STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

BALBOA LIFE INSURANCE COMPANY OF NEW YORK

CONDITION: DECEMBER 31, 2006

DATE OF REPORT: JUNE 8, 2007

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EXAMINER: ROBERTO PARADIS

TABLE OF CONTENTS

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

David Paterson
Governor

James J. Wrynn
Superintendent

September 23, 2010

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

Sir:

In accordance with instructions contained in Appointment No. 22551, dated October 30, 2006 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 1155 Avenue of Americas, New York, New York 10036.

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 and, violations contained in this report are summarized below.

- The Company is a wholly owned subsidiary of BLIC, a California domiciled life insurance company. BLIC is a wholly owned subsidiary of BA Insurance Group, Inc., a Delaware corporation. On July 1, 2008, BLIC's former ultimate parent, Countrywide Financial Corporation ("CFC"), was acquired by Bank of America Corporation ("BAC") (the Ultimate Parent), a publicly traded company incorporated in Delaware. Effinity Financial Corporation ("EFC") received BLIC's issued and outstanding stock from its parent, CFC, after Balboa Insurance Group, Inc. transferred ownership of the Company via dividend to CFC effective November 7, 2008. BAC purchased EFC from CFC and EFC became a wholly owned subsidiary of BAC. On April 27, 2009, EFC was merged into NB Holdings Corporation which then contributed BLIC to BA Insurance Group Inc. (See item 7 of this report)
- In 2005, the sole master policyholder of the Company's Outstanding Monthly Balance ("OMB") credit life and credit disability business decided to discontinue marketing these credit products. As a result, the Company is only servicing run-off of the existing in-force certificates of its OMB credit life and credit disability lines of business. (See item 3D of this report)
- The Company violated Section 1411(a) of the New York Insurance law by failing to authorize and approve its investment activities during the examination period. In an action by unanimous written consent, the board of directors approved retroactively on April 17, 2007 the Company's investment activities during the examination period. (See item 3C of this report)
- The Company violated Section 403(d) of the New York Insurance Law by using a claim form that did not contain the complete fraud warning required. (See item 6B of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2003. This examination covers the period from January 1, 2004 through December 31, 2006. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2006 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, 2006 to determine whether the Company's 2006 filed annual statement fairly presents its financial condition. The examiner reviewed the Company's income and disbursements necessary to accomplish such verification and utilized the National Association of Insurance Commissioners' Examiners Handbook or such other examination procedures, as deemed appropriate, in such review and in the review or audit of the following matters:

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

The examiner reviewed the corrective actions taken by the Company with respect to the violation and recommendations 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

