

*In the Matter of the Restructuring of
Sentry Insurance a Mutual Company
to a Mutual Holding Company
and a Stock Insurance Company
Case No. 20-C43622*

TESTIMONY OF KIP J. KOBUSSEN
VICE PRESIDENT, GENERAL COUNSEL AND CORPORATE SECRETARY
SENTRY INSURANCE A MUTUAL COMPANY

OCTOBER 23, 2020
MADISON, WISCONSIN

I. Introductory Testimony

Q: What is your name?

A: Kip John Kobussen.

Q: For the sake of brevity, let's refer to Sentry Insurance a Mutual Company as "SIAMCO" or the "Company" during your testimony. What positions do you currently hold with SIAMCO?

A: I am the Vice President, General Counsel and Corporate Secretary of SIAMCO.

Q: How long have you held those positions?

A: I have been the Vice President, General Counsel and Corporate Secretary since November 2017.

Q: How long have you worked for SIAMCO, and what other positions have you held with the Company?

A: I started working for SIAMCO in April 2012 as the Director of Legislative and Regulatory Affairs, and have previously been the Assistant Vice President of Government Relations from March 2014 to April 2017, and the Chief Compliance Officer, Assistant Vice President of Government & Regulatory Affairs from April 2017 to November 2017.

Q: Were you involved in considering the proposed conversion of SIAMCO into a mutual holding company structure?

A: Yes. I was involved from the beginning of discussions in 2018, and have been deeply and directly involved in the preparation of the current Mutual Holding Company Plan, which I'm going to call the "Plan". I have participated in a management support role in all of SIAMCO's Board of Directors meetings regarding the Plan, and have been involved in extensive discussions with other members of SIAMCO's senior management, legal team, and others within the Company, as well as with SIAMCO's outside counsel.

Q: Mr. Kobussen, I'd like to discuss the proposed conversion with you from several perspectives, in the following order:

First, I will ask you to provide some background and history about SIAMCO.

Second, I will ask you to describe the changing insurance marketplace and the challenges it poses for SIAMCO, which led to SIAMCO's board considering and choosing to pursue the proposed conversion.

Third, I will ask you to explain how the proposed conversion helps SIAMCO respond to the challenges facing it in the future.

Fourth, I will ask you to discuss the alternatives to the proposed conversion that were considered by SIAMCO's Board of Directors.

Fifth, I will ask you to describe the mechanics of the proposed conversion.

Sixth, I will ask you to describe the steps SIAMCO took to comply with legal and corporate requirements applicable to the proposed conversion.

Seventh, and finally, I will ask you to explain how the proposed conversion satisfies the statutory criteria for approval of the proposed conversion by the Wisconsin Commissioner of Insurance.

Do you believe you have sufficient personal knowledge of the foregoing matters to testify to the same during this hearing?

A: Yes, I do.

II. Background of SIAMCO

Q: Let's begin with some background information about SIAMCO. What is the current corporate structure and location of SIAMCO?

A: SIAMCO is a mutual property and casualty insurance company domiciled in Wisconsin with its headquarters in Stevens Point, Wisconsin.

Q: Tell me about the history of SIAMCO.

A: SIAMCO was organized under Wisconsin law in 1904 as Hardware Mutual Casualty Company, by members of the Wisconsin Retail Hardware Association, now the Midwest Hardware Association, to provide insurance for its members in the hardware industry. It adopted its present name in 1971.

Q: What kinds of property and casualty insurance does SIAMCO write today?

A: SIAMCO is a multi-line insurer offering a broad range of products including auto, commercial auto, earthquake, flood, workers' compensation, general liability, and commercial property.

Q: Where is SIAMCO authorized to transact insurance business?

A: SIAMCO is licensed in all 50 states, as well as the District of Columbia, Puerto Rico and Canada.

Q: How does SIAMCO distribute its insurance products?

A: SIAMCO distributes its products through a network of independent agents and direct writers.

Q: Does SIAMCO have subsidiary companies?

A: Yes, SIAMCO has 11 wholly-owned insurance company subsidiaries, 4 affiliated insurance companies, and a number of other insurance ancillary and non-insurance subsidiaries and affiliates, including insurance agencies, holding companies, and real estate companies. Rather than reciting their names and trying to describe SIAMCO's group organizational structure, I would refer the hearing officer and others to the organizational chart provided with our Policyholder Information Statement.

Q: How did SIAMCO come to have its 15 insurance company subsidiaries and affiliates?

A: Over time, SIAMCO has formed a number of subsidiary and affiliate insurance companies and has also acquired a number of already-existing insurance companies. As discussed further below, SIAMCO is the ultimate parent to three life insurance subsidiaries, eight property and casualty insurance subsidiaries, and four property and casualty insurance companies that are affiliated by contract with SIAMCO, but are not wholly-owned by SIAMCO. All wholly-owned subsidiaries that underwrite property and casualty insurance will be Sentry member companies except for Dairyland National Insurance Company.

Q: What types of business do SIAMCO's subsidiaries and affiliates transact?

