

STATE OF INDIANA)
) SS:
COUNTY OF MARION) COMMISSIONER OF INSURANCE

IN THE MATTER OF:)
)
Merit Life Insurance Co.)
601 N.W. Second Street)
Evansville, IN 47708-1013)

Examination of: **Merit Life Insurance Co.**

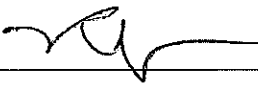
NOTICE OF ENTRY OF ORDER

Enclosed is the Final Order entered by Stephen W. Robertson, Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of Merit Life Insurance Co., any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as amended by the Final Order, has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of Merit Life Insurance Co. shall file an affidavit with the Indiana Department of Insurance stating that he/she has received a copy of the Verified Report of Examination and the Final Order.

The Final Order is a final administrative decision that may be appealed pursuant to Ind. Code § 4-21.5-5.

June 27, 2018
Date


Roy Eft
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 7005 3110 0002 4443 9940

STATE OF INDIANA)
) SS: BEFORE THE INDIANA
COUNTY OF MARION) COMMISSIONER OF INSURANCE

IN THE MATTER OF:)
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Merit Life Insurance Co.)
601 N.W. Second Street)
Evansville, IN 47708-1013)

Examination of: **Merit Life Insurance Co.**

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the Merit Life Insurance Co. (hereinafter “Company”) for the time period January 1, 2012 through December 31, 2016.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter “Commissioner”) by the Examiner on March 16, 2018

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on June 1, 2018 and was received by the Company on June 4, 2018.

On June 26, 2018 pursuant to Ind. Code § 27-1-3.1-10, the Company filed a response to the Verified Report of Examination. The Commissioner has fully considered the Company’s response.

NOW THEREFORE, based on the Verified Report of Examination and the response filed by the Company, the Commissioner hereby FINDS as follows:

1. The suggested modifications to the Verified Report of Examination submitted by the Company are reasonable and shall be incorporated into the Verified Examination Report. A copy of the Verified Report of Examination, as amended, is attached hereto.

2. The Verified Report of Examination, as amended, is true and accurate report of the financial condition and affairs of the Company as of December 31, 2016.
3. The Examiners' recommendations are reasonable and necessary in order for the Company to comply with the insurance laws of the state of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, as amended, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.
2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination, as amended. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.
3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

Signed this 27 day of
June, 2018.


Stephen W. Robertson
Insurance Commissioner

ABOUT AFFIRMATIONS

The following pages for affirmations need to be signed by each Board Member and returned to the Indiana Department of Insurance within thirty (30) days in accordance with I.C. §27-1-3.1-12(b).

If your affirmations list individuals that are no longer on your Board of Directors, you may simply retype the form on plain white paper with the correct names and a line to the right for signature. If the names are misspelled, you may do the same, simply re-type the corrected form with a line to the right for signature.

Should you have any questions or difficulties with these forms or you require additional time past the thirty (30) day requirement, please do not hesitate to contact this department at (317) 232-2390.

[Handwritten signature]

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STATE OF INDIANA
Department of Insurance
REPORT OF EXAMINATION
OF
MERIT LIFE INSURANCE CO.
NAIC COMPANY CODE 65951

As of

December 31, 2016

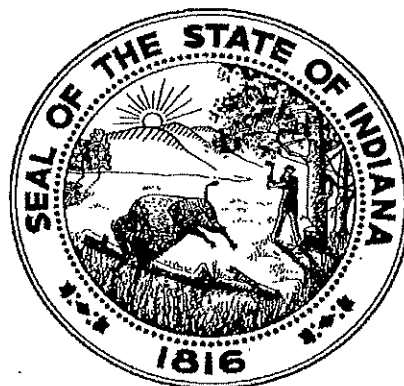


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STATE OF INDIANA

ERIC J. HOLCOMB, GOVERNOR

Indiana Department of Insurance

Stephen W. Robertson, Commissioner
311 W. Washington Street, Suite 103
Indianapolis, Indiana 46204-2787
Telephone: 317-232-2385
Fax: 317-232-5251
Website: in.gov/idoi

March 16, 2018

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

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 3951, an examination has been made of the affairs and financial condition of:

Merit Life Insurance Co.
601 N.W. Second Street
Evansville, IN 47708-1013

an Indiana domestic life and accident and health insurance company hereinafter referred to as the "Company." The examination was conducted at the corporate offices of Springleaf Finance Corporation located at 601 N.W. Second Street, Evansville, Indiana 47708.

The Report of Examination, showing the status of the Company as of December 31, 2016, is hereby respectfully submitted.

