

REPORT ON EXAMINATION
OF THE
HOUSEHOLD LIFE INSURANCE COMPANY OF DELAWARE
AS OF
DECEMBER 31, 2009



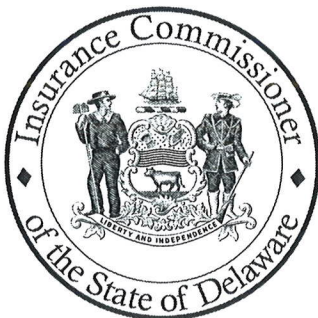
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2009 of the

HOUSEHOLD LIFE INSURANCE COMPANY OF DELAWARE

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

Attest By: *Sonia C. Harris*

Date: 23 June 2011



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 23rd day of June, 2011.

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

Karen Weldin Stewart, CIR-ML
Insurance Commissioner



REPORT ON EXAMINATION
OF THE
HOUSEHOLD LIFE INSURANCE COMPANY OF DELAWARE
AS OF
DECEMBER 31, 2009

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 23rd day of June 2011

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April 7, 2011

SALUTATION

Honorable Joseph Torti, III
Chairman, Financial Condition (E) Committee,
NAIC
Deputy Director and Superintendent of
Insurance and Banking
Division of Insurance
Department of Business Regulation
State of Rhode Island
1511 Pontiac Avenue, Bldg # 69-2
Cranston, Rhode Island 02920

Honorable Sharon P. Clark,
Secretary, Southeastern Zone
Commissioner of Insurance
Kentucky Department of Insurance
P.O.Box 517
Frankfort, Kentucky 40602-0517

Honorable Monica J. Lindeen
Secretary, Western Zone
Commissioner of Securities and Insurance
Montana State Auditor's Office
840 Helena Ave.
Helena, Montana 59601

Honorable Stephen W. Robertson,
Secretary, Midwestern Zone
Commissioner of Insurance
Indiana Department of Insurance
311 West Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Honorable Mila Kofman
Secretary, Northeastern Zone
Superintendent of Insurance
Department of Professional Regulation and
Financial Regulation
Maine Bureau of Insurance
34 State House Station
Augusta, Maine 04333-0034

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

Dear Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 10-018A, an Association examination has been made of the affairs, financial condition and management of the

HOUSEHOLD LIFE INSURANCE COMPANY OF DELAWARE

hereinafter referred to as "Company" or "HLI" incorporated under the laws of the State of Delaware as a stock company. The Company's statutory home address is 90 Christiana Road,

New Castle, Delaware. The examination was conducted at the administrative office of the Company located at 545 Washington Boulevard, Jersey City, New Jersey.

The examination was conducted concurrently with that of the Company's affiliate, HSBC Insurance Company of Delaware (HSBC). Separate reports of examination have been completed and filed for each Company.

The report of this examination is submitted herewith.

SCOPE OF EXAMINATION

The last examination was as of December 31, 2005. This examination is a comprehensive risk-focused examination which covers the four year period from January 1, 2006 to December 31, 2009, and encompassed a general review of the Company's business policies and practices, as well as management and relevant corporate matters, with a determination of financial condition at December 31, 2009. Transactions and operations subsequent to the examination date were reviewed where deemed necessary.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (Handbook). The NAIC Handbook requires that we plan and perform the examination to assess financial condition and identify prospective risks by evaluating Company information including operations, corporate governance, identifying and assessing material inherent risks to which the Company is considered exposed and evaluating processes, systems, controls and other procedures used to mitigate those risks. The examination also included assessing principles used and significant estimates made by management, as well as evaluating overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm, KMPG, LLP. Certain auditor work papers of their 2009 audit have been incorporated into the work papers of this examination and have been utilized principally in the area of tests of controls, risk mitigation and substantive tests of account balances. In addition to items hereinafter incorporated as a part of this report, the following were reviewed without material exception and made part of the work papers of this examination.

- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Pensions, Stock Ownership and Insurance Plans
- NAIC Ratios
- Legal Actions
- Regulatory Agency Correspondence
- Statutory Deposits
- Compliance with Prior Report on Examination
- All other Assets and Liabilities not mentioned

SUMMARY OF SIGNIFICANT FINDINGS

No significant findings were determined as a result of the examination.

