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

Filed May 22, 2014

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Los Angeles, California
March 14, 2014

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

BALBOA LIFE INSURANCE COMPANY

(hereinafter also referred to as the Company) at the primary location of its books and records and statutory home office, 400 Robert Street North, Saint Paul, Minnesota 55101.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was made as of December 31, 2008. This examination covers the period from January 1, 2009 through December 31, 2012. The examination was conducted in accordance with the National Association of Insurance Commissioners Financial Condition Examiners Handbook. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, to identify prospective risks, and to obtain information about the Company, including corporate governance, identification and assessment of inherent risks, and the evaluation of the system controls and procedures used to mitigate those risks. The examination also included an assessment of the principles used and the significant estimates made by management, as well as an evaluation of the overall financial statement presentation, and management's compliance with Statutory Accounting Principles and Annual Statement instructions. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

The examination was a coordinated examination and was conducted concurrently with the examination of other insurance entities in the holding company group, including American Modern Life Insurance Company (Ohio); CNL Insurance America, Inc. (Minnesota); Minnesota Life Insurance Company (Minnesota); Securian Casualty Company (Minnesota); Securian Life Insurance Company (Minnesota); and Southern Pioneer Life Insurance Company (Arkansas). Minnesota was the lead state.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; pensions, stock ownership and insurance plans; growth of company; loss experience; accounts and records; and statutory deposits.

COMPANY HISTORY

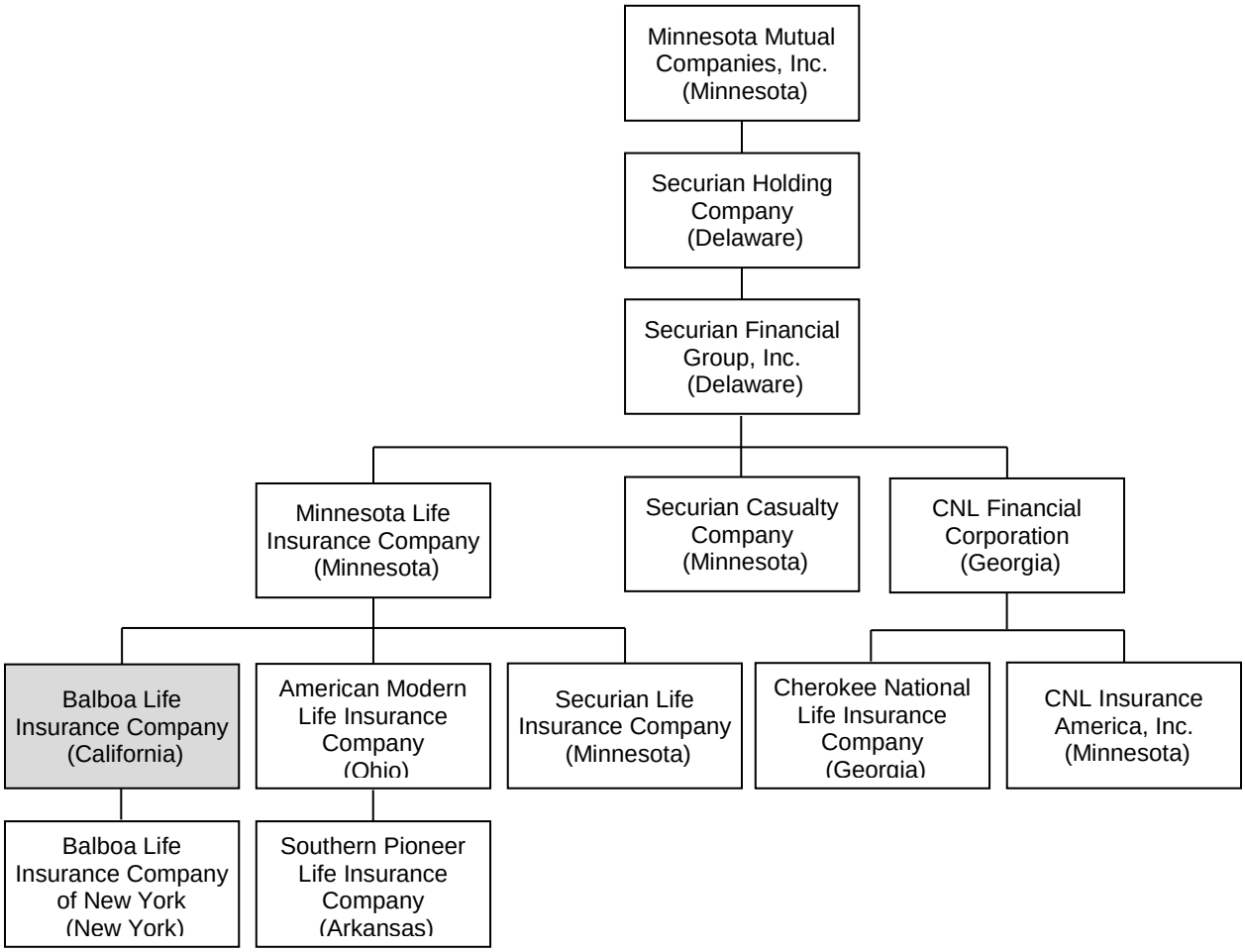
On October 1, 2011, Minnesota Life Insurance Company (MLIC) acquired the Company, including the Company's wholly-owned subsidiary, Balboa Life Insurance Company of New York, from BA Insurance Group, Inc., a subsidiary of Bank of America Corporation. MLIC is a wholly-owned subsidiary of Securian Financial Group, Inc., which is ultimately controlled by Minnesota Mutual Companies, Inc.

