NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

REPORT ON EXAMINATION

OF THE

SBLI USA MUTUAL

LIFE INSURANCE COMPANY, INC.

CONDITION: DECEMBER 31, 2010

DATE OF REPORT: FEBRUARY 6, 2012

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EXAMINER:	PHARES CATON

TABLE OF CONTENTS

May 18, 2012

Honorable Benjamin M. Lawsky
Superintendent of Insurance
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 30662, dated February 24, 2011 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, NY 10001.

Wherever "Department" appears in this report, it refers to the New York State Department of Financial Services. On October 3, 2011, the Insurance Department merged with the Banking Department to create the New York State Department of Financial Services.

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

1. EXECUTIVE SUMMARY

The material recommendations contained in this report are summarized below.

- The examiner recommends that minutes of executive sessions be maintained, and where such matters are identified by the Company as confidential, include a high level summary of the topics discussed. (See item 3E of this report)

- The examiner recommends that the Company recalculate the dividends due on the affected class of policies, using the methodology that was approved by its board of directors, for all years in which the dividend formula was incorrectly applied. In all cases where the formula yields a positive dividend result, the Company should pay the amount due to all affected policyholders. The examiner further recommends that, going forward, management verify that the Company is meeting its obligation to all policyholders by correctly applying the dividend formula, as approved by the board, to all policies. (See item 7C of this report)

2. SCOPE OF EXAMINATION

The examination of the Company was a full scope examination as defined in the *NAIC Financial Condition Examiners Handbook, 2010 Edition* (the “Handbook”). The examination covers the five-year period from January 1, 2006 through December 31, 2010. The examination was conducted observing the guidelines and procedures in the Handbook and, where deemed appropriate by the examiner, transactions occurring subsequent to December 31, 2010 but prior to the date of this report (i.e., the completion date of the examination) were also reviewed.

In the course of the examination, a review was also made of the manner in which the Company conducts its business and fulfills its contractual obligations to policyholders and claimants. The results of this review are contained in item 7 of this report.

The examination was conducted on a risk focused basis in accordance with the provisions of the Handbook published by the National Association of Insurance Commissioners (“NAIC”). The Handbook guidance provides for the establishment of an examination plan based on the examiner’s assessment of risk in the insurer’s operations and utilizing that evaluation in formulating the nature and extent of the examination. The examiner planned and performed the examination to evaluate the current financial condition as well as identify prospective risks that may threaten the future solvency of the insurer. The examiner identified key processes, assessed the risks within those processes and evaluated the internal control systems and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, evaluating the overall financial statement presentation, and determining management’s compliance with Department statutes and guidelines, Statutory Accounting Principles as adopted by the Department and annual statement instructions.

Information about the Company's organizational structure, business approach and control environment were utilized to develop the examination approach. The Company's risks and management activities were evaluated incorporating the NAIC's nine branded risk categories. These categories are as follows:

- Pricing/Underwriting
- Reserving
- Operational
- Strategic
- Credit
- Market
- Liquidity
- Legal
- Reputational

The Company was audited annually, for the years 2006 through 2010, by the accounting firm of Deloitte & Touche, LLP. The Company received an unqualified opinion in all the years under examination. Certain audit workpapers of the accounting firm were reviewed and relied upon in conjunction with this examination. The Company has an internal audit department which was given the task of assessing the internal control structure.

The examiner reviewed the corrective actions taken by the Company with respect to the recommendations and/or comments 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 Banking Department approved the plan on June 11, 1999, and the New York