A: Different subsidiaries and affiliates transact different types of business. The following property and casualty insurance companies underwrite a wide variety of property and casualty insurance products, including commercial liability, property, private passenger and commercial auto, and workers' compensation: Dairyland Insurance Company, Dairyland National Insurance Company, Middlesex Insurance Company, Patriot General Insurance Company, Peak Property & Casualty Insurance Corporation, Sentry Casualty Company, Sentry Select Insurance Company, Viking Insurance Company of Wisconsin, Dairyland County Mutual Insurance Company of Texas, Sentry Lloyds of Texas, Florists' Mutual Insurance Company, and Florists' Insurance Company. Additionally, the following life insurers underwrite life insurance, annuities, and accident and health insurance: Parker Centennial Assurance Company, Sentry Life Insurance Company, and Sentry Life Insurance Company of New York.

Furthermore, other ancillary subsidiaries and affiliates undertake insurance-related activities but are not insurance companies; these are: Parker Services, L.L.C., Parker Stevens Agency, L.L.C., Point Insurance Agency, LLC, Sentry Equity Services, Inc., Sentry Investment Management, L.L.C., Sentry Lloyds of Texas AIF, LLC, and Florists' Insurance Service, Inc.

Finally, SIAMCO has non-insurance subsidiaries and affiliates: SentryWorld Real Estate, LLC, John Parker Development, LLC, ACCIP Development, LLC, The Kostur Group, LLC, Productivity Advantage, Inc., Sentry Aviation Services, Inc., Sentry Services, L.L.C., WAULECO, Inc., Sentry Insurance Holding Company, and Sentry Insurance Foundation, Inc.

III. The Property Casualty Insurance Market and Challenges Facing SIAMCO

Q: Thank you for that overview. I'd like to now move to the proposed mutual holding company conversion. First, what caused SIAMCO to begin considering the possibility of restructuring the Company?

A: SIAMCO's Board of Directors and management regularly evaluate the Company's strategic position and try to position it as a competitive, strong insurer capable of meeting its customers' insurance needs in an environment of rapid change. The changes the Board of Directors and management see include new underwriting methodologies in the property casualty insurance space, new sources of data and new tools with which insurers can analyze and act on that data, new technologies to prevent or mitigate losses and claims and protect our policyholders and the public, and new distribution channels for insurance products.

In broad terms, the Board of Directors believes that companies that have the structural, financial and strategic flexibility to respond quickly and decisively to changes (including those I just described and many more that we cannot yet anticipate) will be strong and competitive in the property casualty insurance industry of the future. The Board of Directors also believes that the current structure of SIAMCO limits the Company's flexibility in the face of such changes and hinders its ability to grow and diversify its business through acquisitions or investments.

Q: Tell us more about how SIAMCO's current structure limits its flexibility and ability to adapt to the rapidly changing property casualty insurance marketplace.

A: There are four primary challenges that SIAMCO's Board of Directors see arising from its current structure. First, SIAMCO's mutual insurance company structure limits its ability to sell new products while maintaining its mutuality. Second, SIAMCO has limited ability to acquire and grow ancillary and non-insurance subsidiaries. Third, SIAMCO's ability to pursue mergers and acquisitions is constrained by its current structure. Finally, SIAMCO's access to capital is restricted by its current structure.

Q: Can you tell us how SIAMCO's mutual insurance company strategy limits its ability to grow while remaining distinctively "mutual"?

A: For practical and regulatory reasons, it is often advisable or necessary to issue new and innovative products from one or more of SIAMCO's stock insurance company subsidiaries rather than from SIAMCO itself. The policyholders of these stock subsidiaries are not eligible for membership in SIAMCO in its current mutual insurance company structure.

Q: What restrictions does SIAMCO's mutual insurance company place on its ability to acquire and grow ancillary or non-insurance subsidiaries?

A: Investment restrictions applicable to SIAMCO limit the extent to which SIAMCO can invest in ancillary or non-insurance subsidiaries. So long as the Sentry group's ultimate parent is a mutual insurer, the entire enterprise is subject to these restrictions, which is

not the case for SIAMCO's stock insurer competitors, who are free to use upstream stock holding companies to acquire and grow ancillary and non-insurance subsidiaries.

Q: How does SIAMCO's mutual insurance company structure hamper its ability to pursue mergers and acquisitions?

A: SIAMCO's ability to pursue certain mergers and acquisitions is hampered by its mutual company structure. More specifically, mutual insurers cannot merge with other mutual insurers without one of the two entities ceasing to exist. This prevents a mutual insurer like SIAMCO from acquiring other mutual insurers in ways that allow for efficiencies of scale and operations while maintaining both insurers' goodwill, licenses, and brands. Additionally, mutual insurers like SIAMCO have limited options to raise capital for possible mergers and acquisitions, and cannot use stock as "currency" for acquisitions.

Q: How does SIAMCO's mutual insurance company structure limit its access to capital?

A: Mutual insurers cannot issue stock to raise capital to grow the enterprise. There are ways for mutual insurance companies to raise capital, but they are more limited than those available to stock insurers or mutual holding companies. Mutual insurers can raise capital through profitable operations over time. They can also sell mutual bonds or contribution notes, but these securities are an expensive form of financing because of the repayment terms imposed by applicable law, and because they can only be sold in private placements. Finally, mutual insurers can sell the stock of a downstream holding company; however, this stock does not reflect the enterprise value of the mutual insurer itself, only of the downstream holding company and its subsidiaries.

