STATE OF NORTH DAKOTA

BEFORE THE INSURANCE COMMISSIONER

In the Matter of the Form A Application of American Family Mutual Insurance Company and AmFam, Inc., to Acquire Control of Homesite Insurance Company of the Midwest	))))))	**FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER APPROVING ACQUISITION OF CONTROL** **FILE NO. CO-13-428**

INTRODUCTION

American Family Mutual Insurance Company, a Wisconsin mutual insurance company ("AFMIC"), and AmFam, Inc., a Wisconsin business corporation that is a wholly-owned subsidiary of AFMIC ("AmFam"), formally filed with the North Dakota Insurance Department (the "Department") on October 15, 2013, a Form A Statement Regarding the Acquisition of Control of a Domestic Insurer (the "Form A"). The Form A concerned AFMIC and AmFam's proposed acquisition of Homesite Group, Inc. ("HGI") and its downstream affiliates, including, without limitation, Homesite Insurance Company of the Midwest, a North Dakota stock insurance company ("Insurer"), and was submitted pursuant to N.D.C.C. ch. 26.1-10.

In connection with the Form A, AFMIC and AmFam (collectively, the "Applicants") submitted an executed Agreement and Plan of Merger between the parties to the transaction dated September 4, 2013 (the "Merger Agreement"), the Applicants' pre- and post-transaction organizational charts, biographical affidavits for the directors and executive officers of the Applicants, financing documents related to the transaction, a voting agreement between shareholders of HGI, financial statements of the Applicants

and their affiliates, and two years of annual reports by AFMIC to its policyholders. On November 5, 2013, the Applicants supplemented the Form A with an updated set of pre- and post-transaction organizational charts for the Applicants.

On October 18, 2013, a public notice was issued by North Dakota Insurance Commissioner Adam Hamm (the "Commissioner") setting a public hearing concerning the transaction for November 8, 2013, as provided in N.D.C.C. § 26.1-10-03(4). Notice of the public hearing was provided by the Applicants to the Insurer and all other relevant parties in the Insurer's organizational structure (collectively, "Homesite").

The public hearing regarding the proposed transaction was held before the Commissioner at 9:00 a.m. on November 8, 2013, in the Red River Room at the State Capitol in Bismarck, North Dakota. The Applicants appeared through their counsel, Thomas R. Hrdlick, a partner at Foley & Lardner LLP, and provided both pre-filed and oral testimony from each of David C. Holman, Chief Legal Officer of AFMIC, and Daniel J. Kelly, Chief Financial Officer of AFMIC. The local associate lawyer for the Applicants, Constance Hofland, a partner at Zuger Kirmis & Smith, was in attendance. The Insurer appeared through its counsel, Jeff Thomas, a partner at Mitchell, Williams, Selig, Gates & Woodyard, P.L.L.C., and provided oral testimony from Anthony Scavongelli, the Insurer's General Counsel. The local associate lawyer for the Insurer, Levi Andrist, an attorney at Vogel Law Firm, was in attendance. The Department appeared through Jeff Ubben, General Counsel for the Department, and Adrienne L. Riehl, Legal Counsel for the Department, and provided oral testimony from Edward Moody, Chief Financial Examiner for the Department.

Through the public notice of hearing that was issued, the general public was invited to make comments concerning the proposed transaction. The public was also invited to make comments concerning the proposed acquisition during the hearing. No members of the general public came forward at any time during the hearing to submit comments regarding the proposed transaction.

The matter of the acquisition of control of the Insurer by Applicants has been considered by the Department based upon the Form A and supplemental filings provided by the Applicants, the pre-filed written testimony received into evidence at the hearing as Exhibits 1 and 2, and oral testimony submitted in connection with the hearing, and other documents filed with the Commissioner and made a part of the record.

After considering and reviewing all the documents, instruments, testimony, and materials filed or submitted in this matter, the Commissioner makes the following Findings of Fact, Conclusions of Law and Order.

FINDINGS OF FACT

A. Applicants' Background and Significant Affiliates

1. AFMIC is a Wisconsin mutual insurance company, organized under Chapter 611 of the Wisconsin Statutes, that began underwriting insurance in 1927. Being a mutual insurer, AFMIC has no shareholders. Rather, AFMIC has "members" consisting of all holders of in-force insurance policies issued by AFMIC. The rights these members have in AFMIC include, without limitation, the right to vote on all candidates for election to the Board of Directors of AFMIC. Other than its members, no person or persons possess any rights to control the business or operations of AFMIC.

