REPORT OF EXAMINATION

OF THE

BALBOA INSURANCE COMPANY

AS OF

DECEMBER 31, 2017

Filed on June 11, 2019

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Los Angeles, California
May 10, 2019

Honorable Ricardo Lara
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

BALBOA INSURANCE COMPANY

(hereinafter also referred to as the Company). The statutory home office and primary location of books and records is located at 275 Valencia Avenue, Brea, California 92823. The Company's main administrative office is located at 9800 Muirlands Boulevard, Irvine, California 92618.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2012. This examination covered the period from January 1, 2013 through December 31, 2017.

The examination was conducted in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook (Handbook)*. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, assess corporate governance, identify current and prospective risks, and evaluate system controls and procedures used to mitigate those risks. The examination also includes identifying and evaluating significant risks that could cause the Company's surplus to be materially misstated, both currently and prospectively.
All accounts and activities of the Company were considered in accordance with the risk-

focused examination process. This includes assessing significant estimates made by management, and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If an adjustment was identified during the course of the examination, the impact of such adjustment would be documented separately following the Company's financial statements.

This examination report includes significant findings of fact and general information about the Company and its financial condition. There might be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report, but separately communicated to other regulators and/or the Company.

The examination was a coordinated examination and was conducted concurrently with the examination of Meritplan Insurance Company (California), and Newport Insurance Company (Arizona). California served as the lead state.

COMPANY HISTORY

The Company was incorporated in the state of California on February 6, 1948, and commenced transacting property and casualty business on April 15, 1948. The Company is a wholly-owned subsidiary of BA Insurance Group, Inc. (BAIG), a Delaware corporation. BAIG is a subsidiary of NB Holdings Corporation (NBHC), a Delaware corporation, which in turn, is a subsidiary of the ultimate parent, Bank of America Corporation (BAC), a publicly traded company incorporated in Delaware.

In June 2011, and as part of a significant sale transaction, BAC sold substantially all of the Company's insurance portfolio, and that of its wholly-owned subsidiaries, Meritplan Insurance Company (MIC), and Newport Insurance Company (NIC) (collectively BIG) to the QBE Insurance Group Limited, through a Master Transaction Agreement with QBE Holdings, Inc., and some of its subsidiaries (collectively, QBE). In this transaction, QBE assumed substantially all of the insurance liabilities of BIG in exchange for QBE's acquisition of an equivalent amount of cash and other assets through a reinsurance transaction with BIG. The reinsurance transactions were effective retroactive to April 1, 2011. The remaining assets and liabilities are comprised primarily of an investment portfolio and federal income tax related items. QBE also assumed the majority of the Company's employees and facilities.

As part of the Master Transaction Agreement, QBE and BIG entered into a Reinsurance Administrative Service Agreement (RASA), that provides for administrative services by QBE to BIG, effective June 1, 2011. Under this agreement, QBE provides all necessary services to administer substantially all of the policies on behalf of BIG, and to administer existing run-off claims at no cost to BIG. Although there were a limited amount of policies being renewed by the Company, in May 2012, QBE began writing substantially all new and renewal business directly, rather than through assuming the policies issued by the Company, which therefore put the Company in run-off. The Company ceased writing new and renewal policies on insurance for any class of business in 2013, except for those that are renewable by statute, namely automobile policies. Guaranteed Asset Protection (GAP) policies were last written in 2011. The last lender-placed policy written by BIG was in 2014.

As of June 1, 2014, substantially all of the lender-placed policies were transitioned from BIG to QBE. Renewals of automobile polices required by statute were the only business remaining with BIG. A plan to non-renew the automobile policies was submitted to the California Department of Insurance (CDI) and approved. Accordingly, the remaining automobile policies will non-renew by October 31, 2019. In accordance with the terms of the RASA, QBE subcontracted the performance of certain administrative and support services to National General Insurance Company in connection with a separate Limited Services Agreement, effective October 1, 2015. QBE will continue to administer the BIG business under the terms of the RASA and associated agreements, until all policyholder liability is exhausted.