SUBSEQUENT EVENTS

A reinsurance agreement between HLI and Household Life Insurance Company (MI) was filed with the Department whereby HLI would reinsure credit business from HSBC Bank Canada's financial services operations written through the Michigan domicile insurer. The Department approved this agreement on February 10, 2011.

On February 28, 2011, the Company made changes to its Board of Directors and officer positions for new and existing members. Patrick Cozza became Chairman and CEO, newly employed, Harpal Karlcut was elected as President and board member as Marilou Sullivan, COO resigned as board member.

COMPANY HISTORY

The Company was incorporated on October 24, 2000, under the laws of the State of Delaware. A Certificate of Authority, issued by the Insurance Commissioner on November 20, 2000, authorizes the Company to transact the business of life insurance, primarily credit related.

The Company became part of an insurance holding company system on December 15, 2000, as a wholly owned subsidiary of HSBC Insurance Group Holding Company (HIGH). One hundred percent of the Company's stock is held by HIGH, a Delaware corporation, which in turn is a wholly owned subsidiary of HSBC Finance Corporation (formerly Household International, Inc.), which in turn is a wholly owned subsidiary of HSBC Holdings plc, a United Kingdom corporation, which is the "ultimate controlling person" of the Company.

As covered in more detail under section "TERRITORY AND PLAN OF OPERATION", the Company has been in run-off since March 2009.

DIVIDENDS

The Company paid \$440 million in approved ordinary and extraordinary dividends during the examination period.

MANAGEMENT AND CONTROL

Board of Directors

The Company's bylaws as amended to date, state that the business, property, and affairs of the Company shall be conducted and managed by its Board of Directors. The number of directors fixed by the charter or by the bylaws may, by the vote of a majority of the entire Board of Directors, be not less than three (3) and no more than fifteen (15). As of the examination date the

Company had three (3) directors per the 2009 Shareholder meeting minutes. Directors are elected at the annual meeting of the stockholder and each director serves until his successor shall have been elected and qualified or until he shall die or resign, or shall have been removed.

The Board of Directors regular meetings shall be held without notice at the registered office of the Company or at such other time and place as shall be determined by the Board. Special meetings of the Board of Directors may be held as designated by the Chairman of the Board, or in his absence the Vice Chairman, or a majority of the Board.

The minutes of the meetings of the stockholder and the Board of Directors which were held during the period of examination were reviewed. Attendance at meetings, election of directors and officers, approval of dividends, and approval of investment transactions were also noted.

Directors serving at December 31, 2009 were as follows:

<u>Name</u>	<u>Principal Occupation</u>
Patrick Anthony Cozza	Chairman, President and CEO
Charles Emory Compton III	Senior Vice President, Treasury, CFO
Marilou Sullivan	Executive Vice President, COO

Officers

The Company's bylaws state that the officers of the Company shall be chosen by the Board of Directors and shall be a Chairman of the Board, a President, one or more Vice Presidents, a Secretary and a Treasurer. One person may hold two positions with the exception of President and Secretary.

The following officers had been elected by the Board of Directors and were serving at December 31, 2009.