ACCREDITED BY THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES 317-232-2413 COMPANY COMPLIANCE 317-232-3495 CONSUMER SERVICES 317-232-2395/1-800-622-4461 FINANCIAL SERVICES 317-232-2390 MEDICAL MALPRACTICE 317-232-2402 COMPANY RECORDS 317-232-5692 STATE HEALTH INSURANCE PROGRAM 1-800-452-4800

SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI) as of December 31, 2011. The present risk-focused examination was conducted by The Thomas Consulting Group, Inc. (Thomas Consulting) and covered the period from January 1, 2012 through December 31, 2016 and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

In conducting the risk-focused examination, the INDOI, by its representatives, relied upon the independent audit reports and opinions contained therein rendered by PwC, LLP for each year of the examination period. Such reports were prepared on a statutory basis and reconciled to the financial statements contained in the respective Annual Statements.

Mark Alberts, FSA, MAAA, and Julie Stephenson, ASA, MAAA, both of Alberts Actuarial Consulting, LLC, were appointed by the INDOI and conducted a review of the following accounts as of December 31, 2016: Aggregate Reserves for Life and Accident & Health Contracts, and Contract Claims for Life and Accident & Health.

In accordance with the 2016 NAIC *Financial Condition Examiners Handbook*, Thomas Consulting planned and performed the risk-focused examination to evaluate the financial condition of the Company, and to identify prospective risks related to its operations. The examination process included an evaluation of corporate governance, identification and assessment of inherent risks, and documentation of system controls and procedures used to mitigate the identified risks. In addition, the Examiners performed an assessment of the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The examination also included a review of the Company's compliance with Statutory Accounting Principles, Annual Statement Instructions, and the Indiana Insurance Code. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

HISTORY

The Company was incorporated on September 11, 1957 and commenced business on October 28, 1957 as an Indiana domiciled life and health insurance company. The Company is a wholly-owned, direct subsidiary of Springleaf Finance Company (SLFI), formerly known as American General Finance, Inc. (AGFI).

As of August 29, 2001 AGFI was an indirect wholly-owned subsidiary of American International Group, (AIG). AIG, through its subsidiaries, was engaged in a broad range of insurance and insurance related activities, financial services, and asset management in the United States and abroad.

On August 11, 2010, AIG announced that a definitive agreement was entered into, under which 80% interest in the Company's indirect parent, SLFI, was sold to Fortress Investment Group LLC. AIG retained 20% interest in SLFI. On November 23, 2010, the INDOI approved the Form A submitted on September 1, 2010. The transaction allowed the Company to become an indirect, wholly-owned subsidiary of SLFI; and FCFI Acquisition LLC then owned 80% of the issued and outstanding stock of SLFI with AIG owning the other 20%. On November 30, 2010, a change in ownership occurred with AIG owning approximately 3%.

Effective November 15, 2015, Springleaf Financial Holdings, LLC announced the acquisition of OneMain Financial Holdings, LLC (OMFH) from CitiFinancial Credit Company for \$4.49 billion in cash. After the closing of the OMFH acquisition on November 15, 2015, Springleaf Holdings Inc. changed its name to OneMain Holdings, Inc. (OMH) and its ticker symbol to "OMF."

CAPITAL AND SURPLUS

The Amended Articles of Incorporation provide that the authorized capital of the Company shall consist of 30,000 shares of common stock with a par value of \$100 per share. As of December 31, 2016, the Company's total capital and surplus was \$133,368,940, which included; (a) 25,000 shares of common stock issued and outstanding, (b) gross paid-in contributed surplus of \$4,950,988, and (c) unassigned funds (surplus) of \$125,917,952. All issued shares are owned by Springleaf Finance Corporation (SFC) as of December 31, 2016, whose indirect parent is OMH, whose ultimate parent is Fortress Operating Entity 1 LP (FOE 1) and Principal Holdings 1 LP (PH 1).

DIVIDENDS TO STOCKHOLDERS

The Company paid the following dividends to SFC during the period of the examination.

<u>Year</u>	<u>Total</u>	<u>Ordinary Dividends</u>	<u>Extraordinary Dividends</u>
2016	\$ 38,000,000	\$ -	\$ 38,000,000
2015	50,000,000	-	50,000,000
2014	18,000,000	18,000,000	-
2013	75,000,000	-	75,000,000
2012	100,000,000	-	100,000,000

In accordance with Indiana Code (IC) 27-1-23-1.5, the Company notified the INDOI of all the declared dividends to the parent during the examination period. The extraordinary dividends were non-disapproved by INDOI in accordance with IC 27-1-23-4. The payment of the ordinary dividends was not required to be approved by the INDOI since it did not exceed the greater of ten percent (10%) of the prior year's surplus or the gains from operations of the prior year.

