Report

of the

Examination of

Northwestern National Insurance Company of Milwaukee, Wisconsin

West Chester, Ohio

As of December 31, 2015

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, *Governor*
Theodore K. Nickel, *Commissioner*

Wisconsin.gov

125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
E-Mail: ociinformation@wisconsin.gov
Web Address: oci.wi.gov

February 15, 2017

Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

NORTHWESTERN NATIONAL INSURANCE COMPANY OF MILWAUKEE, WISCONSIN
West Chester, Ohio

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Northwestern National Insurance Company of Milwaukee, Wisconsin (NNIC or the company) was conducted in 2011 as of December 31, 2010. The current examination covered the intervening period ending December 31, 2015, and included a review of such 2016 and 2017 transactions as deemed necessary to complete the examination.

The examination of the company was conducted concurrently with the examination of Compass Insurance Company (CIC), a New York-domiciled insurer, with Wisconsin acting in the capacity as the lead state for the coordinated examination. Representatives of the New York Department of Financial Services, Insurance Division, participated in the examination, and their work was reviewed and relied on where deemed appropriate.

The examination was conducted using a risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. This approach sets forth guidance for planning and performing the examination of an insurance company to evaluate the financial condition, assess corporate governance, identify current and prospective risks (including those that might materially affect financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately at the end of the "Financial Data" section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of the company's loss and loss adjustment expense reserves and premium deficiency reserve. The actuary's results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

The company was organized in 1869 by an act of the Wisconsin Legislature. This act gave the corporation full power and authority to do all acts and things necessary and incidental to the transaction of a marine and fire business. The act also provided for capital stock of one million dollars divided into shares with a par value of one hundred dollars each.

Operations of the company were limited to fire and allied forms of insurance coverage until 1930. At that time, entry into the casualty lines of business was accomplished through a wholly owned subsidiary. Multiple lines authority was obtained in 1951 by amendment of the company's charter.

NN Corporation (NNC) was organized by the board of directors and management of NNIC in February 1968 under Delaware statutes as a holding company with general business purposes. On July 16, 1968, an exchange offer was made to NNIC stock for NNC stock on a one-for-one basis. NNC eventually diversified into computer-related, investment and management services, and business forms, in addition to insurance and related services.

NNIC ceased writing new individual health insurance policies in February 1975. Group and association health insurance business was terminated in April 1977.

NN Corporation merged with and into Armco Financial Services Corporation effective December 1, 1980.

On January 1, 1991, NNIC merged with an affiliate, Universal Reinsurance Corporation (URC). URC was a subsidiary of Armco Insurance Group, Inc. (AIGI). At that time, URC's business consisted of run-off operations only. URC's run-off operations were directed primarily toward a program for the commutations of its assumed obligations. Bellefonte Re Insurance Company, formerly Bellefonte Insurance Company, which was domiciled in Kentucky, merged with and into Universal Reinsurance Corporation prior to the latter company's merger with NNIC. On June 30, 1991, Bellefonte Underwriters Insurance Company (BUIC), a wholly owned subsidiary of NNIC, merged into NNIC. At that time, BUIC's business consisted of run-off operations. With these mergers, AIGI management began operation of all insurance run-off operations in NNIC.

On January 1, 1997, Armco Inc. transferred ownership of Armco Financial Services Corporation to a newly formed subsidiary, AFSG Holdings, Inc. On September 30, 1999, Armco Inc. was merged into AK Steel Corporation, pursuant to The Agreement and Plan of Merger dated as of May 20, 1999, among Armco Inc., AK Steel Holding Corporation and AK Steel Corporation. On October 29, 1999, the ownership of AFSG Holdings, Inc., was transferred to AKS Investments Inc.

As of December 31, 2015, the company was a wholly owned subsidiary of Armco Insurance Group, Inc., an insurance holding company subsidiary of Armco Financial Services Corporation, a holding company subsidiary of AFSG Holdings, Inc. These companies are ultimately owned by AK Steel Holding Corporation. NNIC's affiliates are further described in the "Affiliated Companies" section of this examination report.

On October 28, 2016, the company and CIC were sold to SOBC Gamma Holding Group (hereinafter also SOBC Gamma). This sale and acquisition is discussed in the "Subsequent Events" section of this examination report.

Run-off and Rehabilitation Plan

In 1986, the company began a run-off operation. Except for mandatory writings such as guaranteed renewable accident and health policies, assignments, and retro adjustments or endorsements to prior-year policies, NNIC writes no business. Over the years, the company and the Office of the Commissioner of Insurance have taken several steps to manage the run-off and recognize the differences in the legal distribution priorities between direct and reinsurance claimants. A timeline outlining the significant events is shown below. Effective December 31, 2003, NNIC established a Segregated Account, consistent with s. 611.24 (2), Wis. Stat., for the purpose of running off its direct business. From that time, the run-off operation in the General Account pertained to NNIC's assumed reinsurance business. Effective December 31, 2003, the Office of the Commissioner of Insurance issued a Restructuring Order that contemplated the global commutation of the assumed reinsurance liabilities with the commuted reinsurers retaining an interest in the residual value of the Segregated Account run-off.

The rehabilitation plan (the plan) for NNIC was approved in March 2007 and became effective on September 1, 2007. In rehabilitation, NNIC continued the implementation of the restructuring plan that included a global commutation of all assumed business and the associated retro-ceded business. The primary purpose of the plan was to implement the remaining stages of the global commutation of NNIC's assumed reinsurance business.

The plan required that within 20 days following the effective date of the plan, initial settlement amounts were paid to participants in accordance with terms of commutation agreements then in force. The plan also required that within 180 days following the effective date of the plan a distribution was made to non-participants, equal to a calculation of the net discounted liabilities attributed to the non-participant as of December 31, 2003, with respect to the General Account. The intent of this payment was to give equal terms to participants and non-participants under commutation agreements.

In 2008, all initial payments to reinsurers were made as required by the plan. These payments effectively settled all outstanding assumed reinsurance liabilities. The plan required that within two years following the effective date of the plan NNIC distribute to the participants and non-participants on a pro rata basis. As of December 31, 2010, all interim payments were made to the reinsurers.

On January 20, 2012, the purpose of effectuating a global commutation with all the company's reinsureds was accomplished and NNIC was released from rehabilitation.

Assets remaining in the Segregated Account, after all direct obligations have been satisfied, will be distributed to commutation participants and non-participants, again on a pro rata basis. This distribution, when combined with all prior distributions, shall not exceed the total value of the discounted liabilities attributable to the insured. As of December 31, 2016, the company's current contingent liability for this distribution is $53,220,748.

Timeline of Key Run-off and Rehabilitation Events

1986—Run-off Operations.

1991—Merger with affiliated companies, Universal Reinsurance Company and Bellefonte Underwriters Insurance Company.

