



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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DATE: April 8, 2016 - PUBLIC (REDACTED)
TO: Rebecca Easland
Steve Junior
FROM: Kristin Forsberg
SUBJECT: Form A - Acquisition of Control of a Domestic Insurer
Northwestern National Insurance Company of Milwaukee, Wisconsin [Case No. 16-C41150]

Form A Filing Contacts:

Table with 2 columns: Thomas F. X. Hodson (General Counsel, SOBC Gamma Holding Company Limited) and William J. Toman, Esq. (Quarles & Brady LLP). Includes contact info like phone numbers and email addresses.

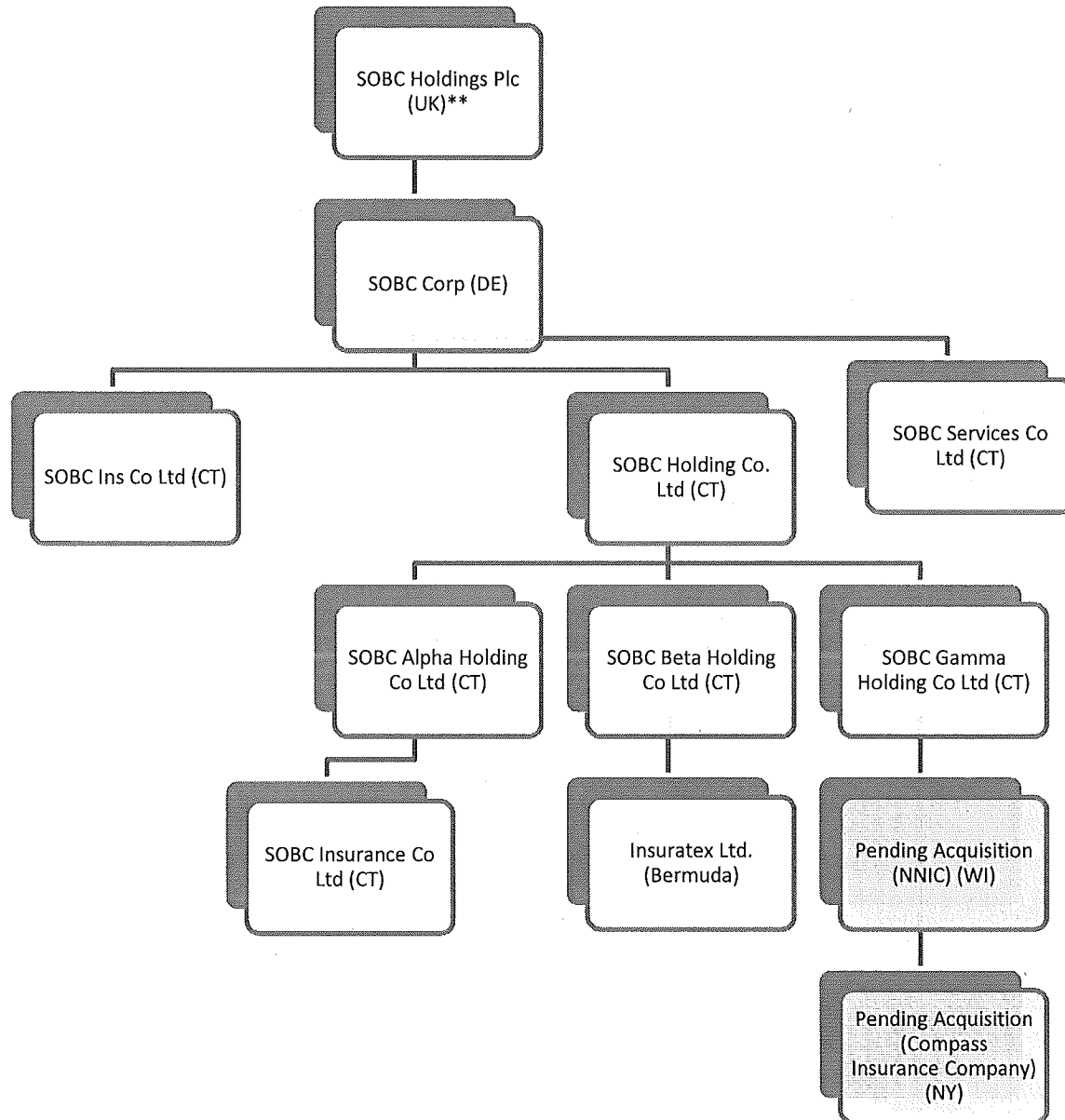
Form A Exhibits (filed with the Wisconsin OCI on February 4, 2016):

Table listing 6 exhibits: Appendix 1 Stock Purchase Agreement, Appendix 2 SOBC Corp. Organization Chart, Appendix 3 Biographical Affidavits of SOBC directors and officers, Appendix 4 Business Plan, Appendix 5 Unaudited Financial Statements for SOBC Holdings Plc and SOBC Corp., Appendix 6 Intercompany Services Agreement.