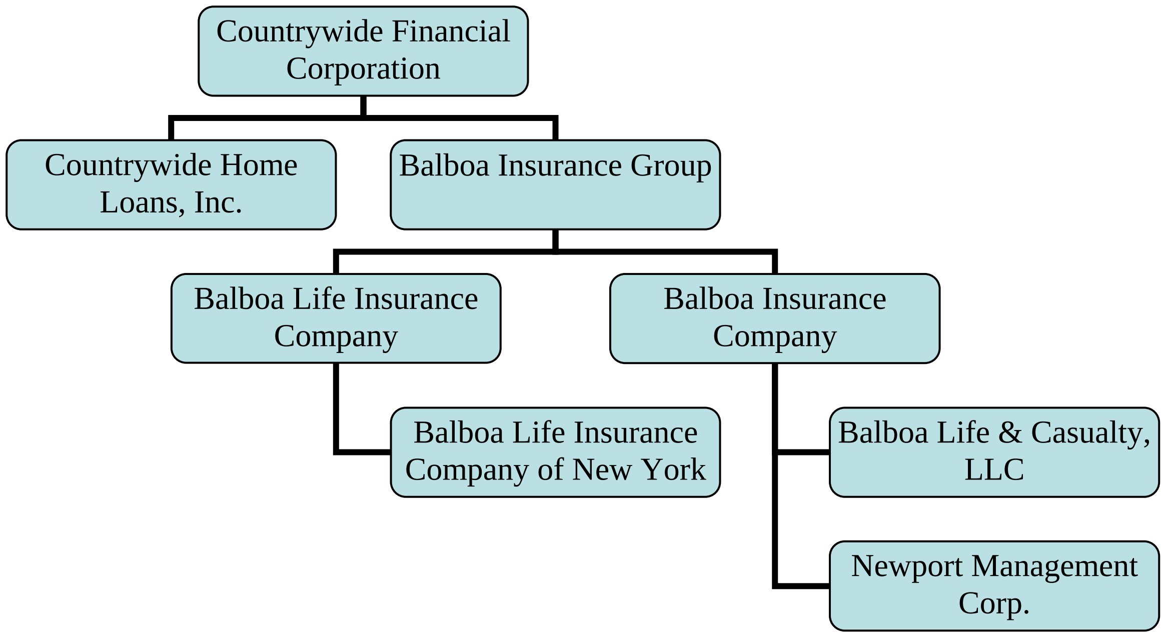
A. History

The 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 as of December 31, 2006.

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, 2006 follows:


Countrywide Financial Corporation
Countrywide Home Loans, Inc.
Balboa Insurance Group
Balboa Life Insurance Company
Balboa Insurance Company
Balboa Life Insurance Company of New York
Balboa Life & Casualty, LLC
Newport Management Corp.

The Company had three service agreements in effect with affiliates 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	(Expense)* For Each Year of the Examination
Administrative service agreement File No. 29411	1/1/2001	Balboa Life & Casualty LLC	Balboa Life Insurance Company of New York	Payroll, facilities, equipment, and disbursements	2004- $(430,297) 2005- $(521,302)
Administrative service agreement File No. 33351a	1/1/2006	Balboa Life & Casualty LLC Balboa Insurance Company BLIC	Balboa Life Insurance Company of New York	Various administrative services	2006- $(476,162)
Sublease agreement File No. 35113	4/1/06	Countrywide Home Loans, Inc.	Balboa Life Insurance Company of New York	Subleasing of office space at 1155 Avenue of the Americas, New York, New York 10036	2006- $ (57,128)

*Amount of (Expense) Incurred by the Company

The Company participates in a federal income tax allocation agreement and an investment management agreement with its parent and affiliates.

Section 1505(a)(3) of the New York Insurance Law states:

"(a) Transactions within a holding company system to which a controlled insurer is party shall be subject to the following:

(3) expenses incurred and payments received shall be allocated to the insurer on an equitable basis in conformity with customary insurance accounting practices consistently applied."

The Company indicated that in 2005, BLIC, its parent, allocated $176,053.81 of marketing expense to the Company in error that should have been the parent's sole obligation to American Express.

The examiner recommends that only the Company’s equitable share of marketing expense is allocated to it pursuant to Section 1505(a)(3) of the New York Insurance Law and that the Company recovers the $176,053.81 allocated in error by BLIC.

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. However, if the admitted assets of the Company should exceed $1.5 billion during any calendar year, the number of directors would 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, 2006, the board of directors consisted of eleven members. Meetings of the board are held at least once each calendar year.

The eleven board members and their principal business affiliation, as of December 31, 2006, were as follows:

31, 2006, the board of directors consisted of eleven members. Meetings of the board are held at least once each calendar year.

The eleven board members and their principal business affiliation, as of December 31, 2006, were as follows:

Bard E. Bunaes* Irvington, NY	President and Chief Financial Officer Global Reinsurance Corporation of America	2003
George R. Burman* Syracuse, NY	Professor of School of Management Syracuse University	2002
Franklin T. Dunn Irvine, CA	Managing Director and General Counsel Balboa Insurance Group	2006
Bernard A. Fine* Fayetteville, NY	Assistant Head Basketball Coach Syracuse University	2003
Carlos M. Garcia Thousand Oaks, CA	Executive Managing Director Countrywide Financial Corporation	2000
Andrew Gissinger, III Thousand Oaks, CA	Executive Managing Director Countrywide Financial Corporation	2001
Name and Residence	Principal Business Affiliation	Year First Elected
Ronald A. Closser Simi Valley, CA	Managing Director Balboa Insurance Group	2006
W. Myron Hendry Irvine, CA	Managing Director and Chief Operating Officer Balboa Insurance Group	2006
Robert V. James Irvine, CA	President and Chief Operating Officer Balboa Insurance Group	2004
John MacCaull, D.D.S.* Camillus, NY	Dentist	2003
Kenneth Mertzel	Managing Director	

Thousand Oaks, CA	Balboa Insurance Group	2006

* 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.

