

FILED

2011 JUL 18 P 3:13

Hearings Unit, DIC
Patricia D. Peterson
Chief Hearing Officer

BEFORE THE STATE OF WASHINGTON
OFFICE OF INSURANCE COMMISSIONER

In the Matter of the Proposed Merger of:

NO. 11-0161

PEMCO INSURANCE COMPANY, a
Washington Domestic Stock Insurance
Company,

**DECLARATION OF
RONALD J. PASTUCH**

with and into

PEMCO MUTUAL INSURANCE
COMPANY, a Washington Domestic
Mutual Insurance Company,

the Applicants.

Ronald J. Pastuch, under penalty of perjury under the laws of the State of Washington,
declares as follows:

1. I am the Holding Company Manager in the Company Supervision Division of
the Washington State Office of Insurance Commissioner ("OIC"). I am over the age of
eighteen years old and I am competent to testify in this matter. I make this Declaration based
upon my personal knowledge.

1 2. I am also a graduate of Pacific Lutheran University, where I earned a Bachelor
2 of Arts Degree in Business Administration in 1988. I was certificated as a CPA in 1993, and
3 received my CPA license in 2003.

4 3. After graduation, I worked for the Washington Department of Veterans Affairs
5 from 1980 to 1987 in accounting and human resource positions. In 1987, I joined the OIC as
6 an accountant, a position I held until 1991. From 1991 to 1993, I served as a field Insurance
7 Examiner with the OIC. From 1993 to 2006, I served as a Financial Analyst in the OIC's
8 Company Supervision Division, a position I held in various levels.

9 4. On February 16, 2006, I was appointed the Holding Company Manager in the
10 OIC's Company Supervision Division. As the Holding Company Manager, my primary
11 duties consist of reviewing and approving holding company transactions, which include
12 reviewing and recommending OIC's position on proposed requests for insurance company
13 acquisitions and mergers, including disclaimers of control.

14 5. On May 15, 2011, PEMCO Mutual Insurance Company and PEMCO
15 Insurance Company ("the Applicants") filed an application for approval of the proposed
16 merger of PEMCO Insurance Company ("PIC") with and into PEMCO Mutual Insurance
17 Company ("PMIC"). PIC is a Washington domiciled stock insurance company incorporated
18 on May 4, 1972, and began writing business on September 1, 1972. PMIC is a Washington
19 domiciled mutual insurance company incorporated on October 6, 1948 under the name Public
20 Employees Mutual Insurance Company, began writing business on February 9, 1949, and
21 based in Seattle, WA. PMIC changed its name to its current title on February 3, 1989.
According to that application, the Applicants propose to merge all assets, liabilities, and
equity of PIC with and into PMIC. PMIC and PIC entered into an agreement and plan of
merger dated May 4, 2011 on that day.

22 6. PMIC and PIC submitted various Exhibits in that merger application filing,
23 including but not limited to, the Agreement and Plan of Merger, pre and post merger diagram

1 of the PEMCO organization, certified copy of the PMIC and PIC boards' consent approving
2 the proposed transaction, and affidavits of PMIC and PIC pursuant to RCW 48.31.010(1)(c).

3 7. According to RCW 48.05.250, PMIC and PIC have filed their statutory
4 financial statements with the OIC, and those financial statements and other statutorily
5 required filings are available to the public on the Commissioner's website via the internet.

6 8. On June 10, 2011, OIC posted a notice on the Insurance Commissioner's
7 website concerning the proposed merger of PIC and information about the OIC's review
8 process, a true and correct copy of which is attached hereto as Exhibit "A".

9 9. On June 23, 2011, OIC requested a hearing to request a determination of the
10 proposed merger by the Chief Hearing Officer.

11 10. On July 15, 2011, PMIC and PIC filed an amendment to their application with
12 the proposed Articles of Merger, PMIC 2010 Annual Statement, and PIC 2010 Annual
13 Statement, and 2010 Combined Annual Statement of PMIC and PIC.

