

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

IN THE MATTER OF:)
)
Merit Life Insurance Company)
601 NW Second Street)
Evansville, Indiana 47708-1013)

Examination of **Merit Life Insurance Company**

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 Company**, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on November 8, 2012, 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 Company** 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.

December 28, 2012
Date

Cynthia D. Donovan
Cynthia D. Donovan
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 9214 8901 0661 5400 0008 2667 32

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

IN THE MATTER OF:)
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Merit Life Insurance Company)
601 NW Second Street)
Evansville, Indiana)

Examination of **Merit Life Insurance Company**

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the **Merit Life Insurance Company** (hereinafter "Company") for the time period January 1, 2007 through December 31, 2011.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on October 30, 2012.

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 November 8, 2012 and was received by the Company on November 14, 2012.

The Company did not file any objections.

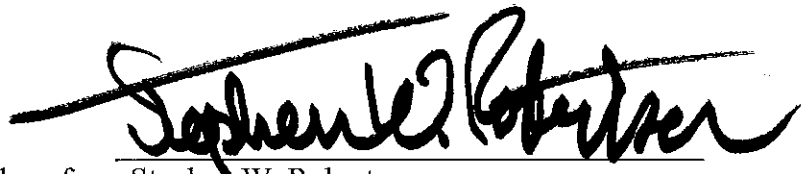
NOW THEREFORE, based on the Verified Report of Examination, I hereby make the following **FINDINGS**:

1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of the **Merit Life Insurance Company** as of December 31, 2011.
2. That the Examiner's Recommendations are reasonable and necessary in order for the **Merit Life Insurance Company** to comply with the 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, 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. 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 and Sealed this 28th day of
December, 2012.



Stephen W. Robertson
Insurance Commissioner
Indiana Department of Insurance

STATE OF INDIANA
Department of Insurance
REPORT OF EXAMINATION
OF

MERIT LIFE INSURANCE COMPANY
NAIC COMPANY CODE 65951

As of

December 31, 2011

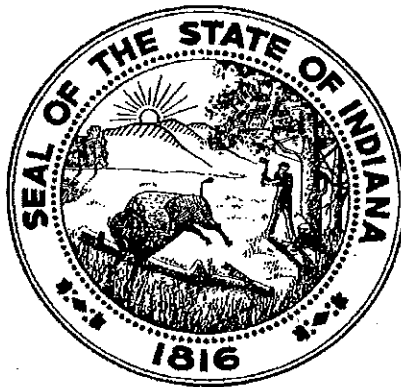


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STATE OF INDIANA

MITCHELL E. DANIELS, JR., Governor

IDOI

INDIANA DEPARTMENT OF INSURANCE

311 W. WASHINGTON STREET, SUITE 300
INDIANAPOLIS, INDIANA 46204-2787
TELEPHONE: (317) 232-2385
FAX: (317) 232-5251

Stephen W. Robertson, Commissioner

October 30, 2012

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 3719, an examination has been made of the affairs and financial condition of:

Merit Life Insurance Company
601 NW 2ND ST
Evansville, IN 47708-1013

an Indiana domestic life and health insurance company hereinafter referred to as the "Company." The examination was conducted at the corporate offices of Springleaf Finance Corporation located in Evansville, Indiana.

The Report of Examination, showing the financial status of the Company as of December 31, 2011, is hereby respectfully submitted.

ACCREDITED BY THE
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES
(317) 232-2413

COMPANY COMPLIANCE
(317) 233-0697

CONSUMER SERVICES
(317) 232-2395
In-State 1-800-622-4461

EXAMINATIONS / FINANCIAL SERVICES
(317) 232-2390

MEDICAL MALPRACTICE
(317) 232-2402

SECURITIES / COMPANY RECORDS
(317) 232-1991

SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI) as of December 31, 2006. The present risk-focused examination was conducted by The Thomas Consulting Group, Inc. (TTCGI) and covered the period from January 1, 2007 through December 31, 2011, 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 examination, the INDOI, by its representatives, has relied upon the independent audit reports and opinions contained therein rendered by PwC, LLP for the examination period. Such reports were prepared on a statutory basis and reconciled to the financial statements contained in the respective Annual Statements.