Dividends Paid to Parent

On December 14, 2010, the Company paid an ordinary cash dividend of $48,000 to BA Insurance Group, Inc., its parent company at the time.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system. The following abridged organizational chart is limited to the Company's parent, its ultimate controlling parent, and some affiliated companies, and depicts the Company's relationships with within the holding company system (all ownership is 100%):



The seven members of the board of directors, who are elected annually, manage the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2012:

Directors

Name and Location	Principal Business Affiliation
Leslie J. Chapman Bloomington, Minnesota	Senior Vice President, Chief Actuary, and Chief Risk Officer Securian Financial Group, Inc.
Gary R. Christensen Cottage Grove, Minnesota	Senior Vice President, General Counsel and Secretary Minnesota Life Insurance Company
David J. LePlavy Afton, Minnesota	Senior Vice President, Treasurer, and Controller Minnesota Life Insurance Company
David A. Seidel Eagan, Minnesota	Vice President and Actuary Securian Financial Group, Inc.
Bruce P. Shay Dellwood, Minnesota	Executive Vice President Securian Financial Group, Inc.
Nancy R. Swanson Bayport, Minnesota	Vice President and Corporate Compliance Officer Minnesota Life Insurance Company
Warren J. Zaccaro Minnetonka, Minnesota	Executive Vice President and Chief Financial Officer Securian Financial Group, Inc.

Principal Officers

Name	Title
David A. Seidel	President and Chief Executive Officer
Mark J. Geldernick	Secretary
David J. LePlavy	Treasurer

Management Agreements

Tax Allocation Agreement: The Company, its wholly-owned subsidiary, Balboa Life Insurance Company of New York (BLICNY), and its ultimate parent, Minnesota Mutual Companies, Inc. (MMC) are parties to a Tax Allocation Agreement (Tax Agreement) as amended, effective January 1, 2011. Pursuant to the terms of the Tax Agreement, MMC and its subsidiaries file consolidated federal income tax returns as members of an affiliated group. Each member of the affiliated group pays an amount equal to the federal income tax liability that each would have paid had it filed a separate federal income tax return commencing with returns for the taxable period ended December 31 pursuant to the Internal Revenue Code. In addition, members of the affiliated group may be required to file the combined or unitary state tax return where deemed to be required or permitted by the state's law. The combined state tax liability is allocated to each member in accordance with each member's apportionment factors and non-apportionable income within that particular state. The California Department of Insurance (CDI) approved the amended Tax Agreement on December 28, 2011. Since its acquisition on October 1, 2011 by Minnesota Life Insurance Company, which is ultimately controlled by MMC, the Company has filed stand-alone federal income returns, rather than consolidated returns, to comply with the Internal Revenue Code Section 1504(c)(2)(A), which in part states that no insurance company should be included in a consolidated federal income tax return until it has been a member of affiliated group for the five taxable years immediately preceding the taxable year for which the consolidated return is filed.