1999—Restructuring agreement: Armco Financial Services Corporation and Armco Insurance Group, Inc., released from NNIC obligation in exchange for contributions and prepayments of $60.9 million. Further provision is made for loss reserve discounting at 6.5% and exemptions from filing requirements for Risk Based Capital and for Schedule P.

2003—Suspension of further settlements on assumed business.

2004—Restructuring Order:

- Establishing Segregated Account as of December 31, 2003, for direct policyholders including guaranteed renewable A&H policies and
- Voluntary Global Commutation Program for assumed reinsurance business in the General Account

2006—Commutation Agreements: As of October 2006, approximately 75% of the total number of reinsureds, representing approximately 71% of the total liabilities of the General Account, had entered commutation agreements with NNIC.

2007—Rehabilitation Order: Remaining stages of the Global Commutation Program were implemented, including application of voluntary commutation terms to participants and non-participants alike.

2008—Rehabilitation Activities: Initial payments made to non-participants and second required payments made to all reinsureds.

2010—Rehabilitation Activities: The final interim distributions made to all reinsureds.

2012—Release from Rehabilitation: Global Commutation Program was fully completed.

Future—A final distribution to the reinsurers will be made when all business in the Segregated Account is settled. After NNIC has satisfied all obligations in the Segregated Account, remaining Segregated Account assets will be distributed to participants and non-participants, based upon a pro-rata basis. As of December 31, 2016, the total contingent liability is $53,220,748.

Operations

NNIC does not intend to resume active writing of any new business in the foreseeable future. The company is currently licensed in nine states. Several states have enacted various license restrictions upon NNIC. These restrictions are not unusual for companies in run-off. The 2015 direct premiums written by state in the Segregated Account (no premiums are written by the General Account) were reported as follows:

California	$180,163	41.9%
New York	99,947	23.2
Pennsylvania	31,467	7.3
Florida	29,069	6.8
Texas	22,443	5.2
All others	67,340	15.6
Total	$430,429	100.0%

The following table is a summary of the net insurance premiums written by the company in 2015. The growth of the company is discussed in the "Financial Data" section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Other accident and health	$419,538	$0	$0	$419,538
Worker's compensation	10,891	0	0	10,891
Total All Lines	$430,429	$0	$0	$430,429

As noted earlier in the examination report, the company is not actively writing new policies. Premium written is mostly from guaranteed renewal accident and health business. Premium from worker's compensation is from retrospective adjustments from business written prior to 1991.

III. MANAGEMENT AND CONTROL

Board of Directors

At the end of 2015, the company’s board of directors consisted of five members, all of whom are elected for one-year terms at an annual stockholder meeting called for that purpose. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members currently receive no fees for serving on the board.

At the end of 2015, the board of directors consisted of the following persons:

Name and Residence	Principal Occupation	Term Expires
Ernest Joseph Blaché, Jr. West Chester, Ohio	President and Chief Executive Officer Northwestern National Insurance Company of Milwaukee, Wisconsin	2016
Gary Mark Sussman Miamisburg, Ohio	Vice President and Treasurer Northwestern National Insurance Company of Milwaukee, Wisconsin	2016
Patricia Suzanne Henson Maineville, Ohio	Retired Security and Special Analysis Manager Northwestern National Insurance Company of Milwaukee, Wisconsin	2016
Lisa Rothfuss Macy Middletown, Ohio	Claims Analyst Northwestern National Insurance Company of Milwaukee, Wisconsin	2016
Renee Suzanne Filiatraut Cincinnati, Ohio	Attorney Northwestern National Insurance Company of Milwaukee, Wisconsin	2016

As discussed in the “Subsequent Events” section of the examination report, the company was acquired by SOBC Gamma, effective October 28, 2016. The change in ownership resulted in a new composition of the board of directors, which is discussed in the “Subsequent Events” section of this examination report.

Officers of the Company

The officers serving at the time of this examination are as follows:

Officer	Office	2015 Compensation*
Ernest Joseph Blaché, Jr.	President and Chief Executive Officer	$109,368
Gary Mark Sussman	Vice President and Treasurer	68,380
Amy Kathryn Dornacher	Secretary	0

* Compensation reported here is the portion of the individual’s total compensation that is allocated to NNIC. A portion of each officer’s compensation is allocated to CIC and AK Steel Corporation.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

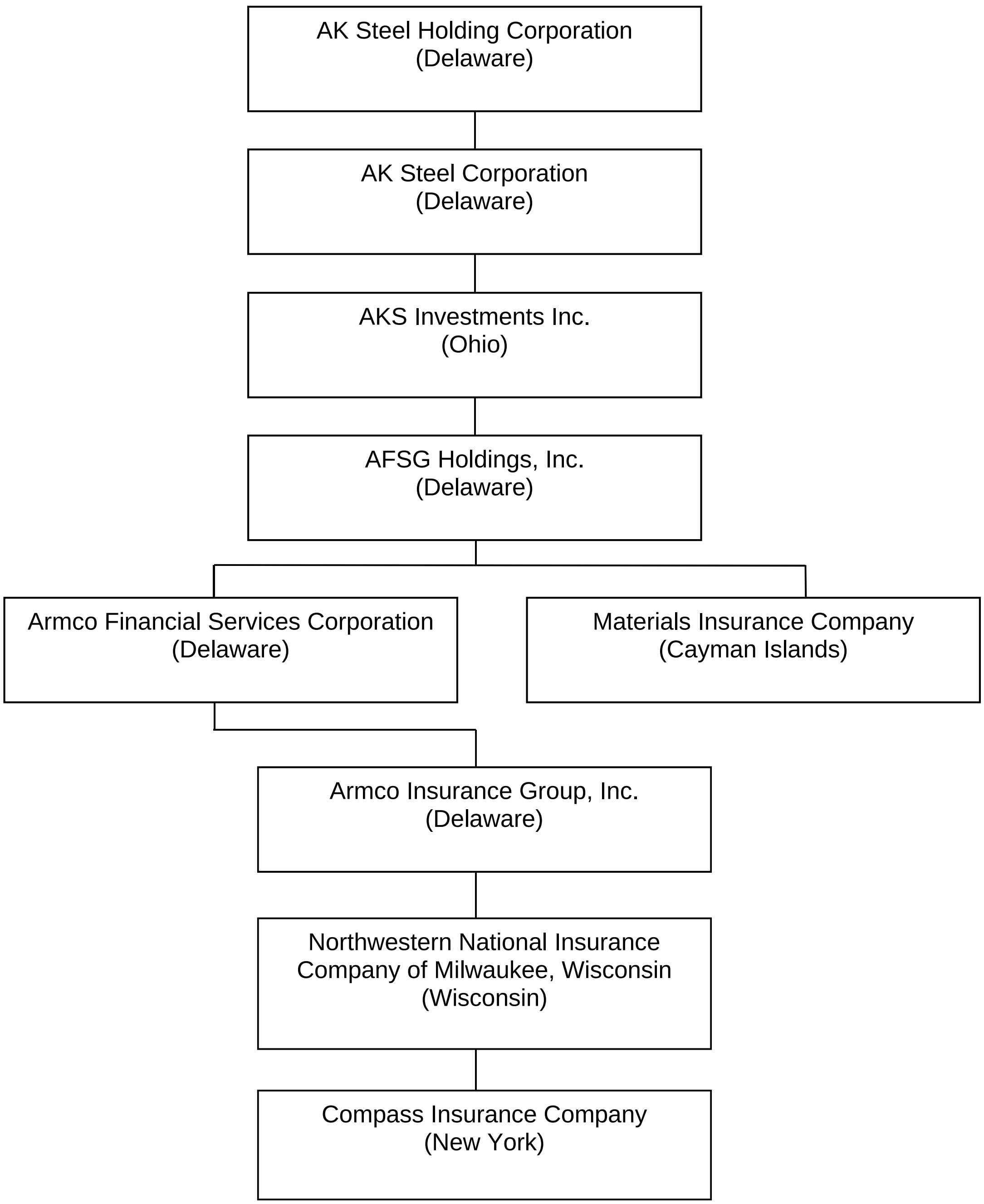
Executive Committee
Ernest Joseph Blaché, Jr., Chair
Gary Mark Sussman
Renee Suzanne Filiatraut