IV. Advantages of the Proposed Conversion

Q: Thank you for that explanation. I next want to address how the proposed mutual holding company conversion would help SIAMCO to respond to the marketplace and mitigate or eliminate the challenges you've just described. Let's address each challenge in turn.

A: Sure.

Q: Let's start with the first challenge, about new products and diluting mutuality; can you tell me how the proposed conversion would address this challenge?

A: Over time, the Sentry group of companies have written a large and growing variety of insurance policies, many of which have, for practical or regulatory reasons, been issued from stock insurance company subsidiaries, which are, specifically, Dairyland Insurance Company, Middlesex Insurance Company, Patriot General Insurance Company, Peak Property and Casualty Insurance Corporation, Sentry Casualty Company, Sentry Select Insurance Company, and Viking Insurance Company of Wisconsin.

As a mutual insurance company, SIAMCO has a singular focus on the interests of its policyholders. SIAMCO's management team and Board of Directors believe that this is a source of strength, and have no desire or intention to move away from SIAMCO's status as a mutual insurance company. Wisconsin law permits policyholders of downstream stock insurers to be admitted as members of a mutual holding company. Restructuring as a mutual holding company is therefore a means for SIAMCO to continue to expand its product offerings and implement new underwriting methodologies through stock subsidiaries, while continuing its 116-year tradition of extending mutual company member status to the purchasers of Sentry-branded property casualty products.

Q: Moving to the second challenge, how would the proposed conversion help SIAMCO acquire and grow ancillary and non-insurance subsidiaries?

A: Under Wisconsin law, SIAMCO is subject to limits on the amount it can invest in ancillary and non-insurance subsidiaries. SIAMCO's proposed new mutual holding company would be able to use its intermediate stock holding company to acquire and grow ancillary or non-insurance entities without being subjected to the regulatory restrictions that currently limit SIAMCO's ability to take advantage of these strategic opportunities. Any distributions to the intermediate stock holding company from the stock insurer into which SIAMCO is converted in the proposed conversion (which I'll call "Converted SIAMCO") or its insurance company subsidiaries would remain subject to regulatory scrutiny, including rules regarding extraordinary dividends, and to independent review by industry rating agencies.

Q: Next, how would the proposed conversion help SIAMCO grow its business through mergers or acquisitions?

A: SIAMCO's mutual insurance company structure makes mergers with other mutual insurers more challenging and less advantageous than they would be under a mutual holding company structure. A mutual holding company has a broader range of options for pursuing acquisitions that preserve the separate identity, licenses, brand, and goodwill of other mutual insurers being acquired. Specifically, a mutual holding company can acquire mutual insurance companies through a sponsored conversion whereby the acquired mutual insurance company's policyholders become members of the acquiring mutual holding company. This results in the converted mutual insurance company becoming a stock subsidiary, while retaining its identity, licenses, brand, and goodwill. This is in addition to the ability to acquire stock insurers as subsidiaries, which SIAMCO already has, and has exercised. Additionally, two existing mutual holding companies can merge, without affecting the identity of downstream insurance companies in either entity. Sponsored conversions and mutual holding company mergers are not available to SIAMCO as a mutual insurance company, but will be available after the proposed conversion.

Additionally, the mutual holding company structure also presents multiple options to raise capital for acquisition purposes that are not available to SIAMCO as a mutual insurer, or to issue stock (after receipt of the requisite approvals) from the intermediate stock holding company to use as currency for acquisitions.

Q: That leads to my next question. Please give us more detail on how the proposed conversion would provide SIAMCO with enhanced access to capital.

A: The mutual holding company would be able to access the private and public capital markets with voting or nonvoting stock or debt securities issued by its intermediate stock holding company or by Converted SIAMCO, subject to approval from the Wisconsin Office of the Commissioner of Insurance, which I will call “OCI”, and from the members of the mutual holding company, in the case of voting stock, and subject to the requirement that the mutual holding company own at all times at least 51% of the voting stock of Converted SIAMCO (directly or indirectly). The proceeds of such securities issuance could be used to purchase other companies, to invest in other strategic growth opportunities, or to support the growth of the insurance business conducted by its subsidiaries.

Q: It sounds like SIAMCO will have a lot of new opportunities after the proposed conversion. How will SIAMCO’s policyholders be protected during and after the proposed conversion?

A: The Plan and Wisconsin law provide a number of protections to SIAMCO’s policyholders.

Q: Let’s explore those protections. Can you describe how policyholders’ insurance policies will be protected?

A: Yes. The policy rights and benefits that SIAMCO’s policyholders currently enjoy will not be reduced or altered in any way as a result of the conversion, except that they will be provided by a stock company owned by a mutual holding company, instead of by a mutual company. Policyholders will have the same coverage, premiums, and other contract terms after the proposed conversion that they have today.

