



STATE OF NEW YORK INSURANCE DEPARTMENT
REPORT ON EXAMINATION
OF THE
BALBOA LIFE INSURANCE COMPANY OF NEW YORK

CONDITION:

DECEMBER 31, 2003

DATE OF REPORT:

MAY 4, 2005

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REPORT ON EXAMINATION
OF THE
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AS OF
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EXAMINER:

JOHN T. RAFFA

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

George E. Pataki
Governor

Howard Mills
Acting Superintendent

May 4, 2005

Honorable Howard Mills
Acting Superintendent of Insurance
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 22343, dated March 9, 2005 and annexed hereto, an examination has been made into the condition and affairs of Balboa Life Insurance Company of New York, hereinafter referred to as "the Company," at its home office located at 410 Park Avenue, New York, New York 10022.

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, 2003 filed annual statement. (See item 5 of this report)

The Company violated Section 1202(b)(2) of the New York Insurance Law by failing to establish at least one committee comprised solely of directors not affiliated with the Company and have it perform the responsibilities required pursuant to the section of Law. The examiner recommends that the board form an independent committee to perform the duties required by Section 1202(b)(2) of the New York Insurance Law. Such committee should be comprised of directors having the appropriate expertise to effectively perform the stated responsibilities, and be qualified to advise the board on pertinent matters affecting the Company's internal control environment. (See item 3 of this report)

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

2. SCOPE OF EXAMINATION

An examination on the organization of the Company was conducted as of November 28, 2000. This examination covers the period from November 29, 2000 through December 31, 2003. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2003 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, 2003 to determine whether the Company's 2003 filed annual statement fairly presents its financial condition. The examiner reviewed the Company's income and disbursements necessary to accomplish such verification and utilized the National Association of Insurance Commissioners' Examiners Handbook or such other examination procedures, as deemed appropriate, in such review and in the review or audit of the following matters:

- Company history
- Management and control
- Corporate records
- Fidelity bond and other insurance
- Officers' and employees' welfare and pension plans
- 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