Finance Committee
Ernest Joseph Blaché, Jr., Chair
Gary Mark Sussman
Renee Suzanne Filiatraut

IV. AFFILIATED COMPANIES

NNIC is a member of a holding company system. AK Steel Holding Corporation is the ultimate parent of the holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates follows the organizational chart.

Organizational Chart
As of December 31, 2015



AK Steel Holding Corporation

AK Steel Holding Corporation (AK Holding), the ultimate parent, was incorporated on April 7, 1994, with an effective incorporation date of March 29, 1994. AK Holding is solely a holding company having no business operations or assets other than the ownership of the outstanding common stock of AK Steel Corporation. As of December 31, 2015, the company's consolidated audited financial statements reported assets of $4,084,400,000, liabilities of $4,680,000,000, and stockholders' equity (deficit) of $(595,600,000). Operations for 2015 produced net loss of $509,000,000.

AK Steel Corporation

AK Steel Corporation (AK Steel) was incorporated on March 13, 1989. AK Steel is a fully integrated producer of flat-rolled carbon, stainless and electrical steel products for use in automotive, appliance, construction and manufacturing markets. Its operations include those previously conducted by Armco Inc., which merged with and into AK Steel on September 30, 1999.

AKS Investments Inc.

AKS Investments Inc. was incorporated on October 26, 1989, and is the primary subsidiary of AK Steel Corporation and is the primary shareholder for the various subsidiaries of AK Steel Corporation.

AFSG Holdings, Inc.

AFSG Holdings, Inc. (AFSG) is the holding company for all domestic and international insurance and financial service organizations within the group. It was incorporated on December 18, 1996, under the laws of the state of Delaware. This company is accounted for as a discontinued operation under the liquidation basis of accounting, whereby all future cash inflows and outflows are considered.

Armco Financial Services Corporation

Armco Financial Services Corporation (AFSC) is the holding company for all domestic insurance organizations within the group. It was incorporated on April 29, 1977, under the laws of the state of Delaware and its name was changed to the current name on April 11,

1979. This company is accounted for as a discontinued operation under the liquidation basis of accounting, whereby all future cash inflows and outflows are considered.

Armco Insurance Group, Inc.

Armco Insurance Group, Inc., was incorporated on April 29, 1977, under the laws of the state of Delaware as the parent and holding company for the insurance subsidiaries of what was then Armco Inc. Its name was changed to the current name on December 1, 1980. Insurance operations at that time consisted of property and casualty insurance companies, several risk management corporations, and both U.S.-based and international reinsurance companies. This company is accounted for as a discontinued operation under the liquidation basis of accounting, whereby all future cash inflows and outflows are considered.

Compass Insurance Company

Compass Insurance Company, a New York-domiciled property and casualty insurance company, is in run-off. CIC is wholly owned by NNIC and was contributed to NNIC as part of a Capital Enhancement Program developed by then-parent Armco Inc., which was designed to maintain the solvency of CIC and its affiliates. This program was implemented on June 28, 1985. At that time, NNIC assumed as of December 31, 1984, for the consideration of $1, all liabilities arising under policies issued on the paper of NNIC and then-affiliate Northwestern National Casualty Company and ceded to CIC. This assumption covered unearned premiums, loss reserves, and loss adjustment expense reserves. CIC assigned to NNIC all rights, title, and beneficial interest in reinsurance recoverables. The 2015 statutory annual statement reported assets of $12,142,585, liabilities of $1,952,298, and policyholders' surplus of $10,190,288. Operations for 2015 produced net loss of $46,459.

Materials Insurance Company

Materials Insurance Company (Materials) was incorporated on November 29, 1989, under the laws of the Cayman Islands. Materials is a property and casualty insurance and reinsurance company which has been in run-off since it voluntarily ceased writing new business on May 31, 1993.

Agreements with Affiliates

NNIC is a participant in several service agreements within the holding company system, whereby NNIC receives and also provides various administrative and management services contemplated in the agreements. The parties are compensated for the services provided at cost.

NNIC is a participant in an intercompany federal tax allocation agreement with AK Steel Holding Corporation for filing on a consolidated basis.

NNIC has entered into a management services agreement with CIC whereby the company has been appointed by CIC to act on CIC's behalf to administer its run-off business. NNIC is compensated by CIC based upon the cost of providing the services contemplated in the agreement.

NNIC has also entered into a quota share reinsurance agreement with CIC, which became effective on April 1, 1988. According to this agreement, NNIC accepts a 100% quota share of the net retained liability of CIC under insurance policies entered into by or on behalf of CIC on business classified as public entity liability and previously guaranteed by NNIC. NNIC is obligated to maintain funds in a trust account to fully secure NNIC's share of CIC's unpaid losses and loss adjustment expenses, pursuant to the trust agreement which is described below.

NNIC and CIC are parties to a trust agreement, which became effective on October 7, 1988. According to the agreement, NNIC deposits with the trustee certain assets consisting of cash, certificates of deposit, and investments of the types specified in paragraphs (1), (2), and (3) of Section 1404 (a) of the New York Insurance Law. CIC has the right to withdraw the assets from the trust account for the following purposes: 1) to pay or reimburse the beneficiary for the unpaid or unreimbursed portion of the NNIC's share of any losses and allocated loss expenses paid by the beneficiary under the reinsurance agreement between NNIC and CIC effective April 1, 1988; 2) to pay NNIC any amounts held in the trust that exceed 102% of the actual amount required to fund the grantor's entire obligation; and 3) in the event of termination of the trust account, any amounts equal to NNIC's obligations under the reinsurance agreement are to be withdrawn from the trust account and be placed in trust in any United States bank or trust company.

