

<p>In the Matter of the Plan of Reorganization of SBLI USA MUTUAL LIFE INSURANCE COMPANY, INC.</p> <p>and the Proposed Acquisition of Control of SBLI USA MUTUAL LIFE INSURANCE COMPANY, INC. BY PROSPERITY LIFE INSURANCE GROUP, LLC</p>	<p>Written Statement of Matthew Popoli</p> <p><b>Dated: August 21, 2014</b></p>
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**WRITTEN STATEMENT OF MATTHEW POPOLI**

My name is Matthew Popoli. I am a director of Prosperity Life Insurance Group, LLC (“Prosperity”), the sponsor of the conversion of SBLI USA Mutual Insurance Company, Inc. (“SBLI USA” or the “Company”) from mutual to stock form and an applicant to acquire control of SBLI USA, pursuant to the Plan of Reorganization<sup>1</sup> (the “Plan” or the “Sponsored Demutualization and Acquisition”). I am also a partner of Reservoir Capital Group, L.L.C. (“Reservoir”), one of the ultimate controlling parties of Prosperity. As described below, Prosperity will provide the funds that will be used to pay policyholders eligible for consideration (“Eligible Policyholders”) an amount of compensation in cash in connection with the extinguishment of their membership interests in SBLI USA (“Membership Interests”).

Prosperity is owned by investment funds managed by Reservoir and Black Diamond Capital Partners I, L.P. (“Black Diamond”). Reservoir is a privately held investment firm founded in 1998 with approximately \$7 billion of assets under management. Black Diamond is an insurance-focused private investment fund established in 2005 and focused on investments in the insurance industry. Black Diamond is led by three principals, Jay Novik, Heidi Hutter, and José Montemayor. Prior to the formation of Black Diamond, Mr. Novik and Ms. Hutter were both senior executives within the Swiss Re group of companies and were co-founders of Black Diamond Group, LLC, a merchant bank and advisory company specializing in the insurance industry. Mr. Montemayor was previously the State Insurance Commissioner at the Texas Department of Insurance. Reservoir has a long working relationship with the Black Diamond principals and sponsored the formation of Black Diamond.

I joined Reservoir in 2005 and became a partner and a member of Reservoir’s investment committee in 2011. I oversee Reservoir’s investments in the insurance and financial services industries and currently serve on the boards of directors of numerous Reservoir portfolio companies, including Prosperity, AmeriLife Group, and Maple Life Financial, among others. In addition, Reservoir has had significant experience in insurance and financial services, including prior investments in Towergate Partnership, Talbot Underwriting, and Endurance Specialty Insurance.

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<sup>1</sup> The Plan of Reorganization was adopted by the SBLI USA Board of Directors on July 8, 2014 and was submitted to the New York Department of Financial Services on July 9, 2014.

Prior to joining Reservoir, I served as a Principal of Capital Z Partners, a global private equity firm focused on the financial services sector, which I joined in 2000. At Capital Z Partners, I was involved in a number of successful insurance investments including the acquisition of Permanent General Companies, a leading non-standard automobile insurer based in Nashville, TN which has an “A-” rating from A.M. Best. I was also closely involved in the acquisition of Pyramid Life Insurance Company, a Kansas domiciled life insurance company, which was acquired by Universal American Financial Corp., a life and health insurance company controlled by Capital Z Partners.

Previously, I was Vice President of Efinanceworks, LLC, where I made private investments in early stage financial services companies. I began my career as an investment banker in the Insurance Group at Morgan Stanley and received a B.A. in Economics from Amherst College.

The following statement is submitted in support of the proposed reorganization of SBLI USA into a domestic stock life insurer (“Sponsored Demutualization”) and acquisition of SBLI USA by Prosperity (“Acquisition”). I will first provide an overview of Prosperity and SBLI USA followed by a description of the Plan and Prosperity’s objectives. I will conclude by describing the benefits and protections the Plan affords to SBLI USA policyholders as well as the Plan’s compliance with New York Insurance Law.