14 10. According to RCW 48.31B.015(5), PMIC and any person or entities which
15 directly or indirectly control PIC are exempt from filing a Form A if the transaction is a
16 merger or consolidation of two or more insurers according to RCW 48.31.010. Since PMIC
17 and PIC are insurers engaged and licensed in the property and casualty insurance business and
18 PMIC directly controls PIC, the OIC recommends that RCW 48.31.010 should be applied to
19 make a determination of this matter.

20 11. Pursuant to RCW 48.31.010(1), a domestic insurer may merge or consolidate
21 with another insurer subject to the following conditions:

22 a. The plan of merger or consolidation must be submitted to and be approved
23 by the commissioner in advance of the merger or consolidation. PMIC and PIC filed their
plan of merger on May 16, 2011.

b. The plan of merger is to be fair, equitable, and consistent with law, and that
no reasonable objection exists. PMIC would be the surviving entity and PIC would be the

1 merged entity. PMIC would merge all assets and liabilities of PIC's business with and into
2 PMIC as a result of this proposed merger. PIC's outstanding stock certificates will be
3 cancelled by PMIC and PIC will cease to exist after the consummation of the merger.

4 c. No director, officer, or member, or subscriber of any such insurer, except as
5 is expressly provided by the plan of merger, shall receive any fee, commission, other
6 compensation, or valuable consideration whatsoever, for in any manner aiding, promoting, or
7 assisting in the merger. The plan of merger does not contain any expressed provision for any
8 fee, commission, other compensation, or valuable consideration for aiding, promoting, or
9 assisting in this proposed merger according to the affidavits of PMIC and PIC signed May 4,
2011.

10 d. Any merger as to the incorporated domestic insurer shall in other respects
11 be governed by the general laws of this state relating to business corporations. We reviewed
12 the Washington Business Corporation Act regarding merger and share exchanges pursuant to
13 Chapter 23B.11 RCW. We reviewed those statutory requirements for the plan of merger,
merger of subsidiary, articles of merger, and the effect of merger with domestic entities.

14 e. The agreement and plan of merger was adopted and approved by PMIC and
15 PIC's board of directors at a special meeting of board of directors held on March 24, 2011. At
16 that meeting, the boards of PMIC and PIC unanimously approved the merger agreement, the
17 statutory merger of the two companies, and the transaction contemplated by the merger
18 agreement. Corporate resolution describing the adoption of the proposed merger was filed
19 with the application. PIC is a wholly-owned direct subsidiary of PMIC as of the date of the
20 application filing. The effect of the merger is that PIC is the merging entity and PMIC is the
21 surviving entity. The title of all real estate and other property owned by PIC would be vested
22 in PMIC without reversion or impairment. PMIC would assume all liabilities of PIC, and
PMIC will be substituted for any proceeding against PIC since PIC would no longer exist

1 after consummation of the merger. PMIC will continue to be licensed to transact property and
2 casualty insurance business in Washington State.

3 12. According to RCW 23B.11.040, a parent corporation owning at least ninety
4 percent of the outstanding shares of each class of a subsidiary corporation may merge the
5 subsidiary into itself with the approval of the shareholders of the parent or the subsidiary.
6 That statute also sets forth the requirements of the board of directors of the parent corporation
7 for its approval of a plan of merger. Since PIC is a wholly-owned subsidiary of PMIC, neither
8 PMIC nor PIC was required to obtain the approval of PMIC's membership or PIC's sole
9 shareholder, which is PMIC itself.

10 12. According to RCW 23B.11.050, the articles of merger are to incorporate the
11 plan of merger, and a statement whether that the merger was duly approved by the
12 shareholders of each corporation. PMIC and PIC submitted a copy of the proposed Articles of
13 Merger. According to section 2 of those Articles, since PIC is a wholly-owned subsidiary of
14 PMIC and has met the exception for shareholder approval according to RCW 23B.11.040, no
15 vote was required by either PMIC membership or PIC sole shareholder. Those Articles meet
16 the statutory requirements of RCW 23B.11.040 and 23B.11.050.

