STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

ML LIFE INSURANCE COMPANY OF NEW YORK

AS OF

DECEMEBER 31, 2001

DATE OF REPORT: DECEMBER 6, 2002

EXAMINER: PHARES CATON

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

George E. Pataki
Governor

Gregory V. Serio
Superintendent

December 6, 2002

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

Sir:

In accordance with instructions contained in Appointment No. 21914, dated July 3, 2002 and annexed hereto, an examination has been made into the condition and affairs of ML Life Insurance Company of New York, hereinafter referred to as "the Company," at its home office located at 2 World Financial Center - 5th Floor, New York, New York 10080.

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 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, 2001 filed annual statement. (See item 5 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)

A review of the Company's reserves revealed that the Company did not set up statutory formula reserves for its variable life insurance in accordance with Department Regulation No. 147 and its fixed and variable deferred annuities in accordance with Department Regulation No. 151. Since the Company held additional reserves of $5 million as of December 31, 2001, the total reserves held by the Company were adequate, when compared on an aggregate basis to the minimum reserves required by New York Insurance Law. In 2002, at the Department's direction the Company increased the reserves for variable life insurance and variable deferred annuities by $2 million and $1 million, respectively. (See item 5D of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1998. This examination covers the period from January 1, 1999 through December 31, 2001. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2001 but prior to the date of this report (i.e., the completion date of the examination).

The examination comprised a verification of assets and liabilities as of December 31, 2001 to determine whether the Company's 2001 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
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 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 Company was incorporated as a stock life insurance company under the laws of New York on November 28, 1973 under the name of Agway Life Insurance Company. The Company was licensed and commenced business on March 27, 1974.

The Company's stock was purchased by the Equitable Life Assurance Society of the United States ("Equitable") on May 21, 1986 for $9,500,000. Equitable renamed the Company Royal Tandem Life Insurance Company on August 26, 1986.

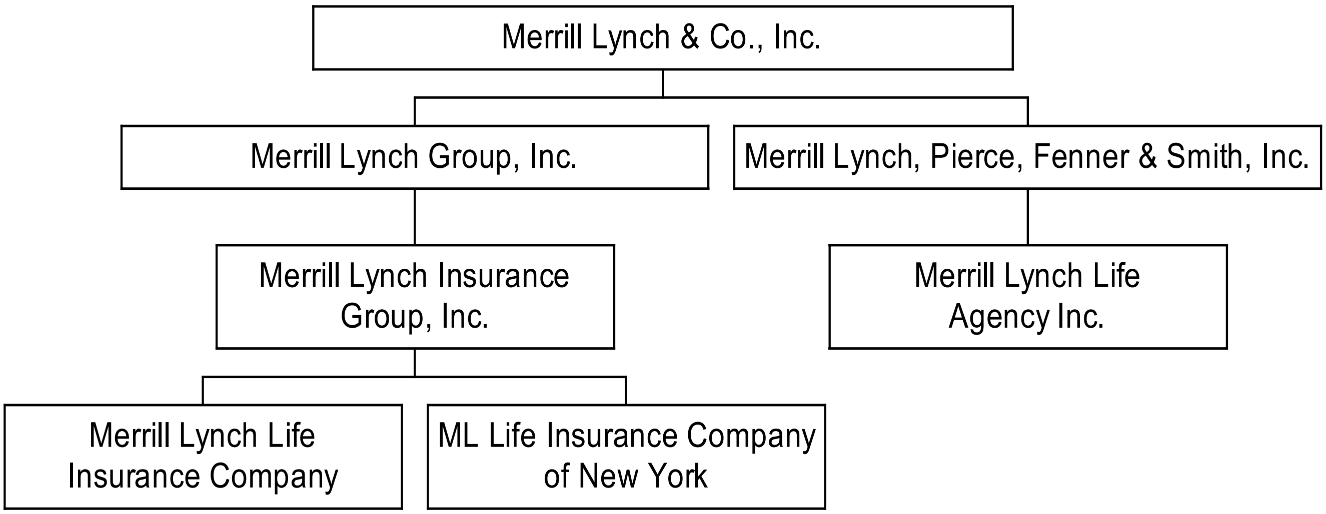
On July 31, 1987, Equitable sold 25% of its interest in the Company to Merrill Lynch & Co., Inc. ("Merrill Lynch"). Immediately following the sale, Equitable and Merrill Lynch contributed their respective interest in the Company to the initial capitalization of Tandem Financial Group, Inc., ("Tandem Group") a Delaware insurance holding company. Royal Tandem Life Insurance Company ("Royal Tandem") and its affiliate, Tandem Insurance Group, Inc. ("Tandem Insurance"), were direct wholly owned subsidiaries of Tandem Group.