### **Overview of Prosperity**

Prosperity is a holding company formed in 2009 by Reservoir and Black Diamond to acquire life, health and annuity insurance companies. In 2012, Prosperity completed the acquisition of Shenandoah Life Insurance Company (“Shenandoah”), a Virginia domiciled life and annuity insurance company from the State Corporation Commission of Virginia, acting as Receiver of Shenandoah. Shenandoah had experienced significant investment losses in 2008 and 2009, and was taken into receivership by the State Corporation Commission which appointed Jacqueline Cunningham, Commissioner of Insurance, as the Deputy Receiver. Prosperity worked closely with the Deputy Receiver and the receivership team over the course of two years to develop a plan to rehabilitate and recapitalize Shenandoah, which was approved by the State Corporation Commission. Under Prosperity’s ownership, the financial strength of Shenandoah has improved significantly, and the Company has recently reentered the market writing new business for the first time since being placed into receivership in 2009.

### **Overview of SBLI USA**

Based upon my review of detailed financial records, SBLI USA is a New York mutual life insurance company that, along with its subsidiaries, has over \$12 billion of insurance in force, approximately \$1.5 billion of statutory assets, and approximately \$1.4 billion of statutory liabilities. In 2010, SBLI USA agreed with the New York State Insurance Department<sup>2</sup> to cease issuing new policies. On July 8, 2014, the SBLI USA Board of Directors (“SBLI USA Board”) unanimously determined that the Sponsored Demutualization and Acquisition is fair, equitable

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<sup>2</sup> The New York State Insurance Department and New York State Banking Department were consolidated on October 3, 2011 into the New York State Department of Financial Services (the “Department”).

and in the best interests of SBLI USA and its policyholders. Prosperity shares this view that the Sponsored Demutualization and Acquisition is fair, equitable and in the best interests of SBLI USA and its policyholders.

If the proposed Sponsored Demutualization and Acquisition is approved by the Department, SBLI USA will continue to operate as an independent, New York-domiciled insurance company. Prosperity intends to improve the operations of SBLI USA, and evaluate opportunities for SBLI USA to profitably resume issuing new policies, upon approval, without taking undue investment, actuarial, or other risks.

### **Prosperity's Objectives and Plans for SBLI USA**

Prosperity is a growing insurance organization which provides financial security to individuals and their families through innovative life insurance, health insurance, supplemental insurance and annuity products issued and underwritten by its affiliated insurance companies. To ensure such financial security, Prosperity employs prudent and proper risk management, corporate governance, financial controls and compliance protocols throughout our organization.

Prosperity seeks to grow in two ways. First, Prosperity will focus on organic opportunities occasioned by its acquired insurers' ability to write profitable new lines of business. Second, Prosperity will focus on growth opportunities to acquire and improve small to mid-sized life, health and annuity insurance companies and blocks of insurance business, which Prosperity has the experience and expertise to do successfully. Prosperity actively seeks opportunities, like that presented by SBLI USA, to bring these life insurance companies onto its platform in order to improve the companies' operations, financial strength, and governance.

Prosperity will seek to grow its subsidiaries' in force book of business by applying SBLI USA's distribution relationships with banks in the New York region more effectively. Prosperity's experience and expertise will also enhance SBLI USA's operations and help the Company resume profitable growth, including providing insurance products to individuals in underserved minority communities, a marketplace that is not well served by major insurers.

Following the Sponsored Demutualization and the Acquisition, Prosperity will nominate and install a new slate of directors. Prosperity's Chief Executive Officer, Anurag Chandra, will serve on SBLI USA's board of directors and will work closely with senior management team of SBLI USA and Shenandoah to leverage the joint capabilities of the organizations. Anurag Chandra has extensive insurance industry experience providing him with the unique capability to help manage SBLI USA. Prior to joining Prosperity, Chandra served as Executive Vice President & Chief Operating Officer at Allstate Financial, the life insurance, retirement and voluntary benefits business of Allstate Corporation. Previously, he served as Executive Vice President & Chief Operating Officer at HealthMarkets, an individual health insurance company where he helped lead its successful turnaround and business transformation.

Prosperity will implement a plan for SBLI USA to resume writing profitable new business to serve the New York regional market. Prosperity will review the products previously offered by SBLI USA and evaluate new life insurance and other product lines to select those products most suitable to current market preferences and the long-term stability of SBLI USA.