V. REINSURANCE/BUSINESS SEGMENTS

NNIC has an extensive reinsurance program, in run-off, which includes reinsurance cessions, assumptions, retrocessions, and assigned risk participations. The Global Commutation of the company's assumed reinsurance and a Rehabilitation Plan implemented in 2007 are discussed in the section of this report titled "History and Plan of Operation." NNIC is structured on the basis of business segments that differ from lines of business presented in the annual statements. Except for the Accident and Health business segment, most of the remaining claims in the other business segments contain various mass tort risks.

The following is a list of the company's reserves, by business segment, as of December 31, 2015:

	Loss and Loss Adjustment Expense Reserves			
Business Segment	**Direct**	**Assumed**	**Ceded**	**Net**
Accident and Health	$ 3,329,083	$	$	$ 3,329,083
Risk Management	19,392,081	206,148	17,733,069	1,865,159
Cut-Through	0	794,276		794,276
Dallas	4,558,966		138,684	4,420,282
Excess and Surplus Lines	6,718,883	35,918	5,108,060	1,646,741
Pools	1,566,613		322,737	1,243,876
ULAE	1,414,791			1,414,791
Total	$36,980,417	$1,036,342	$23,302,550	$14,714,209

Accident and Health

NNIC entered into the Accident and Health market in the early 1970s writing policies on a guaranteed renewable basis. The major product is the "MED" policy which is a unique issue age rated comprehensive medical policy with an internal benefit limitation. It has a benefit period that can last at least 15 months, and up to five years, with family deductibles of primarily $5,000 to $10,000, and 100% coverage or reimbursement after the deductible is satisfied for the period. The incurral date for reserving and pricing is defined as the date of deductible satisfaction, which results in very long claim run-off periods. In February 1975, the company closed out the program to new writings due to adverse loss experience. Other than occasional retrospective adjustments, this book is the only business segment of the company receiving direct premiums. This business is administered in-house. As of December 31, 2015, there were 105 policies remaining.

Cut-Through

Compass Insurance Company wrote this business and NNIC guaranteed the policies. In the early 1980s the policies were transferred from CIC to NNIC through a loss portfolio transfer. At the time, NNIC was trying to address the financial condition of CIC.

Dallas – Consists of Bellefonte Insurance, Bellefonte Underwriters, and Capital Enhancement

The business was originally written in Dallas, on Bellefonte Insurance Company paper, and includes facultative and umbrella coverages written on railroads, auto garage dealers, and other corporate risks. Bellefonte Insurance Company was merged into URC, which then merged into NNIC, both in 1991.

Bellefonte Underwriters Insurance Company was a former subsidiary of NNIC and was merged into NNIC in 1991. These risks were on policies issued by Bellefonte Underwriters Insurance Company written in Dallas by managing general agents, primarily on an excess and surplus lines business. It consists of liability line on small shop owners and small commercial risks.

NNIC and its former affiliate Northwestern National Casualty Company wrote the Capital Enhancement book of business and ceded 100% of the risk to CIC. This was general liability and worker's compensation business written for large corporate risks. Some of the policies are retrospectively rated. When CIC reported financial difficulties in the early 1980s, a program intended to maintain the solvency of CIC and its affiliates was implemented on June 28, 1985. At that time, NNIC assumed as of December 31, 1984, for the consideration of $1, all liabilities arising under policies issued on the paper of NNIC and then-affiliate Northwestern National Casualty Company and ceded to CIC. This assumption covered unearned premiums, loss reserves, and loss adjustment expense reserves. CIC assigned to NNIC all rights, title, and beneficial interest in its reinsurance recoverables. As part of this program, all of the common stock of CIC was contributed to NNIC.

Excess and Surplus Lines

This business segment was written by NNIC in the 1960s through 1978. The business is conventional excess and surplus lines, written on large company insureds, where large insureds needed a front company and NNIC served as the fronting agent. Typically, NNIC's retention would range from 0% to 5% on this business.

Pools

This business was written in the early 1970s and relates to catastrophe or excess of loss coverages for large insurance companies. Reinsurance brokers do all the policy administration and settle claims.

Risk Management

NNIC policies were once used to perform fronting services for Fortune 500 clients through a technique known as captive funding. Captive funding was administered by NNIC's risk management services division, using NNIC as the direct writer. NNIC then transferred the portion of the total risk that the self-insuring company wished to retain to a captive reinsurance company. The remaining risk portion was either retained by NNIC or placed with other professional reinsurers. This business included worker's compensation, general liability, and auto liability lines. NNIC discontinued all new and renewal captive funding business in 1985.

ULAE

This is NNIC's reserve for unallocated loss adjustment expense, which consists of all external, internal, and administrative claims handling expenses, including determination of coverage that are not included in allocated loss adjustment expenses.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2015, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination." Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation.

Northwestern National Insurance Company of Milwaukee, Wisconsin
Assets
As of December 31, 2015

	Assets	Nonadmitted Assets	Net Admitted Assets
Cash, cash equivalents, and short-term investments	$ 283,430	$	$ 283,430
Reinsurance:			
Other amounts receivable under reinsurance contracts	752,639	752,639	
Receivable from parent, subsidiaries, and affiliates	6,991		6,991
Total assets excluding segregated account	1,043,060	752,639	290,421
From segregated account	27,650,978		27,650,978
Total Assets	$28,694,038	$752,639	$27,941,399

Northwestern National Insurance Company Segregated Account
Assets
As of December 31, 2015

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$10,542,107	$	$10,542,107
Common stocks	12,491,186		12,491,186
Cash, cash equivalents, and short-term investments	1,974,949		1,974,949
Investment income due and accrued	110,355		110,355
Premiums and considerations:			
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	741		741
Accrued retrospective premiums	60,289	6,029	54,260
Reinsurance:			
Amounts recoverable from reinsurers	1,426,842		1,426,842
Receivable from parent, subsidiaries, and affiliates	24,318		24,318
Aggregate write-ins for other than invested assets:			
Accounts receivable	36,864	36,604	260
Impress funds	1,025,960		1,025,960
Total Assets	$27,693,610	$42,633	$27,650,978

Northwestern National Insurance Company of Milwaukee, Wisconsin
Liabilities, Surplus, and Other Funds
As of December 31, 2015

