

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re: : Pursuant to Sections 1401, 1402
: and 1403 of the Insurance Holding
Application of North American Casualty : Companies Act, Article XIV of the
Co. in Support of the Request for : Insurance Company Law of 1921, Act
Approval to Acquire Control of : of May 17, 1921, P. L. 682, as
Pennsylvania General Insurance : amended, 40 P.S. §§991.1401,
Company : 991.1402 and 991.1403
: :
: Order No. ID-RC-12-11

DECISION AND ORDER

AND NOW, on this 11th day of September, 2012, Michael F. Consedine, Insurance Commissioner of the Commonwealth of Pennsylvania (“Commissioner”), hereby makes the following Decision and Order:

Pursuant to the Insurance Holding Companies 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. Pennsylvania General Insurance Company (“PGIC”) is a domestic stock casualty insurance company organized under the laws of Pennsylvania with its principal place of business in Minnetonka, Minnesota.
2. OneBeacon Insurance Group, LLC (“OBIG”) is a foreign holding company organized under the laws of Delaware with its principal place of business in Minnetonka, Minnesota. OBIG currently directly holds 100% of the issued and outstanding stock of PGIC.

3. White Mountains Insurance Group, Ltd. (“WMIG”) is an alien holding company organized under the laws of Bermuda with its principal place of business in Hanover, New Hampshire. WMIG currently indirectly holds 100% of the issued and outstanding stock of OBIG.
4. WMIG is the sole ultimate controlling person of PGIC.
5. North American Casualty Co. (“NACC”) is a foreign holding company organized under the laws of Nebraska with its principal place of business in Omaha, Nebraska.
6. Applied Underwriters, Inc. (“Applied”) is a foreign holding company organized under the laws of Delaware with its principal place of business in Omaha, Nebraska. Applied currently directly holds 100% of the issued and outstanding stock of NACC
7. AU Holding Company, Inc. (“AU”) is a foreign holding company organized under the laws of Delaware with its principal place of business in Omaha, Nebraska. AU currently directly holds 100% of the issued and outstanding stock of Applied.
8. Steven M. Menzies (“Mr. Menzies”) is an individual with his primary residence located in Omaha, Nebraska. Mr. Menzies currently directly holds 11.5% of the issued and outstanding capital stock of AU, however he is not deemed to have a controlling interest, as Berkshire Hathaway Inc. (“Berkshire”) has a right to repurchase these shares at their discretion.
9. Berkshire is a foreign holding company organized under the laws of Delaware with its principal place of business in Omaha, Nebraska. Berkshire currently directly holds 81% of the issued and outstanding stock of AU.
10. Warren E. Buffett (“Mr. Buffett”) is an individual with his primary residence located in Omaha, Nebraska. Mr. Buffett currently directly holds 33.7% of the issued and outstanding capital stock of Berkshire.
11. Mr. Buffett is the sole ultimate controlling person of NACC.

Acquisition Filing

12. The Insurance Holding Companies Act, Article XIV of the Insurance Company Law of 1921, Act of May 17, 1922, P.L. 682, as amended, 40 P.S. §§991.1401 et seq. (“Insurance Holding Companies Act”), provides that all changes in control of domestic insurers must be filed with the Commissioner for approval or disapproval.

13. On July 5, 2012, the Insurance Department of the Commonwealth of Pennsylvania (“Department”) received an application (which together with all material received subsequently is hereinafter referenced as “Application”) from NACC for approval to acquire control of PGIC.
14. The Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.

Department Procedures

15. On July 21, 2012, the Department published notice in the *Pennsylvania Bulletin* that the Application was submitted by NACC and such notice invited interested persons to submit comments to the Department regarding the Application for thirty days following the date of the publication (“Comment Period”).
16. The Department received no comments regarding the Application during the Comment Period.

Description of the Proposed Acquisition

17. As described in the Application, NACC has entered into a stock purchase agreement (“the Agreement”) with OBIG.
18. As described in the Application and pursuant to the Agreement, NACC intends to purchase 100% of the issued and outstanding shares of PGIC from OBIG (“the Acquisition”).
19. As described in the Application, NACC would fund the entire purchase price from a cash disbursement from Applied.
20. As described in the Application, Mr. Buffet would become the sole ultimate controlling person of PGIC as a result of the Acquisition.

Standards for Review

21. 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.

Licensing Requirements

22. 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.
23. 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).
24. 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).
25. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), PGIC is required to maintain a minimum paid up capital stock of \$2,350,000 to write the classes of insurance for which it is presently licensed.
26. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), PGIC is required to maintain a minimum paid in surplus of \$1,175,000 to write the classes of insurance for which it is presently licensed.
27. Upon completion of the transaction, PGIC will have paid up capital in an amount that will satisfy the minimum required of a casualty insurance company licensed to write the classes of authority currently held by PGIC.
28. Upon completion of the transaction, PGIC will have paid in surplus in an amount that will satisfy the minimum required of a casualty insurance company licensed to write the classes of authority currently held by PGIC.

Competitive Impact

29. The acquisition of control of PGIC 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.
30. The acquisition of control of PGIC will not lessen competition or tend to create a monopoly in the Commonwealth because the market share of PGIC does not exceed the market share levels established in Section 1403.

Financial Condition of Applicant

31. 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 person(s).
32. The Department has reviewed the annual financial statement submitted by Applied as of December 31, 2011.
33. As of December 31, 2011, Applied reported:

Assets of \$905,379,144
Liabilities of \$577,771,031
Paid-in capital of \$25,247,189
34. The financial condition of Applied would not pose any impediments to the change in control nor jeopardize the financial condition of PGIC.

Plans for the Acquired Insurer

35. 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.
36. As stated in the Application, NACC has no future plans or proposals to liquidate PGIC, to sell its assets, to merge or consolidate it with any person or persons, or to make any other material change in its business operations or corporate structure.
37. As stated in the Application, NACC plans to redomesticate PGIC from Pennsylvania to Iowa upon completion of the Acquisition.

Management

38. 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 will control the operations of the acquired insurer.
39. Biographical affidavits for all directors and executive officers of NACC were reviewed by the Department.

40. The Department is satisfied that the persons who would control the operations of PGIC have such competence, experience and integrity that the interests of policyholders and the public would not be jeopardized.
41. 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 Department has jurisdiction to review and approve the change in control of PGIC.
2. Under Section 1402 of the Insurance Holding Companies Act, the Department 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 write 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 party 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 any other material change in its business or corporate structure or management, are unfair and unreasonable and fail to confer benefit on 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 of the public to permit the acquisition of control; or,
 - f) The acquisition is likely to be hazardous or prejudicial to the insurance buying public.
 - 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 PGIC.
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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ORDER

Upon consideration of the foregoing, the Insurance Commissioner of the Commonwealth of Pennsylvania (“Commissioner”) hereby makes the following Order:

The application of North American Casualty Co. (“NACC”) in support of the request for approval to acquire control of Pennsylvania General Insurance Company as set forth in the application, is hereby approved, subject to this Order and the following condition:

NACC shall provide to the Department a list of closing documents within five (5) days after consummation of the subject transaction and shall maintain the listed documents and make them available to the Department for a period of not less than five (5) years from the date of consummation.

This Order is effective immediately and valid for one (1) year, provided no material changes are made to the transaction prior to consummation. This one year limitation does not apply to any conditions prescribed by the Department in the Order.

Michael F. Consedine
Insurance Commissioner
Commonwealth of Pennsylvania