The new business expected to be written by SBLI USA would focus on underserved middle income and low income New York consumers by offering low-cost, affordable insurance to new policyholders. With respect to a strategic distribution plan for SBLI USA, Prosperity plans to leverage SBLI USA's relationships with New York communities and New York banks to maintain SBLI USA's strong brand recognition, as well as to expand distribution channels previously underutilized by SBLI USA. In addition to resuming writing new business, Prosperity would encourage SBLI USA to evaluate strategic growth opportunities when and if they arise.

### **The Plan**

The Plan describes the Sponsored Demutualization and Acquisition, which will proceed as follows. SBLI USA will convert from a mutual insurance company to a stock insurance company. SBLI USA will issue all of the newly authorized shares of SBLI USA common stock to SBLI USA Holdings, LLC ("Holdco"), a wholly-owned subsidiary of SBLI USA, in exchange for the limited liability interests issued by Holdco, resulting in SBLI USA becoming a wholly owned subsidiary of Holdco. SBLI USA will distribute the limited liability company interests issued to it by Holdco to American Stock Transfer and Trust, LLC (the "Paying Agent") on behalf of Eligible Policyholders, in exchange for their Membership Interests, which will be extinguished.

A subsidiary of Prosperity, Shenandoah, will purchase a capital note from SBLI USA for \$7.5 million in cash. SBLI USA will use the proceeds from the capital note sale to redeem \$7.5 million of the shares of SBLI USA common stock held by Holdco and Holdco will use the proceeds of the common stock redemption to redeem \$7.5 million of its limited liability company interests held by the Paying Agent for the benefit of the Eligible Policyholders;

Holdco will merge with and into SBLI USA Acquisition LLC ("Acquisition LLC"), a subsidiary of Prosperity, with Acquisition LLC being the surviving company, resulting in SBLI USA becoming a wholly owned subsidiary of Acquisition LLC. The remaining limited liability company interests of Holdco will be cancelled and converted into the right to receive an aggregate of \$28.5 million, which will be paid by Acquisition LLC to the Paying Agent for the benefit of the Eligible Policyholders. The Paying Agent will distribute the \$7.5 million of proceeds for the redemption and the \$28.5 million of proceeds for the merger, aggregating \$36 million of policyholder consideration, to Eligible Policyholders ("Policyholder Consideration") as provided in the Plan.

### **Policyholder Benefits and Protections**

As previously mentioned, the Sponsored Demutualization and Acquisition is fair, equitable and in the best interests of SBLI USA's policyholders. First and foremost, I believe that, the Sponsored Demutualization and Acquisition would have no negative financial impact on SBLI USA's policyholders. While policyholders' Membership Interests will be extinguished, nothing will change with respect to their existing insurance coverage. The compensation to be paid to Eligible Policyholders under the Plan (described below) will be in addition to the benefits provided under their policies. The Plan will not increase premiums or contributions, or diminish the benefits, values (such as loan values, cash values and paid up insurance values), policy

guarantees, or dividend eligibility of any existing policy. Furthermore, under the Plan, no director, officer or employee of SBLI USA will receive any fee or other consideration in connection with the Sponsored Demutualization and Acquisition, other than their regular salary, directors' fees or consideration as an Eligible Policyholder in the Sponsored Demutualization and Acquisition.

Second, Eligible Policyholders will be entitled to receive an amount of compensation in cash, which represents an immediate economic benefit. All Eligible Policyholders will be allocated an equal amount of consideration, which will be determined by dividing the \$36 million of Policyholder Consideration by the total number of Eligible Policyholders and is equal to approximately \$190 per Eligible Policyholder. The actual amount paid to each Eligible Policyholder may be higher or lower, however, depending on the number of Eligible Policyholders. This represents a distribution to Eligible Policyholders of tangible economic value that they would not receive unless the Sponsored Demutualization and Acquisition is approved. The compensation paid to Eligible Policyholders will be in addition to the coverage of benefits that SBLI USA policies already provide.

Third, the Plan provides for establishment of an accounting mechanism known as a "Closed Block."<sup>3</sup> The Closed Block will ensure that the reasonable dividend expectations of owners of policies included in the Closed Block are met with respect to dividend paying life insurance policies. The Plan also puts in place other protections with regard to participating policies with non-guaranteed elements that will be outside the Closed Block. Additional information about the Closed Block is provided in the Plan.