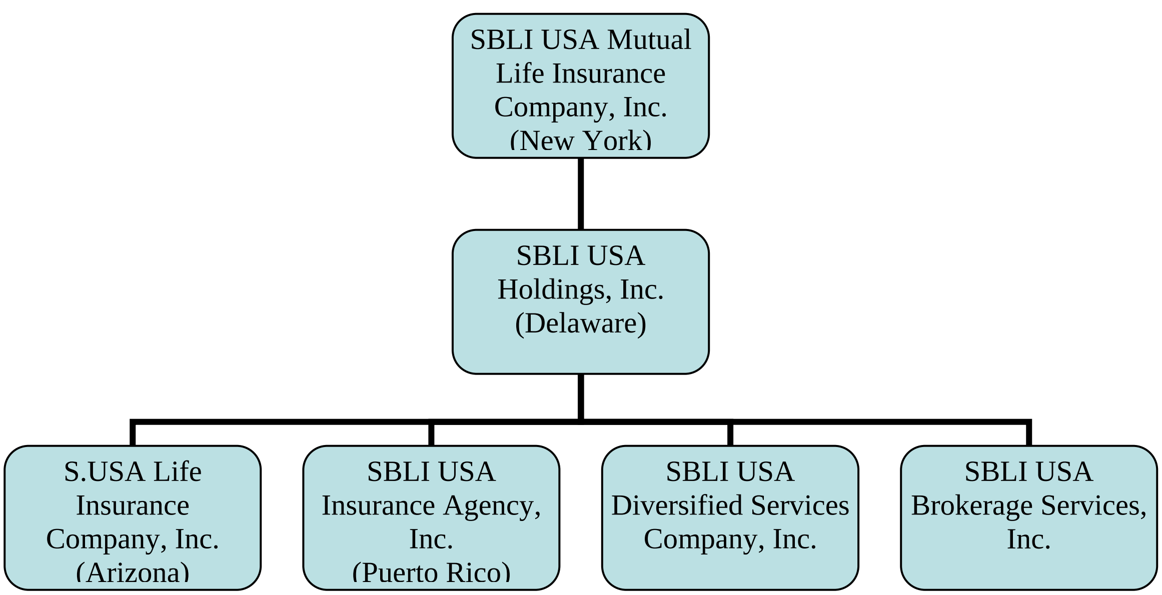
State Insurance Department approved the plan on July 6, 1999. SBLI Mutual Life Insurance Company, Inc. was incorporated on August 30, 1999 and was licensed to issue life insurance, annuities, and accident and health insurance on December 28, 1999. On January 1, 2000, the LIDs ceased to exist. As of the 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 the Company's Puerto Rico branch operations; SBLI USA Brokerage Services, Inc., an inactive shell; and S. USA Life Insurance Company, Inc. ("S. USA"), a stock life insurance company purchased in 2000 to support the Company's growth initiatives outside the State of New York.

C. Organizational Chart

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2010 follows:



D. Service Agreements

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

Type of Agreement & Department File Number	Effective Date of Original Agreement	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Income/(Expense)* For each Year of the Examination
Service and Expense Allocation Agreement, First Addendum, Second Addendum and Third Addendum File Number 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.	2010-$1,061,936 2009-$1,973,432 2008-$2,347,085 2007-$2,228,737 2006-$2,448,108
Investment Advisory Agreement, First Addendum and Second Addendum File Number 29579	12/18/2000	SBLI USA Mutual Life Insurance Company, Inc.	SBLI USA Holdings, S. USA, SBLI USA Insurance Agency	Investment Advisory	2010-$1,680 2009-$1,680 2008-$1,541 2007-$1,484 2006-$1,428

* Amount of income or (Expense) incurred by the Company.

E. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than 7 and not more than 30 directors. Directors are elected for a period of one year at the annual meeting of the stockholders held in June of each year. As of December 31, 2010, the board of directors consisted of 9 members. Meetings of the board are held quarterly.

The 9 board members and their principal business affiliation, as of December 31, 2010, were as follows:

Name and Residence	Principal Business Affiliation	Year First Elected
Deborah Aguiar-Velez* Charlotte, NC	President and Chief Executive Officer Sistemas Corporation	1999
Michael Akker Mahopac, NY	President and Chief Executive Officer SBLI USA Mutual Life Insurance Company, Inc.	2007
Theresa Balog* Newton Square, PA	Vice President VWR International	2008
Samuel M. Bemiss III* Richmond, Virginia	Managing Director Ewing Bemiss & Co.	1999
Robert Damante Hewlett, NY	Executive Vice President SBLI USA Mutual Life Insurance Company, Inc.	2010
David Jefferson, Sr.* Warren, NJ	President and Chief Executive Officer JNET Communications, LLC	1999
Evelyn F. Murphy* Brookline, MA	President The Wage Project	1999
George T. Rogers* Chicago, IL	Retired School of Art Institute of Chicago	1999
Roslyn Watson* Boston, MA	President Watson Ventures	2008

* 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 executive committee of the board of directors met on September 10 2008. The Company also held full board meetings September 15, 2008, March 24, 2010 and April 1, 2010. At each of these meetings, attendance was taken and the board immediately went into executive session. No minutes were kept of any discussions held outside of executive session and no minutes were kept of the discussions held during executive session.