TERRITORY AND PLAN OF OPERATION

The Company is a direct writer and reinsurer of credit life, credit accident and health, and non-credit insurance. The Company markets its products to eligible branch customers of OMH. The Company's credit life insurance policies insure the life of the borrower in an amount typically equal to the unpaid balance of the finance receivable and provide for payment in full to the lender of the finance receivable in the event of the borrower's death. The Company's credit accident and health insurance policies provide to the lender, payment of the installments on the finance receivable coming due during a period of the borrower's disability due to illness or injury. The borrower's purchase of credit life or credit accident and health insurance is voluntary. OMH's branch network is the sole distribution channel for the Company's current business. The Company is licensed in 46 states, the District of Columbia, and the U.S. Virgin Islands.

GROWTH OF THE COMPANY

The following exhibit summarizes the financial results of the Company during the examination period:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital & Surplus</u>	<u>Premiums Earned</u>	<u>Net Income</u>
2016	\$559,261,444	\$425,892,504	\$133,368,940	\$127,362,430	\$19,846,490
2015	588,831,742	465,994,537	122,837,205	150,086,314	(929,170)
2014	588,178,042	416,794,956	171,383,086	157,095,851	(2,411,214)
2013	531,975,110	347,510,541	184,464,569	128,083,653	3,285,373
2012	549,045,633	303,598,963	245,446,670	85,907,428	10,131,497

Variances in assets and liabilities each year are consistent with the premium volume during the examination period. Capital and surplus decreased due to the declaration of extraordinary dividends in four (4) of the five (5) years. The Company's capital and surplus target is to maintain statutory equity at ten (10) times the RBC Authorized Control level. The increase in net income in 2016 was due to the application of a new mortality table to calculate the statutory mortality reserves for direct credit life insurance. The change was from the 1958 CET mortality table to the 1980 CSO mortality table.

MANAGEMENT AND CONTROL

Directors

The Company's Bylaws specify that the Board of Directors consist of not less than five (5) nor more than twenty (20) members. The Bylaws allow the number of directors to be increased or decreased by amendment to the Bylaws. Directors are elected at the Annual Meeting of the Shareholders.

The following is a listing of persons serving as directors as of December 31, 2016:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Dava S. Carson Keller, TX	President Merit Life Insurance Company
Jack R. Erkillla Newburgh, IN	SVP and Secretary Merit Life Insurance Company
Michael F. Koppen Colleyville, TX	SVP and Chief Actuary Merit Life Insurance Company
Gregg H. Lehman Fort Worth, TX	SVP and General Counsel Merit Life Insurance Company
Ronald D. Neal Colleyville, TX	SVP and CFO Merit Life Insurance Company
George D. Roach Newburgh, IN	Director and VP of Operations OneMain Holdings, Inc.

Officers

The officers of the Company, as defined in the Bylaws, shall consist of a Chairperson of the Board, a Chief Executive Officer, a President, one (1) or more Vice Presidents, Chief Financial Officer, Treasurer, Secretary and such other officers as may be elected by the Board of Directors. The officers elected by the Board of Directors and serving as of December 31, 2016, were as follows:

<u>Name</u>	<u>Title</u>
Dava S. Carson	Chairperson, CEO, President
Jack R. Erkilli	Senior Vice President and Secretary
Donna A. Van Winkle	Controller and Treasurer
Michael F. Koppen	Senior Vice President, Chief Actuary
Ronald D. Neal	Senior Vice President, CFO
Marianne D. Ford	Vice President
Susan E. Leasure	Assistant Secretary, VP of Insurance Administration
Daniel T. Kiely	Vice President, Chief Tax Officer
Gregg H. Lehman	Senior Vice President, General Counsel
Sally J. Smith	Associate Actuary

Corporate Governance

As of December 31, 2016, the Company's Investment Committee was the only committee appointed by the Board of Directors. However, the Company receives oversight from OMH's Board of Directors and its Audit Committee. Oversight is also provided by OMH's independent management control functions in the areas of compliance, risk, legal, finance and human resources.

As of December 31, 2016, the Investment Committee was comprised of board members of the Company and non-board members. The persons serving were as follows:

Dava S. Carson	Director
Ronald D. Neal	Director
Michael F. Koppen	Director
Gregg H. Lehman	Director
Donna A. Van Winkle	Non-board member
Peter McMullin	Non-board member
Joseph R. Tomei	Non-board member

As of December 31, 2016, the independent members of the Audit Committee of OMH were:

Douglas L. Jacobs	Independent Director of OMH
Roy A. Guthrie	Independent Director of OMH
Anahaita N. Kotval	Independent Director of OMH

CONFLICT OF INTEREST

The Company's conflict of interest disclosure process requires directors and officers to complete a conflict of interest disclosure statement on an annual basis. The Company's directors and officers properly completed the conflict of interest disclosure statements for all years covered by this examination.