Background

The Acquirer/Applicant and Key Affiliates:

- SOBC Gamma Holding Company Limited ("Applicant" or "SOBC Gamma"): Located in Morristown, New Jersey, the Applicant is a Connecticut-domiciled holding company that was organized on December 4, 2015. The Applicant was established by SOBC Corp. (the direct parent) as a vehicle for the acquisition of insurance companies in run-off. Below is an organizational chart of the holding company system:



- SOBC Corp.: Is a Delaware company that was formed on August 1, 2014, and is the U.S. operating company for the U.K. based SOBC Holdings Plc (the ultimate parent).
- SOBC Holdings Plc ("SOBC Holdings"): Is a privately owned company based in London, United Kingdom.
- SOBC Services Company Ltd.: Is a Connecticut corporation established as the operating company for SOBC, providing all administrative services to the group of companies (including NNIC pursuant to the proposed Intercompany Services Agreement). As SOBC group grows, all of its employees will be employed by SOBC Services.
- SOBC Insurance Company Ltd. and SOBC Alpha Insurance Company Ltd.: SOBC Insurance Company Ltd. is a Connecticut licensed sponsored captive insurance company. It acts as the host company for a cell captive facility into which SOBC intends to reinsure portfolios of run-off liabilities. Each portfolio will be segregated into a separate cell within the facility. SOBC Alpha Insurance Company Ltd. is the first cell company, organized in anticipation of writing an opportunity presented to SOBC in December, 2014.

****Ultimate Controlling Persons:** SOBC Holdings Plc's 10% or more owners are SOBC Limited (█%) and Harry Witcher (█%). Richard Whatton and Stephanie Mocatta each own a █% interest in SOBC Limited. Biographical Affidavits for Richard Whatton, Stephanie Mocatta, and Harry Witcher were submitted with the Form A, along with Disclaimers of Control (provided in response to OCI's application follow-up letter dated March 24, 2015, Item #5).

The Party to be Acquired:

- Northwestern National Insurance Company of Milwaukee, Wisconsin ("NNIC" or the "Company"): Located in West Chester, Ohio, NNIC is a Wisconsin-domiciled stock property and casualty insurer that was incorporated in 1869. NNIC is currently licensed in 9 states¹, and is a wholly-owned subsidiary of Armco Insurance Group, Inc., which is an indirect, wholly-owned subsidiary of AK Steel Holding Corporation (the ultimate parent company).

Until 1986, NNIC wrote property and casualty insurance on a direct and indirect basis, including but not limited to guaranteed renewable health insurance. Since 1986, NNIC's policies have been in run-off, and NNIC has written no new business (with the exception of mandatory writings, including: guaranteed renewable health policies, assignments, retroactive adjustments, and endorsements to prior year policies). Below is a timeline of key developments in the Company's recent history (post-1986):

- 1991 Mergers: Effective January 1, 1991, and June 30, 1991, affiliates Universal Reinsurance Corp. and Bellafonte Underwriters Insurance Company merged with and into NNIC. [Both affiliates were in run-off prior to these mergers.]
- 1999 – Restructuring Agreement: Armco Financial Services Corp. and Armco Insurance Group, Inc. were released from their obligations to NNIC in exchange for contributions and pre-payments of \$60.9 million.
- 2004 – Restructuring Plan, Segregated Account/General Account: NNIC entered into a "Restructuring Plan" with OCI, dated April 28, 2004, with respect to its run-off operations. As a result of the Restructuring Plan, the Company's business has been separated into two accounts, a Segregated Account (for the run-off of NNIC's direct business, including the guaranteed

¹ This number continues to decline, due to actions taken by various states to revoke or suspend the company's Certificate of Authority.

renewable A&H business), and a General Account (to satisfy any remaining obligations on NNIC's assumed business).

- 2007 – Rehabilitation: The Company was placed in rehabilitation on March 27, 2007, for the purpose of enabling the Company to implement the remaining stages of the global commutation of the company's book of assumed business held in the General Account.
- 2011 – Common Stock Redemption (Compass Insurance Company): On March 15, 2011, Compass Insurance Company, a wholly-owned subsidiary of NNIC, redeemed 30,606 shares of common stock from NNIC. NNIC received \$3,000,023 for the redeemed shares.
- 2012 – Discharge from Rehabilitation: The Company was discharged from Rehabilitation status per the Final Order and Discharge effective January 20, 2012.
- 2013 Order: This Order, together with the 1999 Order, establishes the regulatory framework for the run-off of the Company.

