REPORT OF EXAMINATION
OF THE
MERITPLAN INSURANCE COMPANY
AS OF
DECEMBER 31, 2012

Filed June 18, 2014

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Los Angeles, California
April 11, 2014

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

MERITPLAN INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 3349 Michelson Drive, Suite 200, Irvine, California 92612.

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 conducted concurrently with the examination of the Company's parent, Balboa Insurance Company, and with the Arizona Department of Insurance's examination of the parent's wholly-owned subsidiary, Newport Insurance Company.

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.

SUBSEQUENT EVENTS

Effective February 21, 2014, AM Best affirmed the financial strength rating of "A" (Excellent) and the issuer credit rating of "A" for the Company, Balboa Insurance Company, and Newport Insurance Company (collectively, Balboa Insurance Group). However, AM Best also revised and changed the outlook to "negative" from the previously stated "stable" due to Balboa Insurance Group's diminishing business profile as it moves closer to being inactive upon the transfer of its lender placed business to QBE Insurance Corporation (QBEIC) is complete. The contracts and agreements detailing the transfer of Balboa Insurance Group's business to QBEIC are discussed in the Summary of Significant Findings Section of this report. The transfer is expected to be substantially completed by the middle of 2014, resulting in Balboa Insurance Group becoming a much less active insurer.

SUMMARY OF SIGNIFICANT FINDINGS

Master Transaction Agreement

During 2011, the Company's ultimate parent, Bank of America Corporation (BAC), announced the sale of substantially all of Balboa Insurance Company's (BIC) portfolio and those of its wholly-owned subsidiaries, the Company, and Newport Insurance

Company (NIC), to the QBE Insurance Group Limited as part of a significant sale transaction summarized as follows:

On June 1, 2011, the Company, BIC, and NIC (collectively, Balboa Insurance Group), entered into a Master Transaction Agreement with QBE Holdings, Inc., and some of its subsidiaries (collectively, QBE) whereby QBE assumed substantially all of the insurance liabilities of the Balboa Insurance Group in exchange of QBE's acquisition of an equivalent amount of cash and other assets through a reinsurance transaction with Balboa Insurance Group. The reinsurance transactions were effective on April 1, 2011 (as referenced in the Ceded Reinsurance section of this report). The remaining assets and liabilities are comprised primarily of an investment portfolio and federal income tax related items. QBE assumed the majority of Balboa Insurance Group's employees and facilities on June 1, 2011.

The agreement with QBE included two clauses/triggers that could potentially result in the repayment of a portion of the initial purchase price. The clauses/triggers are related to potential governmental action that would affect profitability or a voluntary reduction in written premium. The amount subjected to repayment is capped at specific amounts and declines from 2012 to the 2014. The potential loss at December 31, 2012 ranges from $0 to $54 million. As of December 31, 2012, and through the date of this report, the trigger events have not occurred.

The agreement with QBE also included the sale of one non-insurer subsidiary of BIC, Newport Management Corporation, and one non-insurer affiliate, Mortgage and Auto Solutions, Inc., in addition to the majority of assets of another BIC subsidiary, Balboa Life & Casualty, LLC (Balboa LLC) and one other non-insurer affiliate, Balboa Insurance Services, Inc.

QBE and BAC also agreed to enter into long-term distribution agreements for lender-placed and real estate-owned insurance programs and for certain voluntary consumer insurance products.

In addition, Balboa Insurance Group and QBE entered into a reinsurance administrative service agreement that provides for administrative services by QBE to Balboa Insurance Group, effective June 1, 2011.

QBE First Insurance Agency, Inc. (QBEF) became a managing general agent for the Balboa Insurance Group in 2011, a relationship that was terminated in 2012.

Because there are a limited amount of policies being written by the Balboa Insurance Group, in May 2012, QBE began writing substantially all new and renewal business directly rather than through assuming the policies issued by Balboa Insurance Group.