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

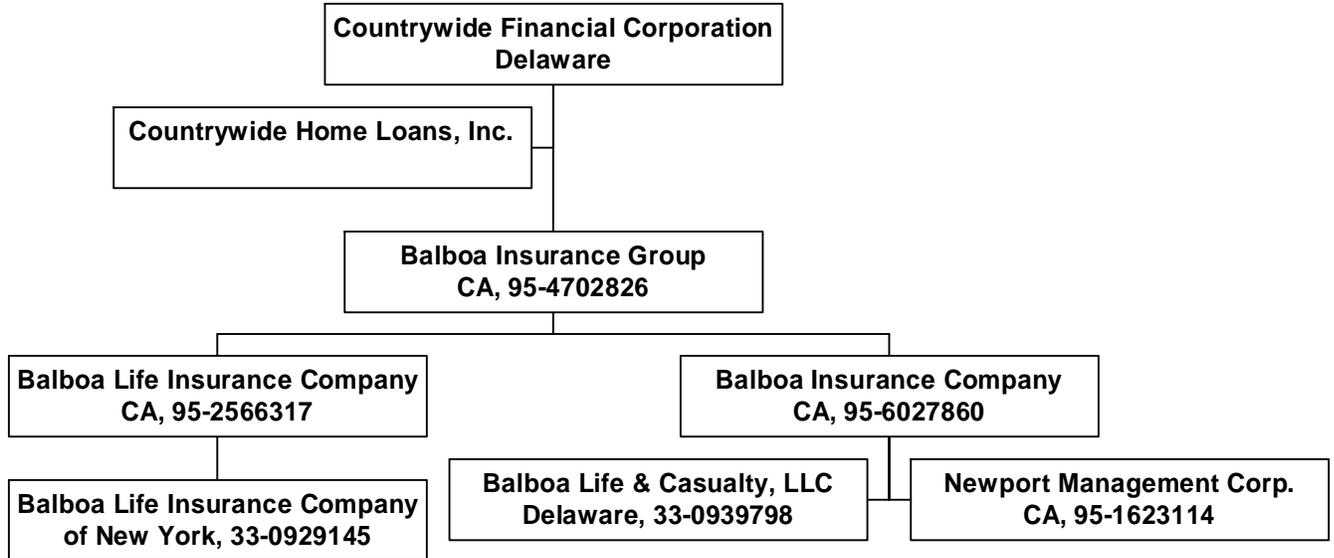
A. History

The Company was incorporated as a stock life insurance company under the laws of New York on September 18, 2000, was licensed on December 22, 2000 and commenced business on January 1, 2001. Initial resources of \$10,960,000 consisting of common capital stock of \$2,000,000 and paid in and contributed surplus of \$8,960,000 were provided through the sale of 2,000 shares of common stock (with a par value of \$1,000 each) for \$5,480 per share. Prior to year-end 2000, the Company received an additional surplus contribution of \$1,045,554 from its parent, Balboa Life Insurance Company (“BLIC”), bringing its total capital and paid in and contributed surplus to \$12,005,554.

B. Holding Company

The Company is a wholly owned subsidiary of BLIC, a California life insurance company. BLIC is in turn a wholly owned subsidiary of Balboa Insurance Group, Inc. (“BIGI”), a California corporation. The ultimate parent of the Company is Countrywide Financial Corporation (“CFC”), a publicly traded Delaware holding company which provides mortgage banking and diversified financial services in domestic and international markets.

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2003 follows:



The Company had 3 service agreements in effect during the examination period.

Type of Agreement And Department File Number	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Income/ (Expense)* For Each Year of the Examination
Investment Services Agreement 27900A	11/22/00	Countrywide Home Loans, Inc.	The Company	Investment record keeping, management and advisory services, brokerage selection	2001 - (1,067) 2002 - (5,800) 2003 - (4,510)
Administrative Services Agreement 29411	01/01/01	Balboa Life & Casualty, LLC and the Newport Management Corporation	The Company	Claims payment and adjustment, underwriting, policy issuance, premium accounting, information technology and general accounting services	2002 - (428,895) 2003 - (423,097)
Sublease Agreement 27900A	11/20/00	Countrywide Home Loans, Inc.	The Company	Subleasing of office space at 410 Park Avenue, New York, New York 10022	2001 - (24,929) 2002 - (17,632) 2003 - (1,198)

* Amount of Income or (Expense) Incurred by the Company

The Company also maintains a consolidated federal tax allocation agreement with its parent and affiliates.

It is noted that the aforementioned surplus contribution of \$1,045,554 should have been filed with and approved by the Superintendent pursuant to Section 1505(c) of the New York Insurance Law. The examiner recommends that all future surplus contributions meeting the regulatory review levels set forth in Article 15 of the New York Insurance Law be filed with and approved by the Superintendent, as applicable.

C. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than nine and not more than 21 directors provided, however, if the admitted assets of the Company should exceed \$1.5 billion during any calendar year, then the number of directors shall be increased to not less than 13 within one year following the end of such calendar year. 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, 2003, the board of directors consisted of nine members. Meetings of the board are held quarterly.

The nine board members and their principal business affiliation, as of December 31, 2003, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Andrew S. Bielanski Calabasas, CA	Managing Director Countrywide Financial Corporation	2000
Bard E. Bunaes* New York, NY	President and Chief Executive Officer Global Reinsurance Company of America	2000
George R. Burman* Syracuse, NY	Professor and Dean Syracuse University	2002
Bernard A. Fine* Fayetteville, NY	Assistant Head Basketball Coach Syracuse University	2003
Carlos M. Garcia Calabasas, CA	Executive Managing Director Countrywide Financial Corporation	2000
Marshall M. Gates Calabasas, CA	Managing Director Countrywide Financial Corporation	2000

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Andrew Gissing III Irvine, CA	President Balboa Life Insurance Company of New York	2001
John R. MacCaull, D.D.S.* Camillus, NY	Dentist	2003
Howard B. Wexler Irvine, CA	Secretary Balboa Life Insurance Company of New York	2003

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

On May 3, 2004 Andrew S. Bielanski and Marshall M. Gates resigned from the board and were replaced by Thomas M. Scrivener and Robert V. James who were elected to the board on May 7, 2004.

