

REPORT ON EXAMINATION
OF THE
MELLON LIFE INSURANCE COMPANY
AS OF
DECEMBER 31, 2012

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT OF EXAMINATION, made as of December 31, 2012 of the

MELLON LIFE INSURANCE COMPANY

is a true and correct copy of the document filed with this Department.

Attest By: Brandi Biddle

Date: June 12, 2014



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 12th day of June, 2014.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

REPORT OF EXAMINATION
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MELLON LIFE INSURANCE COMPANY
AS OF
DECEMBER 31, 2012

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 12th day of June, 2014

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SALUTATION

April 14, 2014

Honorable Karen Weldin-Stewart-CIR-ML,
Commissioner
Delaware Department of Insurance
Rodney Building
841 Silver Lake Boulevard
Dover, Delaware 19904

Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 13.023 dated March 25, 2013, an examination has been made of the affairs, financial condition and management of the

MELLON LIFE INSURANCE COMPANY

hereinafter referred to as the “Company” or “Mellon” and incorporated under the laws of the State of Delaware as a stock company with its statutory home office located at P.O. Box 1347, Wilmington, Delaware 19899. The examination was conducted at the administrative offices of the Company, located at One BNY Mellon Center, Pittsburgh, Pennsylvania 15258.

The report of this examination is respectfully submitted.

SCOPE OF EXAMINATION

The last examination was performed as of December 31, 2008. This examination covered the period of January 1, 2009 through December 31, 2012, and encompasses a general review of transactions during the period, the Company’s business policies and practices, as well as management and relevant corporate matters, with a determination of the financial condition of

the Company at December 31, 2012. Transactions subsequent to the examination date were reviewed where deemed necessary.

The examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook (Handbook)* and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware. The *NAIC Handbook* requires that examiners perform an examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and applicable annual statement instructions.

All accounts and activities of the Company were considered in accordance with the risk focused examination process. The examination report addresses regulatory issues reviewed during the examination process.

The Company was exempt from having audited financials during the course of this examination period. Consideration was given to work performed by INS Financial Services, an external IT control review firm. Certain work papers of their 2012 review have been incorporated into the work papers of the examiners and have been utilized in determining the scope, areas of emphasis in conducting the examination and in the area of tests of controls and risk mitigation.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings or material adjustments to the Company's financial statement that warranted disclosure in this examination report.

SUBSEQUENT EVENTS

There were no material subsequent events.

COMPANY HISTORY

The Company was incorporated on April 25, 1980, under the laws of the State of Delaware as a stock life insurance company having perpetual existence. Its original Delaware Certificate of Authority was issued on November 25, 1980, and authorized the Company to transact the business of life and health insurance.

On December 31, 1984, the Company purchased and merged with Giraco Life Insurance Company of Phoenix, Arizona. The Company was the surviving corporation.

Until March 1997, credit life and disability business was primarily assumed from Prudential Insurance Company of America (Prudential). Since 1995, the Company has also reinsured a small block of credit life and disability business from American General Assurance Company, formerly known as US Life Credit Life Insurance Company. Effective March 1997, the Company entered into an agreement with Union Security Life Insurance Company (Union), under which Union replaced Prudential as direct writer.

On March 20, 2000, the Delaware Department of Insurance approved an exemption from filing Form A, connected with the corporate reorganization and restructuring that effected a change of direct ownership of the Company from MBC Investments Corporation to Mellon Leasing Corporation. The ultimate parent remained the same, Mellon Financial Corporation.

On December 1, 2001, the Company sold its Mid-Atlantic Region consumer and small

business and certain middle market banking operations. For this reason, the Company is effectively in run-off.

On July 1, 2007, The Bank of New York Mellon Corporation acquired ultimate indirect control of the Company by virtue of the mergers of Mellon Financial Corporation and The Bank of New York Company, Inc., with and into The Bank of New York Mellon Corporation. On July 1, 2008, The Bank of New York Mellon Corporation effectuated an internal reorganization, which involved, in relevant part, changing the indirect parent companies of the Company from Mellon Bank, N.A. to The Bank of New York Mellon. (See section “**Holding Company System**” for organizational chart)

CAPITALIZATION

The Company's Certificate of Incorporation authorized the issuance of 3,500 shares of common stock with a par value of \$100 per share. As of December 31, 2008, the Company had issued 3,500 shares of common stock, all of which are owned by Mellon Leasing Corporation, a wholly owned subsidiary of The Bank of New York Mellon, which is a wholly owned subsidiary of The Bank of New York Mellon Corporation.