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

> “No domestic insurer shall make any loan or investment, except as provided in subsection (h) hereof, unless authorized or approved by its board of directors or a committee thereof responsible for supervising or making such investment or loan. The committee's minutes shall be recorded and a report submitted to the board of directors at its next meeting”.

The Company’s board of directors did not approve the Company’s investment activities during the examination period.

The Company violated Section 1411(a) of the New York Insurance law by failing to authorize and approve its investment activities during the examination period.

In an action by unanimous written consent, the board of directors approved retroactively on April 17, 2007 the Company’s investment activities during the examination period.

The following is a listing of the principal officers of the Company as of December 31, 2006:

Name	Title
Robert Vince James	President
Kenneth Louis Mertzel	Chief Financial Officer
Franklin Thomas Dunn	Secretary
Melvin D. Martinez*	Senior Vice President and Assistant General Counsel
Timothy M. Wilp	Valuation Actuary

* 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 New York only. The Company mainly writes group credit life and group credit accident and health insurance covering the outstanding monthly balances of a large credit client, American Express. In 2005 American Express, the sole master policyholder of the Company's Outstanding Monthly Balance ("OMB") credit life and credit disability business, decided to discontinue marketing these credit products. As a result, the Company is only servicing run-off of the existing in-force certificates of its OMB credit life and credit disability lines of business.

In 2005, the Company introduced two new 10 and 15 year level term products with face amounts ranging from $25,000 up to $400,000 in an effort to diversify its product offerings. The new term product produced a minimal amount of new business growth.

The Company's agency operations are conducted on a general agency, branch office, and direct response basis. American Express affiliated agents produced all of the Company's OMB business and Banco Popular affiliated agents generated all of the term life insurance business.

E. Reinsurance

As of December 31, 2006, the Company had two life reinsurance treaties in effect with authorized or accredited companies, one with Munich American Reassurance Company ("MARC") and the other with Security Life of Denver Insurance Company ("SLDI"). The Company also had four excess of loss or stop loss catastrophic reinsurance agreements with four international reinsurers designed to protect the Company against catastrophic events and abnormal loss experience. In 2005, the SLDI agreement was terminated for new business, but continued for in-force business.

Prior to the termination of the SLDI agreement, MARC and SLDI were assuming 37.5% of the Company's life insurance business each for a total cession of 75%. After the agreement with SLDI was cancelled, the agreement with MARC was revised increasing the ceding amount to that reinsurer to 50% of the Company's life business.

The maximum retention limit for individual life contracts is $200,000. The total face amount of life insurance ceded as of December 31, 2006, was $25,472,200, which represents 50% of the total face amount of life insurance in force, all of which was authorized or accredited.

The Company did not assume any business during the examination period.

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, 2003	December 31, 2006	Increase (Decrease)
Admitted assets	$15,330,039	$16,445,077	$1,115,038
Liabilities	$ 1,815,325	$ 835,323	$ (980,002)
Common capital stock	$ 2,000,000	$ 2,000,000	$ 0
Gross paid in and contributed surplus	10,005,554	10,005,554	0
Unassigned funds	1,509,160	3,604,200	2,095,040
Total capital and surplus	$13,514,714	$15,609,754	$2,095,040
Total liabilities, capital and surplus	$15,330,039	$16,445,077	$1,115,038

The Company's invested assets, as of December 31, 2006, were mainly comprised of bonds (98.9%) and cash and short-term investments (1.1%).

The Company's entire bond portfolio, as of December 31, 2006, 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):

	Individual Term		Group Credit Life	
Year	Issued	In Force	Issued & Increases	In Force
2004	$ 0	$ 0	$ 6,896	$81,736
2005	$39,415	$37,005	$11,561	$82,388
2006	$32,007	$50,807	$ 373	$66,740

The increase in individual term life business in 2005 and 2006 was related to the introduction of the new term products described in item 3D. The 2006 decrease in the group credit life business in-force was attributed to the fact that American Express is no longer marketing the credit life and credit disability products.