OATH OF OFFICE

IC 27-1-7-10(i) requires that every director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly and diligently administer the affairs of the corporation and will not knowingly violate any of the laws applicable to such corporation. Each director serving during the examination period signed an Oath of Office statement.

CORPORATE RECORDS

Articles of Incorporation

There were no amendments to the Company's Articles of Incorporation during the period under examination.

Bylaws

There were no amendments made to the Company's Bylaws during the period under examination.

Minutes

The Board of Directors and Shareholders meeting minutes were reviewed for the period under examination through the fieldwork completion date, and significant actions taken during each meeting were noted. The Company's 2015 and 2016 Annual Shareholders meetings were held on June 10, 2015 and June 24, 2016, respectively. These meeting dates are contrary to the requirements of IC 27-1-7-7(b) which requires the Annual Shareholders meetings to be held within five (5) months of the fiscal close date which is December 31 for the Company. **(Please see the "Other Significant Findings" section of this report of examination regarding this issue.)**

AFFILIATED COMPANIES

Organizational Structure

The Company is a member of an insurance holding company system as defined within IC 27-1-23 and Regulation of Insurance Holding Company Systems. An Insurance Holding Company System Registration Statement was filed annually with the INDOI for each year covered by this examination period.

The following abbreviated organizational chart depicts the Company's relationship within the holding company system:

	NAIC Company Code	Domiciliary State
Fortress Investment Group LLC		DE
o FCFI Acquisition Group, LLC		DE
o Springleaf Financial Holdings, LLC *		DE
o OneMain Holdings, Inc. **		IN
o Springleaf Finance, Inc.		IN
o Springleaf Finance Corporation		IN
o Merit Life Insurance Co.	65951	
o Yosemite Insurance Company	26220	IN
o Interstate Agency, Inc.		IN

* 94% owned by Fortress and 6% owned by AIG Capital Corporation.

** 55% owned by Fortress, 3% owned by AIG Capital Corporation, and 42% owned by public shareholders.

Affiliated Agreements

The following Affiliated Agreements were disclosed as part of the Form B Holding Company Registration Statement and were filed with the INDOI in accordance with IC 27-1-23-4(b)(4).

Shared Services Agreement

Effective November 30, 2010, the Company entered into a Shared Services Agreement with an affiliate, Springleaf Finance Management Corporation (SFMC). This agreement was non-disapproved by the INDOI in a letter dated October 29, 2010 and provides for the Company to reimburse SFMC for the services provided at cost, allocated in conformity with customary insurance accounting practices consistently applied. Shared services expenses paid to SFMC from the Company were \$8,966,278 in 2016.

Investment Service Agreement

In December of 2011, the Company entered into an Investment Services Agreement with Logan Circle Partners, L.P. (Logan), which became effective April 1, 2012. By letter dated December 9, 2011, the INDOI non-disapproved the Form D, filed October 10, 2011, providing notice of the Company's proposal to enter the Investment Services Agreement with Logan. This agreement was terminated on December 31, 2016 and the services were contracted with an unaffiliated entity.

Investment Advisory Agreement

In December of 2011, the Company entered into an Investment Advisory Agreement with Logan, effective April 1, 2012. By letter dated December 9, 2011, the INDOI non-disapproved the Form D, filed October 10, 2011, providing notice of the Company's proposal to enter into the Investment Advisory Agreement with Logan. The Company paid \$469,864 in 2016 related to the services provided by Logan.

As outlined in the Company's Form D Filing Amendment dated October 24, 2013, Logan acts as the insurer's investment manager and is a wholly owned subsidiary of FOE 1. The amendment changed the Investment Guidelines benchmark followed in the execution of this agreement. The INDOI provided non-disapproval of the Form D Filing Amendment on November 25, 2013 which became effective on December 1, 2013.

General Agency Agreement

Effective January 1, 2003, the Company entered into a General Agency Agreement with Interstate Agency, pursuant to which Interstate Agency acts as general agent for the company's credit insurance products as set forth on Schedule A to the General Agency Agreement. Compensation is based on a percentage of net written premiums and other considerations generated. The General Agency Agreement was non-disapproved by the INDOI by letter dated September 19, 2006. For the year ending December 31, 2016, the Company paid \$35,820,195 pursuant to the General Agency Agreement.