Other expenses (excluding taxes, licenses, and fees)		$ 300
Taxes, licenses, and fees (excluding federal and foreign income taxes)		200
Write-ins for liabilities:		
Total liabilities of segregated account		25,102,673
Global commutation – contingent liabilities		289,921
Total liabilities		25,393,094
Write-ins for special surplus funds:		
Surplus of segregated account	$ 2,548,305	
Common capital stock	4,010,000	
Preferred capital stock	5,000,000	
Gross paid in and contributed surplus	438,810,933	
Unassigned funds (surplus)	(442,820,933)	
Less treasury stock, at cost:		
Preferred	5,000,000	
Surplus as regards policyholders		2,548,305
Total Liabilities and Surplus		$27,941,399

Northwestern National Insurance Company Segregated Account
Liabilities, Surplus, and Other Funds
As of December 31, 2015

Losses		$11,140,361
Reinsurance payable on paid loss and loss adjustment expenses		22,414
Loss adjustment expenses		3,573,848
Commissions payable, contingent commissions, and other similar charges		3,297
Other expenses (excluding taxes, licenses, and fees)		695,965
Taxes, licenses, and fees (excluding federal and foreign income taxes)		19,400
Unearned premiums		139,535
Funds held by company under reinsurance treaties		1,690,090
Amounts withheld or retained by company for account of others		951,338
Remittances and items not allocated		4,982
Provision for reinsurance		1,491,629
Payable to parent, subsidiaries, and affiliates		189,982
Write-ins for liabilities:		
Policy deficiency reserve		4,943,698
Other payables		236,133
Total liabilities		25,102,673
Write-ins for special surplus funds:		
Contingency reserve	$ 3,350,000	
Write-ins for other than special surplus funds:		
Transfer from general account at 12-31-03	3,000,000	
Gross paid in and contributed surplus	1,400,000	
Unassigned funds (surplus)	(5,201,695)	
Surplus as regards policyholders		2,548,305
Total Liabilities and Surplus		$27,650,978

Northwestern National Insurance Company of Milwaukee, Wisconsin
Summary of Operations
For the Year 2015

Underwriting Income		
Premiums earned		$
Deductions:		
Other underwriting expenses incurred	$ 1,916	
Write-ins for underwriting deductions:		
Global commutation	(1,820)	
Total underwriting deductions		96
Net underwriting gain (loss)		(96)
Investment Income		
Net investment income earned	96	
Net investment gain (loss)		96
Other Income		
Total other income		
Net Income		$

Northwestern National Insurance Company Segregated Account
Summary of Operations
For the Year 2015

Underwriting Income		
Premiums earned		$ 427,191
Deductions:		
Losses incurred	$ 926,187	
Loss adjustment expenses incurred	515,975	
Other underwriting expenses incurred	1,070,693	
Write-ins for underwriting deductions:		
Change in policy deficiency reserve	919,993	
Total underwriting deductions		3,432,848
Net underwriting gain (loss)		(3,005,657)
Investment Income		
Net investment income earned	526,967	
Net realized capital gains (losses)	121,467	
Net investment gain (loss)		648,434
Other Income		
Write-ins for miscellaneous income:		
Recoverable balances charged off	(86,684)	
Liquidation dividends	162,567	
Miscellaneous income	440,373	
Total other income		516,256
Net Income (Loss)		$(1,840,967)

Northwestern National Insurance Company of Milwaukee, Wisconsin
Cash Flow
For the Year 2015

Net investment income		$ 96
Commissions, expenses paid, and aggregate write-ins for deductions	$1,916	
Total deductions		1,916
Net cash from operations		(1,820)
Cash from financing and miscellaneous sources:		
Other cash provided (applied)	1,916	
Net cash from financing and miscellaneous sources		1,916
Reconciliation:		
Net change in cash, cash equivalents, and short-term investments		96
Cash, cash equivalents, and short-term investments:		
Beginning of year		283,334
End of Year		$283,430

Northwestern National Insurance Company Segregated Account
Cash Flow
For the Year 2015

Premiums collected net of reinsurance			$ 430,534
Net investment income			551,945
Miscellaneous income			516,256
Total			1,498,736
Benefit- and loss-related payments		$2,186,675	
Commissions, expenses paid, and aggregate write-ins for deductions		3,207,140	
Total deductions			5,393,815
Net cash from operations			(3,895,079)
Proceeds from investments sold, matured, or repaid:			
Bonds	$1,946,402		
Stocks	5,644		
Total investment proceeds		1,952,046	
Cost of investments acquired (long-term only):			
Stocks	56,588		
Total investments acquired		56,588	
Net cash from investments			1,895,458
Cash from financing and miscellaneous sources:			
Other cash provided (applied)		779,010	
Net cash from financing and miscellaneous sources			779,010
Reconciliation:			
Net change in cash, cash equivalents, and short-term investments			(1,220,611)
Cash, cash equivalents, and short-term investments:			
Beginning of year			3,195,560
End of Year			$ 1,974,949

Northwestern National Insurance Company of Milwaukee, Wisconsin
Compulsory and Security Surplus Calculation
December 31, 2015

Assets	$27,941,399
Less liabilities	25,393,094
Adjusted surplus	2,548,305
Compulsory surplus (subject to a minimum of $2 million)	2,000,000
Compulsory Surplus Excess (or Deficit)	$ 548,305
Adjusted surplus (from above)	$ 2,548,305
Security surplus: (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum factor of 110%)	2,800,000
Security Surplus Excess (or Deficit)	$ (251,695)

Northwestern National Insurance Company Segregated Account
Compulsory and Security Surplus Calculation
December 31, 2015

Assets			$27,650,978
Less liabilities			25,102,673
Adjusted surplus			2,548,305
Annual premium:			
Individual accident and health	$419,538		
Factor	15%		
Total		$62,930	
Lines other than accident and health	10,891		
Factor	20%		
Total		2,178	
Compulsory surplus (subject to a minimum of $2 million)			2,000,000
Compulsory Surplus Excess (or Deficit)			$ 548,305
Adjusted surplus (from above)			$ 2,548,305
Security surplus: (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum factor of 110%)			2,800,000
Security Surplus Excess (or Deficit)			$ (251,695)

Northwestern National Insurance Company of Milwaukee, Wisconsin
Analysis of Surplus
For the Five-Year Period Ending December 31, 2015

The following schedule details items affecting surplus during the period under examination as reported by the company in its filed annual statements:

	2015	2014	2013	2012	2011
Surplus, beginning of year	$ 4,486,428	$ 7,191,707	$4,518,121	$4,696,768	$5,054,702
Net income		(5,563)	(25,072)	(65,611)	746,885
Change in non-admitted assets		5,563	25,072	65,611	(848,885)
Change in provision for reinsurance					102,000
Write-ins for gains and (losses) in surplus:					
Change in surplus of segregated account	(1,938,123)	(2,705,279)	2,673,586	(178,647)	(357,934)
Surplus, End of Year	$ 2,548,305	$ 4,486,428	$7,191,707	$4,518,121	$4,696,768