17 13. The OIC is satisfied that the proposed Articles of Merger submitted for OIC
18 consideration meet the statutory requirements according to the above statutes. Those proposed
19 articles of merger are sufficient for approval by the Chief Hearing Officer.

20 14. PMIC and PIC have submitted all necessary documents to the OIC in
21 connection with the proposed merger. The OIC is satisfied with these necessary documents
22 meeting the statutory requirements for a merger between insurers according to RCW
23 48.31.010. The OIC recommends the approval of such transaction to the Chief Hearing
Officer.

15 15. From a procedural standpoint, the OIC requires that notice of this proposed
16 merger be given to the public via the Internet (on the OIC's website). On June 10, 2011, OIC

1 posted a notice on the Insurance Commissioner's website concerning the proposed application
2 of merger of PIC and information about the OIC's review process, true and correct copies of
3 which is attached hereto as Exhibit "A". On July 11, 2011, OIC posted a Notice of Hearing
4 and announcement on the Insurance Commissioner's website concerning the proposed merger
5 of PIC, true and correct copies of which is attached hereto as Exhibit "B". That notice informs
6 the public of the July 21, 2011, hearing and the nature of the hearing. That notice has
7 remained on the OIC's website since July 11, 2011, and will remain posted on the website
8 through the date of the hearing. The OIC also provided information for the public regarding
9 the PIC merger and the OIC process for evaluating that acquisition and updated for the
10 upcoming July 21, 2011 hearing, a true and correct copy of which is attached hereto as
11 Exhibit "C".

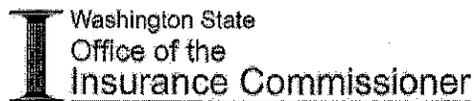
12 16. The Notice of Hearing informs and advises all interested parties that any
13 individual or entity is permitted to submit comments on, or objections to, this proposed
14 acquisition. The Notice of Hearing states that any questions or concerns should be directed to
15 Shellie Savage, Assistant to the OIC's Chief Hearing Officer.

16 17. As of the date of this Declaration, I personally have not received any
17 comments, questions, or objections through letter, correspondence, email, or phone, nor am I
18 aware of any comments, questions, or objections having been received by the OIC's Chief
19 Hearing Officer.

20 SIGNED this 18th day of July, 2011.

21 
22 _____
23 Ronald J. Pastuch

EXHIBIT "A"



2011 Public notices

June 2011

PEMCO Insurance Company has applied to merge with its parent company, PEMCO Mutual Insurance Company - 6/10/2011

April 2011

Hearing set for acquisition of Contractors Bonding & Insurance Company - 4/5/2011

February 2011

Hearing set for redomestication of National Merit - 2/10/2011

Hearing set for redomestication of Unigard companies - 2/7/2011

2010 public notices

December 2010

Hearing set for acquisition of Columbia United Providers - 12/20/2010

August 2010

PeaceHealth has applied to acquire Columbia United Providers and its parent company, Southwest Washington Health Systems - 9/14/2010

June 2010

Hearing set for merger of Pacific Northwest Title Insurance Company - 6/15/2010

May 2010

Pacific Northwest Title has applied to merge with its parent company, First American Title - 5/6/2010

Tell a friend |

.....
.....
.....
.....

EXHIBIT "A"

PEMCO Insurance merger

PEMCO Insurance Company and its parent company, **PEMCO Mutual Insurance Company**, filed an application for a proposed merger of PEMCO Insurance with and into PEMCO Mutual Insurance. PEMCO Mutual Insurance would be the surviving entity from this merger.

PEMCO Insurance is a Washington-domiciled stock insurance company operating as a property and casualty insurer incorporated in 1972. PEMCO Mutual Insurance is a Washington-domiciled mutual insurance company operating as a property and casualty insurer incorporated in 1948.

The boards of directors of both companies have approved the "Agreement and Plan of Merger". The Commissioner must approve the proposed merger before that agreement and plan of merger can be completed.

History of the process

In mid May 2011, we received the application for the merger of PEMCO Insurance Company. We are currently reviewing that application at this time.