Consent Order

In the ordinary course of business the Company and its subsidiaries are or may become subject to examinations by state insurance regulators and other government agencies, as well as information gathering requests, inquiries, investigations, and threatened legal actions and proceedings. Recently, the Company and its affiliates have been and are the subject of certain examinations, inquiries and investigations relating to their lender-placed insurance programs. In April 2013, the Company, its parent, BIC, and BIC's parent BA Insurance Group, Inc., entered into a Consent Order with the New York Department of Financial Services (NYDFS) to resolve claims by NYDFS related to its industry-wide investigation of lender-placed insurance. As reflected in the Consent Order, and in accordance with the agreements under which QBE purchased substantially all of the assets and liabilities of the Company and BIC, QBE Insurance Corporation, on behalf of the Company and BIC, has paid the civil penalty of $6 million and will make restitution to eligible New York homeowners. The Consent Order is neither an admission of liability nor a judicial finding. In view of the inherent difficulty of predicting the outcome of such regulatory and government matters, the Company generally cannot predict what the eventual outcome of the pending or any future matters

will be, what the timing of the ultimate resolution of these matters will be, or the amount, if any, of eventual loss, fines or penalties related to these matters may be.

COMPANY HISTORY

The Company is a wholly-owned subsidiary of Balboa Insurance Company (BIC), a California domiciled insurance company. BIC is a wholly-owned subsidiary of BA Insurance Group, Inc. (BAIG), a Delaware corporation. BAIG is a subsidiary of NB Holdings Corporation, a Delaware corporation, which is a subsidiary of Bank of America Corporation (BAC) (the Ultimate Parent), a publicly traded company incorporated in Delaware.

Capitalization

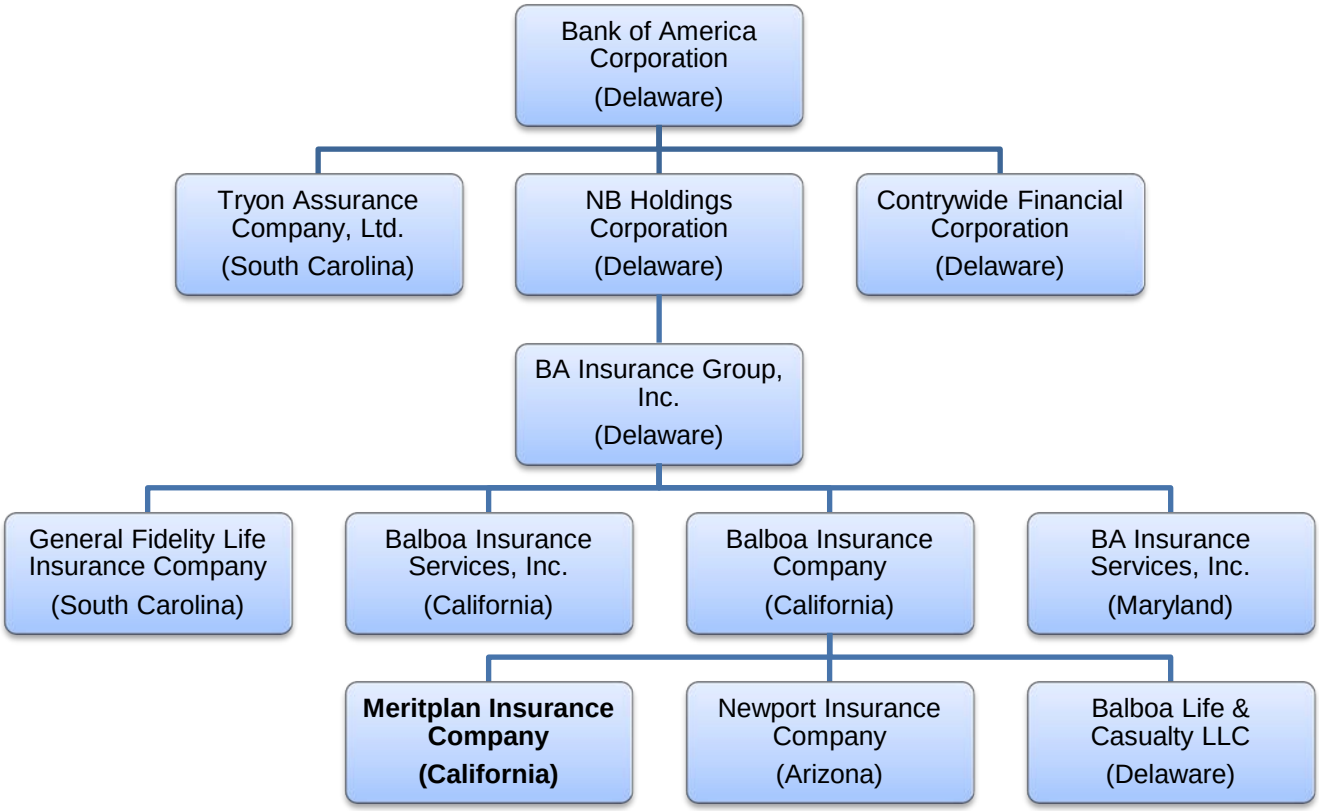
The Company is authorized to issue 300,000 shares of common stock with a par value of $24 per share. As of December 31, 2012, there were 235,000 shares outstanding.