The Company's primary objective, going forward, is to ensure that the assets in the Segregated Account are sufficient to satisfy all claims pertaining to NNIC's direct business.² Any assets remaining in the Segregated Account will be distributed to commutation participants (in the General Account) on a pro-rata basis.³

The Company remains subject to the following terms, conditions, and contingent liabilities (which may or may not be reflected or disclosed in the statutory financial statements):

- Restructuring Plan and Segregated Account: The terms, conditions, and restrictions of the Restructuring Plan and Segregated Account are still in effect and applicable to NNIC and its operations.
- Orders, Directives and Requirements under the Rehabilitation and Supervision: The Company was subject to rehabilitation proceedings in Wisconsin from 2007 until 2012, and remains subject to the ongoing supervision of OCI, including the terms, conditions and restrictions contained within various orders or other directives and requirements issued by OCI, and various resolutions adopted by and consents obtained from the NNIC board of directors, in connection with the Rehabilitation and Supervision.
- Third Party Agreements: NNIC also remains subject to the terms and conditions of various settlements/agreements⁴ that NNIC entered into with various third-parties, including without limitation:
 - (a) Global Commutation: A global commutation of NNIC's book of assumed business held in its general account (the "Global Commutation"), which provides, among other things, that any surplus and other amounts remaining in the Segregated Account following the satisfaction of all debts, losses, liabilities and other obligations owed by NNIC on account of its business held in the Segregated Account shall be distributed pro rata to the Reinsureds (as that term is defined in the Global Commutation), and

² The Segregated Account was originally funded to ensure a 90% confidence level in the reserves, with additional reserves for uncollectible reinsurance.

³ The distribution, when combined with all prior distributions, shall not exceed the total value of the discounted liabilities attributable to the insured.

⁴ These agreements were referenced in, or otherwise part of, the Restructuring Plan, the Rehabilitation Plan and/or the record of the Rehabilitation and Supervision proceedings.

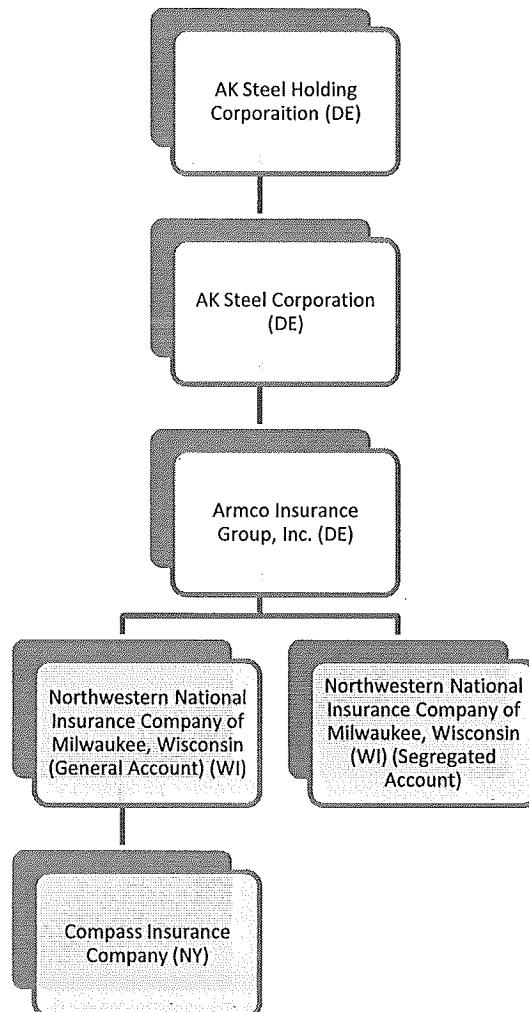
(b) Highlands Settlement Agreement: That certain Settlement Agreement between NNIC and Highlands Insurance Company in Receivership dated October 1, 2010 (the "Highlands Settlement Agreement") relating to, among other things, the adjustment and payment of Highlands claims arising out of certain Agency Source Business (as that term is defined in the Highlands Settlement Agreement), which claims (or portions thereof) could potentially be asserted against NNIC in the event that Highlands fails to pay said claims.

- Contingent Liabilities: There may be contingent liabilities, including without limitation, insurance policies, and contingent liabilities arising under those policies, which were issued by NNIC and/or CIC, but are not reflected in the records of NNIC and CIC.

Holding Company Information:

AK Steel Holding Corporation, the ultimate parent, is strictly a holding company, whose sole function is the ownership of the outstanding common stock of AK Steel Corporation. AK Steel Corporation's operations consist of seven steel making and finishing plants that produce flat-rolled carbon steels, and specialty stainless and electrical steels. The corporation also operates European trading companies that buy and sell steel, steel products and other materials.

NNIC and AK Steel Corporation have few remaining administrative relationships (other than some basic HR functions provided by certain AK Steel affiliates). Below is an organizational chart of the holding company system:



The Proposed Transaction:

The Applicant intends to acquire control of NNIC through the purchase of 100% of the issued and outstanding capital stock of NNIC pursuant to the Stock Purchase Agreement dated January 13, 2016 **[Attachment 1]**.

