STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

FIRST CENTRAL NATIONAL LIFE INSURANCE COMPANY OF NEW YORK

AS OF

DECEMBER 31, 2003

DATE OF REPORT:	NOVEMBER 30, 2004
EXAMINER:	PHARES CATON

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

George E. Pataki
Governor

Gregory V. Serio
Superintendent

November 30, 2004

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

Sir:

In accordance with instructions contained in Appointment No. 22225, dated May 3, 2004**,** and annexed hereto, an examination has been made into the condition and affairs of First Central National Life Insurance Company of New York, hereinafter referred to as "the Company," at its home office located at 452 Fifth Avenue, New York, New York 10018.

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

On March 28, 2003, Household International, Inc., the Company's former ultimate parent, was acquired by HSBC Holdings, plc. ("HSBC"). HSBC is now the ultimate parent of the Company.

The Company violated Section 1505(d)(3) of the New York Insurance Law when it failed to comply with the terms of its filed cash and investment service agreement and pay for services that were provided by an affiliate. (See item 3B of this report)

The Company violated Section 1202(b)(2) of the New York Insurance Law when it failed to evaluate the performance of its principal officers in 2001 and 2002. (See item 3C of this report)

The Company violated Section 325(a) of the New York Insurance Law by failing to maintain the minutes of certain board committee meetings at its principal office in this state. (See item 3C of this report)

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)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2000. This examination covers the period from January 1, 2001 through December 31, 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

The examiner reviewed the corrective actions taken by the Company with respect to the violations and recommendation contained in the prior report on examination. The results of the examiner's review are contained in item 7 of this report.

This report on examination is confined to financial statements and comments on those matters which involve departure from laws, regulations or rules, or which require explanation or description.

3. DESCRIPTION OF COMPANY

A. History

The Company was incorporated as a stock life insurance company under the laws of the State of New York on September 30, 1971, under the name of American Republic Life Insurance Company of New York and was licensed and commenced business on November 9, 1971. Initial resources of $3,000,000, consisting of common capital stock of $1,000,000 and paid in and contributed surplus of $2,000,000, were provided through the sale of 10,000 shares of common stock (with a par value of $100 each) for $300 per share.

On November 9, 1981, Penn Mutual Life Insurance Company of Philadelphia acquired the Company. On November 18, 1986, Western National Life Holding Company Inc., whose ultimate parent was Beneficial Corporation ("Beneficial"), acquired the Company. On December 11 1986, the Company changed its name to American Western National Life Insurance Company.

On March 19, 1990, Western National Life Holding Company Inc., was dissolved and the ownership of the Company was transferred to The Central National Life Insurance Company of Omaha. On January 6, 1992, the Company's name was changed to First Central National Life Insurance Company of New York.

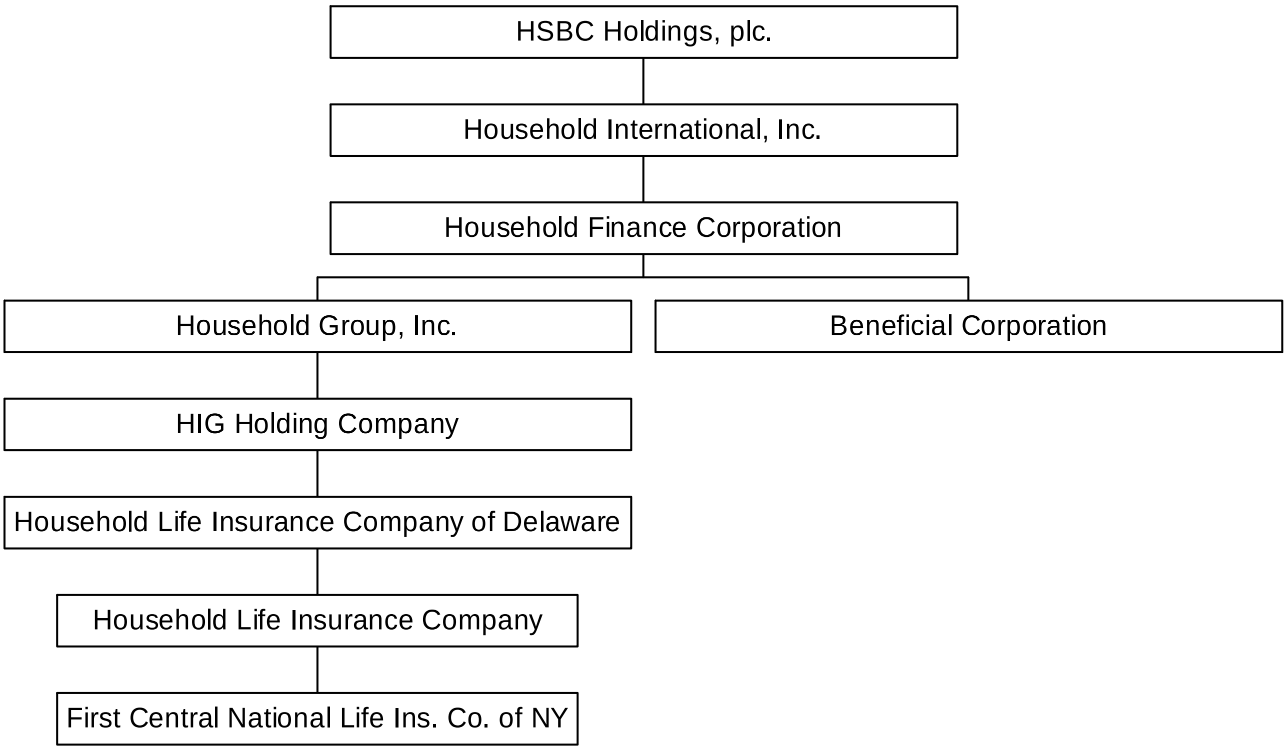
On June 30, 1998, Household International, Inc., ("HI") acquired Beneficial. In December 1999, HI sold The Central National Life Insurance Company of Omaha, and transferred the ownership of the Company to Household Life Insurance Company ("HLIC") a life insurance subsidiary of HI domiciled in Michigan.