Dividends

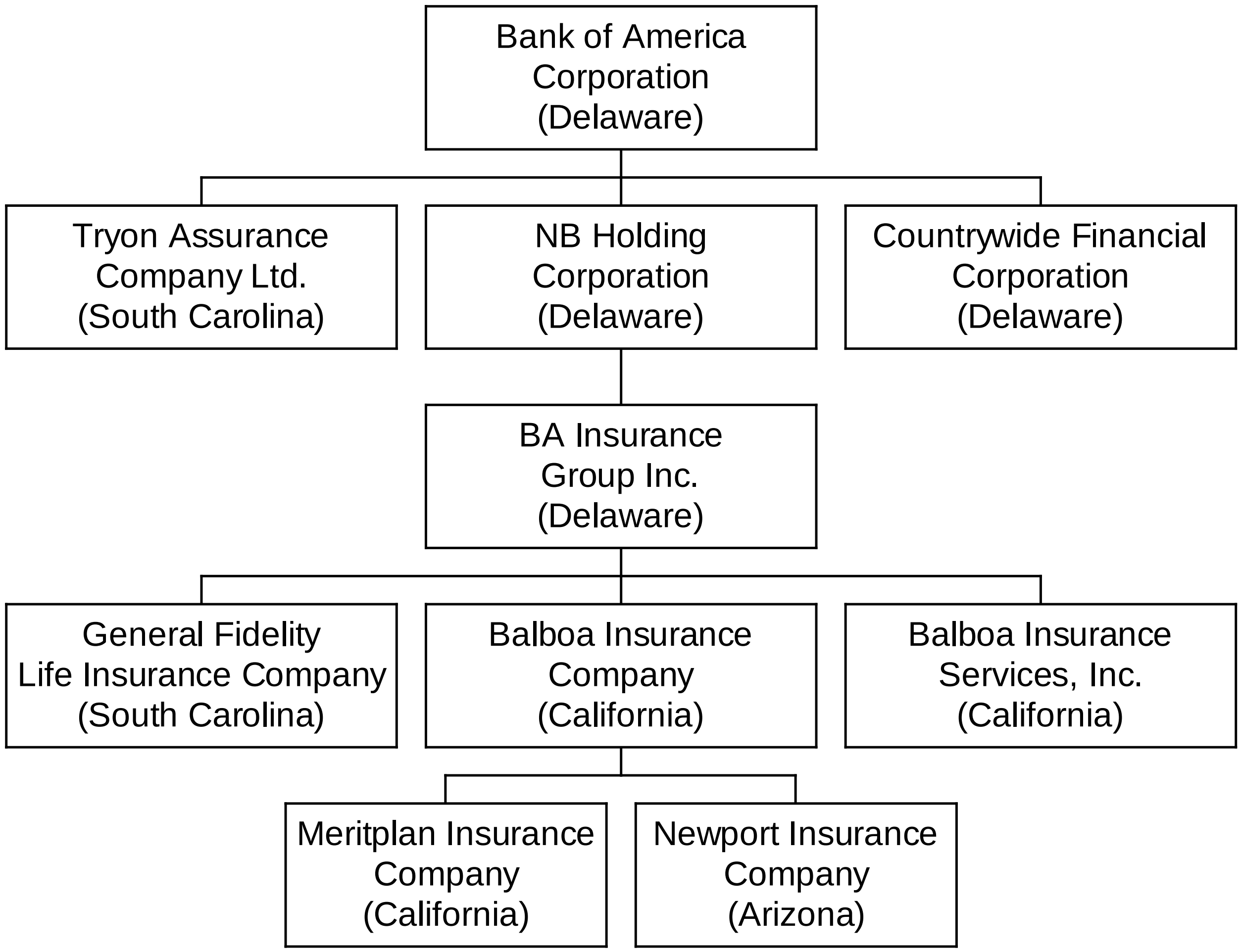
On December 16, 2013, the Company paid an extraordinary cash dividend of $10 million, and a return of capital of $240 million to BAIG. The CDI approved these transactions on December 5, 2013.

On December 24, 2014, the Company paid an ordinary cash dividend of $19 million to BAIG. The CDI approved this transaction on December 11, 2014.

On December 14, 2015, the Company paid an extraordinary cash dividend of $95 million, and a distribution of capital of $30 million. The CDI approved these transactions on October 27, 2015.

MANAGEMENT AND CONTROL

The Company is wholly-owned by BA Insurance Company, Inc., with Bank of America Corporation (BAC) being the ultimate parent of the holding company group. The following abridged organizational chart depicts the Company's relationship within the holding company system. (All ownership is 100%).