2. AmFam is a Wisconsin business corporation that is a wholly-owned subsidiary of AFMIC and subject to control by the same. AmFam's principal business is to operate as an intermediate holding company for purposes of owning, directly or indirectly, the issued and outstanding shares of capital stock of downstream subsidiaries of AFMIC. Other than AFMIC, no person or persons possess any rights to control the business operations of AmFam.

3. Other operating insurance subsidiaries of AFMIC include the property and casualty insurers American Standard Insurance Company of Wisconsin, American Standard Insurance Company of Ohio, American Family Insurance Company, Midvale Indemnity Company, Permanent General Assurance Corp. of Ohio, The General Automobile Insurance Company, Inc., and Permanent General Assurance Corporation, and life insurer American Family Life Insurance Company.

B. Insurer's Background and Significant Affiliates

4. The Insurer is a North Dakota domestic stock property and casualty insurance company with a certificate of authority to write homeowners insurance in North Dakota. HGI owns, indirectly, 100% of the issued and outstanding voting stock of the Insurer. Specifically, HGI owns 100% of the stock of Homesite Securities Company LLC, which directly owns 100% of the stock of Insurer.

5. Other operating insurance affiliates of the Insurer within the HGI group of companies which are being acquired through the proposed Transaction include the property and casualty insurers Homesite Indemnity Company, Homesite Insurance Company, Homesite Insurance Company of California, Homesite Insurance Company

of Florida, Homesite Insurance Company of Georgia, Homesite Insurance Company of Illinois, Homesite Insurance Company of New York, and Homesite Lloyd's of Texas.

C. Form A Filing and Related Procedural History

6. On October 15, 2013, the Applicants by and through their Chief Legal Officer, David C. Holman, filed the Form A regarding the proposed transaction with the Commissioner pursuant to N.D.C.C. § 26.1-10-03. The Form A along with any supplemental information filed with the Commissioner provides the entire and complete information required by N.D.C.C. § 26.1-10-03. On October 18, 2013, a public notice was issued by North Dakota Insurance Commissioner Adam Hamm (the "Commissioner") setting a public hearing concerning the transaction for November 8, 2013, as provided in N.D.C.C. § 26.1-10-03(4). Notice of the public hearing was provided by the Applicants to the Insurer and all other relevant parties in the Insurer's organizational structure. The public hearing regarding the proposed transaction was held before the Commissioner at 9:00 a.m. on November 8, 2013, in the Red River Room at the State Capitol in Bismarck, North Dakota. The Commissioner closed the record following completion of the public hearing.

D. Proposed Transaction

7. Subject to approval from the applicable regulatory authorities, Applicants intend to acquire 100% of the issued and outstanding shares of HGI and will thus, indirectly, control 100% of the stock of all of the affiliates of HGI, including, without limitation, the Insurer (the "Acquisition"). As a result of the Acquisition, Applicants will gain the power to exercise, directly or indirectly, all voting rights in the governance of the affiliates of HGI and the Insurer.

8. Specifically, pursuant to the Merger Agreement, by and among HGI, AmFam, HGI Acquisition Co. Inc. ("Merger Sub") and Henry Securityholder Representative LLC, and pursuant to Section 251 of the Delaware General Corporation Law, HGI will merge with and into Merger Sub, with HGI as the surviving entity. Merger Sub is a wholly-owned subsidiary of AmFam, which is a wholly-owned intermediate holding company of AFMIC. Accordingly, as a result of the merger, HGI will become a direct, wholly-owned subsidiary of AmFam and an indirect, wholly-owned subsidiary of AFMIC.

9. AFMIC is acquiring HGI and the Insurer in order to strategically expand and diversify its homeowners insurance platform both geographically and through HGI's innovative direct distribution capabilities. As consideration for the Acquisition, Applicants will pay to the current holders of HGI's common stock, outstanding in-the-money stock options, and outstanding restricted stock units (collectively, the "Sellers") cash in the amount of $616 million plus the "Company GAAP Equity" (as defined in the Merger Agreement) reported in the closing statement as adjusted for the "Transaction Adjustments" (as defined in the Merger Agreement), minus the Company GAAP Equity as of June 30, 2013, as calculated and set forth in Schedule 2.04 attached to the Merger Agreement, and minus certain "Transaction Expenses" (as defined in the Merger Agreement) paid by or due from HGI (the "Merger Consideration"). The terms and conditions of the Acquisition were arrived at through arms' length negotiations between the Applicants and the Sellers.