DIVIDENDS TO STOCKHOLDER

According to Company records and as reflected in the minutes to the Board of Director meetings, the Company did not pay dividends during the exam period.

CORPORATE RECORDS

The bylaws and a review of Company corporate records showed that regular business of the Shareholder and Board of Directors was conducted via Written Consents in lieu of regular meetings. The above Company's business practice complied with the bylaws and charter.

MANAGEMENT AND CONTROL

The Company's bylaws, adopted September 2, 1986, as amended, state that its business and affairs shall be managed by a Board of Directors (Board), five in number; thereafter, the number shall be fixed by the Board, but shall not be less than three. Directors are elected at the annual meeting of the stockholder and hold office until a successor is elected and qualified. It is not necessary for the Directors to be a stockholder.

The following constitutes the Board of Directors as of December 31, 2012:

Philip K. Kocher, Chairman
Jean C. Fletcher
William E. Mulry

The bylaws, as amended, state that the officers of the Company shall include a Chairman of the Board, a President, a Secretary and a Treasurer. The Board may also appoint one or more Vice Chairmen of the Board, one or more Vice Presidents, and such other officers as are from time to time desired. The following were elected by unanimous vote of the Board at the meeting of April 16, 2012, as officers of the Company:

Phillip K. Kocher	Chairman, President and Chief Executive Officer
Jean C. Fletcher	Vice President and Assistant Secretary
William E. Mulry	Treasurer
Gary E. Abbs	Assistant Treasurer – Tax***
Joanne S. Huber	Assistant Treasurer – Tax***
Claudine Orioski	Assistant Treasurer – Tax***
Barbara J. Parrish	Secretary
Mary Lou Olinski	Assistant Secretary
Cristina M. Rice	Assistant Secretary

*** For the sole purpose of signing any and all tax returns on behalf of the Company.

The Company has Conflict of Interest Policies and Procedures that are handled through “The Bank of New York Mellon Corporation” (the Company's ultimate parent). Conflict of

Interest Statements are completed on an annual basis by Directors, Officers and responsible employees.

HOLDING COMPANY SYSTEM

The Company is a member of an Insurance Holding Company System. The ultimate parent of the system is “The Bank of New York Mellon Corporation”, a bank holding company. The following is an organizational chart which reflects the identities and interrelationships between the Company, its parent, affiliated insurers and other members of the system as of December 31, 2012:

THE BANK of NEW YORK MELLON CORPORATION
THE BANK of NEW YORK MELLON
MELLON LEASING CORPORATION

MELLON LIFE INSURANCE COMPANY

Copies of the “Form B Company Holding Registration Statements” filed with the Delaware Insurance Department during the period under examination, were reviewed and found to comply with the provisions of Regulation 13 of the Delaware Insurance Code.

AFFILIATED AGREEMENTS

The following agreements were in effect between the Company and its affiliates at December 31, 2012.

Tax Allocation and Tax Sharing Agreement

The Company files a consolidated federal income tax return with its parent under a written Tax Allocation Policy and Tax Sharing Agreement, effective for all tax periods beginning after December 31, 1992 whereby the federal income tax provision is computed on a separate return basis. This agreement was updated on June 1, 2004.

Services Agreement

The Company's investments are held by an affiliated company, The Bank of New York Mellon, under a written investment management and custodial agreement. Under this agreement, BNY Mellon manages all assets in accordance with written instructions of the Company and continuously reviews the suitability of assets and makes recommendations regarding any changes in investments. Under this agreement, The Bank of New York Mellon is allowed to charge reasonable fees for these services. The Company paid investment service fees to The Bank of New York Mellon of \$17,659 for the year ended December 31, 2012.

Investment Management Agreement

The Company entered into an Investment Management Agreement with Standish Mellon Asset Management, LLC (“Standish”). Standish shall supervise and direct, in its sole discretion, based on written investment guidelines provided by the Company, investments without further consultation. This appointment includes the appointment of Standish as agent and attorney-in-fact with full and exclusive power and authority for and on behalf of the Company’s Account (a) to buy, sell, exchange, convert and otherwise trade in any and all municipal, corporate, mortgaged-backed, U.S. Government debt securities as well as certificates of deposits and commercial paper, equities, mutual funds including no-load money market funds and (b) to establish, maintain and deal through accounts with one or more securities brokerage firms as Standish Mellon may select. The Company paid Standish \$35,562 for the year ended December 31, 2012.