Bank of America Corporation (Delaware)
Tryon Assurance Company Ltd. (South Carolina)
NB Holding Corporation (Delaware)
Countrywide Financial Corporation (Delaware)
BA Insurance Group Inc. (Delaware)
General Fidelity Life Insurance Company (South Carolina)
Balboa Insurance Company (California)
Balboa Insurance Services, Inc. (California)
Meritplan Insurance Company (California)
Newport Insurance Company (Arizona)

The seven members of the board of directors, who are elected annually, oversee the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2017:

Directors

Name and Location	Principal Business Affiliation
Dea L. Christian Phoenix, Arizona	Senior Vice President and Managing Director Balboa Insurance Group (*)
Lori K. FitzGerald Thousand Oaks, California	President, Director, and Chief Operating Officer Balboa Insurance Group
Felipe R. Maldonado Folsom, California	Senior Vice President, Director, and Chief Financial Officer Balboa Insurance Group
Helen L. Mittelstadt Charlotte, North Carolina	Senior Vice President and Director Balboa Insurance Group
Susan M. Potts St. Louis, Missouri	Senior Vice President, Director, and Chief Risk Officer Balboa Insurance Group
Ida A. Shapiro Kennesaw, Georgia	Senior Vice President and Director Balboa Insurance Group
Bradley H. Weber Charlotte, North Carolina	Senior Vice President, Controller, and Chief Accounting Officer Balboa Insurance Group

(*) Balboa Insurance Group, collectively consists of Balboa Insurance Company, Meritplan Insurance Company, and Newport Insurance Company.

Principal Officers

Name	Title
Lori K. FitzGerald	President and Chief Operating Officer
Eric B. Chamberlain	Secretary and Chief Legal Officer
Felipe R. Maldonado	Senior Vice President, Treasurer and Chief Financial Officer
Bradley H. Weber	Senior Vice President, Controller and Chief Accounting Officer

Affiliated Management Agreements

Bank of America Insurance Services Group Intercompany Services Agreement (Intercompany Services Agreement): Since January 2009, the Company and a number of other affiliates have been party to the Intercompany Services Agreement. Under the terms of this agreement, Bank of America, N.A. (BANA) provides the following services: executive management, procurement and disbursements, human resource management and employee relations, payroll, tax preparation and planning, information systems, marketing and planning, legal, government, regulatory affairs, compliance services, select accounting services, internal audit, facilities management and certain other services to all Group Members on an actual cost basis. This Intercompany Services Agreement was approved by the California, Arizona, and New York Departments of Insurance. The California Department of Insurance (CDI) approved this agreement on April 10, 2009. The Company paid the following service fees under the terms of this agreement during the examination period:

Year	Amount
2013	$ 3,674,214
2014	$ 193,321
2015	$ 90,290
2016	$ 95,123
2017	$ 187,325
Total	$ 4,240,273

Insurance Producer Agreement: Since June 2008, the Company, Meritplan Insurance Company (MIC), and Newport Insurance Company (NIC) (collectively, Balboa Insurance Group), BANA and Bank of America Insurance Services, Inc., (BAISI) (collectively, Agencies) have been parties to the Insurance Producer Agreement. Under the terms of this agreement, the Balboa Insurance Group paid BANA and BAISI a 15% commission on net premium written or net premium collected. Balboa Insurance Group appointed the Agencies on a non-exclusive basis to produce, solicit and/or arrange for the solicitation of homeowners, automobile and renters insurance. Subsequent to the examination date, and on August 31, 2018, this agreement was terminated in conjunction with the Company's run-off plan. In 2013, 2014, and 2015, the Company paid the following commissions under the terms of the agreement:

Year	Amount
2013	$ 48,372
2014	$ 42,660
2015	$ 13,378
Total	$104,410

No commission was paid in 2016 and 2017.

Marketing and Servicing Producer Agreement: Since April 2009, the Company and MIC (collectively, Companies) have been party to the Marketing and Servicing Producer Agreement with BANA, BAISI, FIA Card Services, N.A., and IFIA Insurance Services, Inc. (collectively, Agencies). Under the terms of this agreement, the Companies appointed the Agencies on a non-exclusive basis to produce, solicit and/or arrange for the solicitation of life, accident, and mortgage disaster insurance on their behalf. The Companies compensate the Agencies under various compensation rates based on net written premium. This agreement was approved by the CDI on April 30, 2009. Subsequent to the examination date, on August 31, 2018, this agreement was terminated in conjunction with the Company's run-off plan. In 2013, and 2014, the Company paid the following fees to the Agencies:

Year	Amount
2013	$ 2,452
2014	$ 128
Total	$ 2,580

No fees were paid in 2015, 2016 and 2017.