Dividends Paid

On October 15, 2012, the Company paid an extraordinary cash dividend of $100 million to BIC. The California Department of Insurance approved this dividend on October 4, 2012.

MANAGEMENT AND CONTROL

The following abridged organizational chart, which is limited to the Company's parent along with its subsidiary and affiliated insurance companies, depicts the Company's relationship within the holding company system (all ownership is 100%):



The following companies also had interrelationships with the Company during the examination period and are also under the Bank of America Corporation's holding company system:

Countrywide Home Loans, Inc. (New York)
Countrywide Financial Corporation (Delaware)
BA Continuum India Private Limited (India)
BA Continuum Costa Rica, Limitada (Costa Rica)
Banc of America Insurance Services, Inc. (Maryland)
BA Insurance Services, Inc. (Maryland)
Bank of America, N.A. (North Carolina)
Banc of America Card Serving Corporation (Arizona)

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
Dea L. Christian Charlotte, North Carolina	Senior Vice President BA Insurance Group, Inc.
Lesley J. Collins [(a)] Charlotte, North Carolina	President and Chief Operations Officer BA Insurance Group, Inc.
Kari L. Dixon [(b)] Charlotte, North Carolina	Senior Vice President BA Insurance Group, Inc.
Michael R. Horak [(c)] Charlotte, North Carolina	Senior Vice President and Treasurer BA Insurance Group, Inc.
Michelle M. Johnson Charlotte, North Carolina	Senior Vice President BA Insurance Group, Inc.
Melvin D. Martinez Charlotte, North Carolina	Senior Vice President BA Insurance Group, Inc.
Evangeline T. Sifford Charlotte, North Carolina	Senior Vice President BA Insurance Group, Inc.

Principal Officers

Name	Title
Lesley J. Collins [(a)]	President and Chief Operating Officer
Michael R. Horak [(c)]	Senior Vice President, Chief Financial Officer, and Treasurer
Eric B. Chamberlain	Chief Legal Officer and Secretary
Harvey J. Waite	Senior Vice President and Chief Actuary
Evangeline T. Sifford	Senior Vice President and Chief Risk Officer
Michelle M. Johnson	Senior Vice President, Controller, and Chief Accounting Officer

The following changes in management occurred subsequent to the examination date:

(a) Lesley J. Collins resigned as Director, President, and Chief Operating Officer (COO), effective September 20, 2013. Janet A. MacDonald assumed the positions and titles as Director, President, and COO, effective September 30, 2013.

(b) Kari L. Dixon resigned as Director, effective April 5, 2013. Ida A. Shapiro was appointed as a Director, effective October 18, 2013.

(c) Michael R. Horak resigned as Director, Senior Vice President, and Chief Financial Officer (CFO), effective March 31, 2013. Scott M. Taucher assumed the positions and titles as Director, Senior Vice President, and CFO, effective April 1, 2013.

Affiliated Management Agreements

Bank of America Insurance Services Group Intercompany Services Agreement (Intercompany Services Agreement): On January 1, 2009, the Company entered into an Intercompany Service Agreement with Balboa Insurance Company (BIC), Newport Insurance Company (NIC), Balboa Life & Casualty LLC, Balboa Insurance Services, Inc., Countrywide Home Loans, Inc., Countrywide Financial Corporation, BA Continuum India Private Limited, BA Continuum Costa Rica, Limitada, Banc of America Insurance Services Inc. (BAISI), BA Insurance Services, Inc., Bank of America, N.A. (BANA), Banc of America Card Servicing Corporation, and Bank of America Corporation, collectively known as the Group Members.