Q: Will SIAMCO change its corporate governance structure as a result of the proposed conversion? Could those changes harm policyholders?

A: The corporate governance of SIAMCO and the Sentry group of companies are not anticipated to change as a result of the conversion, except that members will own the mutual holding company, and the ultimate governance of the group will shift from the Board of Directors of SIAMCO to the Board of Directors of the mutual holding company. The same directors will serve on the new mutual holding company’s Board of Directors that currently serve on SIAMCO’s board. Additionally, the officers of SIAMCO will continue in their same roles with the new mutual holding company.

Q: Will SIAMCO continue to be subject to state regulation after the conversion?

A: Yes. SIAMCO will continue to be regulated in the same manner by the Wisconsin Commissioner of Insurance after the proposed conversion as it is regulated today. OCI will still provide oversight of the Company's financial position and ability to meet its obligations to policyholders today and in the future.

Q: What about the new mutual holding company? Is it subject to state regulation?

A: The mutual holding company will be regulated by the Wisconsin Commissioner of Insurance. Under Wisconsin law, the mutual holding company must at all times maintain direct or indirect ownership and control of at least 51% of the voting stock of Converted SIAMCO. The mutual holding company cannot amend its articles of incorporation without the prior approval of its members, pursuant to its Articles of Incorporation. The mutual holding company must file any such amendment with OCI within 60 days after adoption, and must also file any changes to its Bylaws. The mutual holding company is prohibited from directly engaging in the business of insurance, and must conduct such business only through licensed stock insurance company subsidiaries. Wisconsin law also prohibits mutual holding companies from delegating to any person the authority to exercise management control of the holding company or any of its major corporate functions to the exclusion of its Board of Directors, so members always retain ultimate control of the mutual holding company. We currently anticipate entering into a stipulation and order with OCI to the effect that the mutual holding company will not pay any dividends without prior approval from the Wisconsin Commissioner of Insurance. Finally, mutual holding companies are prohibited from being acquired, demutualizing, dissolving, or liquidating without the prior approval of the Wisconsin Commissioner of Insurance or a Wisconsin court having proper jurisdiction.

Q: Will SIAMCO's policyholders retain their control over the Company?

A: SIAMCO's policyholders will initially retain their effective voting control over the enterprise through their ownership and control of the mutual holding company, which will indirectly own and control Converted SIAMCO. Eventually, as policyholders of Dairyland Insurance Company, Middlesex Insurance Company, Patriot General Insurance Company, Peak Property and Casualty Insurance Corporation, Sentry Casualty Company, Sentry Select Insurance Company, Viking Insurance Company of Wisconsin become members of the mutual holding company in 2021 pursuant to the Plan, voting control will shift away from SIAMCO policyholders, but it will always remain with the members of the mutual holding company.

Q: Will Converted SIAMCO or the Intermediate Stock Holding Company be able to sell voting stock to outside investors?

A: The intermediate stock holding company and Converted SIAMCO will be prohibited from selling any voting stock without the prior approval of OCI and approval from the members of the mutual holding company. SIAMCO has no plans to sell stock, and the Plan does not provide for the sale of stock.

Q: Will any stock be issued to SIAMCO's officers or directors as a result of the mutual holding company conversion?

A: No, no stock will be issued to any of SIAMCO's officers or directors as a result of the mutual holding company conversion.

Q: Does the proposed restructuring have any income tax consequences for SIAMCO, the mutual holding company, Converted SIAMCO or any policyholders?

A: No. As a condition to finalizing the mutual holding company conversion, SIAMCO must obtain a private letter ruling from the IRS or an opinion of our outside legal counsel to the effect that neither SIAMCO, nor the mutual holding company, nor Converted SIAMCO, nor any policyholders will recognize gain or loss for federal income tax purposes as a result of the proposed conversion.

Q: Will the proposed conversion trigger any obligation for SIAMCO or the mutual holding company to register the membership interests in the mutual holding company under any federal securities laws?

A: No. As a condition to finalizing the proposed conversion, SIAMCO must obtain a “no-action letter” from the Securities and Exchange Commission or an opinion of our outside legal counsel that registration is not required under federal securities laws.

V. Alternatives to the Proposed Conversion

Q: You’ve described the challenges facing SIAMCO, and how the proposed conversion will help SIAMCO to address these challenges. However, the proposed conversion was not the only strategic alternative available to the Board of Directors. Can you tell me what other alternatives were considered?

A: During the Board’s consideration of the proposed conversion to a mutual holding company structure, two principal alternative strategies were identified. The first was to preserve the status quo and remain a mutual insurance company, and the second was to undergo a full demutualization.

Q: Why did the Board of Directors reject preserving the status quo?