On October 11, 1989, Merrill Lynch exercised its option under a shareholder's agreement with Equitable to purchase all of Equitable's interest in Tandem Group. As a result, Tandem Group became a wholly owned subsidiary of Merrill Lynch. On September 6, 1990, Tandem Group was renamed Merrill Lynch Insurance Group, Inc. ("MLIG"). On September 11, 1991, the Company's name was changed to ML Life Insurance Company of New York. The Company's affiliate, Tandem Insurance, was merged into Merrill Lynch Life Insurance Company ("MLLIC"), an Arkansas insurance company, on October 1, 1991.

B. Holding Company

The Company and its affiliate, MLLIC, are wholly owned subsidiaries of MLIG, a Delaware insurance holding company, which in turn is a wholly owned subsidiary of Merrill Lynch Group, Inc., ("MLG") a Delaware financial services holding company. The ultimate parent of the Company is Merrill Lynch, a Delaware financial services holding company. Also affiliated are Merrill Lynch Life Agency Inc. ("MLLA") and Merrill Lynch, Pierce, Fenner & Smith Inc. ("MLPF&S"). MLLA is the Company's general agent and MLPF&S is the registered broker dealer used in the sale of the Company's products.

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2001 follows:



The Company had various service agreements in effect with the parent and other affiliates as of December 31, 2001.

Pursuant to these agreements, the parent and affiliates provide the Company with office space, the use of office equipment and the following services: clerical; accounting; management; investment; law; financial; actuarial science; taxation; claims assistance; data processing and policy administration. Pursuant to the agreements, the Company also provides to its parent and affiliates office space, the use of office equipment, underwriting, sales, and marketing services.

The Company also has a tax allocation agreement in effect whereby the Company files a consolidated tax return with Merrill Lynch.

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 36 directors. Directors are elected for a period of one year at the annual meeting of the stockholders held in May of each year. As of December 31, 2001, 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, 2001, were as follows:

Name and Residence	Principal Business Affiliation	Year First Elected
Frederick J. C. Butler* New York, NY	Chairman Butler, Chapman & Co., Inc.	1991
Michael P. Cogswell Plainsboro, NJ	Senior Vice President ML Life Insurance Company of New York Merrill Lynch Insurance Group, Inc.	1993
Richard M. Drew* Jackson Heights, NY	Retired	2000
Hartwell M. Gardner Plainsboro, NJ	Senior Vice President Merrill Lynch & Co., Inc.	2001
Christopher J. Grady Titusville, NJ	Senior Vice President ML Life Insurance Company of New York Merrill Lynch Insurance Group, Inc.	2000
Robert L. Israeloff* Hewlett, NY	Senior Partner Israeloff, Trattner & Co., P.C.	1991
Joseph E. Justice Sewell, NJ	Vice President and Controller ML Life Insurance Company of New York Merrill Lynch Insurance Group, Inc.	2001
Nikos K. Kardassis Princeton, NJ	President ML Life Insurance Company of New York President and Chief Executive Officer Merrill Lynch Insurance Group, Inc.	2001
Robert A. King* Williamsburg, VA	Retired	1991
Irving M. Pollack* Rockville, MD	Attorney	1991
Matthew J. Rider Langhorne, PA	Senior Vice President, Chief Financial Officer, Treasurer ML Life Insurance Company of New York Merrill Lynch Insurance Group, Inc.	2000

