustments on reinsurance ceded	2,337,142	3,523,140	3,458,088	6,893,146	3,437,503
Miscellaneous income	126,052	4,651	2,575	180,043	762,077
Total income	$ 210,095,924	$208,397,946	$210,412,159	$219,458,414	$183,680,475
Benefit payments	$ 93,490,131	$ 93,209,882	$ 86,899,383	$104,003,709	$ 96,273,717
Increase in reserves	32,581,268	33,341,541	49,452,625	32,887,019	6,038,066
Commissions	1,375,601	2,052,356	3,224,139	4,432,231	2,254,662
General expenses and taxes	50,124,392	57,677,717	55,645,399	61,167,033	59,685,203
Increase in loading on deferred and uncollected premiums	128,672	50,965	72,528	146,146	41,649
Miscellaneous deductions	(909,081)	431,402	(348,168)	761,697	749,827
Total deductions	$ 176,790,983	$186,763,863	$194,945,906	$203,397,835	$165,043,124
Net gain	$ 33,304,941	$ 21,634,083	$ 15,466,253	$ 16,060,579	$ 18,637,351
Dividends	28,149,055	21,168,661	14,931,133	13,867,934	11,195,257
Federal and foreign income taxes incurred	774,425	(36,664)	144,044	320,335	(1,857)
Net gain from operations before net realized capital gains	$ 4,381,461	$ 502,086	$ 391,076	$ 1,872,310	$ 7,443,951
Net realized capital gains (losses)	(3,224,320)	(3,429,279)	2,196,902	(31,198)	771,783
Net income (loss)	$ 1,157,141	$ (2,927,193)	$ 2,587,978	$ 1,841,112	$ 8,215,734

During the examination period covered by this report, total premium income declined from $121,154,400 in 2001 to $97,208,583 in 2005. During that period, premiums from the ordinary life line of business declined from $85,173,955 in 2001 to $66,710,053 in 2005.

C. SURPLUS ACCOUNT

	2001	2002	2003	2004	2005
Capital and surplus, December 31, prior year	$120,648,206	$132,318,013	$123,075,831	$120,086,580	$119,806,575
Net income	$ 1,157,137	$ (2,927,193)	$ 2,587,978	$ 1,841,112	$ 8,215,734
Change in net unrealized capital gains (losses)	(5,302,856)	(6,437,592	5,677,121	(89,108)	(3,023,433)
Change in net unrealized foreign exchange capital gain (loss)	(1,192,240)	1,767,178	(315,584)	0	0
Change in net deferred income tax	0	0	30,395,033	(6,935,652)	(7,794,644)
Change in non-admitted assets and related items	$ 12,224,970	(3,490,522)	(30,611,938)	7,749,441	4,664,511
Change in liability for reinsurance in unauthorized companies	0	0	(389,836)	(246,418)	284,889
Change in asset valuation reserve	4,784,026	1,845,947	(9,929,993)	(905,166)	(781,282)
Miscellaneous adjustments to surplus	(1,230)	0	0	0	0
Miscellaneous adjustments to surplus -SERP	0	0	(402,032)	(625,484)	0
Miscellaneous adjustments to surplus - Correction of error in reserves	0	0	0	(1,068,730)	0
Miscellaneous charge - Senior Executive Retirement Plan	0	0	0	0	(1,057,015)
Prior year adjustment – change in reserves	0	0	0	0	(550,000)
Prior year adjustment – investment management fee	0	0	0	0	(540,000)
Net Change in capital and surplus for the year	$ 11,669,807	$ (9,242,182)	$ (2,989,251)	$ (280,005)	$ (581,240)
Capital and surplus, December 31, current year	$132,318,013	$123,075,831	$120,086,580	$119,806,575	$119,225,335

D. Reserves

The Department conducted a review of reserves as of December 31, 2005. Subsequent reviews were also conducted for reserves as of December 31, 2006 through December 31, 2009. During these reviews, the Department recommended more conservatism in assumptions and methodology used for the asset adequacy analyses pursuant to Department Regulation No. 126. In particular, concerns were raised with respect to the amount of expenses being excluded from the asset adequacy analyses and the extent to which excludable acquisition expenses were justified in light of the relatively small amount of new business being sold. The Company has agreed to cease the sales of new business effective July 1, 2010. (See item 7 of this report) The Company's cessation of new sales is expected to significantly reduce future expenses, enhance reserve adequacy, and materially improve the Company's future surplus position.

The Department also raised concerns with respect to projected investment cash flows and potential future losses arising from the Company's substantial mortgage-related portfolio. At the direction of the Department, the Company incorporated a greater level of conservatism in the asset adequacy analyses. Accordingly, certificates of reserve valuation were issued for reserves as of December 31, 2005 through December 31, 2009.