A: The Board has also determined that it is in the best interests of SIAMCO and its policyholders to be able to extend mutual member status to the purchasers of insurance policies underwritten by Dairyland Insurance Company, Middlesex Insurance Company, Patriot General Insurance Company, Peak Property and Casualty Insurance Corporation, Sentry Casualty Company, Sentry Select Insurance Company, and Viking Insurance Company of Wisconsin. While SIAMCO’s current mutual insurance company structure provides the benefits of mutuality to its current members, and allows for organic growth through insurance operations, continuing to operate as a mutual insurance company could place SIAMCO at a disadvantage in the marketplace and would restrict SIAMCO’s ability to grow strategically. The Board of Directors has concluded that it is increasingly important to have structural, financial, and strategic flexibility in the future to respond to

changes in the property casualty insurance marketplace, including pursuing potential mergers and acquisitions and making investments in new technology, new distribution channels, new insurance products, and synergistic non-insurance businesses. The Board of Directors has determined that remaining a mutual insurance company will prevent SIAMCO and the Sentry organization from realizing their full potential, especially compared to competitors who are not mutual insurance companies.

Q: And why did the Board of Directors reject a full demutualization?

A: A demutualization would convert SIAMCO from a mutual insurance company, and would not create a new mutual holding company. In essence, it would mean SIAMCO would cease to be owned by its policyholders, and would become owned by shareholders.

The Board of Directors identified some potential benefits of demutualization to current SIAMCO members during their consideration of this alternative. SIAMCO policyholders would receive cash, stock or other consideration in exchange for giving up their rights as members of a mutual company. Demutualized SIAMCO could use its stock as currency for acquisitions, and could sell additional stock if necessary to raise additional capital. Finally, the value of SIAMCO after demutualization might be higher than it would be after reorganizing to a mutual holding company structure, insofar as the mutual holding company will always have to own, directly or indirectly, at least 51% of the shares of Converted SIAMCO. Investors would likely place a lower value on the stock of a downstream subsidiary of a mutual holding company as a result of their inability to acquire a controlling interest.

Despite these potential benefits, the Board of Directors has concluded that maintaining our mutuality is important to preserve the Company's focus on the best interests of its policyholders. Additionally, the Board of Directors believes it is important to retain and enhance the Company's ability to merge with, acquire or affiliate with other mutual entities in a way that preserves the separate insurance operations and brands of both SIAMCO and such other mutual entities. Demutualization is inconsistent with both of these important goals; it would terminate the mutual rights of SIAMCO's policyholders, and significantly reduce SIAMCO's ability to acquire other mutual insurers.

There are also a number of other disadvantages of demutualization as a strategy for SIAMCO.

First, demutualization may be an inefficient way to raise capital. Under Wisconsin law, SIAMCO would be required to distribute cash, stock or other consideration to current and former (within the previous five years) policyholders with an aggregate value up to 100% of all premiums paid by such policyholders, with interest at the legal rate, compounded annually. While this could be viewed as a benefit to those policyholders, the actual value of the distributed stock could be substantially depressed if there is no public trading market for the stock, or if demand to sell the stock significantly exceeds the demand to purchase it.

Second, demutualization would subject SIAMCO to future demands of investors focused on short term market performance, rather than the Company's present focus on long term objectives benefitting current and future policyholders.

Third, a demutualization could result in SIAMCO's policyholders losing voting control over the enterprise. Although stock would initially be distributed to former members of SIAMCO, who would continue to have voting rights, persons besides former members could acquire sufficient stock holdings to become the controlling shareholders.

Finally, in the Board of Directors' view, demutualization would be more difficult to structure, more time consuming, and more expensive than the proposed conversion.

Q: In light of the deliberations you've described, has the Board of Directors of SIAMCO made a recommendation to the policyholders for their vote?

A: Yes. The Board of Directors unanimously adopted the Plan and the transactions contemplated thereby. The Board has recommended that all eligible members vote yes on the proposed conversion.

VI. Mechanics of the Proposed Conversion

Q: Now that we have identified why the Board of Directors approved the proposed conversion and recommended that members vote for it, I'd like to turn to the details of the conversion itself. Are you familiar with how the proposed conversion will be implemented from a legal and corporate perspective?

A: Yes, I am.

Q: Can you summarize the mechanics of the proposed conversion?

A: There are a number of actions that will occur in conjunction with the proposed conversion.

First, on or before the effective date of the proposed conversion, SIAMCO will incorporate a new intermediate stock holding company, Sentry Holdings, Inc., which I'm going to call "SHI" for simplicity, as a Wisconsin business corporation under Chapter 180 of the Wisconsin statutes.

Then, on the effective date, a number of things will occur:

- Sentry Mutual Holding Company, which I'm going to call "SMHC", will be incorporated as a Wisconsin mutual holding company under Chapter 644 of the Wisconsin statutes.
- SIAMCO will become a Wisconsin stock insurance company (that is, Converted SIAMCO).

- The membership interests and rights in surplus of SIAMCO will be extinguished, and the members of SIAMCO will become members of SMHC, with such rights and privileges, including membership interests and rights in surplus, as are provided for by law and the Articles of Incorporation and Bylaws of SMHC.
- SHI will be issued 100% of the initial shares of voting stock of Converted SIAMCO.
- SMHC will be issued 100% of the initial shares of voting stock of SHI.
- SIAMCO will transfer 100% of the limited liability company membership interests or shares of voting stock (as applicable) of the following SIAMCO subsidiaries to SHI: Sentry Services, L.L.C.; Productivity Advantage, Inc.; Sentry Aviation Services, Inc.; Sentry Insurance Holding Company; and WAULECO, Inc.
- SIAMCO will transfer 100% of the limited liability company membership interests of the following direct or indirect subsidiaries of SIAMCO to SHI, which will transfer such ownership interests to SMHC: John Parker Development, LLC; ACCIP Development, LLC; SentryWorld Real Estate, LLC; and The Kostur Group, LLC.