Consolidated Federal Income Tax Allocation Agreement: Since December 2009, for tax years beginning July 1, 2008, the Company, MIC, NIC, and Bank of America Corporation have been parties to the Consolidated Federal Income Tax Allocation Agreement. Pursuant to the agreement, each company's tax liability is the same as it would have been had it filed on a separate, stand-alone basis. The CDI approved this agreement on December 10, 2009. The Company paid/(recovered) the following taxes during the examination period:

Year	Amount
2013	$ 24,646,239
2014	$ 3,905,678
2015	$ 1,849,129
2016	$ 439,147
2017	$ (8,552)
Total	$ 30,831,641

TERRITORY AND PLAN OF OPERATION

As of December 31, 2017, the Company was licensed in the following states, the District of Columbia, Guam, the U.S. Virgin Islands, and the Commonwealth of the Northern Mariana Islands. The Company is licensed in the state of Louisiana for surplus lines basis only:

Alabama	Indiana	Nebraska	South Carolina
Alaska	Iowa	Nevada	South Dakota
Arizona	Kansas	New Hampshire	Tennessee
Arkansas	Kentucky	New Jersey	Texas
California	Louisiana	New Mexico	Utah
Colorado	Maine	New York	Vermont
Connecticut	Maryland	North Carolina	Virginia
Delaware	Massachusetts	North Dakota	Washington
Florida	Michigan	Ohio	West Virginia
Georgia	Minnesota	Oklahoma	Wisconsin
Hawaii	Mississippi	Oregon	Wyoming
Idaho	Missouri	Pennsylvania	
Illinois	Montana	Rhode Island	

The Company had been primarily engaged in providing fire, allied lines, and automobile physical damage insurance through its lender-placed hazard and automobile collateral protection insurance programs. The Company also provided homeowners insurance for homes, condominiums, and tenants, as well as private passenger automobile liability and physical damage insurance through its personal line programs. The Company sold its insurance primarily through agencies affiliated with financial institutions, general agents and agencies affiliated with the Company.

In 2011, as discussed in the “COMPANY HISTORY” section of this report, substantially all of the business and operations of the Company were sold to QBE Insurance Corporation (QBE). As part of the transaction, all of the policy obligations, existing and prior, of the Company were transferred to and reinsured with QBE, pursuant to the 100% Quota Share Agreement. QBE administers all policy obligations pursuant to a reinsurance administrative services agreement, which includes all claims handling and policy services.

The Balboa Insurance Group Master Policies for the lender-placed business were cancelled over time, with the last policy being written in 2014. No new GAP certificates were issued after June 1, 2011. The Company is not currently transacting any insurance in the automobile class of insurance in California, nor any other jurisdiction, except for those that are renewable by statute. The Company has been in full run-off since 2013, except for 20 renewal policies of private passenger automobile insurance.

REINSURANCE

Intercompany Reinsurance Agreement

Since January 2005, the Company and its subsidiaries, Meritplan Insurance Company (MIC), and Newport Insurance Company (NIC), participated in the Property and Casualty Companies Pooling Agreement. Under the terms of the agreement, all business net of non-affiliated reinsurance is pooled. The pooled premiums, losses and expenses are reapportioned and shared by the three companies, using the following percentages: 92% for the Company, and 4% each for MIC and NIC. The pooling agreement was approved by California Department of Insurance on April 4, 2005.

Assumed

Other than the Property and Casualty Companies Pooling Agreement, the Company had no other active assumed reinsurance business as of the examination date.

Ceded

Effective April 1, 2011, as discussed in the "COMPANY HISTORY" section of this report, the Company entered into the 100% Quota Share Reinsurance Agreement with QBE Insurance Corporation (QBE). Pursuant to this agreement, QBE assumes substantially all of the insurance liabilities of the Company, whether arising before or after the effective time of the reinsurance, for contracts of insurance or reinsurance (1) issued by the Company on or before June 1, 2011, relating to property and casualty business (other than involuntary unemployment insurance and warranty/service contract insurance) or (2) issued by the Company after June 1, 2011, at the direction of QBE.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the California Department of Insurance and present the financial condition of the Company for the period ending December 31, 2017. The accompanying comments on financial statements should be considered an integral part of the financial statements. There were no adjustments to the amounts reported in the annual statements.

Statement of Financial Condition as of December 31, 2017

Underwriting and Investment Exhibit for the Year Ended December 31, 2017

Reconciliation of Surplus as Regards Policyholders from December 31, 2012 through December 31, 2017