Name and Residence	Principal Business Affiliation	Year First Elected
Lori M. Salvo Milltown, NJ	Vice President, Senior Counsel and Secretary ML Life Insurance Company of New York Merrill Lynch Insurance Group, Inc.	2001
Cynthia L. Sherman* Naples, FL	Retired	1993
Barry G. Skolnick Belle Mead, NJ	Senior Vice President and General Counsel ML Life Insurance Company of New York Merrill Lynch Insurance Group, Inc.	1989

* 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, 2001:

Name	Title
Nikos K. Kardassis	President
Michael P. Cogswell	Senior Vice President
Christopher J. Grady	Senior Vice President
Barry G. Skolnick	Senior Vice President, General Counsel
Matthew J. Rider	Senior Vice President, Chief Financial Officer, Treasurer
Lori M. Salvo	Vice President, Senior Counsel, Secretary
Greta Ulmer*	Vice President
Deborah J. Adler	Vice President and Chief Actuary
Joseph E. Justice	Vice President and Controller

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

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 nine states, namely Connecticut, Delaware, Maine, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island, and Vermont. However, it currently limits its marketing to the state of New York. In 2001, 79% of life premiums and 98% of annuity considerations were received from New York. In addition, 9.2% and 7.4% of life insurance premiums were received from New Jersey and Massachusetts, respectively. Policies are written on a non-participating basis.

The Company primarily sells interest sensitive and variable life insurance and annuity products. Currently, the Company has strategically placed its marketing emphasis on the sale of variable annuities, modified guaranteed annuities and variable life insurance products. These products are designed to address retirement needs. The variable annuity product provides tax-deferred savings with the opportunity for diversified investing in a wide selection of underlying mutual fund portfolios. The modified guaranteed annuity product provides a guaranteed fixed interest-crediting rate for a period ranging from one to ten years, but imposes a market value adjustment for withdrawals prior to the expiration of the guaranteed period. The variable life insurance product provides life insurance protection and allows the policyholder to allocate the account value of the policy to underlying diversified mutual fund portfolios. The Company also sells a single premium immediate annuity.

The Company's agency operations are conducted on a general agency basis. The Company has a general agency agreement with its affiliate, MLLA, appointing MLLA as the sole general agent for the Company's insurance products.

E. Reinsurance

As of December 31, 2001, the Company had reinsurance treaties in effect with 22 companies, of which 12 were authorized or accredited. The Company's life insurance is 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 $500,000. The total face amount of life insurance ceded as of December 31, 2001, was $160,729,337, which represents 9% of the total face amount of life insurance in force. Reserve credit taken for reinsurance ceded to unauthorized companies, totaling $11,110, was supported by letters of credit and trust agreements.

The total face amount of life insurance assumed as of December 31, 2001, was $875,588,174, which represents 51.3% of life insurance in force. Of that amount, $873,264,853 (99.7%) was assumed from Transamerica Occidental Life Insurance Company ("Transamerica").

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 during the period under review:

	December 31, 1998	December 31, 2001	Increase (Decrease)
Admitted assets	$1,212,989,840	$1,266,289,219	$ 53,299,379
Liabilities	$1,157,138,458	$1,232,024,208	$ 74,885,750
Common capital stock	$ 2,200,000	$ 2,200,000	$ 0
Gross paid in and contributed surplus	82,102,296	82,102,296	0
Unassigned funds (surplus)	(28,450,914)	(50,037,286)	(21,586,371)
Total capital and surplus	$ 55,851,382	$ 34,265,011	$(21,586,371)
Total liabilities, capital and surplus	$1,212,989,840	$1,266,289,219	$ 53,299,379

The decrease in surplus is attributed to the fact that the Company paid a dividend of $35 million in 2000 to its parent.

The majority (85%) of the Company's admitted assets, as of December 31, 2001, is derived from Separate Accounts.

The Company's invested assets as of December 31, 2001, exclusive of Separate Accounts, were mainly comprised of policy loans (50%), bonds (38%), and cash and short-term investments (11%). It should be noted that policy loans are a significant percentage of general account assets because all loans taken on the variable business are passed through from the separate account to the general account.

The majority (96.4%) of the Company's bond portfolio, as of December 31, 2001, was comprised of investment grade obligations.