The Company started selling its Platform Term Life ordinary term life product in 2005. The ordinary lapse ratio for this line was 18% in 2005 and 44.4% in 2006. The Company's Platform Term Life underwriting manual indicates that the Company has a target of 90% or greater persistency rate for this line of business. However, even though the persistency rate fell below the target level, the Company neither investigated the reason persistency was far below its target nor performed any agent field investigations during the examination period to identify potential poor agent sales practices.

The examiner recommends that the Company determine the reasons for the high lapse ratios in its Platform Term Life product when actual persistency rates deviate significantly from expectations, including performing agent field investigations if necessary to identify potential poor agent sales practices in selling this product.

The following has been extracted from the Exhibits of Accident and Health Insurance in the filed annual statements for each of the years under review:

Group Credit Disability

	2004	2005	2006
Outstanding, end of previous year	48,669	47,507	44,075
Issued during the year	4,442	2,550	203
Other net changes during the year	(5,604)	(5,982)	(4,493)
Outstanding, end of current year	47,507	44,075	39,785

The decreasing trend in certificates in-force is attributed to the fact that this product is no longer being marketed by its sole policyholder, American Express, to its credit card members.

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:

	2004	2005	2006
Term life insurance	$ 0	$ (4,222)	$ (3,849)
Credit life	(245,675)	142,433	220,815
Credit accident and health	634,680	569,241	820,466
Total	$ 389,005	$707,452	$1,037,432

The 2004 credit life loss is primarily attributed to an increase in experience rating refunds incurred from $226,622 in 2003 to $494,863 in 2004. The increasing trend in net gain from the credit accident and health business is due to favorable morbidity experience, consolidation of the group operating functions under service agreements, discontinuance of contingent commission payments at the end of 2005, and a decrease in new business surplus strain since most premiums written are renewal business.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2006, as contained in the Company’s 2006 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, 2006 filed annual statement.

A. Assets, Liabilities, Capital and Surplus as of December 31, 2006

Admitted Assets

Bonds	$15,679,118
Cash, cash equivalents and short term investments	177,628
Investment income due and accrued	183,967
Uncollected premiums and agents’ balances in the course of collection	84,522
Deferred premiums, agents’ balances and installments booked but deferred and not yet due	18,608
Current federal and foreign income tax recoverable and interest thereon	14,294
Net deferred tax asset	5,787
Receivables from parent, subsidiaries, and affiliates	281,153
Total admitted assets	$16,445,077

<u>Liabilities, Capital and Surplus</u>

Aggregate reserve for life policies and contracts	$ 29,830
Aggregate reserve for accident and health contracts	471,950
Contract claims:	
Life	71,561
Accident and health	117,987
Interest maintenance reserve	96,532
General expenses due or accrued	849
Taxes, licenses and fees due or accrued, excluding federal income taxes	12,530
Asset valuation reserve	12,509
Reinsurance premium payable	21,575
Total liabilities	$ 835,323
Common capital stock	$ 2,000,000
Gross paid in and contributed surplus	10,005,554
Unassigned funds	3,604,200
Surplus	$13,609,754
Total capital and surplus	$15,609,754
Total liabilities, capital and surplus	$16,445,077

B. Condensed Summary of Operations

	2004	2005	2006
Premiums and considerations	$2,269,915	$2,255,297	$2,090,763
Investment income	594,616	606,092	721,625
Commissions and reserve adjustments on reinsurance ceded	0	24,460	42,914
Total income	$2,864,531	$2,885,849	$2,855,302
Benefit payments	$ 745,060	$649,547	$ 506,561
Increase in reserves	86,424	(64,107)	(71,852)
Commissions	226,991	283,165	303,917
General expenses and taxes	487,958	809,875	524,441
Increase in loading on deferred and uncollected premium	0	17,796	1,232
Miscellaneous deductions	748,057	126,537	0
Total deductions	$2,294,490	$1,822,813	$1,264,299
Net gain	$ 570,041	$1,063,036	$1,591,003
Federal and foreign income taxes incurred	181,036	355,583	553,571
Net gain from operations before net realized capital gains	$ 389,005	$ 707,453	$1,037,432
Net realized capital gains	7,903	0	0
Net income	$ 396,908	$ 707,453	$1,037,432