Jeffrey A. Beckley, FSA, MAAA, of Actuarial Options, LLC, a consulting actuary appointed by the INDOI, conducted a review of the Company's reserves as of December 31, 2011.

Additionally, TTCGI conducted a review of information systems controls, gained an understanding of the information systems utilized, and concluded that there would be moderate reliance on information systems.

The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook (Handbook). The Handbook requires that TTCGI plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and Annual Statement instructions, when applicable to domestic state regulations. 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. The Company is a wholly-owned, direct subsidiary of Springleaf Finance Corporation (SLFC), formally known as American General Finance Corporation (AGFC), which is the principal subsidiary of the financial services holding company SLFI, formally known as American General Finance, Inc. (AGFI). SLFC is recognized as one of the largest consumer finance companies in the United States. The credit and non-credit insurance products provided by the Company supplement this consumer finance business.

From August 29, 2001 through November 30, 2010, AGFI was an indirect, wholly-owned subsidiary of American International Group, Inc. (AIG). On August 11, 2010, AIG announced that a definitive agreement was entered into, under which an 80% interest in the Company's indirect parent, AGFI, was being sold to Fortress Investment Group, LLC. On November 23, 2010, the INDOI approved the Form A submitted on September 1, 2010. On November 30, 2010, FCFI Acquisition, LLC indirectly acquired an 80% economic interest in AGFI from AIG Capital Corporation (ACC). ACC, a direct wholly owned subsidiary of AIG retained the remaining 20% of the outstanding capital stock of AGFI. ACC and AIG filed an application for disclaimer of affiliation with the INDOI, which was accepted and not disallowed by the INDOI. As a result of the November 30, 2010, sale of AGFI by AIG, the "American General Finance" entities that were part of the sale changed their names to avoid being confused with AIG

American General's domestic life insurance operations; the names of the "American General Finance" entities were changed to "Springleaf Finance" or some variation thereof.

CAPITAL AND SURPLUS

As of December 31, 2011, the Company had 30,000 shares of common stock authorized and 25,000 shares issued and outstanding with a par value of \$100 per share. The Company is a 100% owned subsidiary of SLFC. The Company paid \$420,122,090 in dividends to SLFC during the examination period. The following exhibit depicts the dividends paid to SLFC.

<u>Year</u>	<u>Dividends Paid</u>
2011	\$25,000,000
2010	122,090
2009	125,000,000
2008	270,000,000
2007	<u>000</u>
Total	<u>\$420,122,090</u>

TERRITORY AND PLAN OF OPERATION

The Company was licensed to transact business in forty-six states, the District of Columbia and the U.S. Virgin Islands as of December 31, 2011. Currently, the Company is not licensed in Alaska, Massachusetts, New York or Vermont. Effective June 8, 2009, the Company surrendered its Certificate of Authority in the state of Massachusetts.

The Company writes or reinsurers, through affiliated and non-affiliated insurance companies, credit life, credit accident and health, and non-credit insurance coverages. For 2011, direct premiums consisted primarily of ordinary life insurance, credit life insurance, and credit accident and health insurance. The credit life insurance policies insure the life of the borrower for an amount typically equal to the unpaid balance of the finance receivable. 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 Company's business is produced through Springleaf Financial Services branch offices throughout the United States and the U.S. Virgin Islands. Employees of Springleaf Finance Management Corporation provide all administrative services to the Company.

GROWTH OF THE COMPANY

The following exhibit depicts the Company's financial results throughout the examination period:

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Total admitted assets	\$630,437,682	\$646,278,361	\$659,563,065	\$776,732,894	\$1,096,281,946
Total liabilities	295,643,432	305,052,794	343,472,431	368,539,217	389,275,816
Policyholder surplus	334,794,250	341,225,567	316,090,634	408,193,677	707,006,130

Net income	8,537,795	17,665,574	28,015,809	(16,708,749)	45,960,063
Net premiums written	79,276,185	62,882,627	56,858,095	89,284,095	106,551,946

The Company has reported positive net income in four of the five years under examination. The decrease in policyholder surplus is a result of dividends paid to the parent during the years under examination.