Investment Advisory Agreement: The Company entered into an Investment Advisory Agreement (Investment Agreement), effective October 1, 2011, with its affiliate, Advantus Capital Management, Inc (Advantus), a wholly-owned subsidiary of Securian Financial Group, Inc., which is ultimately controlled by MMC. Pursuant to the Investment Agreement, Advantus provides investment advisory and management services to the Company in accordance with the Company’s investment policy approved by the Company’s Board of Directors. The Company compensates Advantus with an annual management fee of 0.25% on the fair-value assets under management. The

management fees are billed quarterly and settled within 60 days of receipt of each invoice. For 2011 and 2012, the Company paid Advantus management fees of $17,478 and $71,811, respectively. On December 28, 2011, the CDI approved the Investment Agreement.

Services Agreement: The Company entered into a Services Agreement, effective October 1, 2011, with Minnesota Life Insurance Company (MLIC), its immediate parent. Pursuant to the Services Agreement, MLIC provides the Company with certain services, facilities, and equipment for the operation of the Company's business. The Company reimburses MLIC for all expenses incurred on the Company's behalf. Depending on each type of service, the service expenses are allocated based on time-based allocation, per capita (per associate) allocation, usage-based allocation, and actual cost incurred methods. The service fees are billed quarterly and paid within 30 days of receipt of the accounting and billing statement. For 2011 and 2012, the Company paid MLIC service fees of $4,235,026 and $1,053,521, respectively. The CDI approved the Services Agreement on April 5, 2012.

Agency Agreement: The Company entered into an Agency Agreement, effective October 1, 2011, with Allied Solutions, LLC (Allied), a wholly-owned subsidiary of MLIC. Allied is an active licensed insurance producer in California. Under the Agency Agreement, Allied provides ongoing servicing in connection with the Company's Flex Accident Death and Mortgage Secure products sold to customers of Bank of America Corporation. The Company, in turn, pays Allied a monthly commission of 3% of "Net Written Premium" for the preceding month for policies written on the stated products. The monthly commission is paid within 15 days of receipt of the prior month's premium. "Net Written Premiums" is defined as gross premiums received by the Company, less refunded premiums on such policies by reason of any cancellation, reduction in coverage, change in law or regulation, or otherwise. The Company paid Allied commissions of $91,738 and $224,548 in 2011 and 2012, respectively. The CDI approved the Agency Agreement on September 11, 2012.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2012, the Company was licensed to transact life and accident and health insurance in the following states, the District of Columbia, and the following territories of the United States: Guam, U.S. Virgin Islands, and the Northern Marianna Islands:

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

The Company specializes in credit related and direct response marketed products through financial institutions, including group credit life and accident and health coverage, written in conjunction with consumer loans and revolving charge transactions. In addition, the Company offers mortgage life insurance on real estate related loans and direct response marketed term life and health coverage.

During 2012, the Company wrote total direct premiums of $12.9 million; approximately $11.0 million, or 85.3%, of which derived from group accident and health business, $1.5 million, or 11.6%, from ordinary life business, and the remainder mainly from group life business. The three states with the largest direct premiums written are as follow:

State	Direct Written Premium	Percentage of Total
California	$ 2,221,718	17.3%
Texas	1,426,149	11.1%
Michigan	551,996	4.3%

In 2011, the Company stopped writing new business. The Company continues to administer and maintain the existing block of individual term, group credit life, group life, group accident and health, credit accident and health products and an immaterial block of payout annuities.

REINSURANCE

Assumed

The Company's assumed business is in run-off. The Company reported no material assumed premiums or liabilities as of December 31, 2012.

Ceded

The Company had the following reinsurance contracts in-force at December 31, 2012.