Converted SIAMCO will be considered to have been organized at the time SIAMCO was organized, so that the corporate existence of SIAMCO will continue without interruption in all respects and will be unaffected by the conversion.

The Articles of Incorporation and Bylaws of SIAMCO shall, without further deed or act, be amended and restated as the “Second Amended and Restated Articles of Incorporation” and “Amended and Restated Bylaws” of Converted SIAMCO, as set forth in Exhibits B and C, respectively, to the Plan on file with OCI. These revised Articles of Incorporation and Bylaws will supersede in their entirety the current Articles of Incorporation and Bylaws of SIAMCO. On the effective date, the Articles of Incorporation and Bylaws of SMHC shall be as set forth in Exhibits D and E, respectively, to the Plan on file with OCI, respectively, and the Articles of Incorporation and Bylaws of SHI shall be as set forth in Exhibits F and G, respectively, to the Plan on file with OCI, respectively.

The conversion of SIAMCO into a stock insurance company subsidiary of SMHC will in no way annul, modify or change any of SIAMCO’s existing suits, rights, property interests, contracts or liabilities. Converted SIAMCO will exercise all of the rights and powers and perform all of the duties conferred or imposed by law upon insurers writing the classes of insurance written by SIAMCO before the effective date of the conversion, and shall retain the rights and contracts existing prior to the effective date, except with respect to membership interests and rights in surplus that are extinguished and replaced by membership interests and rights in surplus of SMHC.

Q: Will policyholders of any SIAMCO subsidiary insurers become members of the mutual holding company?

A: Yes. The Plan provides for policyholders of Dairyland Insurance Company, Middlesex Insurance Company, Patriot General Insurance Company, Peak Property and Casualty Insurance Corporation, Sentry Casualty Company, Sentry Select Insurance Company, and Viking Insurance Company of Wisconsin to become members of the new mutual holding company.

Q: When and how will that take place?

A: Under the Plan, persons acquiring or renewing a policy issued by Dairyland Insurance Company, Middlesex Insurance Company, Patriot General Insurance Company, Peak Property and Casualty Insurance Corporation, Sentry Casualty Company, Sentry Select Insurance Company, and Viking Insurance Company of Wisconsin policies after the effective date of the conversion will become members at such time as the policy is issued or renewed.

VII. Compliance with Legal and Corporate Requirements

Q: Thank you. I'd like to move to discuss the procedures SIAMCO has followed and will follow to complete the conversion. What was the first step in that process?

A: The first step was for the Board of Directors of SIAMCO to adopt the Plan.

Q: When did the Board of Directors do that?

A: The Board of Directors adopted the Plan on September 23, 2020.

Q: Is that Plan the same plan that is the subject of today's hearing?

A: Yes, it is.

Q: What was the next required step?

A: SIAMCO filed the Plan with OCI, along with various other documents required under the mutual holding company laws in Chapter 644 of the Wisconsin Statutes. The Plan was filed on September 23, 2020, the same day it was adopted by SIAMCO's Board of Directors.

Q: What is the next required step?

A: The next step is for the Wisconsin Commissioner of Insurance to hold a hearing on the Plan.

Q: That is today's hearing, right?

A: Yes, that's correct.

Q: Did SIAMCO have any other statutory obligations with respect to today's hearing?

A: Yes. SIAMCO was required to mail a notice of this hearing and the public hearing immediately following it to each person who was a policyholder of SIAMCO on the date of the Board of Directors resolution approving the Plan, which was September 23, 2020. SIAMCO was also required to mail notice of today's hearings to the insurance commissioner of every jurisdiction in which SIAMCO is authorized to do business.

Q: When was SIAMCO required to mail these notices?

A: Not more than 60 days and not less than 10 days before today's hearing.

Q: When did SIAMCO mail these notices?

A: Our proxy solicitation agent, AST Fund Solutions, mailed notices to our policyholders between October 5 and October 7, 2020. SIAMCO's legal counsel delivered notices to the relevant insurance commissioners on October 9, 2020.

Q: What had to be included in the mailings?

A: The mailings were required to include notice of this hearing as prepared by OCI, a copy of the Plan, and information regarding the Plan approved by OCI, which in this case constitutes a Policyholder Information Statement with a number of exhibits, which is on file with OCI and is part of the record for today's hearing.

Q: Were all of those items included in the mailings?

A: Yes. In addition, SIAMCO included a letter to its members from Pete McPartland, who is Chairman, President, and Chief Executive Officer of the Company, a proxy card, and a "Frequently Asked Questions" document, all of which were reviewed and approved by OCI.

Q: Assuming the Plan is approved by the Wisconsin Commissioner of Insurance after today's hearings, what happens next?