MANAGEMENT AND CONTROL

Directors

The Bylaws provide that the business affairs of the Company are to be managed by a Board of Directors consisting of not less than five (5) and no more than twenty (20) members. The shareholder, at its annual meeting, elects the members of the Board of Directors. The following is a listing of persons serving as Directors as of December 31, 2011:

<u>Name & Residence</u>	<u>Principal Occupation</u>
Bradford D. Borchers Evansville, Indiana	Executive Vice President, Branch Operations Springleaf Finance Management Corporation
Robert A. Cole Newburgh, Indiana	Senior Vice President Springleaf Finance Management Corporation
Jeffrey M. Boszor Newburgh, Indiana	Director – Insurance Marketing Services Springleaf Finance Management Corporation
George D. Roach Newburgh, Indiana	Senior Director of Operations Springleaf Finance Management Corporation
Donald R. Brevogel Evansville, Indiana	Senior Vice President and Chief Financial Officer Springleaf Finance Management Corporation

Officers

The Company's Bylaws state the officers of the Corporation shall consist of the Chairman of the Board, the Chief Executive Officer, the President, one or more Vice Presidents (whose seniority and titles, including Executive Vice Presidents, and Senior Vice Presidents, may be specified by the Board of Directors), the Chief Financial Officer, the Treasurer, the Secretary and such other subordinate officers as may be chosen by the Board of Directors. Any two (2) or more offices may be held by the same person, except the duties of the Secretary shall not be performed by the Chairman of the Board or the President. The following is a list of key officers and their respective titles as of December 31, 2011.

<u>Name</u>	<u>Office</u>
Robert A. Cole	Chairman, Chief Executive Officer and President

Jack R. Erkill	Senior Vice President, Secretary and General Counsel
Bryan A. Binyon	Vice President and Treasurer
Donald R. Breivogel Jr.	Senior Vice President and Chief Financial Officer
Raymond S. Brown	Senior Vice President and Chief Compliance Officer
Vincent T. Ciuffetelli	Senior Vice President and Chief Information Officer
George W. Kennedy	Vice President
Matthew K. Kreyling	Vice President
Lenis J. McClain	Vice President and General Auditor
Leonard J. Winiger	Vice President and Controller

Effective February 1, 2011, Frederick W. Geissinger resigned as President and his title remained as Director and Chairman for the Company. On February 1, 2011, the Board of Directors elected Robert A. Cole as President. On September 13, 2011, Frederick W. Geissinger, Chairman and Chief Executive Officer announced his retirement from his positions effective October 1, 2011. Effective October 1, 2011, the Board of Directors elected Robert A. Cole as Chairman and CEO, in addition to President of the Company.

Corporate Governance

As of December 31, 2011, directors serving on the committees of the board were as follows:

Audit Committee:

Douglas L. Jacobs	Chairman
-------------------	----------

Investment Committee:

Donald R. Breivogel Jr.	Chairman
Jeffrey M. Boszor	Member
Bryan A. Binyon	Member
Robert A. Cole	Member

The Company also receives oversight from its other committees that were comprised of but not limited to, Asset-Liability Investment Management Committee, Financial Standards Committee, Compliance Committee, Business Policy Administration Committee, Standing Committee, Marketing Policy Committee and Senior Management Committee.

CONFLICT OF INTEREST

The Company has in place an established conflict of interest policy and procedures for the disclosure of any material interest or affiliation by any director, officer, or key employee, which is likely to conflict with their official duties. From a review of the officers and directors signed statements, there were no conflicts of interest reported by any of the officers or directors.

OATH OF OFFICE

Indiana Code 27-1-7-10(i) stipulates 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 signed an "Oath of Office" statement when elected.

CORPORATE RECORDS

Articles of Incorporation

There were no amendments made to the Articles of Incorporation during the period under examination.

Bylaws

The Company amended and restated its Bylaws on October 9, 2009. The amendment relates to a number of current corporate practices. Significant changes to the amended and restated Bylaws were as follows:

1. Directors can participate in Board meetings electronically.
2. The Board consisting of not less than 5, but not more than 20 Directors.
3. The requirement that new directors to take an "oath" regarding good faith, and contain citizenship requirements of the Board members.
4. The locations for the principal office and other offices.
5. The authorization of dividends, and the maintenance of reserves for contingencies.