The Applicant is a subsidiary of SOBC Corp., which specializes in the acquisition and management of distressed or run-off insurance or reinsurance entities. To date, SOBC Corp. and its predecessor have acquired six insurance entities in run-off; closed two, and refinanced and restarted another as a live underwriting operation, and sold two others after managing the liabilities to an acceptable level of risk.

SOBC Corp. intends to streamline the run-off management of NNIC, settle claims where possible, and reduce costs, thereby increasing the likelihood that NNIC will remain solvent.

The Transaction is subject to the following regulatory approvals/non-disapprovals:

- 1) Wisconsin:
 - (a) Form A (Acquisition of Control of NNIC)⁵
 - (b) Form D (Transfer of Post-Retirement Obligations and Assignment of Intellectual Property)
 - (c) Amendment and/or termination of the Restructuring Agreement between Seller, NNIC and Armco Financial Services Corporation dated 9/30/99.
- 2) New York:
 - (a) Form A (Acquisition of Control of Compass Insurance Company)

⁵ Per the Form A cover letter dated February 4, 2016, the Applicant requests that the submission of the Intercompany Services Agreement in Appendix 6 be approved in conjunction with the Form A.

Item 1 – Method of Control

The Applicant intends to acquire control of NNIC (and thereby, indirect control of Compass Insurance Company) in accordance with the terms and conditions of the Stock Purchase Agreement (the "Agreement" (**Appendix 1**)) dated January 13, 2016, by and among Armco Insurance Group, Inc. ("Seller"), SOBC Gamma Holding Company Limited ("Purchaser") and Northwestern National Insurance Company of Milwaukee, Wisconsin ("NNIC").

Material terms of the Agreement are summarized below:

- 1.02 (Purchase Price): The price to be paid by the Purchaser for the Shares shall be \$1.00.
- 3.05 (Litigation): There is no existing Order, and no civil, criminal or administrative action, suit, demand, claim, hearing, proceeding or investigation pending or, to the knowledge of the Purchaser, threatened against the Purchaser that, individually or in the aggregate, would prevent or materially delay the ability of the Purchaser to execute and deliver this Agreement.
- 3.06 (Independent Investigation): The Purchaser has conducted its own independent investigation, review and analysis of the history, business, results of operations, prospects, condition (financial or otherwise) and assets of NNIC and CCIC. The Purchaser has relied upon the advice of its own financial, tax and other advisors, counsel and accountants as to the legal, tax, economic, and related matters concerning the acquisition of the Shares and the CIC shares and the tax ramifications of the transaction.
- 4.03 (Transfer of Post-Retirement Benefits and Assignment of Intellectual Property): Seller agrees to (i) Cause NNIC to transfer to Seller (or another affiliate), liability for the post-retirement health, pension, disability and other benefits listed in Schedule 4.03 of this Agreement (as well as assets equal to \$604,372 U.S. Dollars), and (ii) Assign to NNIC all of the Seller's right, title and interest to the corporate names, logos, seals, and similar intellectual property of NNIC and CIC.
- 4.04 (Termination of NNIC Employees): Seller agrees to cause NNIC to terminate the employment of the individuals listed in Schedule 4.04 of this Agreement, which terminations are to be effective as of the Closing, and Seller further agrees to be responsible for payment of any severance or retention payments that may be due to the listed individuals in connection with the termination of their employment.
- 4.05 (D&O, E&O Tail Coverage): Seller shall obtain or maintain, as of the Closing Date, "tail" insurance coverage for directors' and officers' liability insurance and errors and omissions liability insurance with respect to NNIC and CIC for a period of at least 6 years from the Closing Date.
- 4.08 (Intercompany Accounts; Affiliate Agreements): Seller shall cause all accounts receivable and payable under each agreement listed in Sch. 4.08 between NNIC or CIC, and one of their Affiliates, to be settled in full at or prior to the Closing.
- 7.01 (Resignation of Directors and Officers): Seller shall have delivered to Purchaser the resignations of all Directors and Officers of NNIC and CIC (as listed in Sch. 7.01), to be effective as of the Closing.
- 7.02 (Termination of Affiliate Agreements/Settlement of Intercompany Accounts): Seller shall have delivered to Purchaser confirmation of the termination of the Affiliate Agreements to be effective as of the Closing and confirmation that all inter-group or inter-company balances under those Affiliated Agreements have been settled prior to the Closing Date.

- 11.01 (Termination): This Agreement may be terminated at any time prior to Closing:
 - By mutual written consent of Purchaser and Seller.
 - By Purchaser or Seller if any of the conditions to its obligations set forth in Article 7 and 8 have not been fulfilled.
 - By Purchaser or Seller if there shall be in effect any Law that prohibits the Closing and such Law shall be final and non-appealable.
 - By Purchaser or Seller if the Closing shall not have occurred on or before April 30, 2016 (unless an extension is agreed to in writing by both Parties).
 - By Purchaser if the policyholder surplus of NNIC shall fall below the statutory minimum required under Wisconsin law.