A: The Plan must be approved by a vote of two-thirds of the eligible members of SIAMCO present in person or by proxy and voting at an annual or special meeting held for that purpose.

Q: Has a special meeting been set for that vote?

A: Yes. The Board of Directors of SIAMCO, at its board meeting on September 23, 2020, unanimously called for a special meeting of members to take place at 9:00 a.m. local time on December 2, 2020, for the purpose of voting on the Plan and the proposed conversion.

Q: Who is eligible to vote at the December 2, 2020 special meeting of SIAMCO's policyholders?

A: For statutory purposes, anyone who was a member on the date of the Board of Directors resolutions approving the Plan and who was still a member on the record date established by the Board for the special meeting is entitled to notice of, and to vote at, the special meeting. For purposes of SIAMCO's current Bylaws, anyone who was a member on the record date is entitled to notice of, and to vote at, the special meeting.

Q: Did the Board of Directors set a record date for the December 2, 2020 special meeting of SIAMCO policyholders?

A: Yes, during the September 23, 2020 board meeting, the Board of Directors set September 23, 2020 as the record date.

Q: That means the record date and the resolution date are the same?

A: Yes, that's correct.

Q: What are the timing requirements for providing notice of the December 2, 2020 special meeting to eligible members?

A: By law, notice must be mailed no later than 20 days before the special meeting.

Q: When did SIAMCO mail these notices of the special meeting?

A: SIAMCO mailed these notices in the same mailing that was sent to give notice of today's hearings, so the mailings were sent between October 5 and October 7, 2020.

Q: SIAMCO combined the statutory mailing and the mailing of notice of the special meeting?

A: Yes, that's correct.

Q: So, what was mailed to the policyholders in October?

A: Each policyholder was mailed a packet containing a letter from SIAMCO's Chairman, Chief Executive Officer, and President, a proxy card and prepaid return envelope, a notice of today's hearings, notice of the December 2, 2020 special meeting, a Frequently Asked Questions document, and a Policyholder Information Statement with various exhibits, including a copy of the Plan, and all of the exhibits to the Plan.

Q: If the eligible members of SIAMCO approve the Plan at the December 2, 2020 special meeting, what is required thereafter?

A: Following the meeting, appropriate officers of SIAMCO will execute affidavits and/or certificates concerning the member vote, and will execute the articles of incorporation and bylaws of SMHC, SHI, and Converted SIAMCO. Thereafter, upon satisfaction of all

conditions precedent to finalizing the conversion, SIAMCO will file these documents with OCI and ask that a new certificate of authority for Converted SIAMCO and a certificate of incorporation for SMHC be issued. The day these two certificates are issued will be the effective date of the conversion, and the actions I described earlier will all take place.

VIII. Satisfaction of Statutory Criteria

Q: Are you aware of the statutory requirement that the proposed conversion be approved by the Wisconsin Commissioner of Insurance before it can go into effect?

A: Yes, I am aware.

Q: And are you familiar with the findings that the Wisconsin Commissioner of Insurance must make under Chapter 644 of the Wisconsin Statutes as a basis for approving the Plan?

A: Yes.

Q: The first statutory requirement is that the proposed conversion must not violate the law. Do you think the proposed conversion violates the law?

A: No, I do not. As I just explained, SIAMCO has carefully complied, and will continue to carefully comply, with all statutory requirements and corporate procedures applicable to the proposed conversion.

Q: Can you reiterate the steps SIAMCO has taken to comply with the law in connection with the proposed restructuring?

A: First, the Board of Directors of SIAMCO unanimously adopted the Plan at its board meeting held on September 23, 2020, and filed the Plan and other required documents with OCI as required under Chapter 644 of the Wisconsin Statutes.

Second, the Board of Directors scheduled a special meeting of members to take place on December 2, 2020 for the purpose of voting on the Plan, and established September 23, 2020 as the record date for determining which members are entitled to receive notice of, and to vote at, that special meeting.

Third, SIAMCO's current Articles of Incorporation require any amendments to such Articles to be approved by not less than two-thirds of the members voting at an annual or special meeting. While it may be the case that this corporate requirement is overridden by the statutory requirement that the Plan—which includes amendments to SIAMCO's Articles of Incorporation which take effect by operation of law in connection with the conversion—be approved by a simple majority of the Company's members. To avoid any uncertainty and to offer SIAMCO's members maximum protection, the Board of Directors decided to subject the Plan's approval to the higher voting threshold imposed by SIAMCO's current Articles of Incorporation. That means that the Plan will only become effective, and the proposed conversion will only take place, if approved by two-

thirds of SIAMCO's eligible members who are present and voting, in person or by proxy, at the December 2, 2020 special meeting.

Fourth, acting through an independent proxy solicitation firm, AST Fund Solutions, SIAMCO mailed the required notice of today's hearings and the special meeting of members to all eligible members of SIAMCO and to the insurance commissioners of every jurisdiction in which SIAMCO is licensed to do business. These notices were prepared by OCI, in the case of the notice of today's hearings, or reviewed by OCI, in the case of the notice of special meeting, before they were mailed. As authorized by Section 644.07(8) of the Wisconsin Statutes, both notices were sent to SIAMCO's eligible members in a single mailing sent from October 5 through October 7, 2020. The notices were delivered to the relevant insurance commissioners on October 9, 2020. In each case, the notices complied with the notice requirements of both applicable Wisconsin law and the current Articles of Incorporation and Bylaws of SIAMCO.