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 2008 Annual Shareholders meeting wasn't held until October 9, 2008. This is in violation of IC-27-1-7-7(b) which requires the Annual Shareholders meeting to be held within 5 months of the fiscal close of December 31, 2007. **See the "Other Significant Findings" section of this report for further explanation on this exception.**

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. The Company is wholly owned by SLFC, an Indiana domiciled corporation. The following organizational chart depicts the Company's relationship within the holding company system.

Fortress Investment Group, LCC

- FCFI Acquisition LLC (DE) (80%) and (AIG Capital Corporation (DE) 20%)
- AFG Holding Inc.
 - Springleaf Finance Inc. (IN)
 - Springleaf Finance Corporation (IN)
 - **Merit Life Insurance Company (IN)**
 - Yosemite Insurance Company (IN)
 - CommoLoCo (PR)
 - Credit Thrift of Puerto Rico Inc. (PR)

Affiliated Agreements

The following affiliated agreements and transactions were disclosed as part of the Form B –Holding Company Registration Statement and filed with INDOI as required in accordance with IC 27-1-23-4.

Administration Services Agreement

Effective November 30, 2010, upon the Company ceasing to be a subsidiary of AIG, the Company's participation in the amended AIG Service and Expense Agreement, dated February 1, 1974, automatically terminated. The Company entered into a Shared Services Agreement with an affiliate, Springleaf Finance Management Corporation (SLFMC), effective upon the closing date of the acquisition by FCFI. This new shared Services Agreement called for the Company to reimburse SLFMC for the services provided by SLFMC at cost, allocated in conformity with customary insurance accounting practices consistently applied. Shared service expenses paid to SLFMC were \$5,448,600 in 2011. The INDOI determined that it would not disapprove the Administration Service Agreement on October 29, 2010.

Investment Services 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 determined that it would not disapprove the Form D, filed October 10, 2011, providing notice of the Company's proposal to enter the Investment Services Agreement with Logan. As of December 31, 2011, the Company had not made any payments to Logan under the Investment Services Agreement.

Investment Advisory Agreement

In December of 2011, the Company entered into an Investment Advisory Agreement with Logan which became effective on April 1, 2012. On December 9, 2011, the INDOI determined that it would not disapprove the Form D, filed October 10, 2011, providing notice of the Company's proposal to enter into the Investment Advisory Agreement with Logan. As of December 31, 2011, the Company had not made any payments to Logan under the Investment Advisory Agreement.

General Agency Agreement

Effective January 1, 2003, the Company entered into a General Agency Agreement with Interstate Agency (Interstate), pursuant to which Interstate 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 premium and other considerations generated. The INDOI determined that it would not disapprove the General Agency Agreement on September 19, 2006. For the year ended December 31, 2011, the Company paid \$24,197,979 pursuant to the General Agency Agreement.

Tax Agreement

For the tax years ending on or after December 31, 2010, the Company joined in the filing of a consolidated federal income tax return with its indirect, intermediate parent AGF Holding Inc. The INDOI determined that it would not disapprove the Tax Agreement on March 9, 2012. At December 31, 2011, the Company reported a federal income tax payable to its parent, SLFC, in the amount of \$3,544,152.

Intercompany Demand Note Agreement

The Company has an intercompany demand note agreement with SLFC, upon which it has not taken any advances. These borrowings by SLFC are on demand and are unsecured. Interest will accrue on the unpaid principal amount of each advance until such principal amount is paid in full. The INDOI determined that it would not disapprove the Intercompany Demand Note Agreement on December 21, 2007.

FIDELITY BOND AND OTHER INSURANCE

The Company protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond issued by Federal Insurance Company. The bond has aggregate coverage of \$10,000,000 and it carried a single loss deductible of \$500,000. The fidelity bond is adequate to meet the prescribed minimum coverage specified by the NAIC.

The Company had additional types of coverage in-force at December 31, 2011 including, but not limited to, auto liability, directors and officers coverage, employment practices liability, fiduciary, general liability, property, and worker's compensation.