Statement of Financial Condition
as of December 31, 2017

Assets	Ledger and Nonledger Assets		Net Admitted Assets	Notes
Bonds	$ 14,730,518		$ 14,730,518	
Common stocks	24,950,867		24,950,867	
Cash and cash equivalents	38,423,093		38,423,093	
Receivable for securities	243,621		243,621	
Investment income due and accrued	77,055		77,055	
Uncollected premiums and agents' balances in the course of collection	509,261		509,261	
Amount recoverable from reinsurers	(3,101,416)		(3,101,416)	(1)
Aggregate write-ins for other than invested assets	2,048,320		2,048,320	
Total assets	$ 77,881,319		$ 77,881,319	
Liabilities, Surplus and Other Funds				
Losses			$ 1,424,336	(2)
Reinsurance payable on paid loss and loss adjustment expenses			(2,985,200)	(3)
Loss adjustment expenses			1,398,352	(2)
Other expenses (excluding taxes, licenses and fees)			577,352	
Taxes licenses and fees (excluding federal and foreign income taxes)			101,530	
Current federal and foreign income taxes			96,102	
Ceded reinsurance premiums payable			(753,995)	
Funds held by company under reinsurance treaties			6,901	
Provision for reinsurance			221,404	
Payable to parent, subsidiaries and affiliates			2,605,724	
Retroactive reinsurance reserve			(2,822,688)	(4)
Total liabilities			(130,182)	
Gain from retroactive reinsurance		$ 2,822,688		(4)
Common capital stock		4,250,000		
Gross paid-in and contributed surplus		55,189,664		
Unassigned funds (surplus)		15,749,148		
Surplus as regards policyholders			78,011,500	
Total liabilities, surplus and other funds			$ 77,881,319	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2017

Statement of Income

Underwriting Income		
Premiums earned		$ (111,333)
Deductions:		
Losses incurred	$ 1,497,290	
Loss adjustment expenses incurred	(289,431)	
Other underwriting expenses incurred	401,380	
Total underwriting deductions		1,609,239
Net underwriting loss		(1,720,572)
Investment Income		
Net investment income earned	$ 584,927	
Net investment gain		584,927
Other Income		
Aggregate write-ins for miscellaneous income	$ 1,472,063	
Total other income		1,472,063
Net income before dividends to policyholders, after capital gains tax and before federal and foreign income taxes		336,418
Federal and foreign income taxes incurred		132,660
Net income		$ 203,758

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2016		$ 77,831,283
Net income	$ 203,758	
Change in net unrealized capital gains	181,259	
Change in net deferred income tax	15,044	
Change in provision for reinsurance	(219,844)	
Change in surplus as regards policyholders for the year		180,217
Surplus as regards policyholders, December 31, 2017		$ 78,011,500

Reconciliation of Surplus as Regards Policyholders from December 31, 2012 through December 31, 2017

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2012			$ 432,642,792
Net income	$ 107,483,849	$	
Change in net unrealized capital gains		81,720,157	
Change in net deferred income tax		4,432,745	
Change in nonadmitted assets	28,085,508		
Change in provision for reinsurance		186,271	
Surplus: paid in		270,000,000	
Dividends to stockholders		124,000,000	
Aggregate write-ins for gains and losses in surplus		9,861,476	
Total gains and losses	$ 135,569,357	$ 490,200,649	
Net decrease in surplus as regards policyholders			354,631,292
Surplus as regards policyholders, December 31, 2017			$ 78,011,500

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Amount Recoverable from Reinsurers

The reported amount is due to a reinsurance recovery of catastrophe losses in Mississippi for Meritplan Insurance Company (MIC). The amount recovered from a third-party reinsurer was then refunded back to QBE Insurance Corporation (QBE) based on the 100% Quota Share Reinsurance Agreement with QBE, which produced the negative amount.

(2) Losses and Loss Adjustment Expenses

Based on an analysis by a Senior Casualty Actuary for the California Department of Insurance, the Company's losses and loss adjustment expense reserves as of December 31, 2017, were found to be reasonably stated and have been accepted for purposes of this examination.

(3) Reinsurance Payable on Paid Losses and Loss Adjustment Expenses

The reinsurance recovery described in Note (1) above caused a negative assumed loss payable for the Company, as MIC's recovery was assumed by the Company as part of pooling.

(4) Retroactive Reinsurance Reserve

This amount represents losses and loss adjustment expense reserves that were ceded retroactively to QBE Holdings, Inc., under a 100% Quota Share Reinsurance agreement effective April 1, 2011. The amount equals the sum of the reported losses and loss adjustment expense reserves, and is also reported as a gain to surplus.

SUBSEQUENT EVENTS

On November 12, 2018, the Company submitted its application for the removal of the automobile class of insurance from its California Certificate of Authority. This amended Certificate of Authority deletes the automobile class of insurance in California. The Company's remaining 14 policies of private passenger automobile will not be renewed. The California Department of Insurance approved the application on December 21, 2018.

Dividend paid - On October 29, 2018, the Company paid an extraordinary cash dividend of $10 million and a return of capital of $15 million to BA Insurance Group. The CDI approved these transactions on October 23, 2018.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

None.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and employees during the course of this examination.

Respectfully submitted,

____/S/__________________________

Bridget Lopez, CFE
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California

_____/S/_________________________

Edward Aros, CFE
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