Services Agreement

Effective January 1, 2009, the Company entered into a "Service Agreement" whereby MBSC Securities Corporation (“MBSC”), an affiliate of the Company, will provide qualified

personnel with appropriate managerial and administrative background as well as providing facilities, equipment and supplies, in order that the Company can conduct its business. The Company paid MBSC \$64,104 for the year ended December 31, 2012.

UNAFFILIATED AGREEMENTS

Services Agreement

Effective January 1, 1996, and updated and restated on January 1, 2000, the Company entered into a "Service Agreement" with GPW & Associates (formerly known as Watson Wyatt & Company). Under the provisions of the agreement, GPW & Associates is to perform regular services that include maintenance of books and ledgers of the Company; preparation of the annual statutory statement that is filed with the Delaware Department of Insurance and the NAIC; preparation of the federal income tax return of the Company that is used in the consolidated return of the parent; preparation of the first, second, and third quarter statutory financial statement, that are filed with the Delaware Department of Insurance and the NAIC; and preparation of monthly GAAP and statutory financial statements. Additional services may be provided upon request of the Company. The Company paid GPW & Associates, \$54,710 for the year ended December 31, 2012.

Services Agreement

Effective March 15, 1997, the Company entered into a "Service Agreement" with Union Security Life Insurance Company ("Union"), successor American Bankers Life Assurance Company of Florida. Under the provisions of the agreement, Union shall establish the Company's policy reserves for credit life insurance and unearned premium reserves for credit accident and health insurance; provide information and render assistance in connection with periodic examinations of the Company by independent auditors; and make available upon

request, its expertise in underwriting, training, marketing, policy forms design, actuarial matters and data processing.

FIDELITY BONDS AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$1,000,000 with a deductible of \$50,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC.

The Company also maintained General Liability, Excess Liability, Executive Risk Liability and Property insurance coverage.

The limits of coverage in the current bond meet the amount of fidelity bond insurance suggested by the *NAIC Handbook*.

The Company was insured as a subsidiary under a Crime & Liability Policy for Financial Institutions issued in the name of its Parent. The limits of liability, as of the examination date, were within NAIC established guidelines. Insuring agreements included: fidelity, on premises, in transit, forgery or alteration, securities, counterfeit currency, fraudulent mortgages and computer systems.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

Company has no employees and is managed through the MBSC service agreement, see affiliate agreement above. Therefore, the Company does not have a pension plan, profit sharing system or bonus plans for employees.

TERRITORY AND PLAN OF OPERATION

Territory:

The Company is licensed to do business in the State of Delaware only.

Plan of Operation:

During the examination period, the Company did not write direct business. The Company limits its business to the assumption of credit life and accident and health insurance from non-affiliated insurers who provide coverage for Mellon Bank loan customers. The Company currently only assumes renewal business and is in run-off since December 1, 2001. (See section “**History**” for additional information)

GROWTH OF THE COMPANY

The Financial growth of the Company since the last examination (2008) compiled from its annual statements is summarized as follows:

<u>Year</u>	<u>Admitted Assets</u>	<u>Capital and Surplus</u>	<u>Net Premium Written</u>	<u>Net Income</u>
2012	\$25,028,439	\$24,697,908	\$161,367	\$ 29,991
2011	25,206,830	24,673,849	199,173	121,060
2010	25,611,471	24,687,984	276,361	214,381
2009	25,719,106	24,469,137	283,178	636,708
2008	26,126,775	24,303,728	306,219	914,452

All of the Company’s listed growth factors have declined during the period covered by this examination as indicated below:

- A 4.2% decrease in admitted assets
- A 1.6% increase in surplus
- A 47.3% decrease in premiums
- A 96.7% decrease in net income

The following factors contributed to the Company's decline in the listed growth factors:

- The Company's decline in premiums was a direct result of the Company not writing or assuming any new business during the period covered by this examination.
- The Company decline in net income was a result of the general market conditions and decline of interest rates, from 2008 through 2012.

LOSS EXPERIENCE

Reserves for incurred losses and loss adjustment expenses attributable to insured events of prior years have not changed as a result of re-estimation of unpaid losses and loss adjustment expenses.