Tax Sharing Agreement

The Company entered into a Tax Sharing Agreement with its indirect parent, OMH, and all of its eligible domestic affiliates. The INDOI non-disapproved the Tax Sharing Agreement by letter dated March 30, 2016. For the tax year ending December 31, 2016, the Company paid net estimated taxes of \$22,879,853, pursuant to this agreement. For the tax year ending December 31, 2016, the Company had a recoverable amount due from its direct parent, SFC of \$16,136,907 for the purpose of settling the Company's federal income tax liability under the Tax Sharing Agreement.

Intercompany Demand Note

The Company has an Intercompany Demand Note with SFC, upon which it has not taken any advances. These borrowings are on demand and are unsecured. Interest accrues on the unpaid principal amount of each advance until such principal amount is paid in full. The INDOI issued a non-disapproval letter concerning the note on December 21, 2007. No amounts were borrowed and there was no outstanding balance under the Intercompany Demand Note as of December 31, 2016.

FIDELITY BOND AND OTHER INSURANCE

The Company is protected by a Financial Institution Bond up to an aggregate loss limit of \$5,000,000. The fidelity bond limit was adequate to meet the prescribed minimum coverage specified by the NAIC. Other various interests of the Company are protected by appropriate policies of insurance

Contrary to the requirements of IC 27-1-7-14, the Company's financial institution bond was not approved by its Board of Directors at any time during the five (5) year examination period ending December 31, 2016.

It is recommended the Financial Institution Bond be approved by the Board of Directors of the corporation as required by IC 27-1-7-14 **(Please see the "Other Significant Findings" section of this report of examination regarding this issue.)**

STATUTORY AND SPECIAL DEPOSITS

The Company reported statutory and special deposits comprised of U.S. Treasury bonds held by various Departments of Insurance in compliance with statutory requirements as of December 31, 2016:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
Deposits for the benefit of all Policyholders:		
Indiana	\$ 1,535,742	\$ 1,535,220
All Other Special Deposits:		
Georgia	44,714	59,935
Massachusetts	101,184	100,516
New Hampshire	509,359	505,783
New Mexico	111,303	110,516
North Carolina	464,826	468,861
Virgin Islands	544,247	620,155
Total Deposits	<u>\$ 3,311,374</u>	<u>\$ 3,400,985</u>

NOTE: Amounts are shown in whole dollars and columns may not total due to rounding.

REINSURANCE

The Company offers various life and accident, and health insurance products through OMH's branch offices. The Company's objective is to write business directly, however, there are instances where the Company is not licensed in a jurisdiction and this objective cannot be achieved. In such cases, the Company enters into a reinsurance agreement with other insurers, which write the business and then cede the risks to the Company. In 2016, the Company assumed \$105,996 in premiums from other companies. This amount is less than .1% of premiums written in 2016.

In addition, the Company has assumed business from Old Republic Life Insurance Company since 1992. In 2016, this reinsurance generated no premium income and policy reserves that totaled \$2,914,559.

Since 1985, the Company assumed a block of annuities from American General Life and Accident Insurance Company, a previously affiliated Company when the original block of business was assumed. At December 31, 2016, this block of business generated no premium income but accounted for policy reserves that totaled \$31,024,300.

RESERVES

Sally Smith, FSA, MAAA, Associate Actuary for the Company is the Appointed Actuary for the Company. Dr. Smith was appointed by the Board of Directors to render an actuarial opinion on the statutory-basis reserves of the Company for 2016. Prior to 2016, David V. McKay, Associate Actuary for the Company, was the Appointed Actuary for 2012, 2013, and 2014 and Christopher H. Hause, FSA, MAAA, of Hause Actuarial Solutions, Inc., was the Appointed Actuary for 2015.

The scope of the opinion was to examine the actuarial assumptions and methods used in determining reserves and related actuarial items, as shown in the Annual Statement of the Company as prepared for filing with state regulatory officials, as of December 31, 2016. In forming the opinion on loss reserves, information prepared by the Company and on reinsurance assumed from American General Life and Accident Insurance Company, and Old Republic Life Insurance Company was relied upon. This information was evaluated for reasonableness and consistency. In other respects, the examination included such review of the actuarial assumptions and methods used, and such tests of the calculations as considered necessary.

The 2016 opinion stated that the amounts carried in the balance sheet on account for policy reserves and related actuarial items; 1) are computed in accordance with presently accepted actuarial standards consistently applied and are fairly stated in accordance with sound actuarial principles, 2) are based on actuarial assumptions which produce reserves at least as great as those called for in any policy or contract provision as to reserve basis and method, and are in accordance with all other contract provisions, 3) meet the requirements of Indiana insurance law and regulations, and are at least as great as the minimum aggregate amounts required by the State of Indiana, 4) are computed on the basis of assumptions consistent with those used in computing the corresponding items in the Annual Statement of the preceding year end, and 5) include provisions for all actuarial reserves and related statement items that ought to be established.

ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The detail trial balance prepared from the Company's general ledger for the year ending December 31, 2016, was agreed to the Annual Statement. The Company's independent auditors issued unqualified opinions on the Company's Audited Statutory Financial Statements for each year during the examination period. The Audited Statutory Financial Statements were agreed to the Annual Statement for the year ending December 31, 2016, with no exceptions noted. All of the independent audit work papers were made available to the Examiners during the examination.

An evaluation of controls of information systems was performed in this examination. The objective of the review was to assess whether the controls of information systems were adequate and that the risks associated with information systems had been adequately addressed. The assessment of the overall control risks is *effective*, and no material weaknesses or significant findings were noted.

Overall, the Examiners determined the Company's accounting procedures, practices, and account records were satisfactory.

FINANCIAL EXHIBITS

Comparative Exhibit – Statutory Statement of Assets
Comparative Exhibit – Statutory Statement of Liabilities, Surplus and Other Funds
Comparative Exhibit - Statutory Summary of Operations
Comparative Exhibit – Statutory Capital and Surplus Account

NOTE: Amounts are shown in whole dollars and columns may not total due to rounding.

MERIT LIFE INSURANCE CO.

FINANCIAL STATEMENTS

Assets

As of December 31, 2016

	Per Annual Statement	Examination Adjustments	Per Examination	December 31, Prior Year
Assets:				
Bonds	\$ 446,591,328	\$ -	\$ 446,591,328	\$ 412,664,640
Preferred stocks	3,960,000	-	3,960,000	3,960,000
Common stocks	496,300	-	496,300	496,300
Mortgage loans on real estate – first liens	24,199,489	-	24,199,489	60,829,436
Cash, cash equivalents and short- term investments	47,587,547	-	47,587,547	76,154,599
Contract loans	1,165,135	-	1,165,135	1,213,257
Other invested assets	68,518	-	68,518	176,749
Receivable for securities	311,174	-	311,174	94,911
Subtotals, cash and invested assets	<u>\$ 524,379,491</u>	<u>\$ -</u>	<u>\$ 524,379,491</u>	<u>\$ 555,589,892</u>
Investment income due and accrued	\$ 3,455,413	\$ -	\$ 3,455,413	\$ 3,275,264
Uncollected premiums and agents’ balances in the course of collection	11,685,214	-	11,685,214	37,787
Deferred premiums, agents’ balances and installments booked but deferred and not yet due	179,829	-	179,829	197,565
Other receivables under reinsurance contracts	7,344	-	7,344	8,067
Current federal and foreign income tax recoverable and interest thereon	16,136,907	-	16,136,907	3,178,598
Net deferred tax asset	2,417,537	-	2,417,537	14,302,422
Health care and other amounts receivable	-	-	-	12,242,147
Aggregate write-ins for other than invested assets	999,709	-	999,709	-
Total Assets	<u>\$ 559,261,444</u>	<u>\$ -</u>	<u>\$ 559,261,444</u>	<u>\$ 588,831,742</u>

MERIT LIFE INSURANCE CO.

FINANCIAL STATEMENTS

Liabilities, Surplus and Other Funds

As of December 31, 2016

	Per Annual Statement	Examination Adjustments	Per Examination	December 31, Prior Year
Liabilities:				
Aggregate reserves for life contracts	\$ 169,989,728	\$ -	\$ 169,989,728	\$ 214,131,567
Aggregate reserve for accident and health contracts	218,973,293	-	218,973,293	213,827,536
Contract claims:				
Life	4,865,444	-	4,865,444	5,026,361
Accident and health	5,172,422	-	5,172,422	5,342,214
Provision for policyholders' dividends payable in following calendar year	11,938	-	11,938	11,092
Premiums and annuity considerations for life and accident and health contracts received in advance	365,013	-	365,013	311,260
Other amounts payable on reinsurance	710,382	-	710,382	766,503
Interest maintenance reserve	14,387,819	-	14,387,819	10,099,340
Commissions to agents due and accrued	4,281,985	-	4,281,985	4,317,075
General expenses due or accrued	298,000	-	298,000	254,988
Taxes, licenses, and fees due or accrued, excluding federal income taxes	719,591	-	719,591	1,633,753
Unearned investment income	76,821	-	76,821	79,915
Remittances and items not allowed	156,655	-	156,655	401,882
Asset valuation reserve	3,149,916	-	3,149,916	3,632,931
Payable to parent, subsidiaries and affiliates	978,244	-	978,244	4,578,597
Drafts outstanding	-	-	-	1,579,522
Payable for securities	3,438	-	3,438	-
Aggregate write-ins for liabilities	1,751,815	-	1,751,815	-
Total Liabilities	\$ 425,892,504	\$ -	\$ 425,892,504	\$ 465,994,537