The examiner recommends that minutes of executive sessions be maintained, and where such matters are identified by the Company as confidential, include a high level summary of the topics discussed.

The following is a listing of the principal officers of the Company as of December 31, 2010:

Name	Title
Michael Akker	President and Chief Executive Officer
Eric J. Bulis	Executive Vice President and Chief Information Officer
Robert M. Damante	Executive Vice President and Chief Financial Officer
Ralph Meola	Senior Vice President and Chief Actuary
Debra Klugman*	Senior Vice President, General Counsel and Corporate Secretary

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

4. TERRITORY AND PLAN OF OPERATIONS

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 and Puerto Rico. In 2010, 90.1% of life premiums, 96.5% of annuity considerations, and 88.4% of accident and health premiums were received from New York. The Company wrote its policies on a participating basis.

A. Statutory and Special Deposits

As of December 31, 2010, the Company had $4,600,000 (par value) of United States Treasury Bonds on deposit with the State of New York, its domiciliary state, for the benefit of all policyholders, claimants and creditors of the Company. As per confirmations received from the following states, which were reported in Schedule E of the 2010 filed annual statement, an additional $2.6 million was being held by the states of New Hampshire, North Carolina and the Commonwealth of Puerto Rico.

B. Direct Operations

The Company primarily writes individual life insurance to moderate income households, women, mature markets, ethnic groups, and the multi-lingual markets with annual income of $75,000 or less and with emphasis on the distribution of needs-based, life event-driven products and services. Among the products offered are 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. In 2010, 83% of direct business written was individual life.

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

As part of its geographic expansion efforts, the Company offered products through its own website, and established its own agency force and five customer service centers. The customer service centers were located in New York City, New York; Bayamon, Puerto Rico; Chicago, Illinois; Los Angeles, California; and Buffalo, NY.

The Company's aggressive expansion plans resulted in increased expenses which eventually negatively affected its policyholder surplus. Following discussions with the Department, the Company curbed its expansion plans and ceased accepting new business effective July 1, 2010. The Company also closed all its customer service centers outside of New York City. The Company continues to administer the existing in-force business.

The company continues to maintain a resident agent in Puerto Rico whose function is to service the existing customers in Puerto Rico. The Company deems this necessary to maintain the licensed agency in Puerto Rico. No new business is sold in Puerto Rico through the agency or the agent.

C. Reinsurance

As of December 31, 2010, the Company had reinsurance treaties in effect with ten companies, of which seven were authorized or accredited. The Company's life, accident and health business is reinsured 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 ordinary life insurance ceded as of December 31, 2010, was $2.37 billion, which represents approximately 36% of the total face amount of ordinary life insurance in force. Reserve credit taken for reinsurance ceded to unauthorized companies, totaling $6,288,081, was supported by letters of credit.

The total face amount of life insurance assumed as of December 31, 2010 was $3.87 billion.

5. 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, 2005	December 31, 2010	Increase (Decrease)
Admitted assets	$1,515,654,008	$1,472,583,323	$(43,070,685)
Liabilities	$1,396,428,670	$1,408,062,857	$ 11,634,187
Additional admitted DTA under SSAP 10R	$ 0	$ 3,081,146	$ 3,081,146
Group contingency reserve	$ 12,803,630	$ 8,997,285	$ (3,806,345)
Unassigned funds (surplus)	$ 106,421,708	$ 52,442,035	$(53,979,673)
Total surplus	$ 119,225,338	$ 64,520,466	$(54,704,872)
Total liabilities, and surplus	$1,515,654,008	$1,472,583,323	$(43,070,685)

The Company's invested assets as of December 31, 2010 were mainly comprised of bonds (83.6%), policy loans (7.8%) and cash and short-term investments (4.1%).

The majority (93.7%) of the Company's bond portfolio, as of December 31, 2010, was comprised of investment grade obligations.