Fifth, SIAMCO included with this mailing a Policyholder Information Statement that was reviewed and approved by OCI prior to mailing. The Policyholder Information Statement included copies of the Plan and each of its exhibits, and a summary of the Plan describing its effects, the Board of Directors' considerations in approving the Plan, and the conditions to closing on the Plan, among other information.

Finally, SIAMCO's independent proxy solicitation firm will receive and tabulate all proxies and ballots submitted in connection with the Plan pursuant to voting procedures established by the Company and approved by OCI. The proxy solicitation firm will certify the results of the member vote to SIAMCO, and SIAMCO will prepare and file an affidavit with OCI attesting to the same.

Q: The second statutory requirement is that the Plan be fair and equitable to SIAMCO's policyholders. Do you think the Plan is fair and equitable to the Company's policyholders?

A: Yes, I believe that the Plan is fair and equitable to SIAMCO's policyholders.

Q: Can you tell us the basis for your opinion in this regard?

A: First, the contractual rights and obligations of SIAMCO's policyholders—and by this I mean the premiums, policy terms, insurance benefits, and services provided to or required of SIAMCO's policyholders under their SIAMCO policies—will not change as a result of the Plan, except that after the effective date those rights and obligations will be provided or required by Converted SIAMCO, a stock company, rather than SIAMCO as a mutual company.

Second, while the current membership rights in SIAMCO enjoyed by SIAMCO members will be extinguished as a result of the proposed conversion, those membership rights will be replaced by comparable membership rights in SMHC, the mutual holding company created as a result of the proposed conversion. SMHC will own 100% of the stock of SHI, which will in turn own 100% of the stock of Converted SIAMCO, the successor to SIAMCO.

Now, as I've discussed before, policyholders of seven of the existing stock P&C insurance company subsidiaries of SIAMCO—Dairyland Insurance Company, Middlesex Insurance Company, Patriot General Insurance Company, Peak Property and Casualty Insurance Corporation, Sentry Casualty Company, Sentry Select Insurance Company, and Viking Insurance Company of Wisconsin—will become members of SMHC after the proposed conversion. These policyholders will have the rights and privileges available under Wisconsin law and SMHC's Articles of Incorporation and Bylaws. While this change will dilute the voting power of existing SIAMCO policyholders, changes in the voting power held by any single member of SIAMCO (or any other mutual insurer) are always subject to change through any change in the number of policies in effect. In my opinion, the Plan and the transactions contemplated along with it represent a fair and equitable exchange of rights and benefits for the policyholder members of SIAMCO.

Finally, I note that the Plan will not go into effect unless it is approved by not less than two-thirds of the eligible members present and voting at a special meeting of SIAMCO's members duly called for such purpose. The notice given to eligible members of this special meeting included a detailed Policyholder Information Statement—which was reviewed and approved by OCI—explaining the Plan, the Board's reasons for adopting it, and the effects of the proposed conversion on SIAMCO's members. This Policyholder Information Statement sets forth in detail voting considerations, risks, alternatives and other matters reasonably to be considered by SIAMCO's eligible members in deciding if and how to vote on the Plan.

Q: The third and final statutory requirement is that the proposed conversion not be contrary to the interests of the policyholders or of the general public. In your view, is SIAMCO's proposed conversion contrary to the interests of the policyholders of SIAMCO or the general public?

A: No.

Q: Again, can you tell us the basis for your opinion in this regard?

A: Yes, there are several grounds for my opinion. As Todd Schroeder will describe in more detail, the proposed conversion is not expected to materially affect the Company's financial strength or ability to pay policyholder claims.

Additionally, I submit that the proposed conversion is not only *not contrary* to the interests of SIAMCO's policyholders or the general public, it is in the *best interests* of both SIAMCO's policyholders and the general public. SIAMCO's Board of Directors believes that the most successful insurance organizations in the future will be those with the structural, financial and strategic flexibility to act decisively and quickly in response to changes in the insurance marketplace. That flexibility is critical to achieving sustainable, profitable, long-term growth, and in today's highly competitive insurance marketplace, that is the best means for ensuring the future safety and soundness of the Sentry group of companies. That benefits not only SIAMCO's policyholder members, but also the policyholders of our subsidiaries, our employees and their families, our agents and other partners, and the communities in which we live and work

IX. Closing Remarks

Q: Thank you, Mr. Kobussen. Would you like to make any closing remarks?

A: While I understand we have one more witness yet to testify, I want to take this time to thank the Wisconsin Commissioner of Insurance, and all of his staff, for their thoughtfulness, hard work, and diligence throughout this process. SIAMCO and the Sentry group of companies deeply appreciate the dedication and professionalism you have exhibited throughout this process, and which is entirely consistent with the manner in which you exercise your authority as regulator of the Wisconsin insurance industry. Thank you.