Under the terms of this agreement, BANA provides the following services: executive management, procurement and disbursing, human resource management and employee relations, payroll, tax preparation and planning, information system, 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 Department of Insurance (CDI), Arizona Department of Insurance, and New York Department of Financial Services. The 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
2009	$ 51,724,819
2010	$ 57,618,579
2011	$ 31,199,534
2012	($ 2,790,147)
Total	**$ 137,752,785**

Insurance Producer Agreement: On June 30, 2008, the Company, BIC, NIC (collectively, Balboa Insurance Group), BANA and BAISI (collectively, Agencies) entered into an Insurance Producer Agreement. Under the terms of this agreement, the Balboa Insurance Group pays 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. The agreement was entered into prior to the date that the Agencies became affiliates of the Company. During the examination period, the Company paid the following commissions under the terms of this agreement:

Year	Amount
2009	$ 296,250
2010	$ 287,787
2011	$ 1,942,070
2012	($ 863,369)
Total	**$ 1,662,738**

Marketing and Servicing Producer Agreement: On April 27, 2009, the Company and its parent, BIC (collectively, Companies) entered into a Marketing and Servicing Producer Agreement with BANA, BAISI, FIA Card Services, N.A., and IFIA Insurance Services, Inc. (collectively, Agencies). Under the terms of the 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. During the examination period, the Company did not make any payments to the Agencies.

Consolidated Federal Income Tax Allocation Agreement: Effective December 10, 2009, for tax years beginning July 1, 2008, the Company, BIC, NIC, Balboa Life & Casualty LLC, and Bank of America Corporation entered into a 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 the following taxes during the examination period:

Year	Amount
2009	$ 9,480,278
2010	$ 13,087,539
2011	$ 14,907,260
2012	$ 4,663,153
Total	**$ 42,138,230**

Non-Affiliated Management Agreements

Reinsurance Administrative Service Agreement: Effective June 1, 2011, as part of the Master Transaction Agreement noted in the Summary of Significant Findings section of this report, the Company, BIC, and NIC entered into a reinsurance administrative service agreement with QBE Insurance Corporation (QBEIC). Under this agreement, QBEIC provides all necessary services to administer substantially all of the policies on behalf of the Company and to run-off existing claims at no cost to the Company.

Underwriting Management Agreement: Effective June 1, 2011, as part of the Master Transaction Agreement noted in the Summary of Significant Findings of this report, the Company, BIC, and NIC also entered into an underwriting management agreement with QBE First Insurance Agency Inc. (QBEF) whereby certain underwriting functions are performed by QBEF. The Company compensates QBEF at a rate of 10% of direct written premiums.

TERRITORY AND PLAN OF OPERATION

Prior to 2011, the Company was primarily engaged in providing fire, allied lines, and automobile physical damage insurance through its lender-placed hazard and automobile collateral protection insurance programs, as well as homeowners insurance for homes, condominiums and tenants through its personal lines programs. These products were primarily marketed through affiliated agencies, agencies affiliated with financial institutions, and general agents.

Effective June 1, 2011, as part of the Master Transaction Agreement with QBE Holdings, Inc. and some of its subsidiaries (collectively QBE) as discussed in the Summary of Significant Findings section of this report, the Company appointed QBE FIRST Insurance Agency, Inc. (QBEF) as its non-exclusive managing general agent.

The following is a listing of the states in which the Company is licensed as of December 31, 2012:

Alabama	Indiana	Missouri	Oklahoma
Arizona	Iowa	Montana	Oregon
California	Kansas	Nebraska	Pennsylvania
Colorado	Kentucky	Nevada	South Carolina
Connecticut	Louisiana	New Jersey	Tennessee
Delaware	Maryland	New Mexico	Texas
Florida	Michigan	New York	Utah
Georgia	Minnesota	North Carolina	Washington
Hawaii	Mississippi	Ohio	Wisconsin
Idaho			

In 2012, its total direct written premiums were $139.3 million of which $19.1 million was written in California (13.7%), $18.0 million in New York (12.9%), $11.8 million in Colorado (8.5%), $11.4 million in Texas (8.2%), and $10.2 million in North Carolina (7.3%). The direct premiums for the remaining states totaled $68.8 million (49.4%).

In May 2012, QBE began writing substantially all new and renewal business directly

rather than through assuming the policies issued by the Company.

REINSURANCE

Intercompany Pooling Agreement

The Company, its parent, Balboa Insurance Company (BIC), and its affiliate, Newport Insurance Company (NIC), participate in a Property and Casualty Companies Pooling Agreement, effective January 1, 2005. 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 BIC, and 4% each for the Company 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 has no other active assumed reinsurance business as of the examination date.