The following has been extracted from the Exhibits of Annuities in the filed annual statements for each of the years under review:

	Ordinary Annuities				
	2006	2007	2008	2009	2010
Outstanding, end of previous year	2,210	2,866	3,521	3,421	5,080
Issued during the year	841	858	249	2,242	414
Other net changes during the year	185	203	349	583	262
Outstanding, end of current year	2,866	3,521	3,421	5,080	5,232

In 2008 annuity sales were impacted by the equity market turmoil which led to the Company's lowering of the guaranteed interest rate on new annuity issuances. Simultaneously, interest rates on bank products also dropped. However, as the market volatility severely limited competitive investment alternatives, overall surrenders remained low. During 2009 and the first half of 2010 the market had started to settle down and annuity sales resumed. However, as stated earlier, effective July 1, 2010, the Company ceased selling new business.

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:

	2006	2007	2008	2009	2010
Ordinary:					
Life insurance	$ 6,733,246	$3,417,543	$ 8,545,792	$ 9,633,344	$(3,027,229)
Individual Annuities	282,284	(1,866,430)	238,308	398,708	4,377,997
Supplementary Contracts	17,896	44,245	3,867	33,174	43,238
Total ordinary	$ 7,033,426	$1,595,358	$ 8,787,967	$10,065,226	$ 1,394,006
Credit life	$ 458	$ 600	$ 608	$ 1,897	$ 1,435
Group life	$ 3,956,499	$3,043,513	$ 2,269,351	$ 9,489,392	$ 2,791,580
Accident and health:					
Group	$ (432,088)	$ 187,815	$ 94,666	$ 120,570	$ 120,656
Other	316,648	134,365	61,708	517,420	99,844
Total accident and health	$ (115,440)	$ 322,180	$ 156,374	$ 637,990	$ 220,500
Total	$10,874,943	$4,961,651	$11,214,300	$20,194,505	$ 4,407,521

Ordinary Business

The decrease in the ordinary line of business from 2006 to 2007 is primarily due to $2.8 million lower net investment income, amortization of the IMR and $2.2 million of reserve strengthening relating to individual annuities.

The increase in the ordinary line of business from 2007 to 2008 is primarily due to $8.5 million lower benefits paid to policyholders offset by $4.0 million lower net investment income and amortization of the IMR and the impact of the reserve strengthening in 2007.

The increase in the ordinary line of business from 2008 to 2009 is primarily due to a decrease in general expenses offset by lower net investment income and amortization of the IMR.

The decrease in the ordinary line of business from 2009 to 2010 is primarily due to higher general expenses relating to restructure costs offset by $2.1 million lower benefits paid to policyholders; the release of $2.3M of the 2007 reserve strengthening and lower new business strain emanating from the cessation of new business writings.

Group Life Business

The decrease in the group life line of business from 2006 to 2007 is primarily due to higher general operating expenses.

The decrease in the group life line of business from 2007 to 2008 is primarily due to lower premium income and lower general operating expenses offset by higher mortality expenses.

The increase in the group line of business from 2008 to 2009 is primarily due to the release of reserves.

The decrease in the group life line of business from 2009 to 2010 is primarily due to the impact of the reserve release in 2009.

6. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2010, as contained in the Company’s 2010 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, 2010 filed annual statement.

A. Independent Accountants

The firm of Deloitte & Touche, LLP was retained by the Company to audit the Company’s combined statutory basis statements of financial position of the Company as of December 31st of each year in the examination period, and the related statutory-basis statements of operations, capital and surplus, and cash flows for the year then ended.

Deloitte & Touche, LLP concluded that the statutory financial statements presented fairly, in all material respects, the financial position of the Company at the respective audit dates. Balances reported in these audited financial statements were reconciled to the corresponding years’ annual statements with no discrepancies noted.

