

BEFORE THE INSURANCE COMMISSIONER  
OF THE  
COMMONWEALTH OF PENNSYLVANIA

In Re:	:	Pursuant to Sections 1401, 1402, and
	:	1403 of the Insurance Holding
Application of AIA Holdings, Inc. in	:	Companies Act, Article XIV of the
Support of the Request for Approval to	:	Insurance Company Law of 1921,
Acquire Control of Allegheny Casualty	:	Act of May 17, 1921, P.L. 682,
Company	:	<u>as amended</u> , 40 P.S. §§991.1401,
	:	991.1402, and 991.1403
	:	
	:	Order No. ID-RC-07-22

DECISION AND ORDER

AND NOW, on this 28<sup>th</sup> day of June, 2007, Randolph L. Rohrbaugh, Acting Insurance Commissioner of the Commonwealth of Pennsylvania (“Commissioner”), hereby makes the following Decision and Order:

Pursuant to the Insurance Company Law and the Insurance Holding Company Act and in consideration of the documents, presentations and reports received, as well as other inquiries and studies as permitted by law, the Commissioner hereby makes the following findings of fact:

FINDINGS OF FACT

Identity of Parties

1. Allegheny Casualty Company (“Allegheny Casualty”) is a stock casualty insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Meadville, Pennsylvania.
2. The Chestnut Group (“Chestnut Group”) an insurance holding company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Meadville, Pennsylvania. Chestnut Group directly holds 100% of the issued and outstanding capital stock of Allegheny Casualty.

3. There are seventeen current shareholders of Chestnut Group capital stock (“Chestnut Shareholders”). No Chestnut Shareholder controls 10% or more of the issued and outstanding capital stock of Chestnut Group.
4. AIA Holdings, Inc. (“AIA”) is business entity organized under the laws of the state of Delaware with its principal place of business located in Calabasas, California.
5. Francis L. Mitterhoff (“Mitterhoff”) is an individual with his principal place of business located in Newark, New Jersey. Mitterhoff directly holds 33.33% of the capital stock of AIA.
6. Brian N. Nairin (“Nairin”) is an individual with his principal place of business located in Calabasas, California. Nairin directly holds 33.33% of the capital stock of AIA.
7. Norman R. Konvitz (“Konvitz”) is an individual with his principal place of business located in Newark, New Jersey. Konvitz directly holds 33.33% of the capital stock of AIA.
8. Mitterhoff, Nairin and Konvitz are the only controlling persons of AIA.

#### Acquisition Filing

9. The Insurance Holding Companies Act, Article XIV of the Insurance Company Law of 1921, Act of May 17, 1992, P.L. 682, as amended, 40 P.S. §§991.1401 et seq. (“Insurance Holding Companies Act”), provides that any transaction involving control of a domestic insurer must be filed with the Commissioner for approval or disapproval.
10. On May 14, 2007, the Insurance Department of the Commonwealth of Pennsylvania (“Department”) received an initial application (which together with all material received subsequently is collectively referenced as “Application”) from AIA for approval to acquire control of Allegheny Casualty.
11. The Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.

#### Department Procedures

12. On May 26, 2007, the Department published notice in the *Pennsylvania Bulletin* that the Application was submitted by AIA and such notice invited interested persons to submit comments to the Department regarding the Application for a thirty day period, ending June 25, 2007.

13. The Department received no comments regarding the Application during the thirty day comment period.

#### Description of the Proposed Acquisition

14. As described in the Application, on April 2, 2007, AIA and Allegheny Casualty, Chestnut Group and Chestnut Shareholders entered into a Stock Purchase Agreement (“Agreement”) whereby AIA would acquire 79.67369% of the issued and outstanding voting stock of Chestnut Group.
15. As described in the Application and pursuant to the Agreement, AIA would acquire the Chestnut Group voting stock held by 14 of the 17 Chestnut Shareholders.
16. As described in the Application and pursuant to the Agreement, the purchase price would be 79.67369% of the adjusted Capital and Surplus of the audited Consolidated Statutory Statements of Admitted Assets, Liability and Capital and Surplus of Chestnut, as of December 31, 2006.

#### Standards for Review

17. Section 1402(f)(1) of the Insurance Holding Companies Act establishes the standards for approval of an application for a change in control of a domestic insurer.
18. The application for a change in control must be approved unless the Commissioner finds any one of certain enumerated conditions to be present.

#### Licensing Requirements

19. When analyzing an application for change in control under Section 1402 of the Insurance Holding Companies Act, the Commissioner reviews the requirements for continued licensure of the domestic insurer being acquired.
20. The classes of insurance for which an insurance company may be incorporated and become licensed to write are set out in Section 202 of the Insurance Company Law (40 P.S. §382).
21. The minimum paid up capital stock and paid in surplus required of a stock insurer for each class of insurance is set out in Section 206 of the Insurance Company Law (40 P.S. §386).
22. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), Allegheny Casualty is required to maintain a minimum paid up capital stock of \$750,000 to write the classes of insurance for which it is presently licensed.

23. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), Allegheny Casualty is required to maintain a minimum paid in surplus of \$375,000 to write the classes of insurance for which it is presently licensed.
24. Upon completion of the transaction, Allegheny Casualty will have paid up capital in an amount that will satisfy the statutory minimum required of a stock casualty insurance company licensed to write the classes of authority currently held by Allegheny Casualty.
25. Upon completion of the transaction, Allegheny Casualty will have paid in surplus in an amount that will satisfy the statutory minimum required of a stock casualty insurance company licensed to write the classes of authority currently held by Allegheny Casualty.

#### Competitive Impact

26. The acquisition of control of Allegheny Casualty is subject to review and analysis under Section 1403 of the Insurance Holding Companies Act to determine whether the effect of the acquisition of control would be to substantially lessen competition or tend to create a monopoly in the Commonwealth.
27. The acquisition of control of Allegheny Casualty will not lessen competition or tend to create a monopoly in the Commonwealth because the market share of AIA, as stated in the Application, does not exceed the market share levels established in Section 1403.

#### Financial Condition of AIA Holdings

28. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the financial condition of the acquiring persons.
29. The Department has reviewed the income tax returns of AIA, Mitterhoff, Nairin and Konvitz.
30. The financial condition of AIA would not pose any impediments to the change in control nor jeopardize the financial condition of Allegheny Casualty.

### Plans for the Acquired Insurer

31. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the plans or proposals which the acquiring party has for the insurer.
32. As provided in the Application, AIA has disclosed that it intends to make no changes to the business plan of Allegheny Casualty.

### Management

33. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the competence, experience and integrity of the persons who would control the operations of the acquired insurers.
34. Biographical affidavits for all directors and executive officers of AIA, as well as Mitterhoff, Nairin and Konvitz, were provided as part of the Application and the Department reviewed all affidavits that were submitted.
35. The Department is satisfied that the persons who would control the operations of Allegheny Casualty have such competence, experience and integrity that the interests of policyholders and the public would not be jeopardized.
36. If any of the above Findings of Fact are determined to be Conclusions of Law, they shall be incorporated in the Conclusions of Law as if fully set forth therein.

### CONCLUSIONS OF LAW

1. Under Section 1402 of the Insurance Holding Companies Act, the Commissioner has jurisdiction to review and approve the change in control of Allegheny Casualty.
2. Under Section 1402 of the Insurance Holding Companies Act, the Commissioner must approve an application for a change in control unless the Department has found that:
  - a) The insurer will not be able to satisfy the requirements for the issuance of a license to operate the line or lines of business for which it is presently licensed;
  - b) The change in control will substantially lessen competition in insurance in this Commonwealth or tend to create a monopoly therein;
  - c) The financial condition of the acquiring company is such as might jeopardize the financial stability of the insurer or prejudice the interests of its policyholders;
  - d) Any plans to liquidate the insurer, sell its assets or consolidate or merge it with any person, or to make material changes in its business or corporate structure or management are unfair and unreasonable to policyholders of the insurers and not in the public interest;
  - e) The competence, experience and integrity of those persons who would control the operation of the insurer are such that it would not be in the interest of policyholders and the general public to permit the acquisition of control;
  - f) The acquisition is likely to be hazardous or prejudicial to the insurance buying public; or,
  - g) The acquisition of control is not in compliance with the laws of this Commonwealth, including Article VIII-A, Insurance Company Mutual-to-Stock Conversion Act.
3. Under Section 1402 of the Insurance Holding Companies Act, the Commissioner has not found that any of the above conditions are present with respect to the change in control of Allegheny Casualty.
4. If any of the above Conclusions of Law are determined to be Findings of Fact, they shall be incorporated in the Findings of Fact as if fully set forth therein.

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: :  
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ORDER

Upon consideration of the foregoing, the Insurance Commissioner of the Commonwealth of Pennsylvania hereby makes the following Order:

The acquisition of control by AIA Holdings, Inc. (“AIA”) of Allegheny Casualty Company (“Allegheny Casualty”), as detailed in the Application, is hereby approved, subject to this Order and the following condition:

1. AIA shall provide availability to a copy of the closing documents to the Insurance Department within five (5) days of consummation of the subject transaction.

This Order is effective immediately and valid for one year, provided no material changes are made to the transaction prior to consummation.

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Randolph L. Rohrbaugh  
Acting Insurance Commissioner  
Commonwealth of Pennsylvania