The following is the net gain from operations 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:

	1999	2000	2001
Ordinary:			
Life insurance	$3,961,395	$2,924,536	$ 3,124,946
Individual annuities	5,067,252	2,944,658	(2,777,068)
Total	$9,028,647	$5,869,194	$ 347,878

The decline in the individual annuity business from 1999 to 2000 can be attributed to an increase in guaranteed minimum death benefit reserves. This increase is partially offset by an increase in policy fees collected from contract owners. The decline in the individual annuity business between 2000 and 2001 can be attributed to a decrease in policy fees collected from contract owners and an increase in general insurance expenses.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital, surplus and other funds as of December 31, 2001, as contained in the Company's 2001 filed annual statement, a condensed summary of operations and a reconciliation of the capital and surplus account for each of the years under review. 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, 2001 filed annual statement.

A. ASSETS, LIABILITIES, CAPITAL, SURPLUS AND OTHER FUNDS AS OF DECEMBER 31, 2001

Admitted Assets

Bonds	$ 69,431,789
Stocks:	
Preferred stocks	867,500
Common stocks	141,717
Policy loans	92,966,878
Cash and short term investments	21,060,052
Reinsurance ceded	
Amounts recoverable from reinsurers	190,844
Guaranty funds receivable or on deposit	77,512
Life insurance premiums and annuity considerations	
Deferred and uncollected on in force business	8,900
Investment income due and accrued	3,240,859
Administrative service agreement fees receivable	81,236
Amounts receivable on reinsurance assumed	30,000
From Separate Accounts statement	1,078,191,932
Total admitted assets	$1,266,289,219

Liabilities, Capital, Surplus and Other Funds

Aggregate reserve for life policies and contracts	$ 146,579,150
Liability for deposit-type contracts	8,516,325
Policy and contract claims:	
Life	4,017,689
Premiums and annuity considerations received in advance	8,243
Policy and contract liabilities	
Interest maintenance reserve	12,404
General expenses due or accrued	108,992
Transfers to Separate Accounts due or accrued	(9,436,988)
Taxes, licenses and fees due or accrued	451,980
Federal and foreign income taxes	295,540
Remittances and items not allocated	1,186,440
Miscellaneous liabilities	
Asset valuation reserve	1,609,904
Funds held under reinsurance treaties with unauthorized reinsurers	21,394
Payable to parent, subsidiaries and affiliates	458,704
From Separate Accounts statement	1,078,194,432
Total liabilities	$1,232,024,208
Common capital stock	$ 2,200,000
Gross paid in and contributed surplus	82,102,296
Unassigned funds (surplus)	(50,037,286)
Total capital, surplus and other funds	$ 34,265,011
Total liabilities, capital, surplus and other funds	$1,266,289,219

B. CONDENSED SUMMARY OF OPERATIONS

	1999	2000	2001
Premiums and considerations	$ 91,695,810	$ 86,712,222	$118,497,321
Investment income	11,067,291	11,824,547	9,507,795
Miscellaneous income	17,277,723	20,169,389	18,562,728
Total income	$120,040,824	$118,706,158	$146,567,844
Benefit payments	$ 85,874,351	$ 89,496,388	$ 94,910,573
Increase in reserves	(4,823,742)	4,049,795	3,621,964
General expenses and taxes	7,665,818	7,370,600	9,023,789
Increase in loading on deferred and Uncollected premium	(169)	111	(4)
Net transfers to (from) Separate Accounts	11,542,403	2,453,785	33,959,622
Miscellaneous deductions	6,010,160	6,191,292	3,379,896
Total deductions	$106,268,821	$109,561,971	$144,895,840
Net gain (loss)	$ 13,772,003	$ 9,144,187	$ 1,672,004
Federal and foreign income taxes incurred	4,743,356	3,274,993	1,324,126
Net gain (loss) from operations Before net realized capital gains	$ 9,028,647	$ 5,869,194	$ 347,878
Net realized capital gains (losses)	1,230	(743,872)	0
Net income	$ 9,029,877	$ 5,125,322	$ 347,878