Capital and Surplus:

Common capital stock	\$	2,500,000	\$	-	\$	2,500,000	\$	2,500,000
Gross paid in and contributed surplus		4,950,988		-		4,950,988		4,950,988
Unassigned funds (surplus)		<u>125,917,952</u>		-		<u>125,917,952</u>		<u>115,386,217</u>
Total Surplus	\$	<u>130,868,940</u>	\$	-	\$	<u>130,868,940</u>	\$	<u>120,337,205</u>
Total Capital and Surplus	\$	<u>133,368,940</u>	\$	-	\$	<u>133,368,940</u>	\$	<u>122,837,205</u>
Total Liabilities, Capital and Surplus	\$	<u><u>559,261,444</u></u>	\$	-	\$	<u><u>559,261,444</u></u>	\$	<u><u>588,831,742</u></u>

MERIT LIFE INSURANCE CO.

FINANCIAL STATEMENTS

Summary of Operations

For the Year Ended December 31, 2016

	Per Annual Statement	Examination Adjustments	Per Examination	December 31, Prior Year
Income:				
Premium and annuities for life and accident and health contracts	\$ 127,362,430	\$ -	\$ 127,362,430	\$ 150,086,314
Net investment income	17,319,109	-	17,319,109	19,048,404
Amortization of Interest Maintenance Reserve	<u>1,156,687</u>	<u>-</u>	<u>1,156,687</u>	<u>217,675</u>
Total income	<u>\$ 145,838,226</u>	<u>\$ -</u>	<u>\$ 145,838,226</u>	<u>\$ 169,352,393</u>
Expenses:				
Death benefits	\$ 32,044,147	\$ -	\$ 32,044,147	\$ 30,000,961
Annuity benefits	5,242,848	-	5,242,848	5,772,358
Disability benefits and benefits under accident and health contracts	24,825,455	-	24,825,455	24,354,624
Surrender benefits and withdrawals for life contracts	462,333	-	462,333	460,871
Interest and adjustments on contracts or deposit-type contract funds	116,087	-	116,087	123,624
Increase in aggregate reserves for life and accident and health contracts	<u>277,489</u>	<u>-</u>	<u>277,489</u>	<u>41,179,911</u>
Expenses subtotal	<u>\$ 62,968,359</u>	<u>\$ -</u>	<u>\$ 62,968,359</u>	<u>\$ 101,892,349</u>
Commissions on premiums, annuity considerations and deposit-type contract funds	\$ 43,374,806	\$ -	\$ 43,374,806	\$ 51,519,723
Commissions and expense allowances on reinsurance assumed	19,276	-	19,276	126,853
General insurance expenses	12,571,522	-	12,571,522	12,002,452
Insurance taxes, licenses and fees, excluding federal income taxes	1,585,413	-	1,585,413	5,078,185
Increase in loading on deferred and uncollected premiums	<u>(6,180)</u>	<u>-</u>	<u>(6,180)</u>	<u>(8,444)</u>
Total expenses	<u>\$ 120,513,196</u>	<u>\$ -</u>	<u>\$ 120,513,196</u>	<u>\$ 170,611,118</u>

Net gain from operations before dividends to policyholders and federal income taxes	\$ 25,325,030	\$ -	\$ 25,325,030	\$ (1,258,725)
Dividends to policyholders	<u>11,825</u>	<u>-</u>	<u>11,825</u>	<u>9,906</u>
Net gain from operations after dividends to policyholders and before federal income taxes	\$ 25,313,205	\$ -	\$ 25,313,205	\$ (1,268,631)
Federal and foreign income taxes incurred	<u>8,961,939</u>	<u>-</u>	<u>8,961,939</u>	<u>(363,373)</u>
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains (losses)	\$ 16,351,266	\$ -	\$ 16,351,266	\$ (905,258)
Net realized capital gains (losses)	<u>3,495,224</u>	<u>-</u>	<u>3,495,224</u>	<u>(23,912)</u>
Net Income	<u>\$ 19,846,490</u>	<u>\$ -</u>	<u>\$ 19,846,490</u>	<u>\$ (929,170)</u>

MERIT LIFE INSURANCE CO.