<u>Name</u>	<u>Title</u>
Patrick Anthony Cozza	Chairman, President and CEO

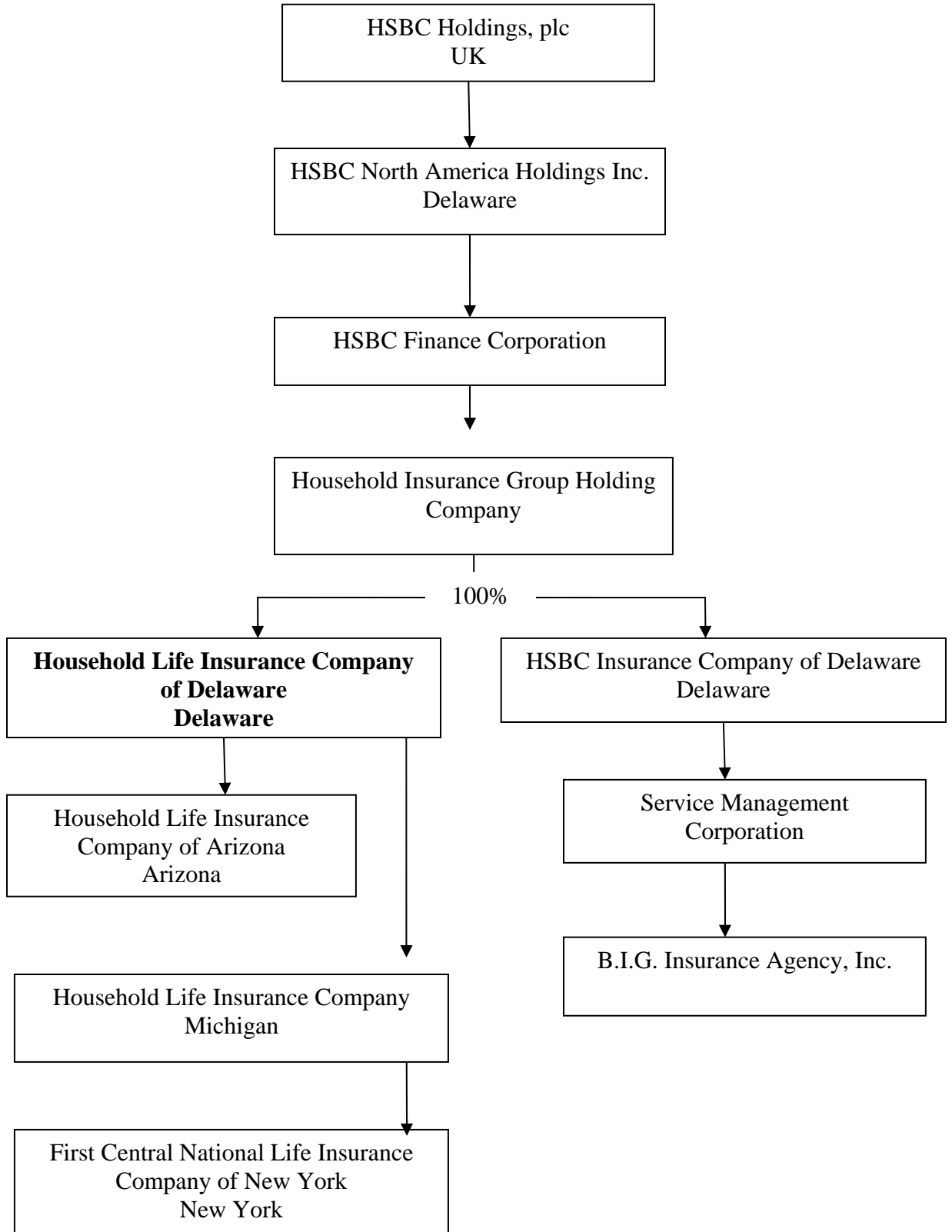
Charles Emory Compton III	Vice President, CFO, and Treasurer
Anthony Joseph Del Piano	Secretary
Richard Leigh Besse	VP, Senior Investment Officer
Gary Richard Esposito	Vice President, Life Business
William Heynacher Kesler	Vice President, Treasury
Gerard Lunemann	Vice President and Chief Actuary
Jeffery Joseph Medeiros	Assistant Secretary
Perry Joseph Morelli	Vice President, Treasury
Michael Palace	AVP, Product Design and Pricing
Michael Edward Pisano	Assistant Secretary
Robert Daniel Rotondi	VP, General Insurance
Reynold Francis Sbrilli	VP, Agent Relationships
Marilou Sullivan	EVP, Chief Operating Officer
Akiva Zohar	AVP, Assistant Actuary

HOLDING COMPANY SYSTEM

The Company is a member of an Insurance Holding Company System. The ultimate parent of the system is HSBC Holdings, plc (HSBCH), which is based in the United Kingdom and is a China domicile. HSBCH provides a comprehensive range of financial services to more than 110 million customers in 77 countries, through 253,000 employees in 9,800 offices.

HSBCH is traded on the NYSE as “HBC”. As of December 31, 2009, HSBCH reported assets of \$2.4 trillion and stockholders’ equity of \$135.6 billion on a GAAP basis.

The following is a partial organizational chart that reflects the identities and interrelationships between the Company, Parent, and other members of the system as of December 31, 2009:



A review of the Insurance Holding Company Annual Registration Statement filings (Form B and Form C) made by the Company for all years under examination revealed that the Company had complied with the requirements of 18 Del.C.50 § 1801.