C. Capital and Surplus Account

	2004	2005	2006
Capital and surplus, December 31, prior year	$13,514,714	$13,871,601	$14,573,079
Net income	$ 396,908	$ 707,453	$ 1,037,432
Change in net deferred income tax	(62,036)	(22,213)	(4,096)
Change in non-admitted assets and related items	16,181	12,295	3,707
Change in asset valuation reserve	5,834	3,943	(368)
Net change in capital and surplus for the year	$ 356,887	$ 701,478	$ 1,036,675
Capital and surplus, December 31, current year	$13,871,601	$14,573,079	$15,609,754

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.

Section 2112(d) of the New York Insurance Law states:

> "Every insurer,…doing business in this state shall, upon termination of the certificate of appointment as set forth in subsection (a) of this section of any insurance agent licensed in this state, or upon termination for cause for activities as set forth in subsection (a) of section two thousand one hundred ten of this article, of the certificate of appointment, of employment, of a contract or other insurance business relationship with any insurance producer, file with the superintendent within thirty days a statement, in such form as the superintendent may prescribe, of the facts relative to such termination for cause. The insurer,… shall provide, within fifteen days after notification has been sent to the superintendent, a copy of the statement filed with the superintendent to the insurance producer at his, or her or its last known address by certified mail, return receipt requested, postage prepaid or by overnight delivery using a nationally recognized carrier. Every statement made pursuant to this subsection shall be deemed a privileged communication".

The Company did not notify the Department that it terminated the certificates of appointment of eight agents during the examination period.

The examiner recommends that when the Company terminates the certificate of appointment of any agent it should report such termination to the Department within thirty days pursuant to Section 2112(d) of the New York Insurance Law.

B. Underwriting and Policy Forms

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

> Section 403(d) of the New York Insurance Law states:
>
> "All applications for commercial insurance, individual, group or blanket accident and health insurance and all claim forms, except as provided for in subsection (e) of this section, shall contain a notice in a form approved by the superintendent that clearly states in substance the following:
>
> "Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information, or conceals for the purpose of misleading, information concerning any fact material thereto, commits a fraudulent insurance act, which is a crime, and shall also be subject to a civil penalty not to exceed five thousand dollars and the stated value of the claim for each such violation."

The fraud language used in the Company's credit accident and health claim form omits a statement that violators who commit a crime of fraud are subject to a civil penalty not to exceed five thousand dollars and the value of the claim for each such violation.

The Company violated Section 403(d) of the New York Insurance Law by using a claim form that did not contain the complete fraud warning as required by such law. The Company revised its credit accident and health claim form June 6, 2007 to include the missing required statement prospectively.

> Section 185.9 (a) of Department Regulation No. 27-A states in part:
>
> "…An insurer issuing group credit life and group credit accident and health insurance policies may pay commissions on said business only to the insurance agent or broker who solicits the master group policy and/or is designated the agent or broker of record. The general agent or agent or broker of record may not be:
> (1) the policyholder or any of its employees, officers or directors;
> (2) a trustee, trustees or agent or any of their employees, officers or directors, in the event that a group credit insurance policy is issued to a trustee, trustees or agent designated by two or more creditors or vendors; or
> (3) the creditor or vendor member of a trust or agency or any of its employees, officers or directors...."

The Company, since 2002, has paid contingent commissions of $1,684,958 to American Express Travel Related Services Inc., an affiliate of its sole credit life and credit disability master policyholder. BLIC, the parent of the Company, was responsible for the administration of this group contract. Department Regulation No. 27-A and the Company's own policy filing prohibit the payment of commission to an affiliate of the policyholder.

In January 2008, BLIC made a capital contribution of $1.7 million in cash to the gross paid in and contributed surplus of the Company. The contribution was made to resolve the overpayment of commissions paid to American Express Travel Related Services Inc.

The examiner recommends that the Company comply with Department Regulation No. 27-A and not pay commissions on a group credit policy to a group policyholder or its affiliate in the future.

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.