FINANCIAL STATEMENTS

Capital and Surplus Account

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Capital and surplus, December 31, prior year	\$ 122,837,205	\$ 171,383,086	\$ 184,464,569	\$ 245,446,670	\$ 334,794,250
Net income	\$ 19,846,490	\$ (929,170)	\$ (2,411,214)	\$ 3,285,373	\$ 10,131,497
Change in net unrealized capital gains (losses) less capital gains tax	261,373	1,067,500	757,409	1,390,331	(1,952,130)
Change in net deferred income tax	(19,226,078)	997,146	5,347,939	(7,046,360)	(221,147)
Change in nonadmitted assets	8,497,377	231,534	505,861	16,742,138	(5,506,180)
Change in reserve on account of change in valuation basis	39,273,571	-	-	-	-
Change in asset valuation reserve	483,015	87,109	567,979	(353,583)	(1,460,120)
Cumulative effect of changes in accounting principles	-	-	-	-	9,660,500
Dividends	(38,000,000)	(50,000,000)	(18,000,000)	(75,000,000)	(100,000,000)
Aggregate write-ins for gains and losses in surplus	(604,013)	-	150,543	-	-
Net change in capital and surplus for the year	\$ 10,531,735	\$ (48,545,881)	\$ (13,081,483)	\$ (60,982,101)	\$ (89,347,580)
Capital and surplus, December 31, current year	\$ 133,368,940	\$ 122,837,205	\$ 171,383,086	\$ 184,464,569	\$ 245,446,670

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to surplus as of December 31, 2016, based on the results of this examination.

OTHER SIGNIFICANT FINDINGS

Shareholders Meeting

The Company held its 2015 and 2016 Annual Shareholders Meetings on June 10, 2015 and June 24, 2016, respectively. These meeting dates are contrary to the requirements of IC 27-1-7-7(b) which requires the Annual Shareholders meeting to be held within five (5) months of the previous year fiscal close of December 31. Further, the Company's Bylaws state that the Annual Shareholder Meeting shall be held within the first five (5) months after the close of each fiscal year defined by section 10.2 as December 31. This finding was brought to the Company's attention during the last two (2) examinations. In the years 2012, 2013, and 2014, the Company was in compliance with IC 27-1-7-7(b).

It is recommended that the Company hold its Annual Shareholders meeting within five (5) months of the previous fiscal close in accordance with IC 27-1-7-7 (b) and its Bylaws.

Fidelity Bond

Contrary to the requirements of IC 27-1-7-14, the Company's financial institution bond was not approved by its Board of Directors at any time during the five (5) year examination period ending December 31, 2016.

It is recommended that the Financial Institution Bond be approved by the Board of Directors of the corporation as required by IC 27-1-7-14. On November 15, 2017, prior to completion of fieldwork the Board of Directors approved its Financial Institution Bond.

SUBSEQUENT EVENTS

The request by the private equity firm of Apollo Global Management and its Individual Acquiring Parties that include Leon Black, Joshua Harris, and Marc Rowan, to acquire control of Merit Life Insurance Co. and Yosemite Insurance Company was approved by the INDOI on April 23, 2018.

MANAGEMENT REPRESENTATION

In support of contingencies and accuracy of information provided during the course of the examination, the Examiners obtained a management representation letter in the standard NAIC format. This letter was executed by key financial personnel of the Company and provided to the Examiners.


AFFIDAVIT

This is to certify that the undersigned is a duly qualified Examiner-In-Charge appointed by the Indiana Department of Insurance and that he, in coordination with staff assistance from The Thomas Consulting Group, Inc., performed an examination of the **Merit Life Insurance Co.** as of **December 31, 2016**.

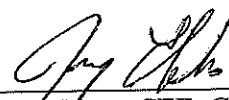
The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

The examination was performed in accordance with those procedures required by the 2016 NAIC *Financial Condition Examiner's Handbook* and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standard and no audit opinion is expressed on the financial statements contained in this report.

The attached report of examination is a true and complete report of condition of the **Merit Life Insurance Co.** as of **December 31, 2016**, as determined by the undersigned.



David L. Daulton, CFE
The Thomas Consulting Group, Inc.



Jerry Ehlers, CFE, CPA
Indiana Department of Insurance

State of: Indiana
County of: Marion

On this 24th day of April, 2018, before me personally appeared, David Daulton and Jerry Ehlers to sign this document.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal in said County and State, the day and year last above written.

My commission expires 10/4/2025 

DARCY L. SHAWVER
NOTARY PUBLIC
Notary Public 

SEAL
MARION COUNTY, STATE OF INDIANA
MY COMMISSION EXPIRES OCTOBER 4, 2025
COMMISSION NO 706053