REINSURANCE

Following is a summary of the one assumed reinsurance contract in place as of December 31, 2012. The Company had no ceded reinsurance contracts during the exam period.

Assumed

Type of Contract	Effective Date	Line of Business	Limits
100% Quota Share Reinsurance Agreement	3/15/97	Credit life (MOB) Single Premium Life and credit accident and health (disability)	\$50,500 \$60,000 \$800 monthly

The Company assumes 100% of the credit life and accident and health insurance written or assumed by Union Security Life Insurance Company in connection with consumer loans made through Mellon Bank N.A.

As of December 31, 2012, the Company had assets held in trust under reinsurance treaty trust agreements of \$464,417 to ensure its performance under this reinsurance agreement

as properly disclosed in the General Interrogatories of the 2012 Annual Statement.

ACCOUNTS AND RECORDS

The accounts and records reviewed included an evaluation of the Company's operational and organizational controls. The areas evaluated included computer systems, accounting systems, organizational structure and the processing structure.

The Company contracts with an outside accounting and actuarial consulting company, GPWA, to maintain its accounting records. See detailed discussion of this agreement under the section entitled "Management and Service Agreements."

The Company's books and records were reviewed and compared to reported items and values in the Annual Statements. The trial balance for the current year under review was traced to the Company's Annual Statement.

The accounts and records review included an assessment of the Company's risk management process in identifying and controlling risks in the key operational areas of the Company. In making the assessment in each key area, processes were reviewed, risks were identified and operational and organizational controls were identified and tested in compliance with the *NAIC Handbook*.

STATUTORY DEPOSITS

Listed below is the Company's statutory deposit.

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
DE	<u>\$104,922</u>	<u>\$104,922</u>

The special deposits were confirmed as of December 31, 2012.

FINANCIAL STATEMENTS

The following statements show the assets, liabilities, surplus and other funds of the Company, as determined by this examination, as of December 31, 2012.

Assets
Liabilities, Surplus and Other Funds
Statement of income
Reconciliation of Capital and Surplus
Analysis of Changes in the Financial Statements

It should be noted that the various schedules and exhibits may not add to the totals shown due to rounding. Narratives on certain individual accounts were included to provide the reader with additional supporting information.

**MELLON LIFE INSURANCE COMPANY
ASSETS
DECEMBER 31, 2012**

Assets	Ledger Assets	Non-Admitted Assets	Net-Admitted Assets	Notes
Bonds	\$ 7,263,211		\$ 7,263,211	1
Cash	135,395		135,395	
Short term Investmentrs	17,412,514		17,412,514	
Investment income due and accrued	68,076		68,076	
Premiums and considerations:				
Uncollected premiums and agents' balances in course of collection	11,797	\$ -	11,797	
Current federal income tax recoverable	136,748		136,748	
Net deferred tax asset	1,649	951	698	
IMR Asset	15,307	15,307	0	
	<hr/>	<hr/>	<hr/>	
Total Assets	<u>\$ 25,044,697</u>	<u>\$ 16,258</u>	<u>\$ 25,028,439</u>	

**MELLON LIFE INSURANCE COMPANY
LIABILITES, SURPLUS AND OTHER FUNDS
DECEMBER 31, 2012**

		<u>Notes</u>
Aggregate reserve for life contracts	\$ 99,431	2
Aggregate reserve for accident and health contracts	89,826	2
Interest maintenance reserve (contract liabilities not included elsewhere)	-	
Commissions and expense allowances payable on reinsurance assumed	6,934	
General expenses due or accrued	127,369	
Taxes; licenses and fees due or accrued; excluding federal income taxes	750	
Asset valuation reserve (miscellaneous liabilities)	<u>6,221</u>	
Total liabilities (Lines 1 to 23)	<u>\$ 330,531</u>	
Common capital stock	350,000	
Gross paid in and contributed surplus	13,676,065	
Unassigned funds (surplus)	<u>10,671,843</u>	
Total capital and surplus	<u>\$ 24,697,908</u>	
Total liabilities; capital and surplus	<u><u>\$ 25,028,439</u></u>	