Northwestern National Insurance Company Segregated Account
Analysis of Surplus
For the Five-Year Period Ending December 31, 2015

	2015	2014	2013	2012	2011
Surplus, beginning of year	$ 4,486,428	$ 7,191,707	$4,518,121	$4,696,768	$5,054,702
Net income	(1,840,967)	(2,600,163)	1,584,697	(816,823)	(569,640)
Change in net unrealized capital gains/losses	(149,856)	(448,688)	921,133	616,447	32,822
Change in non-admitted assets	(36,604)				
Change in provision for reinsurance	61,799	343,571	167,756	21,729	178,884
Write-ins for gains and (losses) in surplus:					
Prior year audit adjustment	27,504				
Surplus, End of Year	$ 2,548,305	$ 4,486,428	$7,191,707	$4,518,121	$4,696,768

Northwestern National Insurance Company of Milwaukee, Wisconsin
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2015

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and are due to run-off operations. A discussion of the unusual IRIS ratios is included for the ratios calculated for the Segregated Account. IRIS ratios calculated for the General Account are not considered meaningful, due to limited activity in the General Account, and therefore do not require further comment.

	Ratio	2015	2014	2013	2012	2011
#1	Gross Premium to Surplus	0%	0%	0%	0%	0%
#2	Net Premium to Surplus	0	0	0	0	0
#3	Change in Net Premiums Written	0	0	0	0	0
#4	Surplus Aid to Surplus	0	0	0	0	0
#5	Two-Year Overall Operating Ratio	999*	999*	999*	0	0
#6	Investment Yield	0*	0*	0*	0.1*	0.1*
#7	Gross Change in Surplus	-43*	-38*	59*	-4	-7
#8	Change in Adjusted Surplus	-43*	-38*	59*	-4	-7
#9	Liabilities to Liquid Assets	8,959*	9,440*	9,877*	12,432*	13,736*
#10	Agents' Balances to Surplus	0	0	0	0	0
#11	One-Year Reserve Development to Surplus	NA	NA	NA	NA	NA
#12	Two-Year Reserve Development to Surplus	NA	NA	NA	NA	NA
#13	Estimated Current Reserve Deficiency to Surplus	NA	NA	NA	NA	NA

Northwestern National Insurance Company Segregated Account
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2015

	Ratio	2015	2014	2013	2012	2011
#1	Gross Premium to Surplus	17%	11%	7%	15%	16%
#2	Net Premium to Surplus	17	11	7	15	16
#3	Change in Net Premiums Written	-11	-7	-21	-13	6
#4	Surplus Aid to Surplus	0	0	0	0	0
#5	Two-Year Overall Operating Ratio	693*	301*	90	257*	289*
#6	Investment Yield	2.0*	2.1*	2.5*	2.6*	2.5*
#7	Gross Change in Surplus	-43*	-38*	59*	-4	-7
#8	Change in Adjusted Surplus	-43*	-38*	59*	-4	-7
#9	Liabilities to Liquid Assets	168*	147*	132*	135*	136*
#10	Agents' Balances to Surplus	0	0	0	0	0
#11	One-Year Reserve Development to Surplus	NA	NA	NA	NA	NA
#12	Two-Year Reserve Development to Surplus	NA	NA	NA	NA	NA
#13	Estimated Current Reserve Deficiency to Surplus	NA	NA	NA	NA	NA

Ratio No. 5 measures the company's profitability over the previous two-year period. There were exceptional results each year during the examination period, with the exception of 2013. The exceptional results are largely due to the fact that the company is in run-off, it is to be expected that this ratio will continue to increase as operations continue to wind down.

It is notable that in 2013 the company's Segregated Account reported a two-year overall operating ratio of 90%. The improvement in 2013 is a result of the release of redundant "bulk reserves." Prior to 2013, the company had a stipulation and order in effect which required the initial loss reserves of the Segregated Account to be calculated at a 90% confidence level. This stipulation and order was replaced on December 19, 2013, with a stipulation and order that did not require loss reserving at a 90% confidence level, and the company released the redundant reserves resulting in a calendar year underwriting gain.

Ratio No. 6 measures the amount of the company's net investment income as a percentage of the average amount of cash and invested assets. The company reported an exceptional ratio each year under examination. The exceptional ratios are primarily due to the low interest rate environment. In addition, the company's holdings in CIC have contributed to the depressed ratio as no dividends have been paid during the examination period. The company's low investment yield was not remarkable, as the industry average during the period under examination was approximately 2.2%.

Ratio No. 7 measures the gross change in surplus and is a measure of overall improvement or deterioration in an insurer's financial condition during the year; the calculation takes operational results and paid-in or transferred capital into account. Ratio No. 8 measures the improvement or deterioration in an insurer's financial condition during the year based on operational results. The company reported exceptional results for both ratios from 2013 to 2015. In 2013, surplus increased significantly due to the release of bulk reserves. Surplus decreased significantly in 2014 and 2015 as the company continues to pay off claims.

Ratio No. 9 measures the ability of the company to meet its short-term obligations. The calculation excludes certain liabilities and only includes liquid assets. The usual range for an insurer is below 100%. The company reported an exceptional ratio each year under examination.

The elevated ratio is partially due to the company's investment in its subsidiary, CIC, which as of December 31, 2015, totaled 41% of invested assets, and is excluded for purposes of this calculation.

Ratio Nos. 11, 12, and 13 are various measurements of reserve development. These ratios are compiled with data from Schedule P. The company is exempted from filing Schedule P, and therefore these ratios were not calculated.

Five-Year Experience of Northwestern National Insurance Company of Milwaukee, Wisconsin

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2015	$27,941,399	$25,393,094	$2,548,305	$ 0
2014	31,232,678	26,746,250	4,486,428	(5,563)
2013	35,165,764	27,974,057	7,191,707	(25,072)
2012	39,714,147	35,196,026	4,518,121	(65,611)
2011	43,563,063	38,866,295	4,696,768	746,885

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2015	$0	$0	$0	0.0%	0.0%	0.0%
2014	0	0	0	0	0	0
2013	0	0	0	0	0	0
2012	0	0	0	0	0	0
2011	0	0	0	0	0	0

There is limited activity in the General Account; the vast majority of the assets and liabilities are included in the Segregated Account. Changes to net income are primarily due to underwriting adjustments resulting from the reduction of contingent liability due to reinsurers in relation to the global commutation.