Item 2 – Identity and Background of Each of the Applicants

The business address of the Applicant is:

SOBC Gamma Holding Company Limited
55 Madison Avenue, Suite 400
Morristown, NJ 07960

An organizational chart showing the Applicant's holding company structure (including pending acquisitions) was included as **Appendix 2**. SOBC Gamma was organized in the State of Connecticut on December 4, 2015, to serve as a vehicle for the acquisition of companies in run-off. The Applicant's parent, SOBC Corp. is a Delaware company that was formed on August 1, 2014, and is the U.S. operating company for U.K. based SOBC Holdings Plc.

There are currently no involuntary court proceedings involving a reorganization or liquidation pending against any of the entities shown in Appendix 2.

Item 3: Identity and Background of Individuals Associated with the Applicants

Directors and Executive Officers: The directors and executive officers of SOBC Gamma and SOBC Corp. are:

- Thomas Hodson (Director, Secretary and General Counsel)
- Stephanie Mocatta (Director and President)
- Harry Whitcher (Director)
- Richard Whatton (Director)
- Brian Johnston (Director, CFO and Treasurer)

Biographical Affidavits for each of the officers and directors listed are included in **Appendix 3**. No exceptional responses requiring further comment were noted.

Item 4: Nature, Source and Amount of Consideration

As consideration for the stock purchase of NNIC, the Applicant will pay to Armco Insurance Group, Inc. \$1 (one dollar) of consideration out of its free cash holdings.⁶ The nature and amount of the consideration was determined through arm's-length negotiations between the parties based on the following criteria:

- The prior rehabilitation proceedings and ongoing regulatory supervision of NNIC, as well as various limitations and/or claims relative to NNIC's operations and assets stemming from plans and agreements NNIC entered into with the Wisconsin Office of the Commissioner of Insurance ("OCI") and other third parties in connection with or during the rehabilitation proceedings.
- The terms and conditions of the global commutation between NNIC and its reinsureds in respect of NNIC's book of assumed reinsurance within its general account, including without limitation, NNIC's potential remaining financial liabilities and obligations thereunder.
- The risks associated with the long-tail nature of the run-off liabilities arising from NNIC's direct book of business within its segregated account established pursuant to Wis. Stat. § 611.24.

Item 5: Applicant's Future Plans for the Insurer

According to the Form A:

"SOBC Gamma has no current plans to declare an extraordinary dividend, to liquidate the insurer, to sell the insurer's assets, or to merge it with any person or persons or to make any other material change in its corporate structure.

SOBC Gamma does have plans for streamlining the run-off management, settling claims where possible, reducing costs, and attempting to maintain, or increase, solvency."

The 5-Year Business Plan for NNIC was attached as **Appendix 4**. The goal of the 5-Year Business Plan is to reduce the complexity of the account as a whole by:

- Improving the documentation of the claims, including the reserves, to ensure accurate reserving and fewer unexpected events.
- Reducing, where possible, the claim count by closing claim files, novation, or policy buy-back.
- Simplifying the account to reduce long-term running and administration costs.
- Working with the regulators to stabilize and if possible increase the surplus over a five year period.
- Simplifying the statutory deposits, re-patriating cash to the Wisconsin company and associated license costs.
- Working to amalgamate the liabilities of Compass with NNIC into one company, if possible, to reduce administration costs.

⁶ The Seller confirmed that they used internal resources to evaluate the transaction, and did not work with any financial, tax or valuation firms to assess the fairness of the consideration. The Seller also confirmed that the transaction did not require the approval of the shareholders of AK Steel.

- Considering a strategy for the final commutation of the reinsurance account, improving the likely dividends for the direct policyholders.

The Applicant plans to review (and present to the regulators) its revised business plan on an annual basis.

Item 6: Voting Securities to be Acquired

SOBC Gamma is acquiring 802 shares of common stock, \$5,000 par value, representing 100% of the shares of NNIC (pursuant to the Stock Purchase Agreement previously discussed).

Item 7: Ownership of Voting Securities

None (there are no voting securities of the insurer which are beneficially owned, or for which there is a right to acquire beneficial ownership by the Applicant, its affiliates, or any other person listed in Item 3).

Item 8: Contracts, Arrangements, or Understanding with respect to the Insurer's Voting Securities

None (other than as set-forth in the Stock Purchase Agreement).

Item 9: Recent Purchases of Voting Securities

None (there have been no purchases of any voting securities of the insurer by the Applicant, its affiliates, or any person listed in Item 3 during the 12 calendar months preceding the filing of this statement).

Item 10: Recent Recommendations to Purchase

None (there have been no recommendations to purchase any voting security of the insurer made by the Applicant, its affiliates, or any person listed in Item 3, or by anyone based upon interviews or at the suggestion of the Applicant, its affiliates, or any person listed in Item 3 during the 12 calendar months preceding the filing of this statement).