B. Net Admitted Assets

Bonds	$1,199,410,470
Stocks:	
Preferred stocks	20,154,868
Common stocks	8,965,836
Real estate:	
Properties held for sale	11,207,642
Cash, cash equivalents and short term investments	59,193,512
Contract loans	111,358,858
Other invested assets	23,726,556
Receivable for securities	38,246
Investment income due and accrued	13,640,213
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	129,774
Deferred premiums, agents' balances and installments booked but deferred and not yet due	10,161,838
Reinsurance:	
Amounts recoverable from reinsurers	1,163,748
Funds held by or deposited with reinsured companies	207,323
Other amounts receivable under reinsurance contracts	1,561,917
Net deferred tax asset	9,518,932
Receivables from parent, subsidiaries and affiliates	235,418
Unearned Reinsurance Ceded Premiums	1,908,172
Total admitted assets	$1,472,583,323

C. Liabilities, Capital and Surplus

Aggregate reserve for life policies and contracts	$1,201,597,267
Aggregate reserve for accident and health contracts	946,558
Liability for deposit-type contracts	140,937,381
Contract claims:	
Life	11,234,340
Accident and health	99,259
Policyholders' dividends and coupons due and unpaid	113,869
Provision for policyholders' dividends and coupons payable in following calendar year – estimated amounts:	
Dividends apportioned for payment	9,050,452
Premiums and annuity considerations for life and accident and health contracts received in advance	1,655,711
Contract liabilities not included elsewhere:	
Interest maintenance reserve	21,088,858
General expenses due or accrued	13,476,997
Taxes, licenses and fees due or accrued, excluding federal income taxes	216,005
Unearned investment income	2,892,943
Remittances and items not allocated	1,670,256
Miscellaneous liabilities:	
Asset valuation reserve	32,038
Reinsurance in unauthorized companies	295,956
Payable to parent, subsidiaries and affiliates	447,901
Payable for securities	1,452,136
Interest accrued on death claims, SGLI conversion costs	862,898
Deferred Compensation	129
Other Liabilities	(8,096)
Total liabilities	$1,408,062,857
Group contingency reserve	$ 8,997,285
Additional Admitted DTA under SSAP 10R	3,081,146
Unassigned funds (surplus)	52,442,035
Total capital and surplus	$ 64,520,466
Total liabilities, capital and surplus	$1,472,583,323

D. Condensed Summary of Operations

	2006	2007	2008	2009	2010
Premiums and considerations	$ 99,486,157	$ 95,367,842	$ 87,047,665	$134,366,177	$ 91,365,077
Investment income	87,645,678	85,332,299	80,987,234	75,734,004	73,528,282
Commissions and expense allowances on reinsurance ceded	6,890,268	5,494,253	3,682,410	6,049,849	3,062,138
Miscellaneous income	1,363,467	1,340,959	1,161,419	930,642	2,909,096
Total income	$195,385,570	$187,535,353	$172,878,728	$217,080,672	$170,864,593
Benefit payments	$ 91,774,676	$ 93,642,368	$ 97,459,135	$109,451,811	$ 90,793,419
Increase in reserves	13,466,630	11,340,121	(1,240,804)	27,301,125	4,666,511
Commissions	3,470,109	2,904,000	1,632,604	4,892,345	1,331,610
General expenses and taxes	65,344,940	64,851,155	54,351,224	45,552,914	60,258,213
Increase in loading on deferred and uncollected premiums	(98,432)	38,073	(113,249)	(35,137)	(160,260)
Miscellaneous deductions	841,752	840,317	835,925	859,278	802,661
Total deductions	$174,799,675	$173,616,034	$152,924,835	$188,022,336	$157,692,154
Net gain (loss)	$ 20,585,895	$ 13,919,319	$ 19,953,893	$ 29,058,336	$ 13,172,439
Dividends	9,469,698	8,947,612	8,720,117	8,813,909	8,758,193
Federal and foreign income taxes Incurred	241,255	10,057	19,476	49,922	6,725
Net gain (loss) from operations before net realized capital gains	$ 10,874,942	$ 4,961,650	$ 11,214,300	$ 20,194,505	$ 4,407,521
Net realized capital gains (losses)	588,074	(419,985)	(18,381,851)	(13,205,467)	(14,725,893)
Net income	$ 11,463,016	$ 4,541,665	$ (7,167,551)	$ 6,989,038	$ (10,318,372)