What we look at

In all proposed mergers, the companies must file an application that details:

- A plan of merger including corporate documents approving the proposed merger;
- Financial information for both companies;
- The effect of the merger on the current Washington policyholders;
- Any changes in their business plan; and
- Any market competition impacts.

Evaluation criteria

Under state law, the commissioner must approve the merger unless:

- The plan of merger is not fair, equitable, or consistent with law; or
- It is in some other way "hazardous or prejudicial to the insurance-buying public."

Questions?

Please contact our holding company manager, Ron Pastuch, at 360-725-7211.

EXHIBIT "B"



2011 Public notices

July 2011

Hearing set for merger of PEMCO Insurance Company - 7/11/2011

June 2011

PEMCO Insurance Company has applied to merge with its parent company, PEMCO Mutual Insurance Company - 6/10/2011

April 2011

Hearing set for acquisition of Contractors Bonding & Insurance Company - 4/5/2011

February 2011

Hearing set for redomestication of National Merit - 2/10/2011

Hearing set for redomestication of Unigard companies - 2/7/2011

2010 public notices

December 2010

Hearing set for acquisition of Columbia United Providers - 12/20/2010

August 2010

PeaceHealth has applied to acquire Columbia United Providers and its parent company, Southwest Washington Health Systems - 9/14/2010

June 2010

Hearing set for merger of Pacific Northwest Title Insurance Company - 6/15/2010

May 2010

Pacific Northwest Title has applied to merge with its parent company, First American Title - 5/6/2010

Tell a friend |

.....
.....
.....
.....

EXHIBIT "B"



Notice

Mike Kreidler
Washington Insurance Commissioner
Web page: www.insurance.wa.gov

For More Information, Contact:
Public Affairs: (360) 725-7055
Office of Insurance Commissioner

11-4

7/11/2011

Hearing set for merger of PEMCO Insurance Company

Olympia, Wash.— The hearing is scheduled for 3 p.m. on July 21, 2011, in Tumwater, Washington. [More information](#)

Tell a friend |

.....
.....
.....
.....
.....



EXHIBIT "C"

Judicial Proceedings

A-B | C-D | E-F | G-I | J-L | M-O | P-R | S-T | U-V | W-Z

Note: The orders below are not official. You may request official copies from our Public Disclosure Office, 360-725-7003, or email: erlcm@oic.wa.gov.

Name/Docket no.	Type of action	Status	Documents are in PDF format
PacifiCare of Washington Inc., 09-0010	Imposition of fines	Pending before Office of Administrative Hearings	Final Order on Summary Judgment PacifiCare Reply OIC's Brief Transcript of Oral Argument 3/12/10 Ltr re: right to review OIC's Reply to Petition for Review 2/19/10 Letter re: review PacifiCare's Petition for Review Initial Order on Summary Judgment OAH Amended Notice of Hearing OAH Notice of Motion Hearing PacifiCare's Reply to MSJ OIC's Response to MSJ PacifiCare Motion for SJ OAH Prehearing Order OAH Notice of Hearing OAH Hearing Request Request for OAH review Notice of request for hearing
PacifiCare of Washington, subsidiary of UnitedHealth Group by Capital Group Companies, Inc., and Capital Group Companies Management Companies G08-0144	Disclaimer of Affiliation and Control	Exemption Approved	Order approving exemption Capital Group witness ltr Declaration of R. Pastuch Amended notice of hearing Notice of hearing Disclaimer of control
PacifiCare of Washington, Inc. Acquisition by UnitedHealth Group Incorporated G05-88	Acquisition of control	Request for Hearing Withdrawn - File closed	Order terminating proceedings Amended prehearing conference
Pacific Northwest Title Insurance Company G10-0026	Merger	Merger Approved	Final Order Witness List Exhibit List PreFiled Statements PreFiled Testimony of PNWT PreFiled Testimony of FATICO Declaration of R. Pastuch Amended Notice of Hearing Notice of Hearing Hearing Request 05/14/10 Certificates of Authority PNWT Response Ltr 04/26/10 ExA PNWT policies sold 2008-10 ExB Org Chart of PNWT OIC Ltr request 04/08/10 OIC Ltr denying waiver 03/30/10 Application of Merger 03/10/10 Attach 1 Agreement & Merger Plan Attach 2 Org diagram Attach 3 FATICO Board consent