Five-Year Experience of Northwestern National Insurance Company Segregated Account

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2015	$27,650,978	$25,102,673	$2,548,305	$(1,840,967)
2014	30,940,437	26,454,009	4,486,428	(2,600,163)
2013	34,882,530	27,690,823	7,191,707	1,584,697
2012	39,431,050	34,912,929	4,518,121	(816,823)
2011	43,280,110	38,583,342	4,696,768	(569,640)

Year	Direct Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio	Change in Premium Deficiency Reserve
2015	$430,429	$430,429	$427,191	337%	342%	679%	$ 919,993
2014	482,442	482,442	494,345	641	293	934	(22,033)
2013	518,644	518,644	557,260	(213)	210	(3)	(209,704)
2012	657,040	657,040	682,620	198	229	427	153,133
2011	757,011	757,011	728,074	53	314	367	186,671

The above ratios reflect the company's status as being in run-off, including the negative loss ratio in 2013 as discussed earlier in this report.

The remaining block of business that generates premiums is primarily guaranteed renewable accident and health. Due to inadequate premium rates on the accident and health line of business, the company reports a premium deficiency reserve (reported as "policy deficiency reserve" in the annual statement). As of December 31, 2011, the company reported a premium deficiency reserve of $4,102,309 with 153 active accident and health policies remaining. As of December 31, 2015, the premium deficiency reserve had increased to $4,943,698 while the number of active polices decreased to 105. The large increase in the premium deficiency reserve in 2015 is mostly the result of a change in interest rate assumptions used to calculate the reserve. The company lowered its interest rate assumptions, which resulted in less projected investment income, causing the premium deficiency reserve to increase.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of policyholders' surplus reported by the company as of December, 31, 2015, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There was one specific comment and recommendation in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Succession Plan—It is recommended that the company develop a formal succession plan to ensure that its operations continue in the most effective and efficient manner.

   Action—Compliance.

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

Uncollectible Reinsurance Recoverables

A review of the aging of reinsurance recoverables on paid losses and loss adjustment expenses showed there were approximately $1,330,000 in reinsurance recoverables that were more than 120 days overdue. The overdue amount represents approximately 93% of the total reinsurance recoverables reported on line 16.1 on the asset page of the balance sheet. Some of the balances date back to the 1990s and are the result of reinsurer insolvencies. The vast majority of the overdue balances are also reported as a liability on the "provision for reinsurance" line item and therefore have no effect on overall surplus. Statement of Statutory Accounting Principles (SSAP) No. 62R, paragraph 72 states, "uncollectible reinsurance balances shall be written off through the account, exhibits, and schedules in which they were originally recorded." It appears that the chance of collectability for many of these balances is remote and therefore should be written off. It is recommended that the company review all reinsurance balances that are more than 120 days overdue and write off any balances that are deemed uncollectible, in accordance with SSAP No. 62R, paragraph 72.

Advance Premium

A review of the company's unearned premium reserve ($139,535) showed the total reserve included advance premium. According to SSAP No. 54, paragraph 6, "Advance premiums are those premiums that have been received by the reporting entity prior to or on the valuation date but which are due after the valuation date." While the total amount of misreported advance premium was not considered sufficiently material to warrant a reclassification, these advance premiums should be excluded from the unearned premium line item and included in the advance premium line item. It is recommended that the company report advance premium in its statutory financial statements in accordance with the NAIC’s Accounting Practices and

Procedures Manual and the NAIC's Annual Statement Instructions – Property/Casualty, pursuant to s. Ins 50.20 (1) (b), Wis. Adm. Code.

Report of Executive Compensation

The state of Wisconsin requires each Wisconsin-domiciled insurer to file a supplement to the annual statement entitled "Report of Executive Compensation" pursuant to ss. 601.42 and 611.63 (4), Wis. Stat. This report includes the total annual compensation paid to each director, each officer, as defined by s. 611.12 (3), Wis. Stat., and the four most highly compensated members of executive management. In addition, the report requires disclosure of the compensation of all officers and employees whose compensation exceeds specified amounts. For an insurer of NNIC's size, the compensation of each officer or employee whose annual compensation exceeds $150,000 must be disclosed.

The company failed to include employer contributions for group health insurance in the total compensation amount reported for certain executives. None of these omissions resulted in material understatement of reported compensation amounts. It is recommended that the company properly complete the "Report of Executive Compensation" as required by ss. 601.42 and 611.63 (4), Wis. Stat.

Fidelity Bond

The review of the company's insurance coverages revealed that the company did not have a fidelity bond subsequent to the SOBC Gamma acquisition. Prior to October 28, 2016, the company held a fidelity bond through AK Steel, however after being sold to SOBC Gamma, a new fidelity bond was not obtained. It is advisable that those who have access to an insurer's cash and investments be bonded. This includes people who have the ability to authorize wire transfers, write checks and those who can buy, sell, or transfer investments. The NAIC's Financial Condition Examiners Handbook has established suggested minimum levels of fidelity bond coverage for such employees based on the amount of an insurer's admitted assets and gross income. It is recommended that the company obtain and maintain a fidelity bond with at least $175,000 in coverage for employees who have access to the company's cash and investments.

VIII. CONCLUSION

In 1986, the company began a run-off operation. Except for mandatory writing such as guaranteed renewable accident and health policies, assignment, and retro adjustments or endorsements to prior-year policies, NNIC writes no business. On March 8, 2007, NNIC was placed in rehabilitation. In 2010, all payments required under the rehabilitation plan were made as required by the rehabilitation plan. A final distribution will be made to the reinsurers when the Segregated Account business is settled. On January 20, 2012, the purpose of effectuating a global commutation with all the company's reinsureds was accomplished and NNIC was released from rehabilitation.

On October 28, 2016, the company and its wholly owned subsidiary, Compass Insurance Company, were sold to SOBC Gamma Holding Company Ltd.

The examination resulted in four recommendations and no adjustments to surplus or reclassifications. The amount of policyholders' surplus reported by the company as of December 31, 2015, is accepted.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 32 - Uncollectible Reinsurance—It is recommended that the company review all reinsurance balances that are more than 120 days overdue and write off any balances that are deemed uncollectible, in accordance with SSAP No. 62R, paragraph 72.

2. Page 32 - Advance Premium—It is recommended that the company report advance premium in its statutory financial statements in accordance with the NAIC's Accounting Practices and Procedures Manual and the NAIC's Annual Statement Instructions – Property/Casualty, pursuant to s. Ins 50.20 (1) (b), Wis. Adm. Code.

3. Page 33 - Executive Compensation—It is recommended that the company properly complete the "Report of Executive Compensation" as required by ss. 601.42 and 611.63 (4), Wis. Stat.