Type of Treaty and Business	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Coinsurance Agreement on Credit Life and Disability	Protective Life and Annuity Insurance Company (authorized)	0%	100% on real estate loans produced by Nations Credit Insurance Agency.
Coinsurance Agreement on Credit Life and Credit Disability	American Health and Life Insurance Company (authorized)	0%	100% on policies written to debtors of Avco Financial Services
Coinsurance Agreement on Term Life, AD&D and Disability	American Health and Life Insurance Company (authorized)	0%	100% on policies written by Old Republic Life Insurance Company in specified states and Avco Financial Services
Coinsurance Agreement on Individual Life	Transamerica International Re (Bermuda) Ltd. (unauthorized)	First $100,000; if policy exceeds $100,000, 50% first dollar quota share up to retention of $100,000.	50% first dollar quota share starting at $100,000 and excess of $100,000 retention, if applicable.

Type of Treaty and Business	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Coinsurance Agreement on Platform Life	Munich American Reassurance Company (authorized)	10% on policies issued prior to July 1, 2004 25% effective, July 1, 2004 50% effective, January 19, 2005	90% on policies issued prior to July 1, 2004 37.5% effective July 1, 2004, (37.5 % with Security Life of Denver Insurance Company in run-off) 50% January 19, 2005 of maximum amount ranging from $100,000 to $400,000 based on issue age.
Coinsurance Agreement on Platform Life	Security Life of Denver Insurance Company (authorized)	25% July 1, 2004 to January 19, 2005	37.5% with Munich American Reassurance Company for policies issued from July 1, 2004 to January 19, 2005 of maximum amounts ranging from $100,000 to $400,000 based on issue age.
Coinsurance Agreement on Credit Life and Credit Disability	Monumental Life Insurance Company (authorized)	0%	100% on policies written to American Express' customers in certain states.
Coinsurance Agreement on Credit Life and Credit Disability	AMEXCO Insurance Company (unauthorized)	0%	100% on policies written to American Express' Customers in certain states.
Yearly Renewable Term, Excess of $100,000 on Yearly Mortgage Life	Transamerica Occidental Life Insurance Company (authorized)	$100,000	$1 Million Automatic Limit

As of December 31, 2012, reserve credits taken for all ceded reinsurance amounted to $6.5 million or 14.7% of capital and surplus. Approximately 70.7% of the total reserve credits taken related to a block of run-off business ceded to American Health and Life Insurance Company. Reserve credits taken for unauthorized reinsurance totaled $0.6 million or 1.4% of capital and surplus. Reinsurance recoverable on paid and unpaid losses totaled $0.5 million or 1.1% of capital and surplus.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2012

Summary of Operations and Capital and Surplus Account for the Year Ended December 31, 2012

Reconciliation of Capital and Surplus from December 31, 2008 through December 31, 2012

Statement of Financial Condition
as of December 31, 2012

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 26,209,002	$	$ 26,209,002	
Common stocks	18,415,260		18,415,260	
Cash and short-term investments	9,369,919		9,369,919	
Receivable for securities	22,844		22,844	
Investment income due and accrued	220,152		220,152	
Uncollected premiums and agents' balances in course of collection	734,953		734,953	
Deferred Premiums, agents' balances and installments booked but deferred and not yet due	452,985		452,985	
Amount recoverable from reinsurers	342,465		342,465	
Other amounts receivable under reinsurance contracts	21,692		21,692	
Current federal and foreign income tax recoverable and interest thereon	395,758		395,758	
Net deferred tax asset	1,339,919	753,094	586,825	
Guaranty funds receivable or on deposit	98,583	98,583		
Aggregate write-ins for other than invested assets	26,232	26,232		
Total assets	$ 57,649,764	$ 877,909	$ 56,771,855	