E. Applicants' Management

10. The Applicants are managed by insurance professionals who have demonstrated competence, experience, and integrity in insurance operations. Applicants' current management is not expected to change as a result of the Department's approval of the Form A.

11. The Applicants' respective boards of directors are comprised of directors who possess significant corporate and commercial experience. The competence, experience, and integrity of these directors is such that it would not be against the interests of the policyholders of the Insurer or against the interests of the general public if Applicants were permitted to acquire control of the Insurer.

F. Continuation of the Insurer's Business

12. Following the closing of the Acquisition, the Insurer will continue to provide homeowners insurance primarily on a bundled basis with personal automobile insurance sold by nonaffiliated insurers on a direct to consumer platform. The Applicants have no plans or proposals to liquidate the Insurer, to sell its assets, to merge or cause it to consolidate with any person or persons, or to make any other material change in its business operations, corporate structure, or management.

13. The Acquisition will not affect the Insurer's level of capital and surplus, which exceeds the statutory minimums required for licensure in the states where it writes business. Following the Acquisition, the Insurer will have the same management who will hold the same positions as they held prior to the Acquisition. Following the Acquisition, the Insurer's policies and procedures for complying with applicable laws will be the same as they were prior to the Acquisition. Accordingly, following the

Acquisition, the Insurer will still satisfy the requirements for issuance of a certificate of authority to write the lines of insurance for which it is presently licensed.

G. Acquisition Financing

14. AFMIC currently intends to finance a portion of the Merger Consideration, in the amount of $500 million, through a 30-year, fixed rate "advance" from the Federal Home Loan Bank – Chicago. The financing would be fully collateralized by AFMIC with certain of its existing assets. The Insurer will not act as a borrower or guarantor on the financing, nor will any of its assets be pledged as security or collateral for the financing. At this time, the Applicants plan to repay any financing from general revenues. Other than the foregoing financing, Applicants have not entered into any other debt facilities with any other lenders and have no other issued and outstanding corporate debt obligations. As an insurance organization with more than $6.1 billion in combined policyholder surplus, the Applicants have the complete ability and flexibility to pay the Merger Consideration from existing surplus funds, if necessary, but intend to utilize the financing to more efficiently deploy its existing capital.

H. Applicants' Financial Status

15. Applicants submitted all requested financial statements, organizational charts, and biographical affidavits for their directors and executive officers with the Form A. Applicants and their affiliates (collectively, "American Family") are the 3rd largest mutual property and casualty insurer and the 14th largest property and casualty insurance group in the United States. American Family employs more than 7,700 people and has approximately $17.9 billion in aggregate assets under management and

approximately $6.1 billion in aggregate policyholder surplus across the organization. Moreover, AFMIC enjoys a stable financial rating of A (Excellent) from A.M. Best.

16. The financial condition of the Applicants is such that the financial condition of the Insurer would not be jeopardized by the Acquisition. Furthermore, the Acquisition will not prejudice the interests of the Insurer's policyholders.

I. Competition in Insurance and Impact on Insurance Buying Public

17. American Family and Homesite do not share significant market overlap in any line of insurance in the State of North Dakota except for homeowners multiple peril insurance.

18. The market shares of American Family and Homesite are below the statutory thresholds set forth in N.D.C.C. § 26.1-10-03.1(4) for establishing prima facie evidence of a violation of competitive standards, even if the North Dakota market for homeowners insurance were to be considered highly concentrated. In 2012, American Family's market share in the homeowners insurance line in North Dakota was 12.68% at $20,391,000 direct written premium, and Homesite's market share was 1.01% at $1,627,000 direct written premium. The statewide total direct written premium for 2012 was $160,838,000.

19. Pursuant to N.D.C.C. § 26.1-10-03.1(4)(b)(1), given the Insurer's relatively small share of the homeowners multiple peril market in North Dakota, the market share of American Family would need to be at least 15% or more to provide prima facie evidence that the change of control would substantially lessen competition in the homeowners insurance market in North Dakota. Consequently, the effect of the

Acquisition by the Applicants will not tend to substantially lessen competition or tend to create a monopoly in any line of insurance in North Dakota.

20. Testimony from David C. Holman during the hearing established that AMFIC does not have any plans to make any material changes to the policies currently issued to Homesite Insurance Company of the Midwest policyholders.