STATUTORY DEPOSITS

The Company reported special deposits comprised of U.S. Treasury Notes and short-term investments held by various Departments of Insurance as of December 31, 2011:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
For all Policyholders		
Indiana	\$ 1,485,427	\$ 2,036,953
All Other Special Deposits		
Georgia	44,643	64,136
Massachusetts	102,193	137,863
New Hampshire	510,173	688,799
New Mexico	108,931	149,377
North Carolina	461,712	522,463
U.S. Virgin Islands	550,467	646,410
Aggregate Alien and Other	(A) 1,000,000	1,000,000
Total Other Special Deposits	<u>\$ 4,263,546</u>	<u>\$ 5,246,001</u>

(A) Reinsurance with Securian Casualty Company.

REINSURANCE

The Company offers various life and accident and health insurance products through Springleaf Financial Services 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, including affiliated companies, which write the business and then cede the risks to the Company. In 2011, the Company assumed \$1,197,754 in premiums from other companies. This amounted to less than 2% of the total premium income for 2011.

The only assumed reinsurance contract which accounted for any significant premium income in 2011 was with American Bankers Life Assurance Company of Florida. Pursuant to the terms of this agreement, the Company assumed premiums of \$3,305,174 and posted reserves totaling \$1,343,882 as of December 31, 2011.

In addition, the Company has assumed business from Old Republic Life Insurance Company since 1992. In 2011, this reinsurance accounted for no amount of premium income and policy reserves totaling \$3,918,906.

Since 1985, the Company has also assumed a block of annuities from American General Life and Accident Insurance Company, an affiliated company. At December 31, 2011, this block of business generated \$0 premium income but accounted for policy reserves totaling \$40,767,209.

RESERVES

Craig A. Squire, ASA, MAAA, is a Director and the Chief Actuary for the Company. Mr. Squire has been appointed by the Board of Directors to render an opinion on the statutory-basis loss reserves of the Company. He rendered an opinion on such reserves for all years covered by this examination.

The scope of the opinion was to examine the actuarial assumptions and methods used in determining

policy reserves and related actuarial items, as shown in the Annual Statement of the Company as prepared for filing with state regulatory officials. In forming the opinion, 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 2011 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 contract provision as to reserve basis and method, and are in accordance with all other contract provisions.

During the examination, it was determined that the material actuarial items in the Annual Statement of the Company are materially correct and fairly stated in accordance with statutory accounting practices prescribed or permitted by the Commissioner of Insurance of the State of Indiana.

ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balances prepared from the Company's general ledger for the years ended December 31, 2007 to 2011, were agreed to the respective Annual Statements. The Annual Statement for the years ended December 31, 2007 through December 31, 2011, was agreed to the year's independent audit report with no exception noted. The examiners determined the Company's accounting procedures, practices, and account records were satisfactory.

The Company's independent auditors issued unqualified opinions on the Company's audited financial statements for each year during the examination period. No material exceptions were noted when agreeing the Company's audited financial statements to the respective Annual Statements. All of the independent audit work papers were made available to the examiners during the examination.

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 COMPANY

FINANCIAL STATEMENTS

Assets

	As of December 31, 2011			December 31,
	Per Annual	Examination	Per	Prior Year
	Statement	Adjustments	Examination	
Assets:				
Bonds	\$ 427,121,904	\$ -	\$ 427,121,904	\$ 441,967,249
Common stocks	814,672	-	814,672	671,174
Mortgage loans on real estate -first liens	115,879,090	-	115,879,090	120,093,319
Cash, cash equivalents and short-term investments	55,912,673	-	55,912,673	62,310,892
Contract loans	1,607,472	-	1,607,472	1,605,491
Other invested assets	3,555,391	-	3,555,391	5,993,243
Receivable for securities	10,831,958	-	10,831,958	70,772
Subtotals, cash and invested assets	<u>\$ 615,723,160</u>	<u>\$ -</u>	<u>\$ 615,723,160</u>	<u>\$ 632,712,140</u>
Investment income due and accrued	5,136,284	-	5,136,284	5,420,937
Uncollected premiums and agents' balances in the course of collection	34,402	-	34,402	32,968
Deferred premiums and agents' balances and installments booked but deferred and not yet due	298,807	-	298,807	332,780
Other amounts receivable under reinsurance contracts	122,523	-	122,523	13,473
Net deferred tax asset	4,221,500	-	4,221,500	3,733,000
Health and other amounts receivable	4,901,006	-	4,901,006	4,033,063
Total Assets	<u><u>\$ 630,437,682</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 630,437,682</u></u>	<u><u>\$ 646,278,361</u></u>