In 13 out of the 15 (87%) credit life death claims reviewed, the claim files did not contain explanation of benefit letters indicating to the beneficiary or the deceased's estate what amount the Company paid to the credit card issuer to reduce or pay off the insured's outstanding monthly credit card balance. In 7 out of the 15 (47%) cases, the Company included premium refunds and credit card payments applied after the date of death to the amount paid to the credit card issuer, thereby entitling the beneficiary to a refund of the amount paid to the credit card issuer in excess of the outstanding charge balance. Since the beneficiary or deceased's estate is not informed of the breakdown of the amount paid to the credit card company due to the lack of an explanation of benefit letter, the beneficiary or the deceased's estate may not be able to determine the correct amount to be refunded from the credit card issuer.

The examiner recommends that the Company send an explanation of benefit letter to the beneficiary or the deceased's estate indicating the distribution of the death benefit between the credit card issuer and the beneficiary or deceased's estate.

7. SUBSEQUENT EVENTS

A. The Company is a wholly owned subsidiary of BLIC, a California domiciled life insurance company. BLIC is a wholly owned subsidiary of BA Insurance Group, Inc., a Delaware corporation. On July 1, 2008, BLIC's former ultimate parent, Countrywide Financial Corporation ("CFC"), was acquired by Bank of America Corporation ("BAC") (the Ultimate Parent), a publicly traded company incorporated in Delaware. Effinity Financial Corporation ("EFC") received BLIC's issued and outstanding stock from its parent, CFC, after Balboa Insurance Group, Inc. transferred ownership of the Company via dividend to CFC effective November 7, 2008. BAC purchased EFC from CFC and EFC became a wholly owned subsidiary of BAC. On April 27, 2009, EFC was merged into NB Holdings Corporation which then contributed BLIC to BA Insurance Group Inc.

B. In January, 2008 BLIC made a capital contribution in cash of $1.7 million to the gross paid in and contributed surplus of the Company. (See item 6C of this report)

8. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the one violation and two recommendations 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 recommended 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. The Company did not receive any surplus contributions from its parent during the examination period.
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. The board of directors created on January 3, 2006, an audit committee comprised of board members not affiliated with the Company to fulfill the responsibilities specified in Section 1202(b)(2) of the New York Insurance Law.
C	The examiner recommended that the board form an independent committee to perform the duties required by Section 1202(b)(2) of the New York Insurance Law. As mentioned in Item B above, on January 3, 2006, the board of directors created an audit committee comprised of board members not affiliated with the Company to fulfill the responsibilities specified in Section 1202(b)(2) of the New York Insurance Law.

9. SUMMARY AND CONCLUSIONS

Following are the violations and recommendations contained in this report:

Item	Description	Page No(s).
A	The examiner recommends that only the Company's equitable share of marketing expense is allocated to it pursuant to Section 1505(a)(3) of the New York Insurance Law and that the Company recovers the $176,053.81 allocated in error by BLIC.	6-7
B	The Company violated Section 1411(a) of the New York Insurance law by failing to authorize and approve its investment activities during the examination period.	8
C	The examiner recommends that the Company determine the reasons for the high lapse ratios in its Platform Term Life product when actual persistency rates deviate significantly from expectations, including performing agent field investigations if necessary to identify potential poor agent sales practices in selling this product.	12
D	The examiner recommends that when the Company terminates the certificate of appointment of any agent it should report it to the Department within thirty days pursuant to Section 2112(d) of the New York Insurance Law.	18
E	The Company violated Section 403(d) of the New York Insurance Law by using a claim form that did not contain the complete fraud warning required.	19
F	The examiner recommends that the Company comply with Department Regulation No. 27-A and not pay commissions on a group credit policy to a group policyholder or its affiliate in the future.	19-20
G	The examiner recommends that the Company send an explanation of benefit letter to the beneficiary or the deceased's estate indicating the distribution of the death benefit between the creditor and the beneficiary or the deceased's estate.	20

Respectfully submitted,

/s/
Roberto Paradis
Senior Examiner

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

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

/s/
Roberto Paradis

Subscribed and sworn to before me

this__________ day of ____________________

APPOINTMENT NO. 22551

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:

ROBERTO PARADIS

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 30th day of October, 2006

HOWARD MILLS
Superintendent of Insurance

Superintendent