Section 1202(b)(2) of the New York Insurance Law states, in part:

“The board of directors of a domestic life insurance company shall establish one or more committees comprised solely of directors who are not officers or employees of the company or of any entity controlling, controlled by, or under common control with the company and who are not beneficial owners of a controlling interest in the voting stock of the company or any such entity. Such committee or committees shall have responsibility for recommending the selection of independent certified public accountants, reviewing the company’s financial condition, the scope and results of the independent audit and any internal audit, nominating candidates for director for election by shareholders or policyholders, evaluating the performance of officers deemed by such committee or committees to be principal officers of the company and recommending to the board of directors the selection and compensation of such principal officers . . .”

During the examination period the Company maintained two committees of the board of directors: a Nominating Committee and a Finance Committee. The examination revealed that neither of the aforementioned committees was comprised solely of independent directors. Moreover, the board designated the Nominating Committee with the power and authority to recommend those persons to be elected as Directors of the Corporation, a responsibility that the stated law requires an independent committee to fulfill.

The Company violated Section 1202(b)(2) of the New York Insurance Law by failing to establish at least one committee comprised solely of directors not affiliated with the Company and have it perform the responsibilities required pursuant to the section of Law.

The examiner recommends that the board form an independent committee to perform the duties required by Section 1202(b)(2) of the New York Insurance Law. Such committee should be comprised of directors having the appropriate expertise to effectively perform the stated responsibilities, and be qualified to advise the board on pertinent matters affecting the Company's internal control environment.

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, 2003:

<u>Name</u>	<u>Title</u>
Andrew Gissinger III	President
Thomas M. Scrivener	Treasurer
Howard B. Wexler	Secretary
Timothy M. Wilp	Actuary
Melvin D. Martinez*	First Vice President and Senior Legal Counsel

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

Effective January 4, 2004, Andrew Gissinger III resigned as President and was replaced by Robert V. James, and Thomas M. Scrivener resigned as Treasurer and was replaced by Kenneth L. Mertzel.

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 only in New York. In 2003, all of the Company's premiums were received from New York. Policies are written on a non-participating basis.

The Company's principal lines of business are group credit life and disability insurance. With the exception of issuing one group master policy, the agency force has been predominantly inactive throughout the examination period.

The Company's agency operations are conducted on a general agency basis.

E. Reinsurance

During the examination period, the Company did not enter into any reinsurance transactions.

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:

	November 28, <u>2000</u>	December 31, <u>2003</u>	Increase (Decrease)
Admitted assets	\$ <u>11,097,204</u>	\$ <u>15,330,039</u>	\$ <u>4,232,835</u>
Liabilities	\$ <u>193,750</u>	\$ <u>1,815,325</u>	\$ <u>1,621,575</u>
Common capital stock	\$ 2,000,000	\$ 2,000,000	\$ 0
Gross paid in and contributed surplus	8,960,000	10,005,554	1,045,554
Unassigned funds (surplus)	<u>(56,546)</u>	<u>1,509,160</u>	<u>1,565,706</u>
Total capital and surplus	\$ <u>10,903,454</u>	\$ <u>13,514,714</u>	\$ <u>2,417,510</u>
Total liabilities, capital and surplus	\$ <u>11,097,204</u>	\$ <u>15,330,039</u>	\$ <u>4,232,835</u>

The Company's invested assets as of December 31, 2003 were mainly comprised of bonds (91.7%) and cash and short-term investments (8.3%). The Company's entire bond portfolio, as of December 31, 2003, was comprised of investment grade obligations.