On March 28, 2003, HI was acquired by HSBC Holdings, plc. ("HSBC"). HSBC is now the ultimate parent of the Company.

B. Holding Company

The Company is a wholly owned subsidiary of HLIC, which is a wholly owned subsidiary of HLIC of Delaware. HLIC of Delaware is in turn a wholly owned subsidiary of Household Insurance Group Holding Company ("HIG"), an insurance group holding company domiciled in the state of Delaware. HIG is a wholly owned subsidiary of Household Group, Inc., which is a wholly owned subsidiary of Household Finance Corporation ("HFC"). HFC is a wholly owned subsidiary of HI, which is owned by the Company's ultimate parent, HSBC.

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 two 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
Administrative Service Agreement 22853H	11/1/86	HIG	The Company	All services other than investment management services.	2001 ($458,975) 2002 ($798,302) 2003 ($1,280,962)
Cash and Investment Management Agreement 29505	8/31/01	HI	The Company	Cash and investment management services	2001 $0 2002 $0 2003 $0

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

Section 1505 of the New York Insurance Law states in part:

> "(a) Transactions within a holding company system to which a controlled insurer is a party shall be subject to the following:
> (3) expenses incurred . . . shall be allocated to the insurer on an equitable basis in conformity with customary insurance accounting practices consistently applied…
> (d) The following transactions between a domestic controlled insurer and any person in its holding company system may not be entered into unless the insurer has notified the superintendent in writing of its intention to enter into any such transaction at least thirty days prior thereto, or such shorter period as he may permit, and he has not disapproved it within such period . . .
> (3) rendering of services on a regular or systematic basis . . . "

The Company received investment management services during the examination period under the aforementioned Cash and Investment Management Agreement with HI, dated August 31, 2001, which was filed with the Department and provides that compensation to HI for its services shall be based on cost and allocated to the Company in accordance with the requirements of Department Regulation No. 33. The Company failed to reimburse HI for any of the investment services provided on its behalf.

The Company violated Section 1505(d)(3) of the New York Insurance Law when it failed to comply with the terms of its filed service agreement and pay for services that were provided by an affiliate.

C. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than 13 and not more than 17 directors. Directors are elected for a period of one year at the annual meeting of the stockholders held in February of each year. As of December 31, 2003, the board of directors consisted of 13 members. Meetings of the board are held quarterly.