Item 11: Agreements with Broker-Dealers

None (there have been no agreements, contracts, or understandings made with any broker-dealer as to solicitation of the voting securities of the insurer for tender).

Item 12: Financial Statements – Applicant (Appendix 5)

Applicants are required to file financial statements for the preceding 5 fiscal years (or for such lesser period as such applicant and its affiliates and any predecessors thereof shall have been in existence), and similar information covering the period from the end of such person's last fiscal year, if the information is available. The annual financial statements shall be accompanied by a certificate of an independent public accountant to the effect that such statements present fairly the financial position of the applicant and the results of operations for the last fiscal year, in accordance with GAAP.

The Applicant stated in the Form A:

"As relatively new, private corporations, SOBC Holdings Plc and SOBC Corp. do not prepare audited financial statements. Therefore, the requested financial information is not reasonably available to SOBC Gamma, because obtaining it would involve unreasonable effort or expense and, instead, SOBC Gamma submits the following statements, which are the information on the subject that it possesses, and which are attached as Appendix 5: Unaudited consolidated financial statements for (i) SOBC Holdings Plc for the ten (10) months ended September 30, 2015; the seven (7) months ended June 30, 2015; the four (4) months ended March 31, 2015; and from inception to December 31, 2014; and (ii) SOBC Corp. from inception (August 1, 2014) to December 31, 2015."

Below is a summary of the SOBC Holdings Plc and SOBC Corp. consolidated unaudited financial statements:

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Other – Intercompany Services Agreement (in lieu of a Form D filing) (Appendix 6)

In addition to requesting approval of the Acquisition, the Applicant is requesting that the submission of the Intercompany Services Agreement (submitted as Appendix 6 to the Form A), substitute for any Form D that might otherwise be required by NNIC under Wis. Stat. § 617.21 (2), and Wis. Adm. Code § Ins 40.04, and that OCI permit them with approval under the Form A.

Below is a summary of the proposed Intercompany Services Agreement between SOBC Services Company Limited (“Provider”) and Northwestern National Insurance Company of Milwaukee, Wisconsin (“Insurer”).

- 1.1 Provision of Services: Provider shall provide to Insurer the services as described on Exhibit A. Provider shall also provide additional services reasonably requested by the Insurer and which both parties agree to be necessary for effective management of the insurer. The services to be provided include, but are not limited to, the following:
 - Financial Management
 - Claims Processing
 - Data Processing
 - General Administration
 - Marketing and Underwriting
 - Regulatory Relations
- 2. Compensation: As compensation for the Provider's provision of Services to the Insurer, the Insurer shall pay an initial take-up fee of \$60,000 and an annual flat fee of \$250,000.⁷
- 5.3 Books and Records - Retention: Provider shall maintain and retain books and records pertaining to Insurer dating back five (5) years at all times or until delivered to Insurer by Provider.
- 6.2 Termination: This Agreement may be terminated in any of the following events:
 - (a) Without Cause: Either party may terminate this Agreement upon at least ninety (90) day's prior written notice to the other party.

⁷ SOBC believes that the fixed fee will not cover its actual costs based on its experience with run-off management. The experience indicates that the annual management of the run-off of NNIC will require 1.4 FTE's, at an average annual salary of \$150,000 per year; and that other ordinary expenses of run-off (rent, travel and related expenses, etc.) would double the cost of the FTE. In sum, 1.4 FTE's equals \$210,000, multiplied by two for other ordinary expenses, brings the total to \$420,000. Therefore, SOBC estimates the \$250,000 flat fee to be significantly less than its actual costs on average.

- (b) Nonpayment: In the event Insurer fails to make any payment required hereunder within ten (1) days after such payment is due, Provider shall have the right to terminate this Agreement upon at least ten (10) days' prior written notice to Insurer.
- (c) Mutual Agreement: This Agreement may be terminated by mutual agreement of the parties at any time.
- 6.3 Consequences of Termination: In the event of termination of this Agreement for any reason, the parties agree to cooperate with one another to prevent a disruption of the Insurer's operations. The procedures to govern the parties' conduct after termination of this Agreement are as follows:
 - (a) Provider shall continue its duties to assure that all insureds of Insurer shall receive appropriate services and benefits until the effective date of termination of this Agreement.
 - (b) Provider shall conduct its affairs prior to the effective date of termination of this Agreement in such a manner that would allow an orderly takeover of the duties of Provider by another provider or by Insurer itself.
 - (c) On or before the effective date of termination of this Agreement, Provider shall return all files, business records, and other supplies that relate to Insurer and are necessary to allow Insurer to continue its operations. Provider shall return such items in a manner that would allow Insurer to continue its operations.
- 6.4 Delinquency: Provider has no automatic right to terminate this Agreement if Insurer is placed in receivership pursuant to chapter 645 of the Wisconsin Statutes.
- 7.1 Delinquency: If the Insurer is placed in delinquency proceedings or seized by OCI under Chapter 645 of the Wisconsin Statutes:
 - (a) All of the rights of Insurer under this Agreement extend to the receiver or OCI; and
 - (b) All books and records of Insurer will immediately be made available to the receiver or OCI, and shall be turned over to the receiver or OCI immediately upon the receiver or OCI's request; and
 - (c) Provider will continue to maintain any systems, programs, or other infrastructure notwithstanding such proceeding or seizure, and will make them available to the receiver for so long as Provider continues to receive timely payment for services.