Liabilities, Capital and Surplus				
Aggregate reserve for life contracts			$ 5,699,577	(1)
Aggregate reserve for accident and health contracts			1,375,448	(1)
Liability for deposit-type contracts			10,000	(1)
Contracts claims:				
Life			479,430	(1)
Accident and health			1,385,709	(1)
Contract liabilities not included elsewhere:				
Interest maintenance reserve			992,810	(1)
Commissions to agents due or accrued-life and annuity contracts $17,482; accident and health $130,495; and deposit-type contract fund $0			147,977	
General expenses due or accrued			3,371	
Taxes, licenses and fees due or accrued			32,670	
Remittances and items not allocated			23,725	
Miscellaneous liabilities:				
Asset valuation reserve			36,305	
Reinsurance in unauthorized companies			52,201	(1)
Funds held under reinsurance treaties with unauthorized reinsurers			115,583	
Payable to parent, subsidiaries and affiliates			232,138	
Payable for securities			3,000	
Aggregate write-ins for liabilities			2,073,707	
Total liabilities			12,663,651	
Common capital stock		$ 2,500,000		
Gross paid-in and contributed surplus		10,420,150		
Aggregate write-ins for other than special surplus funds		1,604,402		
Unassigned funds (surplus)		29,583,652		
Capital and surplus			44,108,204	
Total liabilities, capital and surplus			$ 56,771,855	

Summary of Operations and Capital and Surplus Account for the Year Ended December 31, 2012

Summary of Operations

Premiums and annuity considerations	$ 11,705,999	
Net investment income	837,297	
Amortization of interest maintenance reserve (IMR)	97,654	
Commissions and expense allowances on reinsurance ceded	182,912	
Aggregate write-ins for miscellaneous income	130,992	
Total		12,954,854
Death benefits	$ 1,057,663	
Annuity benefits	275,052	
Disability benefits and benefits under accident and health contracts	3,178,887	
Interest and adjustments on contract or deposit-type contract funds	98,242	
Increase in aggregate reserves for life and accident and health contracts	(566,844)	
Commissions on premiums, annuity considerations, and deposit-type contract funds	1,922,733	
Commissions and expense allowances on reinsurance assumed	1,174,061	
Insurance taxes, licenses and fees, excluding federal income taxes	404,667	
Increase in loading on deferred and uncollected premiums	46,076	
Total		7,590,537
Net gain from operations before federal income taxes		5,364,317
Federal income taxes incurred		1,110,783
Net realized capital losses		(14,444)
Net income		$ 4,239,090

Capital and Surplus Account

Capital and surplus, December 31, 2011		$ 39,923,719
Net income	$ 4,239,090	
Change in net unrealized capital losses	(9,389)	
Change in net deferred income tax	(162,825)	
Change in nonadmitted assets	692,453	
Change in liability for reinsurance in unauthorized companies	149,835	
Change in asset valuation reserve	(19,349)	
Surplus adjustment:		
Change in surplus as a result of reinsurance	(126,919)	
Aggregate write-ins for losses in surplus	(578,411)	
Net change in capital and surplus for the year		4,184,485
Capital and Surplus, December 31, 2012		$ 44,108,204

Reconciliation of Capital and Surplus
from December 31, 2008 through December 31, 2012

	Gain in Surplus	Loss in Surplus	
Capital and surplus, December 31, 2008			$ 30,692,267
Net income	$ 14,551,735	$	
Net unrealized capital gains	2,330,963		
Change in net deferred income tax		54,705	
Change in nonadmitted assets		2,057,274	
Change in liability for reinsurance in unauthorized companies		48,825	
Change in asset valuation reserve	14,932		
Surplus adjustments:			
Change in surplus as a result of reinsurance		485,532	
Dividends to shareholders		48,000	
Aggregate write-ins for losses in surplus		787,357	
Total gains and losses	$ 16,897,630	$ 3,481,693	
Net change in capital and surplus			13,415,937
Capital and surplus, December 31, 2012			$ 44,108,204

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Aggregate Reserve for Life Contracts
Aggregate Reserve for Accident and Health Contracts
Liability for Deposit –Type Contracts
Contract Claims – Life
Contract Claims – Accident and Health
Interest Maintenance Reserve
Liability for Reinsurance in Unauthorized Companies

A Life Actuary from the California Department of Insurance performed an actuarial evaluation of the Company's above captioned reserves as of December 31, 2012. Based on the evaluation, the Company's December 31, 2012 reserves were found to be reasonably stated and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

Accounts and Records (Page 11): It was recommended that the Company implement stronger controls that ensure only the permitted rates are charged on policies. The Company has complied with this recommendation.

ACKNOWLEDGMENT

The courtesy and cooperation extended by the Company's officers and parent's employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

_____/S/_____
Tony L. Tran, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California