The 13 board members and their principal business affiliation, as of December 31, 2003, were as follows:

Name and Residence	Principal Business Affiliation	Year First Elected
Kenneth Edward Baldes Grand Island, NY	Senior Vice President & COO HSBC Insurance Agency	2003
Ann Constance Berzin* New York, NY	Director Ingersoll Rand Company Ltd.	2003
Patrick Anthony Cozza Oldwick, NJ	President and CEO First Central National Life Insurance Company of New York Group Executive-Insurance Services & Refund Lending Household Insurance Services	1988
Jo Ann Davis* Ringoes, NJ	Retired	2001
George Thomas Henry Asbury, NJ	Group Director, Chief Compliance Officer Household Insurance Services	2002
Alan Michael Komensky Bernardsville, NJ	Vice President and Secretary and General Counsel First Central National Life Insurance Company of New York General Counsel Household Insurance Services	2003
William David Latza* New York, NY	Associate Partner Stroock, Stroock & Lavan LLP	1987

Gerard Lunemann Hillsborough, NJ	Vice President and Actuary First Central National Life Insurance Company of New York Actuarial Director Household Insurance Services	1988
Daniel Richard O'Brien* Little Silver, NJ	Retired	1987
Claudia Henry Ormrod Hopatcong, NJ	Director Government Relations & Regulatory Issues Household Insurance Services	1996
Susan First Pollack* New York, NY	Counsel Curtis, Mallet-Provost, Colt & Mosle	1998
Timothy Joseph Titus Ringoes, NJ	Treasurer First Central National Life Insurance Company of New York CFO and Director- Financial Control Household Insurance Services	1998
Brian Joseph Young New Westminister, BC Canada	President and CEO HSBC Canadian Direct Insurance Inc.	2003

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

Brian Joseph Young, resigned and was replaced by Stephen J. Tich on February 27, 2004. On January 1, 2004, Susan First Pollack resigned and was replaced by Lorraine Gash.

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 . . . Such committee or committees shall have responsibility for . . . 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 . . ."

The Company's Audit committee failed to evaluate the performance of the principal officers during 2001 and 2002. The committee performed the evaluations in 2003.

The Company violated Section 1202(b)(2) of the New York Insurance Law when it failed to evaluate the performance of the principal officers in 2001 and 2002.

Section 325(a) of the New York Insurance Law states in part:

> "Every domestic insurer . . . shall . . . keep and maintain at its principal office in this state . . . the minutes of any meetings of its board of directors and committees thereof . . . "

The Company did not maintain the minutes of the meetings of the Investment Committee and Audit Committee at its principal office in this State.

The Company violated Section 325(a) of the New York Insurance Law when it failed to maintain the minutes of the meetings of the Investment and Audit Committees of the board of directors at its principal office in this State.

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:

Name	Title
Patrick Anthony Cozza	President and CEO
William Heynacher Kesler	Vice President
Alan Michael Komensky*	Vice President and Secretary and General Counsel
Gerard Lunemann	Vice President and Actuary
Dennis Joseph Mickey	Vice President
Perry Joseph Morelli	Vice President
Timothy Titus	Treasurer

* 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 two states, namely New York and Delaware. In 2003, 98.8% of life insurance premiums were received from New York. Policies are written on a non-participating basis.

The principal business sold during the examination was group credit life insurance and group credit accident and health insurance.

The Company does not have an agency sales force. Insurance is offered through affiliated company loan offices. A borrower who receives a loan from one of the Company's affiliates is eligible to apply for credit life and/or credit disability insurance under a group master policy. The salaried employees of the affiliates do not receive commissions or any compensation related to the sale of insurance products.

E. Reinsurance

As of December 31, 2003, the Company had one reinsurance treaty in effect with Employers Reassurance Corporation, an accredited reinsurer. Under the agreement, the Company ceded 100% of its ordinary life business, a closed block of business, on a 100% coinsurance basis. In connection with this reinsurance transaction, the Company has also entered into an agreement with Americo Services, Inc., which serves as a third party administrator on behalf of the Company for the ordinary life business.

The total face amount of life insurance ceded, as of December 31, 2003, was $12,698,000, which represents 100% of the Company's ordinary life insurance and 2.3% of the Company's total face amount of life insurance in force.

4. SIGNIFICANT OPERATING RESULTS

Indicated below is significant information concerning the operations of the Company during the period under examination as extracted from its filed annual statements. Failure of items to add to the totals shown in any table in this report is due to rounding.

The following table indicates the Company's financial growth (decline) during the period under review:

	December 31, 2001	December 31, 2003	Increase (Decrease)
Admitted assets	$50,213,120	$46,736,999	$(3,476,121)
Liabilities	$19,802,846	$15,347,122	$(4,455,724)
Common capital stock	$ 1,000,000	$ 1,000,000	$ 0
Gross paid in and contributed surplus	9,200,000	9,200,000	0
Unassigned funds (surplus)	20,210,274	21,189,877	979,603
Total capital and surplus	$30,410,274	$31,389,877	$ 979,603
Total liabilities, capital and surplus	$50,213,120	$46,736,999	$(3,476,121)

The Company's invested assets as of December 31, 2003, were mainly comprised of bonds (96.4%) and cash and short-term investments (3.6%). The Company's entire bond portfolio, as of December 31, 2003, was comprised of investment grade obligations.