The following indicates, for each of the years listed below, the amount of life insurance issued and in force by type (in thousands of dollars):

	<u>Group Credit Life</u>	
<u>Year</u>	<u>Issued</u>	<u>In Force</u>
2001	\$14,243	\$77,713
2002	\$16,100	\$85,265
2003	\$ 8,788	\$81,310

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:

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Credit life	\$(23,905)	\$ 163,629	\$190,941	\$ 57,353
Credit accident and health	<u>0</u>	<u>929,104</u>	<u>630,472</u>	<u>328,622</u>
Total	<u>\$(23,905)</u>	<u>\$1,092,733</u>	<u>\$821,413</u>	<u>\$385,975</u>

The loss in 2000 is attributed to initial start up costs incurred by the Company prior to commencing business. The decrease in gains in 2002 and 2003 is primarily attributed to a significant increase in benefit payments, expenses and reserves. Further reducing the Company's reported gain in 2003 is an experience rating refund, incurred by the Company and payable to the group policyholder, in the amount of \$798,541.

The following ratios, applicable to the accident and health business of the Company, have been extracted from Schedule H for each of the indicated years:

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Premiums earned	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Incurred losses	17.3%	39.7%	30.7%
Commissions	10.0	10.0	10.0
Expenses	<u>13.5</u>	<u>21.5</u>	<u>21.8</u>
	<u>40.8%</u>	<u>71.2%</u>	<u>62.5%</u>
Underwriting results	<u>59.2%</u>	<u>28.8%</u>	<u>37.5%</u>

The fluctuations in underwriting results reflected above are primarily due to increased disability benefit payments, incurred in proportion to the volume of business written over the same period, and additional expenses incurred due to the development, sales and administration of the credit accident and health product.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital, surplus and other funds as of December 31, 2003, as contained in the Company's 2003 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, 2003 filed annual statement.

A. ASSETS, LIABILITIES, CAPITAL AND SURPLUS AS OF DECEMBER 31, 2003

Admitted Assets

Bonds	\$13,232,311
Cash and short term investments	1,205,118
Uncollected premiums and agents' balances in the course of collection	203,222
Federal and foreign income tax recoverable and interest thereon	266,162
Investment income due and accrued	126,453
Net deferred tax asset	61,949
Receivable from parent, subsidiaries and affiliates	<u>234,824</u>
 Total admitted assets	 <u>\$15,330,039</u>

Liabilities, Capital and Surplus

Aggregate reserve for accident and health policies	551,313
Policy and contract claims:	
Life	95,550
Accident and health	137,828
Interest maintenance reserve	112,738
General expenses due or accrued	3,000
Taxes, licenses and fees due or accrued	5,126
Miscellaneous liabilities:	
Asset valuation reserve	21,917
Payable to parent, subsidiaries and affiliates	77,488
Contingent commission payable	<u>810,364</u>
 Total liabilities	 <u>\$ 1,815,325</u>
 Common capital stock	 \$ 2,000,000
Gross paid in and contributed surplus	10,005,554
Unassigned funds (surplus)	<u>1,509,160</u>
 Total capital and surplus	 <u>\$13,514,714</u>
 Total liabilities, capital and surplus	 <u>\$15,330,039</u>