MERIT LIFE INSURANCE COMPANY

FINANCIAL STATEMENTS

Liabilities, Surplus and Other Funds

	As of December 31, 2011			December 31, Prior Year
	Per Annual Statement	Examination Adjustments	Per Examination	
Liabilities:				
Aggregate reserve for life contracts	\$ 148,645,478	\$ -	\$ 148,645,478	\$ 162,234,433
Aggregate reserve for accident and health contracts	125,437,989	-	125,437,989	120,830,603
Contract claims: Life	3,589,278	-	3,589,278	3,667,364
Contract claims: Accident and Health	4,064,644	-	4,064,644	3,957,075
Dividends apportioned for payment	12,673	-	12,673	11,904
Premiums and annuity consideration for life and accident health contracts received in advance	156,326	-	156,326	187,457
Other amounts payable on reinsurance	803,013	-	803,013	1,324,744
Commissions to agents due or accrued - life and annuity contracts	2,617,120	-	2,617,120	2,123,883
General expenses due or accrued	186,994	-	186,994	94,550
Taxes licenses, and fees due or accrued	1,690,552	-	1,690,552	1,244,273
Current federal and foreign income taxes	3,544,152	-	3,544,152	3,996,824
Unearned investment income	107,374	-	107,374	108,952
Remittances and items not allocated	50,249	-	50,249	59,827
Asset valuation reserve	2,474,316	-	2,474,316	2,149,548
Payable to parent, subsidiaries and affiliates	1,516,548	-	1,516,548	2,304,605
Drafts outstanding	746,726	-	746,726	756,752
Total Liabilities	\$ 295,643,432	\$ -	\$ 295,643,432	\$ 305,052,794
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)	327,343,262	-	327,343,262	333,774,579
Total capital and surplus	\$ 334,794,250	\$ -	\$ 334,794,250	\$ 341,225,567
Total liabilities, capital and surplus	\$ 630,437,682	\$ -	\$ 630,437,682	\$ 646,278,361

MERIT LIFE INSURANCE COMPANY

FINANCIAL STATEMENTS

Summary of Operations

As of December 31, 2011

	<u>Per Annual Statement</u>	<u>Exam Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
Premium and annuity consideration and a&h contracts	\$ 79,276,185	\$ -	\$ 79,276,185	\$ 62,882,627
Net investment income	34,716,775	-	34,716,775	37,631,161
Amortization of Interest Maintenance Reserve	(2,517,261)	-	(2,517,261)	(2,906,482)
Commission and expense allowances on reinsurance ceded	237	-	237	217
Total	\$ 111,475,936	\$ -	\$ 111,475,936	\$ 97,607,523
Death benefits	20,712,522	-	20,712,522	20,983,059
Annuity benefits	7,341,356	-	7,341,356	7,858,848
Disability benefits and benefits under accident and health contracts	15,441,968	-	15,441,968	17,627,681
Surrender benefits and withdrawals for life contracts	425,256	-	425,256	558,306
Interest and adjustments on contract or deposit-type contract funds	188,802	-	188,802	180,286
Increase in aggregate reserves for life and health contracts	3,292,275	-	3,292,275	(18,109,422)
Commission on premiums, annuity considerations, and deposit type contract funds	26,533,002	-	26,533,002	20,777,277
Commissions and expense allowances on reinsurance assumed	386,467	-	386,467	463,461
General insurance expenses	8,006,817	-	8,006,817	8,455,792
Insurance taxes, licenses and fees	2,048,342	-	2,048,342	1,689,973
Increase in loading on deferred and uncollected premiums	(13,640)	-	(13,640)	(15,335)
Totals	\$ 84,363,167	-	\$ 84,363,167	\$ 60,469,926
Net Gain (Loss) from operations	\$ 27,112,769	-	\$ 27,112,769	\$ 37,137,597
Dividends to policyholders	\$ 12,499	-	\$ 12,499	\$ 3,853
Federal and foreign income taxes incurred	12,160,553	-	12,160,553	11,637,633
Net realized capital gains, less capital gains tax	(6,401,922)	-	(6,401,922)	(7,830,537)
Net Income	\$ 8,537,795	\$ -	\$ 8,537,795	\$ 17,665,574