AGREEMENTS

Affiliated Agreements

The Company was a party to numerous inter-company agreements, which were disclosed by the Company in its Form B Registration Statement filings with the Delaware Department of Insurance. The agreements of significance are summarized as follows:

Agreement for Investment and Cash Management Services

Effective January 1, 2001, by amendment, the Company entered into an existing agreement for investment and cash management services with Household International, Inc. Services provided to the Company in this agreement included, but were not limited to the following: purchasing and selling of securities in the Company's portfolio, administration of the Company's portfolio, assisting the Company in assuring that investments are within applicable insurance investment laws and compliance with investment regulations, monitoring of investments to ensure the applicable investment strategies are executed, management and oversight of external asset managers, preparing and posting the appropriate accounting entries to reflect the investment activities in the Company's general ledger and financial statements, reconciliation of various investment custody statements with accounting records and cash activity, and maintenance of investment rating and security valuations.

Service Agreement

Effective December 31, 2006, the Company entered into a service agreement with BFC Insurance Agency of Nevada (BFC Agency). BFC Agency collects premiums as part of loan

payments and they then disburse the premium to the appropriate insurance entity. Similarly, BFC Agency reimburses HSBC Finance Company for electronic claims payments initiated by the insurance companies which are then applied to pay down the customer's loan.

Service Agreement

Effective December 31, 2006, the Company entered into a service agreement with its parent, HSBC Financial Corporation. Services provided to the Company included, but are not limited to the following: human services, marketing and advertising, finance including the provision of treasury services, group accounting policies and guidelines and associated support services; advice and support on adherence to Sarbanes Oxley. In addition, the parent performs reconciliation services and production of U.S. and IAS GAAP accounts, regulatory and management reports, federal, state and local tax compliance and tax return preparation, internal audit, administrative, legal, strategic and management consulting, facilities, property and management services, and government relations.

Tax Allocation Agreement

Effective January 1, 2005 the Company and Household Insurance Company (a Michigan company) and Household Life Insurance Company of Arizona were included in a tax allocation agreement. Per this agreement and beginning December 31, 2004, the Company files consolidated federal income tax returns under its name for the consolidated group for each taxable year and for any subsequent taxable period for which the group is permitted to file a consolidated return. Each affiliate shall determine its tax liability consistent with the calculation of tax as shown in the affiliate pro-forma tax return, taking into consideration the separate tax attributes of the affiliate. Tax balances are settled as soon as practicable after these amounts have been determined.

This agreement was amended to include subsidiary, First Central National Life Insurance Company of New York and was approved by the Department on February 26, 2010.

External Agreements

In addition to the above intercompany agreements, the Company had the following external agreements in effect at December 31, 2008:

Custodial Agreements

The Company is party to a custodial agreement with Comerica Bank, NA for the purpose of safekeeping invested assets. A review of the agreement showed it contains necessary and required safeguards protecting the Company's investments being held by the custodian.

Investment Accounting Service Agreement

Effective July 1, 2009, the Company entered into an investment accounting service agreement with State Street Bank and Trust Company (State Street). Services provided by State Street in this agreement include performing certain investment accounting and recordkeeping services valuation, reconciliation and reporting the Company's invested assets and cash.

CORPORATE GOVERNANCE

The Company is not a public company and is not required to be compliant with the Sarbanes-Oxley Act (SOX), however, the parent, HSBCH has implemented a well defined SOX process including semi-annual reviews and certifications by management, which is likewise reviewed and tested by both Internal Audit and the external CPA. As applicable to the Company, this SOX documentation was extensively reviewed during this examination.

The Company does have a corporate governance framework. The framework is in writing and is memorialized in the Company's Certificate of Incorporation, bylaws and Board of Directors meeting minutes as well as its consents in lieu of meeting minutes.

The Company has a very well developed risk management system that incorporates key senior officers and process owners from the insurance and banking units with responsibilities and oversight over insurance, operational, market, and liquidity risks.

The Company does not have its own Internal Audit Department (IAD) but is subject to the internal audit function of its London based parent, HSBCH. A review of internal audits performed noted that most audits were performed at the corporate level but also covered the common processes that affect all insurance entities within HIGH.