21. Testimony from David C. Holman during the hearing established that there will not be any direct or indirect premium increases to Homesite policyholders solely as a result of the Acquisition.

J. Department's Recommendation

22. Edward Moody, Chief Financial Examiner with the Department, reviewed the Form A and all of the corresponding exhibits and supplemental filings.

23. Mr. Moody, on behalf of the Department, testified that he considered the criteria outlined in N.D.C.C. § 26.1-10-03(4)(a) through (f) and concluded that: (i) following the Acquisition, the Insurer would still satisfy the current capital and surplus requirements under North Dakota law for issuance of a certificate of authority to write the lines of insurance for which it is presently licensed; (ii) the proposed Acquisition would not have the effect of substantially lessening competition in insurance in North Dakota or tend to create a monopoly here; (iii) the financial condition of the Applicants will not jeopardize the financial stability of the Insurer or prejudice the interests of the Insurer's policyholders, and in fact would strengthen the financial position of the Insurer and the interests of the Insurer's policyholders by providing access to the strong capital base of American Family; (iv) there was no evidence of any plans by the Applicants to liquidate the Insurer, sell its assets or consolidate or merge it with any person, or to

make any other material change in the business or corporate structure or management of the Insurer; (v) the evidence suggested that the competence, experience and integrity of the directors, officers and management of the Applicants are such that it will be in the interests of the Insurer's policyholders and of the public to permit the Acquisition to occur; and (vi) there is no evidence that the Acquisition is likely to be hazardous or prejudicial to the insurance buying public.

CONCLUSIONS OF LAW

1. The Commissioner has jurisdiction over the proposed acquisition pursuant to N.D.C.C. ch. 26.1-10.

2. The Form A and its exhibits, as supplemented, meet all of the filing requirements provided pursuant to N.D.C.C. § 26.1-10-03.

3. The Applicants have met the procedural requirements of N.D.C.C. ch. 26.1-10 with regard to seeking and receiving approval of the proposed acquisition of control of a domestic insurance company.

4. The hearing in this matter was duly noticed and conducted pursuant to the requirements of N.D.C.C. § 26.1-10-03(4) and that an order approving or disapproving the proposed acquisition may be issued based upon the Form A and supplemental materials filed with the Commissioner by the Applicants.

5. The Commissioner shall approve an acquisition of control governed by N.D.C.C. § 26.1-10-03 unless the Commissioner finds that:

   a. After the change of control, the domestic insurance company would not be able to satisfy the requirements for the issuance of a

certificate of authority to write the lines of insurance for which it is presently licensed.

b. The effect of the merger or other acquisition of control would be substantially to lessen competition in insurance or tend to create a monopoly in North Dakota.

c. The financial condition of any acquiring party might jeopardize the financial stability of the insurance company or prejudice the interest of its policyholders.

d. The plans or proposals which the acquiring party has to liquidate the insurance company, 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 to policyholders of the company and not in the public interest.

e. The competence, experience, and integrity of those persons who would control the operation of the insurance company are such that it would not be in the interest of policyholders of the company and of the public to permit the merger or other acquisition of control.

f. The acquisition is likely to be hazardous or prejudicial to the insurance buying public.

6. The proposed acquisition of control of North Dakota domestic insurer Homesite Insurance Company of the Midwest constitutes a change of control under the provisions of N.D.C.C. ch. 26.1-10 and is subject to prior approval of the Commissioner.

7. Based on the Findings of Fact, the evidence does not suggest that any of the events or conditions listed in N.D.C.C. § 26.1-10-03(4) would occur or exist after the acquisition of control; therefore, the evidence does not form a basis upon which the proposed acquisition of Homesite Insurance Company of the Midwest by the Applicants should be denied.

8. Considering the entirety of the evidence contained in the record, it is appropriate to approve the transaction.

NOW, THEREFORE, based upon the representations and sworn testimony of the parties and the above Findings of Fact and Conclusions of Law, the Commissioner enters an Order as follows:

ORDER

The proposed acquisition of Homesite Insurance Company of the Midwest by American Family Mutual Insurance Company and AmFam, Inc. under the provisions of the Form A Statement Regarding the Acquisition of Control of a Domestic Insurer filed with the North Dakota Insurance Department is hereby **APPROVED**.

The Commissioner will retain jurisdiction over the subject matter of this proceeding and over the parties for the purpose of entering such further order or orders as may be deemed proper.

DATED this 3rd day of December, 2013.

Adam Hamm
Commissioner
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