E. Surplus Account

	2006	2007	2008	2009	2010
Surplus, December 31, prior year	$119,225,338	$123,738,114	$129,484,475	$122,816,435	$113,064,788
Net income	$ 11,463,016	$ 4,541,665	$ (7,167,551)	$ 6,989,038	$ (10,318,372)
Change in net unrealized Capital gains (losses)	(4,669,747)	(2,481,178)	(8,019,674)	(17,862,071)	(59,885,350)
Change in net deferred income tax	(2,015,304)	6,624,555	6,370,277	2,573,248	(1,344,240)
Change in non-admitted assets and related items	2,775,758	(6,324,624)	(8,895,524)	(100,572)	17,636,786
Change in liability for reinsurance in unauthorized companies	152,419	(146,445)	251,798	(630,398)	428,035
Change in asset valuation reserve	(21,635)	2,950,261	10,607,715	(35,545)	5,416
Cumulative effect of changes in accounting principles	0	0	0	(585,142)	0
Misc. Charge – Supplemental Employee Retirement Plan	(646,044)	1,083,822	184,919	(100,205)	1,852,257
Prior Year Adjustment - Change in Reserves	0	(501,694)	0	0	0
Additional Admitted DTA under SSAP 10R	0	0	0	0	3,081,146
Prior Year Adjustment – Change in Deferred Premium on Reinsurance Due	(2,525,686)	0	0	0	0
Net change in capital and surplus for the year	$ 4,512,776	$ 5,746,362	$ (6,668,040)	$ (9,751,647)	$(48,544,322)
Capital and surplus, December 31, current year	$123,738,114	$129,484,475	$122,816,435	$113,064,788	$ 64,520,466

7. 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.

The Company has a class of policies referred to as "Sub 21 Single Premium" which is a class of single premium participating policies that were issued between 1985 and 2000. The dividend formula for the Sub 21 Single Premium dividend addition is 'Dividends on Paid-Up Additions = Dividends on Paid-Up Policies + $0.50'. The Company calculated the value of the current dividend of a paid-up policy. If that amount was negative, the policy received no dividends on its paid-up additions. However, based on the aforementioned formula, $0.50 should be added to the dividends on the paid-up policy to determine whether there are dividends due on paid-up additions. If, after the addition of the $0.50, the amount was still negative, then no dividends would be paid.

The examiner reviewed a sample of Sub 21 Single Premium and found that policies that were negative for the amount of dividends on paid-up policies, but positive with the addition of $0.50, did not receive any dividends on the paid-up additions. The approved formula was not being utilized as written.

The examiner recommends that the Company recalculate the dividends due on the affected class of policies, using the aforementioned methodology that was approved by its board of directors, for all years in which the dividend formula was incorrectly applied. In all cases where the formula yields a positive dividend result, the Company should pay the amount due to all affected policyholders.

The examiner further recommends that, going forward, management verify that the Company is meeting its obligation to all policyholders by correctly applying the dividend formula, as approved by the board, to all policies.

8. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the violation, recommendations and comment 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 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. The examiner's review revealed that the Company received board approval for all investment transactions during the examination period.
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. The Company continues to use assumptions and methodologies consistent with those developed to satisfy the Department's concerns during the last examination. The 2010 valuation, actuarial memorandum and related items have been reviewed by the Department's Actuaries and found to be not objectionable.
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. The Company re-examined the complaints received regarding the remediation process and did not note any failures to offer the appropriate remediation where such a deficiency was identified. The examiner's review of complaints filed did not reveal any patterns which would indicate that the Company's remediation process was deficient.

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

9. SUMMARY AND CONCLUSIONS

Following are the recommendations contained in this report:

Item	Description	Page No(s).
A	The examiner recommends that minutes of executive sessions be maintained, and where such matters are identified by the Company as confidential, include a high level summary of the topics discussed.	9
B	The examiner recommends that the Company recalculate the dividends due on the affected class of policies, using the methodology that was approved by its board of directors, for all years in which the dividend formula was incorrectly applied. In all cases where the formula yields a positive dividend result, the Company should pay the amount due to all affected policyholders.	22
C	The examiner further recommends that, going forward, management verify that the Company is meeting its obligation to all policyholders by correctly applying the dividend formula, as approved by the board, to all policies.	22

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. 30662

STATE OF NEW YORK

INSURANCE DEPARTMENT

I, JAMES J. WRYNN, 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

SBLI USA MUTUAL LIFE INSURANCE COMPANY

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 24th day of February, 2011

JAMES J. WRYNN
Superintendent of Insurance

Superintendent