The Company does not have its own Audit Committee, but is subject to the Audit Committee of HIGH and the Group Audit Committee of HSBCH. While the audit committee members of HIGH are senior officers, the members of the Group Audit Committee are independent of HSBCH.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact the business of credit life insurance in the state of Delaware only, and is currently in run-off. Direct premium for the year ending 2009 totaled \$346,100 and were not considered material.

The Company is not a party to any reinsurance agreements.

GROWTH OF THE COMPANY

The following information was extracted from the Company's filed Annual Statements and covers the four years (4) from its last examination as of December 31, 2005, through this examination, December 31, 2009:

<u>Year</u>	<u>Premiums and Annuity Considerations</u>	<u>Net Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus</u>	<u>Net Income (Loss)</u>
2009	\$ 346,100	\$563,815,990	\$ 865,914	\$561,950,066	\$13,999,438
2008	492,595	574,549,607	765,169	572,784,428	120,114,469
2007	558,514	683,564,423	1,367,552	681,216,861	115,035,062
2006	453,401	777,405,689	1,519,291	774,886,398	52,095,668
2005	487,103	812,690,292	3,896,180	807,794,112	85,706,957

The changes from 2005 to 2009 in the examination period are as follows:

- A 29 % decrease in Premiums and Annuity Considerations
- A 30.6 % decrease in Net Admitted Assets
- A 77.8 % decrease in Liabilities
- A 30.4 % decrease in Surplus
- A 83.7 % decrease in Net Income

The decrease in the size of the company was attributed to its run-off operations and \$440 million in approved dividends paid to its parent.

ACCOUNTS AND RECORDS

All accounting, administration and services required by the Company are provided under various agreements with affiliated (primarily) and external service providers.

The accounts and records review during the examination included an evaluation of the Company's operational and organizational controls. Areas evaluated included computer systems, structure and control, accounting systems, Company organizational structures, and account processing structure. During the examination, the consulting firm of INS Services, Inc. performed an Exhibit C desk review of the Company's IT operations.

The independent certified public accounting firm, KPMG, LLP audited the Company's accounts and records for all years under examination and issued an unqualified audit opinion in each year. Audit reports and applicable work papers were made available.

The accounts and records review also 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, operational and organizational controls were identified and tested, and the Company's methodology for assessing the effectiveness of the established mitigation factors was evaluated.

Depending on each functional activity, Company records and operations are maintained in the following cities:

- Corporate Governance – Jersey City, NJ and Mettawa, IL
- Accounting and Financial reporting – Jersey City, NJ
- Investment and Treasury – Mettawa, IL
- Policyholder Service and Claims – Wilmington, DE

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, 2009.

- Assets
- Liabilities, Surplus and Other Funds
- Summary of Operations
- Capital and Surplus Account
- Reconciliation of Capital and Surplus
- Analysis of Financial Statement Changes resulting from Examination

ASSETS

As of December 31, 2009

	<u>Assets</u>	<u>Non-Admitted Assets</u>	<u>Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 121,650,740	\$ 0	\$ 121,650,740	1
Common Stocks	408,549,264	0	408,549,264	2
Cash	28,713,413	0	28,713,413	
Subtotals, cash and invested assets	<u>\$ 558,913,417</u>	<u>\$ 0</u>	<u>\$ 558,913,417</u>	
Investment income due and accrued	1,755,030	0	1,755,030	
Current federal income tax recoverable	2,968,585	0	2,968,585	
Net deferred tax asset	264,893	261,831	3,062	
Receivables from parent, subsidiaries and affiliates	173,944	0	173,944	
Premium tax asset	1,952	0	1,952	
Totals	<u><u>\$ 564,077,821</u></u>	<u><u>\$ 261,831</u></u>	<u><u>\$ 563,815,990</u></u>	

LIABILITIES, SURPLUS AND OTHER FUNDS

As of December 31, 2009

Aggregate reserve for life contracts		\$	32,974
Contract claims:			
Life			67,820
Interest maintenance reserve (IMR)			185,232
General expenses due or accrued			170,444
Remittances and items not allocated			49
Asset valuation reserve (AVR)			409,396
<i>Total Liabilities</i>		\$	865,914
Capital stock		\$	1,000,010
Gross paid in and contributed surplus	\$ 332,613,074		
Unassigned funds (surplus)	<u>229,336,992</u>		
Surplus			<u>561,950,066</u>
Total Surplus		\$	<u>562,950,076</u>
<i>Totals</i>		\$	<u>563,815,990</u>