EXHIBIT "C"

Pacific Northwest Title Insurance Company D07-309 & D07-305	Imposition of Fines	Matters Terminated	Order terminating proceedings Consolidation order Notice referral Notice of hearing Notice of hearing Receipt of request Receipt of request
Pacific Northwest Title Insurance Company by The First American Corporation G04-02	Acquisition of Control	Acquisition Approved	Final decision Notice of hearing Demand for hearing
Paterson, Kirsten Molbak D07-0193 2007-INS-0001	Order Revoking License	Settlement Reached	Stipulation & consent order Notice of hearing Order on PHC Demand for hearing Order revoking license
Paterson, Robert J. D07-0192 2007-INS-0002	Order Revoking License	Order Revoking License Vacated	Stipulation & order Notice of hearing Order on PHC Demand for hearing Order Revoking license
Peachtree Casualty Insurance Company D06-227 2006-INS-0017	Appeal OIC's Proposed Consent Order/Fine	Proceedings Terminated	Final order Initial order Demand for hearing Notice of intent
PEMCO Insurance Company with PEMCO Mutual Insurance Company 11-0161	Merger	Pending	Proposed Merger of PEMCO Ins Co with and into PEMCO Mutual Insurance Co Notice of Hearing
Physicians Insurance Mutual Co. D04-114 & 2004-INS-0001	Appeal OIC's Imposition of Fine	Proceedings Terminated	Final decision Initial order Notice of hearing Demand for hearing Notice of fine
Puget Sound Health Partners, Inc., ("PSHP") proposed acquisition by Northwest Physicians Network of Washington, LLC ("NPN") and Physicians of Southwest Washington, LLC ("PSW") Docket No. 09-0032	Proposed acquisition & control	Acquisition Approved	Final order Notice of hearing 07 & 08 Annual statements Notice of appearances Biographical affidavits Additional bio affidavits Flemming bio affidavit SPA amendment June 09 Applicants' declarations Pastuch declaration Solicitation Permit 368 Agent/participant agreement PSHP org chart PSHP board members PSHP correspondence PSHP enrollment PSHP escrow letter PSW 08 financial stmt HMSO 08 financial stmt



EXHIBIT "C"

PEMCO Insurance merger

PEMCO Insurance Company and its parent company, **PEMCO Mutual Insurance Company**, filed an application for a proposed merger of PEMCO Insurance with and into PEMCO Mutual Insurance. PEMCO Mutual Insurance would be the surviving entity from this merger.

PEMCO Insurance is a Washington-domiciled stock insurance company operating as a property and casualty insurer incorporated in 1972. PEMCO Mutual Insurance is a Washington-domiciled mutual insurance company operating as a property and casualty insurer incorporated in 1948.

The boards of directors of both companies have approved the "Agreement and Plan of Merger". The Commissioner must approve the proposed merger before that agreement and plan of merger can be completed.

History of the process

In mid May 2011, we received the application for the merger of PEMCO Insurance Company. We have reviewed that application and requested a hearing regarding the merger transaction.

On July 21, 2011, the judge will hold an adjudicative hearing to hear testimony about the merger transaction. The proposed merger transaction would have an effective date of October 1, 2011.

What we look at

In all proposed mergers, the companies must file an application that details:

- A plan of merger including corporate documents approving the proposed merger;
- Financial information for both companies;
- The effect of the merger on the current Washington policyholders;
- Any changes in their business plan; and
- Any market competition impacts.

Evaluation criteria

Under state law, the commissioner must approve the merger unless:

- The plan of merger is not fair, equitable, or consistent with law; or
- It is in some other way "hazardous or prejudicial to the insurance-buying public."

Questions?

Please contact our holding company manager, Ron Pastuch, at 360-725-7211.