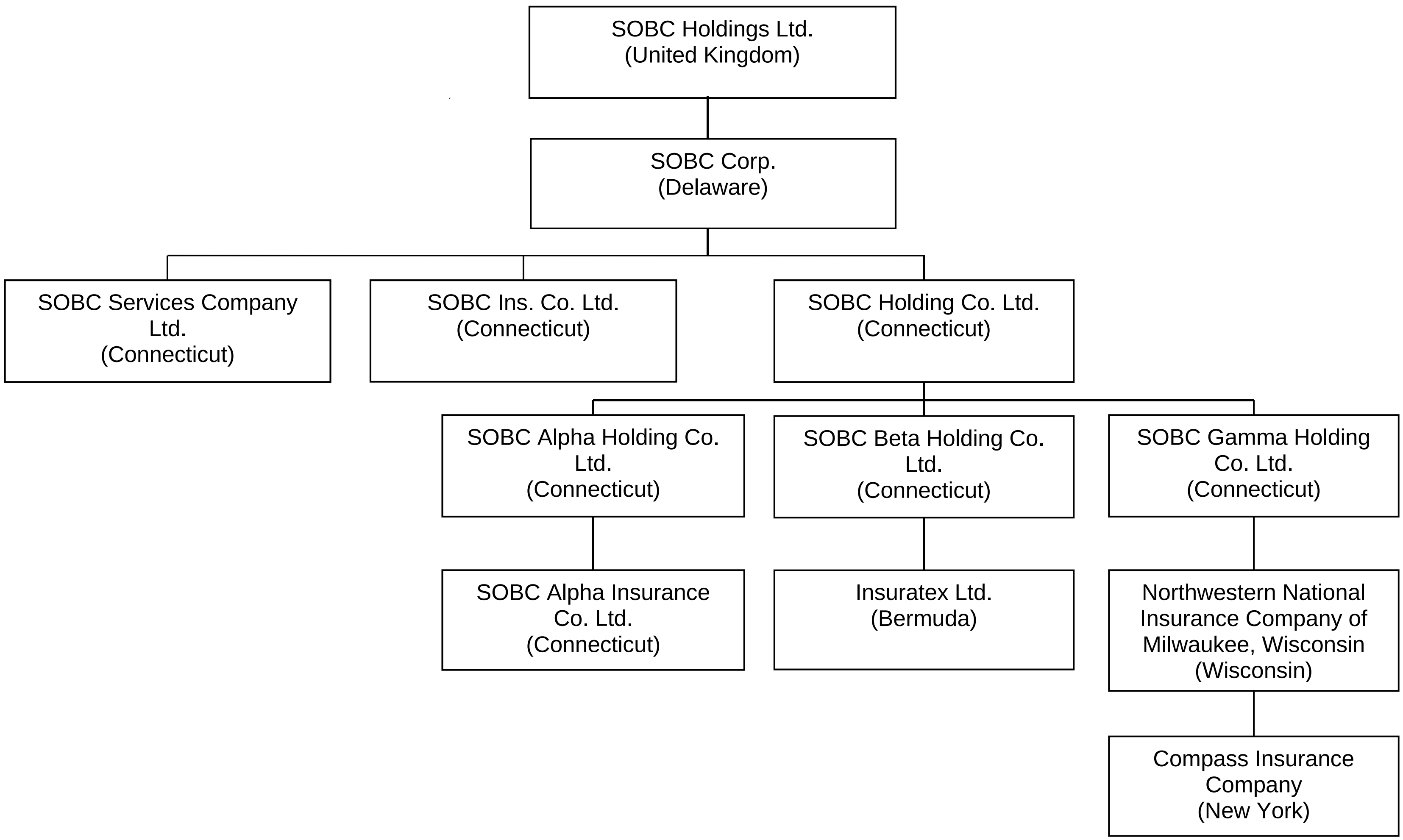
4. Page 33 - Fidelity Bond—It is recommended that the company obtain and maintain a fidelity bond with at least $175,000 in coverage for employees who have access to the company's cash and investments.

X. SUBSEQUENT EVENTS

Subsequent to the as of date of the examination, Armco Insurance Group, Inc., sold 100% of the issued and outstanding shares of NNIC to SOBC Gamma. Form A approvals were obtained from the Wisconsin Office of the Commissioner of Insurance and the New York Department of Financial Services. The effective date of the transaction was October 28, 2016.

SOBC Gamma is a wholly owned subsidiary of SOBC Holding Co Ltd., which in turn is owned by SOBC Corp., which in turn is owned by SOBC Holdings Ltd. SOBC Gamma specializes in the acquisition and management of distressed or run-off insurance or reinsurance entities. Below is an organizational chart as of the date of this report.

Organizational Chart



Agreements with Affiliates

NNIC and CIC entered into an Intercompany Services Agreement with SOBC Services Company Limited (SOBC Services), effective October 29, 2016. Under this agreement, SOBC Services is to provide certain support services to NNIC and CIC, which include: financial management, claims processing, data processing, general administration, marketing and underwriting, and regulatory relations. In consideration of the services provided to NNIC and CIC under this agreement, NNIC shall pay to SOBC Services a take-up fee of $60,000 upon execution of the agreement. An additional $250,000 shall be paid quarterly for senior management and management oversight services, with $187,000 to be paid by NNIC and $63,000 by CIC. Other costs incurred by SOBC Services shall be based on the actual expense incurred.

Board of Directors

Subsequent to the SOBC Gamma acquisition, NNIC's board of directors consisted of the following members:

Name and Residence	Principal Occupation	Term Expiry
Patricia Suzanne Henson Maineville, Ohio	Chief Operating Officer Northwestern National Insurance Company of Milwaukee, Wisconsin	2017
Thomas Francis Xavier Hodson West Hartford, Connecticut	General Counsel and Secretary and 9.9% owner of SOBC Holdings Ltd.	2017
Brian Johnston Chatham, New Jersey	Chief Financial Officer and Treasurer SOBC Corp. and 9.9% indirect owner of SOBC Holdings Ltd.	2017
Stephanie Carne Mocatta Thornham, United Kingdom	President and Chief Executive Officer 10.1% indirect owner of SOBC Holdings Ltd.	2017
Gary Mark Sussman Miamisburg, Ohio	Vice President and Treasurer Northwestern National Insurance Company of Milwaukee, Wisconsin	2017
Richard Paul Whatton Kent, United Kingdom	10.1% indirect owner of SOBC Holdings Ltd.	2017
Harry Marston Whitcher Norfolk, United Kingdom	10% owner of SOBC Holdings Ltd.	2017

XI. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Xiaozhou Ye	Insurance Financial Examiner
John Litweiler	Insurance Financial Examiner – Advanced, Exam Planning & Quality Control Specialist
David Jensen, CFE	Insurance Financial Examiner – Advanced, Information Systems Audit Specialist
Jerry DeArmond, CFE	Insurance Financial Examiner – Advanced, Loss Reserve Specialist

Respectfully submitted,

Levi Olson
Examiner-in-Charge