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

	2001	2002	2003
Ordinary:			
Life insurance	$ 0	$ 0	$ 0
Individual annuities	13,542	19,604	176,357
Supplementary contracts	472	0	0
Total ordinary	$ 14,014	$ 19,604	$ 176,357
Group Credit life	$ 982,118	$ 594,356	$1,042,632
Group Credit accident and health	$2,690,196	$3,236,143	$1,461,331
Total	$3,686,328	$3,850,015	$2,680,320

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus 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	$43,950,132
Cash and short term investments	1,619,981
Net deferred tax asset	169,192
Investment income due and accrued	627,511
Receivable from parent, subsidiaries and affiliates	370,183
Total admitted assets	$46,736,999

Liabilities, Capital and Surplus

Aggregate reserve for life policies and contracts	$ 4,121,027
Aggregate reserve for accident and health policies	8,048,362
Policy and contract claims:	
Life	1,437,972
Accident and health	341,938
Policy and contract liabilities:	
Interest maintenance reserve	465,214
Commissions to agents due or accrued	220,000
General expenses due or accrued	64,000
Federal and foreign income taxes	227,772
Remittances and items not allocated	58,696
Miscellaneous liabilities:	
Asset valuation reserve	55,492
Payable to parent, subsidiaries and affiliates	306,649
Total liabilities	$15,347,122
Common capital stock	$ 1,000,000
Gross paid in and contributed surplus	9,200,000
Unassigned funds (surplus)	$21,189,877
Total capital and surplus	$31,389,877
Total liabilities, capital and surplus	$46,736,999

B. CONDENSED SUMMARY OF OPERATIONS

	2001	2002	2003
Premiums and considerations	$6,602,990	$5,912,641	$6,686,320
Investment income	3,348,058	3,089,518	2,641,982
Miscellaneous income	(7)	(7)	0
Total income	$9,951,041	$9,002,152	$9,328,302
Benefit payments	$5,201,853	$5,438,048	$5,931,224
Increase in reserves	(1,351,215)	(3,101,175)	(2,249,876)
Commissions	0	0	220,000
General expenses and taxes	681,706	1,069,586	1,523,902
Total deductions	$4,532,344	$3,406,459	$5,425,250
Net gain (loss)	$5,418,697	$5,595,693	$3,903,052
Dividends	0	0	0
Federal and foreign income taxes incurred	1,732,369	1,745,590	1,222,732
Net gain (loss) from operations before net realized capital gains	$3,686,328	$3,850,103	$2,680,320
Net realized capital gains (losses)	0	(363,170)	(2,205)
Net income	$3,686,328	$3,486,933	$2,678,115

C. CAPITAL AND SURPLUS ACCOUNT

	2001	2002	2003
Capital and surplus, December 31, prior year	$29,446,928	$30,410,274	$31,569,796
Net income	$ 3,686,328	$ 3,486,933	$ 2,678,115
Change in net deferred income tax	0	0	(139,886)
Change in non-admitted assets and related items	0	(461,641)	(27,345)
Change in asset valuation reserve	(22,983)	170,914	9,197
Cumulative effect of changes in accounting Principles	0	663,316	0
Dividends to stockholders	(2,700,000)	(2,700,000)	(2,700,000)
Net change in capital and surplus	$ 963,345	$ 1,159,522	$ (179,919)
Capital and surplus, December 31, current year	$30,410,274	$31,569,796	$31,389,877

6. MARKET CONDUCT ACTIVITIES

The examiner reviewed various elements of the Company's market conduct activities affecting policyholders, claimants, and beneficiaries to determine compliance with applicable statutes and regulations and the operating rules of the Company.

A. Advertising and Sales Activities

The examiner reviewed a sample of the Company's advertising files and the sales activities of the agency force including trade practices, solicitation and the replacement of insurance policies.

Based upon the sample reviewed, no significant findings were noted.

B. Underwriting and Policy Forms

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

The Company's group credit life insurance underwriting guidelines specify that an applicant seeking insurance on a loan amount greater than $35,000, must be medically underwritten. The examiner reviewed 10 credit life insurance applications and noted that 4 of these applications were for insurance greater than $35,000 and no medical underwriting was performed. The policies were issued for the amount requested. The examiner recommends that the Company adhere to its underwriting guidelines.

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.