The examiner recommends that the Company compute reserves using the assumptions and methodology as per the Department's guidance.

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.

During the period from January 1, 1991 through December 31, 1995, the Company used certain advertisements concerning so-called "vanishing premium" whole life policies which violated the provisions of Department Regulation No. 34-A. The Company entered into a remediation agreement with the Department whereby it would seek to provide remediation to certain policyholders with respect to vanishing premium sales material and illustrations used by the Company and its agents. Additionally, in response to concerns raised during the prior examination, SBLI agreed to offer to all dissatisfied Troy Savings Bank policyholders an option for waiver of premium.

In its remediation process, the Company identified policies it determined to be eligible for vanishing premium remediation. In response to a pattern of complaints during the current examination period regarding the handling of the vanishing premium remediation, the examiner selected and reviewed a sample of policies where problems were alleged relating to the vanishing premium remediation. The examiner's review revealed that some complainants were immediately entitled to remediation based on having purchased a policy from Troy Savings Bank, but the Company failed to offer any remediation options to those policyholders. Other policies were identified where the Company did not follow the approved remediation procedures. A number of policies were not properly identified as eligible for vanishing premium remediation. Some policies did not have complete files containing copies of the remediation letters that should have been sent to the affect policyholder, and therefore, the examiner was prevented from being able to reconstruct the remediation process followed for the policy.

The examiner recommends that the Company re-examine the complaints received regarding the remediation process and correct any failures to offer the appropriate remediation where such a deficiency is identified.

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.

7. DIVIDENDS TO POLICYHOLDERS

TEN YEAR COMPARISON OF SELECTED FINANCIAL INFORMATION
(In thousands)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Dividends to policyholders	$36,071	$36,656	$35,946	$28,149	$21,169	$14,931	$13,868	$11,195	$ 9,470	$ 8,948
Net gain from operations before dividends to policyholders and federal income taxes	$52,414	$27,867	$39,840	$33,350	$21,634	$15,466	$16,061	$18,637	$20,586	$13,919
Net income (net gain from operations after dividends to policyholders plus net realized capital gains or (losses))	$14,651	$ (9,124)	$ 3,063	$ 1,157	$(2,927)	$ 2,588	$ 1,841	$ 8,216	$11,463	$ 4,542
One-time financial adjustments*		$10,337								
Net income plus policyholder dividends added back (Line 1 + Line 3 + Line 4)	$50,722	$37,869	$39,009	$29,306	$18,242	$17,519	$15,709	$19,411	$20,933	$13,490

* 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.

Section 4231(a)(1) of the New York Insurance Law states:

> "(a)(1) Except as herein otherwise provided, every domestic life insurance company shall ascertain and distribute annually, and not otherwise, the proportion of any surplus accruing upon every participating insurance policy and annuity or pure endowment contract entitled as hereinafter provided to share therein, issued on or after the first day of January, nineteen hundred seven."

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. The amounts paid each year are summarized in the following table:

Year	Dividends to Policyholders
1998	$36,071
1999	$36,656
2000	$35,946
2001	$28,149
2002	$21,169
2003	$14,931
2004	$13,868
2005	$11,195
2006	$ 9,470
2007	$ 8,948

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 $19.1 billion 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 dividends were reduced to zero over the past several years.

9. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the violation and recommendation contained in the prior report on examination and the subsequent actions taken by the Company in response to each citation:

Item	Description
A	The examiner recommends that all members of the board of directors attend a majority of meetings within a calendar year. A review of the minutes of the board of directors meetings revealed no recurrence of this deficiency.
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. A review of the Company's net investment income allocation method did not reveal a recurrence of this violation.

10. SUMMARY AND CONCLUSIONS

Following are the violation, recommendations, and comment contained in this report:

Item	Description	
A	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.	9
B	At the direction of the Department, the Company incorporated a greater level of conservatism in the asset adequacy analyses. Accordingly, certificates of reserve valuation were issued for reserves as of December 31, 2005 through December 31, 2009. The examiner recommends that the Company compute reserves using the assumptions and methodology as per the Department's guidance.	18
C	The examiner recommends that the Company re-examine complaints received regarding the remediation process and correct any failures to offer the appropriate remediation where such a deficiency is identified.	20
D	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 its concern 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.	23

Respectfully submitted,

_______/s/____________________
David Hee
Principal Insurance Examiner

STATE OF NEW YORK)

)SS:

COUNTY OF NEW YORK)

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

_______/s/______________________
David Hee

Subscribed and sworn to before me

this ____________ day of _____________

APPOINTMENT NO. 22480

STATE OF NEW YORK

INSURANCE DEPARTMENT

*I, **HOWARD MILLS**, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:*

DAVID HEE

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 16th day of March, 2006

HOWARD MILLS
Superintendent of Insurance