**MELLON LIFE INSURANCE COMPANY
SUMMARY OF OPERATIONS
DECEMBER 31, 2012**

Premiums and annuity considerations for life and accident and health contracts	\$ 161,367
Net investment income	335,947
Amortization of Interest Maintenance Reserve (IMR)	21,417
Totals	<u>\$ 518,731</u>
Death benefits	281,722
Increase in aggregate reserves for life and accident and health contracts	<u>(132,278)</u>
Totals	149,444
Commissions and expense allowances on reinsurance assumed	88,971
General insurance expenses	232,371
Insurance taxes; licenses and fees; excluding federal income taxes	1,811
Totals	<u>\$ 472,597</u>
Net gain from operations before dividends to policyholders and federal income taxes	\$ 46,134
Dividends to policyholders	-
Net gain from operations after dividends to policyholders and before federal income taxes	46,134
Federal and foreign income taxes incurred (excluding tax on capital gains)	16,143
Net gain from operations after dividends to policyholders and federal income tax and before realized capital gains or (losses)	<u>29,991</u>
Net income (net gain from operations after dividends to policyholders plus net realized capital gains or (losses))	<u>\$ 29,991</u>

**MELLON LIFE INSURANCE COMPANY
RECONCILIATION OF CAPITAL AND SURPLUS
FROM DECEMBER 31, 2008 to DECEMBER 31, 2012**

Capital and Surplus Account

Capital and Surplus, December 31, 2008	<u>\$ 24,303,728</u>
Net Income	\$ 1,002,140
Change in net deferred income tax	(44,314)
Change in nonadmitted assets	10,938
Change in asset valuation reserve	29,977
Aggregate write-ins for gains and losses in surplus	(604,561)
Change in surplus as regards policyholders for the period under examination	<u>\$ 394,180</u>
Capital and Surplus, December 31, 2012	<u><u>\$ 24,697,908</u></u>

**ANALYSIS OF CHANGES IN THE FINANCIAL STATEMENTS
DECEMBER 31, 2012**

There were no financial adjustments to the Company's financial statements as a result of this examination.

NOTES TO THE FINANCIAL STATEMENTS

(Note 1)

Bonds

\$7,263,211

Long-term bonds constitute the second largest category of assets at December 31, 2012, representing approximately 26.9% of reported total admitted assets. 100 % of the Company's long-term bonds are rated as Class 1 or Class 2 by the NAIC as of December 31, 2012.

(Note 2)

Aggregate reserve for life contracts

\$ 99,431

Life (contract claims)

\$ 89,826

\$ 189,257

The above-captioned amount, which is the same as that reported by the Company in its' Annual Statement, has been accepted for purposes of this report.

The Delaware Department of Insurance retained the services of INS Consultants, Inc. (INS), to conduct an independent review of the Company's Aggregate reserve for life contracts and life contract claims as of December 31, 2012. The INS analysis was performed using a risk-focused approach according to the guidelines contained in the NAIC Handbook.

The conclusions set forth in INS's report are based on information provided by the Company, including the 2012 Annual Statements, the related 2012 Statement of Actuarial Opinion with underlying actuarial work papers.

INS performed an analysis on the Company's book of business using standard actuarial practices.

Based on work performed, INS concluded the Company's carried December 31, 2012 aggregate reserves for life contracts and life (contract claims) reserves appear to be reasonably stated, and as such, no financial adjustment was required for examination purposes.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

There were no recommendations in the prior examination report.

SUMMARY OF RECOMMENDATIONS

No recommendations were made as a result of this examination.

CONCLUSION

As a result of this examination, the financial condition of the Mellon Life Insurance Company, as of December 31, 2012, was determined as follows:

Description	12-31-12 Current Examination	12-31-08 Prior Examination	Changes Increase (Decrease)
Assets	\$25,028,439	\$26,126,775	(\$1,098,336)
Liabilities	330,531	1,823,047	(\$1,492,516)
Common capital stock	350,000	350,000	
Gross paid in and contributed surplus	13,676,065	13,676,065	
Unassigned funds (surplus)	<u>10,671,843</u>	<u>10,277,663</u>	<u>\$394,180</u>
Total surplus as regards policyholders	<u>24,697,908</u>	<u>24,303,728</u>	<u>\$394,180</u>
Totals	<u>\$25,028,439</u>	<u>\$26,126,775</u>	<u>(\$1,098,336)</u>

Mellon Life Insurance Company

Since the last examination, the Company's assets decreased \$1,098,336, liabilities decreased \$1,492,516 and capital and surplus increased \$394,180.

Respectfully submitted,



Samuel R. Kohlmeyer, CFE
Examiner-in-Charge
State of Delaware