B. CONDENSED SUMMARY OF OPERATIONS

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Premiums and considerations	\$ 0	\$1,874,119	\$2,305,725	\$2,351,660
Investment income	<u>195,676</u>	<u>677,632</u>	<u>746,962</u>	<u>562,258</u>
Total income	<u>\$195,676</u>	<u>\$2,551,751</u>	<u>\$3,052,687</u>	<u>\$2,913,918</u>
Benefit payments	\$ 0	\$ 346,101	\$ 659,657	\$ 677,924
Increase in reserves	0	124,887	309,867	116,559
Commissions	0	187,211	230,743	235,166
General expenses and taxes	219,581	324,299	504,202	511,795
Experience rating refund incurred	<u>0</u>	<u>0</u>	<u>11,823</u>	<u>798,541</u>
Total deductions	<u>\$219,581</u>	<u>\$ 982,498</u>	<u>\$1,716,292</u>	<u>\$2,339,985</u>
Net gain (loss)	\$ (23,905)	\$1,569,253	\$1,336,395	\$ 573,933
Federal and foreign income taxes incurred	<u>0</u>	<u>476,520</u>	<u>514,982</u>	<u>187,958</u>
Net gain (loss) from operations				
before net realized capital gains	\$ (23,905)	\$1,092,733	\$ 821,413	\$ 385,975
Net realized capital gains (losses)	<u>0</u>	<u>0</u>	<u>(821,147)*</u>	<u>45,500</u>
Net income	<u>\$ (23,905)</u>	<u>\$1,092,733</u>	<u>\$ 266</u>	<u>\$ 431,475</u>

* The net realized capital loss of \$821,147 reported in 2002 is primarily due to the Company's write-down of its investment in WorldCom as an other than temporary impairment.

C. CAPITAL AND SURPLUS ACCOUNT

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Capital and surplus, December 31, prior year	\$ <u>0</u>	\$ <u>11,963,090</u>	\$ <u>12,884,969</u>	\$ <u>12,981,887</u>
Net income (loss)	\$ (23,905)	\$ 1,092,733	\$ 266	\$ 431,475
Change in net unrealized capital gains (losses)	11,465	(129,172)	117,693	0
Change in net deferred income tax	0	4,832	340,180	(49,685)
Change in non-admitted assets and related items	0	0	(321,127)	92,582
Change in asset valuation reserve	(30,025)	(10,254)	(35,419)	53,780
Cumulative effect of changes in accounting principles	0	(19,210)	0	0
Capital changes: Paid in	2,000,000	0	0	0
Surplus adjustments: Paid in	10,005,554	0	0	0
Prior period adjustments	0	(17,050)	0	0
Adjustment difference on net deferred tax	<u>0</u>	<u>0</u>	<u>(4,675)</u>	<u>4,675</u>
Net change in capital and surplus for the year	\$ <u>11,963,090</u>	\$ <u>921,879</u>	\$ <u>96,918</u>	\$ <u>532,827</u>
Capital and surplus, December 31, current year	\$ <u>11,963,090</u>	\$ <u>12,884,969</u>	\$ <u>12,981,887</u>	\$ <u>13,514,714</u>

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 Company did not produce any advertising material during the examination period. In addition, the Company only wrote one group policy during the examination period. Therefore a review of the Company's advertising files and the sales activities of the agency force including trade practices, solicitation and the replacement of insurance policies was not performed.

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. SUMMARY AND CONCLUSIONS

Following are the violation and recommendations contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The examiner recommends that all future surplus contributions meeting the regulatory review levels set forth in Article 15 of the New York Insurance Law be filed with and approved by the Superintendent, as applicable.	6
B	The Company violated Section 1202(b)(2) of the New York Insurance Law by failing to establish at least one committee comprised solely of directors not affiliated with the Company and have it perform the responsibilities required pursuant to the section of Law.	7
C	The examiner recommends that the board form an independent committee to perform the duties required by Section 1202(b)(2) of the New York Insurance Law.	8

Respectfully submitted,

/s/

John T. Raffa
Senior Insurance Examiner

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

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

/s/

John T. Raffa

Subscribed and sworn to before me

this _____ day of _____

APPOINTMENT NO. 22343

STATE OF NEW YORK
INSURANCE DEPARTMENT

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

JOHN RAFFA

as a proper person to examine into the affairs of the

BALBOA 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 9th day of March, 2005



HOWARD MILLS

Acting Superintendent of Insurance

A handwritten signature in cursive script that reads "Howard Mills".

Acting Superintendent