OCI Follow-up Items and Applicant's Response

The Applicant, per letters dated March 18, 2016, and April 6, 2016, adequately responded to the issues identified in OCI's application follow-up letters dated February 22, 2016, and March 24, 2016. Below is a summary of selected follow-up questions and the Applicant's response (other responses have been incorporated into the appropriate section of this Memo, where deemed appropriate):

- OCI's February 22, 2016 letter, Item # 2(b) Re: Financial Statements – SOBC Corp.: The Unaudited Consolidated Balance Sheet as of December 31, 2015 shows negative shareholder's equity in the amount of (\$ [REDACTED]). Please discuss how SOBC Corp. plans to fund any operating deficits going forward, and how the recently acquired insurance companies will be protected from any capital deficits at the holding company level. [Include the source(s) of available capital, the nature of the capital (debt financing or equity), and the anticipated amount of capital available from each source.]

Applicant's Response: SOBC Corp. is a wholly owned subsidiary of SOBC Holding PLC, a UK domiciled holding company. SOBC Holdings PLC mainly capitalized SOBC Corp. with a loan, thus resulting in the SOBC Corp. negative shareholders equity. The loan is interest free, with no repayment obligations. That said, SOBC Corp. expects to repay the loan steadily, and to reduce the negative shareholders equity from its future profits.

SOBC Corp. is a newly incorporated U.S. business, started in 2014 and capitalized in June 2015. It builds on a previously successful business, SOBC Limited. SOBC Limited is a UK domiciled company owned and managed by two principals, Stephanie Mocatta and Richard Whatton. SOBC Limited ran profitably from 2007 and continues as an investor in SOBC Holdings PLC.

While SOBC Corp. is a new company, and therefore cannot provide historic data, it is a viable, vibrant and growing business that will not adversely affect its insurance company acquisitions. SOBC Corp. will demonstrate this in four ways:

Commitment of the management team:

- The five principal executive directors own [REDACTED]% of SOBC Corp., and are significantly motivated to make the company a success.
- These executive directors have a direct impact on the company's success, as they are directly involved in the management of the enterprise.
- The executive directors take modest salaries – their real reward will be in growing and developing the business.
- SOBC Corp. builds on the successful track record and operations of SOBC Limited.

Success of the business to date:

- SOBC Corp. developed a business plan for its investors and has to date met the expected targets.
- SOBC Corp. has already acquired an insurance company in run-off in Bermuda, which it is successfully managing and which has added US \$ [REDACTED] to the corporate balance sheet (this amount was not reflected as of December 31, 2015, as completion only took place in February 2016).
- SOBC Corp. has set up a Connecticut Sponsored Cell Captive and is actively looking to reinsure portfolios of run-off business into cells.
- SOBC Corp. has successfully completed a number of consulting assignments, some with a view to future acquisitions, in mainland USA as well as the Caribbean.
- SOBC Corp. has a significant pipeline of deals in progress and believes it will make its target of being cash flow positive by [REDACTED].

Larry Lavine, who has since retired. Paladin was sold in 2014 for a sales price of \$[REDACTED], after settlement of all significant claims.