MERIT LIFE INSURANCE COMPANY

FINANCIAL STATEMENTS

Capital and Surplus Account

As of December 31, 2011

	<u>Per Annual</u>	<u>Examination</u>	<u>Per</u>	<u>December 31,</u>
	<u>Statement</u>	<u>Adjustments</u>	<u>Examination</u>	<u>Prior Year</u>
Capital and Surplus Account:				
Surplus as regards policyholders, December 31 prior year	\$ 341,225,567	\$ -	\$ 341,225,567	\$ 316,090,634
Net income	\$ 8,537,795	\$ -	\$ 8,537,795	\$ 17,665,574
Change in unrealized capital gains (loses)	(38,504)	-	(38,504)	(3,173,867)
Change in deferred income tax	9,387,267	-	9,387,267	(5,262,005)
Change in nonadmitted assets and related items	(6,971,106)	-	(6,971,106)	7,224,014
Change in asset valuation reserve	(324,768)	-	(324,768)	3,828,469
Dividends to stockholders	(25,000,000)	-	(25,000,000)	(122,090)
Aggregate write-ins for gains and losses in surplus	7,977,999	-	7,977,999	4,974,838
Change in surplus as regards policyholders for the year	\$ (6,431,317)	\$ -	\$ (6,431,317)	\$ 25,134,933
Surplus as regards policyholders, December 31 current year	<u>\$ 334,794,250</u>	<u>\$ -</u>	<u>\$ 334,794,250</u>	<u>\$ 341,225,567</u>

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to surplus as of December 31, 2011, based on the results of this examination.

OTHER SIGNIFICANT FINDINGS

Shareholders Meeting:

The Company's 2008 Annual Shareholders meeting wasn't held until October 9, 2008. This is in violation of IC-27-1-7-7(b) which requires the Annual Shareholders meeting to be held within 5 months of the fiscal close of December 31, 2007. Further, the Company's Bylaws state that the Annual Shareholder meeting shall be held within the first five months after the close of each fiscal year defined by section 10.2. Under section 10.2, the fiscal year of the Corporation shall end on the 31st day of December of each year. This same finding was brought to the Company's attention during the last examination. In the years 2009 to 2011, the Company was in compliance with IC-27-1-7-7 (b).

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

Audit Committee Minutes:

On April 26, 2012, the examiners made a written request to review the AIG (Company's former parent) audit committee minutes for the period January 1, 2007 through May 5, 2011. The Company did not provide access to these minutes until August 7, 2012, contrary to the provisions of IC 27-1-3.1-9. On November 30, 2010, the Company's parent, SLFC formed an audit committee and held its first quarterly meeting on May 9, 2011. The minutes to this audit committee meeting and subsequent meetings up to the last day of fieldwork were made available to the Examiners in a timely manner.

In the future, it is recommended that the Company comply with the requirements of IC 27-1-3.1-9 by providing a timely response to examination requests.

SUBSEQUENT EVENTS

On February 3, 2012, Standard & Poor's, a national rating organization, lowered its rating on the Company's parent; SLFC's unsecured senior long-term debt to "CCC" from "B" and maintained a "Negative Outlook" status. On June 1, 2012, Moody's Investors Services, Inc. also a national rating organization, downgraded SLFC to "Caa1" from "B3" with a "Negative Outlook" for the future. The downgrades reflect SLFC's funding constraints and uncertain liquidity outlook, increased operational stresses and record of operating losses since early 2008.

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., hereinafter collectively referred to as the "Examiners" performed an examination of the **Merit Life Insurance Company** as of **December 31, 2011**.

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 2011 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 Company** as of **December 31, 2011**, as determined by the undersigned.



David Daulton, CFE
The Thomas Consulting Group, Inc.

State of: Indiana
County of: Hamilton

On this 2nd day of November, 2012, before me personally appeared, David Daulton, 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 June 17, 2015 Stephanie Ann Roesner
Notary Public