Section 243.2(b)(1) of Department Regulation No. 152 states in part:

> "b) Except as otherwise required by law or regulation, an insurer shall maintain:
>
> (1) A policy record for each insurance contract or policy for six calendar years after the date the policy is no longer in force or until after the filing of the report on examination in which the record was subject to review, whichever is longer… A policy record shall include:

> (ii) The application, including any application form or enrollment form for coverage under any insurance contract or policy…”

During the review of the credit life insurance expiry files, the examiner noted that the application forms were missing from 4 of the 10 sample files reviewed. The Company was unable to locate these forms.

The Company violated Section 243.2(b)(1) of Department Regulation No. 152 by not maintaining policy records as required by the Regulation.

7. PRIOR REPORT SUMMARY AND CONCLUSIONS

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

Item	Description
A	The Company violated Section 1505(d)(3) of the New York Insurance Law by receiving services from its ultimate parent without giving prior notification to the Superintendent. The Company received approval for such services in 2001.
B	The Company violated Section 308(a) of the New York Insurance Law by failing to file a copy of its tax allocation agreement with the Department in accordance with Department Circular Letter No. 33 (1979). The Company filed the tax allocation agreement in 2001.
C	The Company violated Section 1202(b)(2) of the New York Insurance Law by failing to have the Audit Committee perform all of its responsibilities as stated in the Law. The audit committee did not perform all of its responsibilities in 2001 and 2002. A similar violation is noted in this report on examination.
D	The Company violated Section 2122(a)(2) of the New York Insurance Law by calling attention to unauthorized insurers in its correspondence with New York policyholders and beneficiaries. The examiner did not find any significant instances of calling attention to unauthorized insurers during this examination period.
E	The Company violated Section 3201(b)(1) of the New York Insurance Law by using an unapproved policy form. The Company received approval for the policy form in 2001.
F	The Company violated Section 403(d) of the New York Insurance Law by failing to include the required fraud warning statement in its application and claim forms. The fraud warning statement has been added to the appropriate forms.

Item	Description
G	The Company violated Section 3201(b)(4)(A) of the New York Insurance Law and Section 185.7(o) of Department Regulation No. 27-A by charging policyholders a premium rate in excess of the approved rate. The excess premiums have been refunded with interest.
H	The Company violated Section 3214(c) of the New York Insurance Law by failing to pay interest on ordinary death claims in accordance with the Law. Interest on ordinary death claims was paid appropriately.
I	The examiner recommends that the Company include all the information required by Department Circular Letter No. 11 (1978) in its complaint log. The Company modified its complaint log to include the required information.
J	The Company violated Section 1314(a)(1) of the New York Insurance Law by failing to maintain securities held for the account of the Superintendent in New York State. The account is now being held at a New York State bank.
K	The Company violated Section 325(a) of the New York Insurance Law by failing to maintain its books of account at its principal office in this state. The Company's books of account and accounting files were maintained in its New York office.
L	The Company violated Section 91.4(f)(5) of Department Regulation No. 33 for using general indexes as a basis of allocating expenses. The Company has developed time studies to allocate expenses.
M	The Company violated Section 243.2(b)(1)(ii) of Department Regulation No. 152 by failing to maintain policy records as required by the Regulation. The Company stated that it is imaging applications in order to comply with the Regulation. However, the examiners found instances where policy records were not maintained as required by the Regulation. This is a repeat violation.

8. SUMMARY AND CONCLUSIONS

Following are the violations and recommendation contained in this report:

Item	Description	Page No(s).
A	The Company violated Section 1505(d)(3) of the New York Insurance Law when it failed to comply with its service agreement.	6
B	The Company violated Section 1202(b)(2) of the New York Insurance Law when it failed to evaluate the performance of its principal officers in 2001 and 2002.	8
C	The Company violated Section 325(a) of the New York Insurance Law when it failed to maintain the minutes of the meetings of the board committees at its principal office in this state.	9
D	The examiner recommends that the Company adhere to its underwriting guidelines.	17
E	The Company violated Section 243.2(b)(1) of Department Regulation No. 152 when it failed to maintain policy records as required by the Regulation.	17

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. 22225

STATE OF NEW YORK

INSURANCE DEPARTMENT

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

PHARES CATON

as a proper person to examine into the affairs of the

FIRST CENTRAL NATIONAL LIFE INSURANCE COMPANY OF NEW YORK

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

COMPANY

with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by name and affixed the official Seal of the Department at the City of New York

this 3rd day of May, 2004

GREGORY V. SERIO
Superintendent of Insurance

Superintendent