Ceded

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

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2012

Underwriting and Investment Exhibit for the Year Ended December 31, 2012

Reconciliation of Surplus as Regards Policyholders 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	$ 30,844,361	$	$ 30,844,361	
Cash and short-term investments	1,749,240		1,749,240	
Investment income due and accrued	351,233		351,233	
Premiums and agents' balances in course of collection	6,188,014		6,188,014	
Amount recoverable from reinsurers	10,679,321		10,679,321	
Net deferred tax asset	410,784	293,459	117,325	
Receivables from parent, subsidiary and affiliates	1,203,318		1,203,318	
Aggregate write-ins for other than invested assets	2,371,723		2,371,723	
Total assets	$ 53,797,994	$ 293,459	$ 53,504,535	

Liabilities, Surplus and Other Funds			
Losses and loss adjustment expenses		$ 1,676,119	(1)
Reinsurance payable on paid loss and loss adjustment expenses		1,308,631	
Other expenses		712,637	
Taxes, licenses and fees		203,952	
Current federal and foreign income taxes		2,472,063	
Unearned premiums		4,117	
Ceded reinsurance premiums payable		(27,703,186)	
Funds held by company under reinsurance treaties		24,731	
Provision for reinsurance		14,850	
Aggregate write-ins for liabilities		(1,637,838)	
Total liabilities		(22,923,924)	
Aggregate write-ins for other than special surplus funds	$ 1,096,599		
Common capital stock	5,640,000		
Gross paid-in and contributed surplus	36,547,919		
Unassigned funds (surplus)	33,143,941		
Surplus as regards policyholders		76,428,459	
Total liabilities, surplus and other funds		$ 53,504,535	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2012

Statement of Income

Underwriting Income		
Premiums earned		$ (361,336)
Deductions:		
Losses and loss expenses incurred	$ 322,763	
Other underwriting expenses incurred	(39,528)	
Total underwriting deductions		283,235
Net underwriting loss		(644,571)
Investment Income		
Net investment income earned	$ 3,869,906	
Net realized capital gain	6,698,169	
Net investment gain		10,568,075
Other Income		
Net loss from agents' or premium balances charged off	$ (6,797)	
Aggregate write-ins for miscellaneous income	1,513,730	
Total other income		1,506,933
Net income before federal and foreign income taxes		11,430,437
Federal and foreign income taxes incurred		1,450,810
Net income		$ 9,979,627

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2011		$ 166,469,299
Net income	$ 9,979,627	
Change in net unrealized capital gains	10,432	
Change in net deferred income tax	(427,355)	
Change in nonadmitted assets	146,941	
Change in provision for reinsurance	(5,902)	
Dividends to stockholders	(100,000,000)	
Aggregate write-ins for gains in surplus	255,417	
Change in surplus as regards policyholders for the year		(90,040,840)
Surplus as regards policyholders, December 31, 2012		$ 76,428,459

Reconciliation of Surplus as Regards Policyholders
from December 31, 2008 through December 31, 2012

Surplus as regards policyholders, December 31, 2008 per Examination			$ 84,830,614
	Gain in Surplus	Loss in Surplus	
Net income	$ 92,482,606	$	
Net unrealized capital losses		1	
Change in net deferred income tax		2,592,853	
Change in nonadmitted assets	695,962		
Change in provision for reinsurance	99,782		
Cumulative effect of changes in accounting principles	446,010		
Dividends to stockholders		100,000,000	
Aggregate write-ins for gains and losses in surplus	466,339		
Total gains and losses	$ 94,190,699	$ 102,592,854	
Net decrease in surplus as regards policyholders			(8,402,155)
Surplus as regards policyholders, December 31, 2012, per Examination			$ 76,428,459

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

The Company's loss and loss adjustment expense reserves were reviewed by a Casualty Actuary from the California Department of Insurance. Based on the analysis, the loss and loss adjustment expenses reserves as of December 31, 2012, for all companies participating in the Property and Casualty Companies Pooling Agreement (as referenced in the Intercompany Pooling Agreement section of this report), were determined 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

None.

ACKNOWLEDGMENT

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

Respectfully submitted,

_____/S/_____
Sayaka T. Dillon, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California