SUMMARY OF OPERATIONS**FOR THE YEAR ENDING DECEMBER 31, 2009**

Premiums and annuity considerations for life and accident and health contracts	\$ 346,100
Net investment income earned	16,152,347
Amortization of interest maintenance reserve	98,125
Totals	<u>\$ 16,596,572</u>
Death benefits	\$ 410,385
Increase in aggregate reserves for life and accident and health contracts	(33,082)
Totals	<u>\$ 377,303</u>
General insurance expenses	\$ 213,368
Insurance taxes, licenses and fees	5,553
Totals	<u>\$ 596,224</u>
Net gain (loss) from operations before federal income taxes	\$ 16,000,348
Federal and foreign income taxes incurred	2,051,376
Net gain (loss) from operations after federal income taxes	\$ 13,948,972
Net realized capital gains (losses)	50,466
Net Income (Loss)	<u><u>\$ 13,999,438</u></u>

RECONCILIATION OF CAPITAL AND SURPLUS**December 31, 2005 to December 31, 2009****Capital and Surplus Account**

Capital and Surplus, December 31, 2005	<u>\$ 808,794,112</u>
Net Income	\$ 301,244,637
Change in net unrealized capital gains	(107,052,982)
Change in net deferred income tax	387,875
Change in non-admitted assets and related items	(261,831)
Change in asset valuation reserve	136,625
Paid in (capital changes)	10
Paid in surplus adjustments	5,000,000
Dividends to stockholders	(440,000,000)
Aggregate Write-Ins for Gains and Losses in Surplus	(5,298,368)
Change in surplus as regards policyholders for the years	<u>\$ (245,844,034)</u>
Capital and Surplus, December 31, 2009	<u><u>\$ 562,950,078</u></u>

ANALYSIS OF CHANGES IN THE FINANCIAL STATEMENTS

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

NOTES TO THE FINANCIAL STATEMENTS

(Note 1) Bonds \$121,650,740

The Company's bond holdings totaled \$121.65 million and were approximately 21.6% of total admitted assets and 21.8% of the Company's total invested assets. Security composition for the year ending 2009 was comprised of the following:

U.S. Governments	\$ 9.054 million
Industrial & Miscellaneous	<u>112.597 million</u>
	<u>\$ 121.651 million</u>

The Company's bond holdings were categorized with respect to NAIC credit quality standards which were all above Class 3 rating with Class 1 having the largest percentage to the total with approximately 95.4%.

(Note 2) - Common Stocks \$408,549,264

The Company's common stock holding totaled \$408.55 million and were approximately 72.5% of total admitted assets and 73.1% of the Company's total invested assets. The Company's common stock was made up of two wholly owned affiliated insurance companies, Household Life Company of Arizona and Household Life Insurance Company. The Company's reported the common stock in each company on a statutory equity basis as follows:

Household Life Company of Arizona	\$ 56.88 million
Household Life Insurance Company	<u>351.67 million</u>
	<u>\$ 408.55 million</u>

CONCLUSION

The following schedule shows the changes from the previous examination and the financial condition of the Company, as of December 31, 2009:

Description	12/31/2005 Prior Examination	12/31/2009 Current Examination	Increase (Decrease)
Assets	<u>\$ 812,690,292</u>	<u>\$ 563,815,990</u>	<u>\$ (248,874,302)</u>
Liabilities	<u>\$ 3,896,180</u>	<u>\$ 865,914</u>	<u>\$ (3,030,266)</u>
Common capital stock	1,000,000	1,000,010	10
Gross paid in and contributed capital	327,613,074	332,613,074	5,000,000
Unassigned funds (surplus)	<u>480,181,038</u>	<u>229,336,992</u>	<u>(250,844,046)</u>
Total surplus as regards policyholders	<u>\$ 808,794,112</u>	<u>\$ 562,950,076</u>	<u>\$ (245,844,036)</u>
Totals Liabilities and Surplus	<u>\$ 812,690,292</u>	<u>\$ 563,815,990</u>	<u>\$ (248,874,302)</u>

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. and INS Services, Inc. is acknowledged.

Respectfully submitted,



Darryl Reese, CFE, CIE, CFE
 Examiner-In-Charge
 State of Delaware
 Northeastern Zone, NAIC