C. CAPITAL AND SURPLUS ACCOUNT

	1999	2000	2001
Capital and surplus, December 31, prior year	$55,851,382	$ 61,717,069	$33,766,786
Net income	$ 9,029,877	$ 5,125,322	$ 347,878
Change in net unrealized capital gains (losses)	(2,061,292)	1,306,716	2,488,055
Change in liability for reinsurance in unauthorized companies	0	(43,438)	43,438
Change in asset valuation reserve	1,082,521	449,982	5,961
Other changes in surplus in Separate Accounts statement	(2,185,419)	211,135	1,971,785
Cumulative effect of changes in accounting Principles	0	0	(4,358,892)
Dividends to stockholders	0	(35,000,000)	0
Net change in capital and surplus	$ 5,865,687	$(27,950,282)	$ 498,225
Capital and surplus, December 31, current year	$61,717,069	$ 33,766,786	$34,265,011

D. RESERVES

The Department's review of the Company's 2001 reserves revealed that the Company did not set up minimum statutory formula reserves for its variable life insurance business in accordance with Department Regulation No. 147. Specifically, the Company did not set up attained age level reserves for the death benefit guarantees on variable life insurance. At the Department's direction, the Company increased reserves for variable life insurance by $2 million in 2002.

Additionally, the Company did not set up minimum statutory formula reserves for its fixed and variable deferred annuities in accordance with Department Regulation No. 151. Specifically, the Company set up reserves assuming that the contractholders would not make use of the maximum free partial withdrawal option. At the Department's direction, the Company increased the reserves held for variable deferred annuities by $1 million in 2002.

Since the Company held additional reserves of $5 million as of December 31, 2001, the total reserves held by the Company were adequate, when compared on an aggregate basis to the minimum reserves required by New York Insurance Law.

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, 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.

The Company stated that the Company's "policy forms and applications were reviewed along with those related to business assumed."

The Company stated in part, that their review:

> " . . . confirmed that no applications or Paramedical Examination forms in any manner solicited information regarding racial status, nor is or was the information solicited or included in the examination reports received from third party examiners with regard to potential insureds. In addition, no policy forms in any manner discussed distinctions between insureds with relation to racial status."

In summary, the Company's findings were that there were no results from any of the testing that would indicate any degree of race-based rating.

An analysis 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 Company in response to each citation:

Item	Description
A	The Company violated Section 1505(d)(3) of the New York Insurance Law when it failed to submit an underwriting service agreement to the Superintendent for approval. The Company filed the service agreement with the Department.
B	The Company violated Section 2112(a) of the New York Insurance Law when it failed to appoint the agents who sold annuity contracts and life insurance policies. A review indicated that the Company has instituted controls to ensure that only appointed agents represent the Company and are paid a commission.
C	The Company violated Section 2114(a)(1) of the New York Insurance Law when it paid commissions to agents who were not appointed. A review of a sample of commissions paid during the period under examination revealed that the Company only paid commissions to appointed agents.

Respectfully submitted,

_______/s/_________________
Phares Caton
Associate Insurance Examiner

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

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

_______/s/_________________
Phares Caton

Subscribed and sworn to before me

this__________ day of ____________________

APPOINTMENT NO. 21914

STATE OF NEW YORK

INSURANCE DEPARTMENT

I, GREGORY V. SERIO, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

PHARES CATON

as a proper person to examine into the affairs of the

ML LIFE INSURANCE COMPANY OF NEW YORK

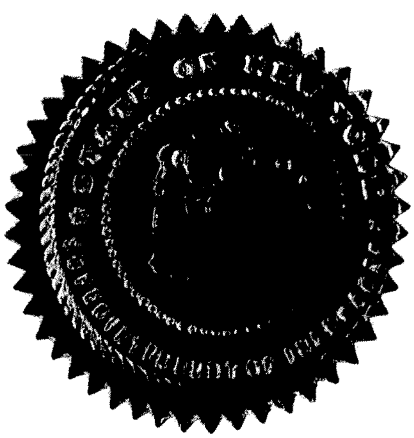
and to make a report to me in writing of the condition of the said

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 3rd day of July, 2002



GREGORY V. SERIO
Superintendent of Insurance

Superintendent