- (2) Syncorp: A New York MGA specializing in Non-Marine reinsurance acquired in May, 2009 for \$[REDACTED] from previous multiple shareholders, together with a \$[REDACTED] capital injection by the vendor. The SOBC executives involved with the transaction were Stephanie Mocatta and Richard Whatton. SOBC unwound all debtor and creditor relationships maintained by the company and cleaned up the balance sheet. Fee income of \$[REDACTED] was booked between 2010 and early 2014, at which point the business was sold, as part of a package with Paladin. The acquisition did not require regulatory approval or supervision.
- (3) Americas Insurance Company: A Louisiana general insurance company writing marine, non-marine and aviation insurance and reinsurance, and its subsidiary, Americas Surplus Lines Insurance Company, a Mississippi surplus lines insurer, were acquired in 2008 from Whittington Group. The acquisition price of \$[REDACTED], plus additional costs, was funded by a loan of \$[REDACTED]. Net assets at acquisition were \$13 million. The SOBC executives involved with the transaction were Stephanie Mocatta and Richard Whatton. The business was reactivated as a household insurer following Hurricane Katrina; rates and forms were filed; systems put into place; and underwriting teams hired. The Louisiana regulator involved in the transaction was Mike Boutwell, Insurance Administrator. Mr. Boutwell can be reached at mboutwell@idi.la.gov (225) 342-0800. The two insurers were combined, and Americas was sold to Assure Holdings Corp. in 2012 who took over the outstanding loan and wished to expand the business using the 26 existing State licenses. Over the five years of ownership, management fees of \$[REDACTED] were billed and a further \$[REDACTED] in shares was received as payment on exit. The loan used to finance the acquisition was transferred to the new owners on exit.
- (4) Shared Services Insurance Company: A Pennsylvania insurer writing student accident and health and sports injury insurance was acquired in December, 2009 from a group of Pennsylvania universities for \$[REDACTED]. Net assets on acquisition were \$[REDACTED]. The SOBC executives involved with the transaction were Stephanie Mocatta and Richard Whatton. The regulator involved in the acquisition was Robert Brackbill. Mr. Brackbill can be reached at rbrackbill@state.pa.us, (717) 783-2143. Fee income of \$[REDACTED] billed in the period 2010-12, with exit by closure in 2012 with a total distribution of \$[REDACTED], with all policyholder liabilities extinguished.
- (5) Syncorp Bermuda: A Bermuda MGA specializing in reinsurance acquired in May 2009 for \$[REDACTED] from multiple shareholders. Net assets on acquisition were \$[REDACTED]. The SOBC executives involved with the transaction were Stephanie Mocatta and Richard Whatton. Regulatory approval of the acquisition was not required. Proceeds of \$[REDACTED] were realized by way of capital distribution in 2010.

Wisconsin Specific Requirements

The following checklist addresses the requirements of s. 611.72 (3) (am), Wis. Stat. (Grounds for Disapproval):

- a) After the change of control, the domestic stock insurance corporation, or any domestic stock insurance corporation controlled by the insurance holding corporation, would be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which it is presently licensed?

Did the Filing Adequately Address this Concern?

Comments: Review of the Pro Forma financial statements did not raise significant concerns regarding the Wisconsin Domestic Insurer's ability to satisfy Wisconsin's licensure requirements.

- b) The effect of the merger or other acquisition of control would not be to create a monopoly or substantially lessen competition in insurance in this state?

Did the Filing Adequately Address this Concern?

Comments: The Applicant's do not currently own any insurance companies that are licensed in Wisconsin. Therefore, the acquisition will not impact the competitive market in Wisconsin.

- c) The financial condition of any acquiring party is not likely to jeopardize the financial stability of the domestic stock insurance corporation or its parent insurance holding corporation, or prejudice the interests of its Wisconsin policyholders?

Did the Filing Adequately Address this Concern?

Comments: Review of the Form A did not significant concerns regarding the Applicants' financial condition.

- d) The plans or proposals which the acquiring party has to liquidate the domestic stock insurance corporation or its parent insurance holding corporation, sell its assets, merge it with any person or make any other material change in its business or corporate structure or management, are fair and reasonable to policyholders of the domestic stock insurance corporation or in the public interest?

Did the Filing Adequately Address this Concern?

Comments: Review of the Form A did not indicate any plans or proposals that would jeopardize the Wisconsin Domestic Insurer, its policyholders, or the public interest.

- e) The competence and integrity of those persons who would control the operation of the domestic stock insurance corporation or its parent insurance holding corporation are such that it would be in the interest of policyholders of the corporation and of the public to permit the merger or acquisition of control?

Did the Filing Adequately Address this Concern?

Comments: Review of the Biographical Affidavits did not raise any concerns regarding the competence or integrity of the Officers and Directors of the Applicant, nor the proposed Officers and Directors of the Wisconsin Domestic Insurer.

Hearing: Per s. 611.72 (3m), Wis. Stat.: “A hearing is not required under sub. (3) before approval of a proposed plan of merger or other plan for acquisition of control if the proposed merger is with, or the proposed acquirer is, an affiliate of the insurer and the proposed merger or other acquisition of control does not change the controlling person of the insurer.” If a hearing required for this filing?

Yes. The Applicant will acquire 100% of the domestic insurer's stock. Therefore, the controlling person will change; a hearing is required.

Conclusion

It is recommended that the proposed acquisition of control of Northwestern National Insurance Company of Milwaukee, Wisconsin by the Applicant be approved on the basis that there are no statutory grounds for denial pursuant to s. 611.72 (3), Wis. Stat.

It is further recommended that OCI non-disapprove the Intercompany Services Agreement, submitted as Appendix 6 to the Form A.

Finally, it is recommended that OCI non-disapprove the Seller's April 1, 2016 Form D filing, which requested OCI's approval of the following items:

- Post-Retirement Obligations Transfer and Intellectual Property Assignment
- Termination of the Restructuring Agreement between Seller, NNIC and Armco Financial Services Corporation dated September 30, 1999.