Finally, the Sponsored Demutualization and Acquisition by Prosperity will increase the potential of SBLI USA for long-term growth, market leadership and strategic position. I firmly believe that the Plan will enable SBLI USA to enhance its customer service capabilities, develop new products and services and pursue strategic opportunities.

### **Demutualization Complies with New York Insurance Law Section 7312(j)**

With respect to demutualization, New York Insurance Law Section 7312(j) provides that the Superintendent of the Department (the "Superintendent") should approve a demutualization and a plan of reorganization if it is found: (1) that the plan is fair and equitable to the policyholders; (2) that the plan is not detrimental to the public; (3) that the reorganized insurer will have sufficient capital and surplus to remain solvent; and (4) that the plan complies with all requirements of the New York Insurance Law. For all of the reasons contained in the testimony of Michael Akker, Prosperity believes the Sponsored Demutualization should be approved.

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<sup>3</sup> The Closed Block is an accounting mechanism used to provide reasonable assurances to owners of policies included in the Closed Block that the assets allocated to the Closed Block will be an amount that produces cash flows which, together with anticipated revenue from the Policies in the Closed Block, are expected to be sufficient to support such business including, but not limited to, provisions for payments of claims, certain expenses and taxes associated with the Closed Block business and to provide for the continuation of 2013 dividend scales, if the experience underlying such dividend scales continues, and for appropriate adjustments in such dividend scales if that experience changes.

## **The Acquisition Complies with New York Insurance Law Section 1506**

With respect to the Acquisition, Section 1506 of the New York Insurance Law requires that, before Prosperity may acquire control of SBLI USA, the Superintendent must be satisfied as to seven factors: (1) the respective financial conditions of Prosperity and SBLI USA; (2) the trustworthiness of Prosperity and of its directors and officers; (3) Prosperity's plan for the ongoing management of SBLI USA's operations; (4) the source of the funds or assets for the Acquisition; (5) the fairness of the Acquisition terms; (6) whether the Acquisition will lessen competition in the relevant insurance market; and (7) whether the Acquisition is likely to be hazardous or prejudicial to SBLI USA's policyholders. All of these factors have been addressed in detail in Prosperity's Section 1506 filing and are summarized below.

### **(1) The financial conditions of Prosperity**

First, Prosperity is approaching the Sponsored Demutualization and Acquisition of SBLI USA as a well-capitalized standalone entity. Prosperity currently has over \$40 million of unencumbered and available cash on hand and no debt. Its subsidiary, Shenandoah, has a risk-based capital ratio in excess of 400% of Company Action Level. The Acquisition will be funded entirely with Prosperity's and Shenandoah's cash on hand. Additionally, as discussed previously, Prosperity is jointly owned by two well-funded privately held investment firms, Reservoir and Black Diamond, with approximately \$7 billion in assets under management.

### **(2) The trustworthiness of Prosperity and that of its directors and officers**

Second, Prosperity and its directors and officers, as well as its affiliates, are not only trustworthy but have significant insurance management experience and a proven track record of revitalizing struggling insurers and returning them to healthy, productive and profitable businesses. The rehabilitation and recapitalization of Shenandoah from receivership is a good example of this, along with a host of other prior investments and jobs that individual directors and officers of Prosperity have been involved in or have held in the past. In addition, the officers and directors of Prosperity have extensive transactional and regulatory experience in the insurance industry and are familiar with the requirements of prudently operating insurance companies.

### **(3) Prosperity's plan for the ongoing management of SBLI USA's operations**

Third, the Plan of Reorganization and Plan of Operations filed with the Department detail Prosperity's strategy for conducting SBLI USA's operations going forward. Prosperity intends to review the products previously offered by SBLI USA to select those most suitable to current market preferences and the long-term stability of the Company. Prosperity intends to further consider new or enhanced product lines in order to recommence the issuance of insurance policies and annuity contracts. Prosperity has no present plans to liquidate SBLI USA, to sell off the Company's assets, to merge the Company with any other entity, or to make changes to the Company's business operations or corporate structure other than those detailed in the Plan of Reorganization and Plan of Operations. These strategies, tailored to the specific needs of SBLI USA, should ensure a smooth transition and a resumption of operational success at the Company.

**(4) The source of the funds or assets for the Acquisition**

Fourth, the consideration issued in connection with the Acquisition shall consist of the following: (1) \$36 million to fund the Policyholder Consideration that will be paid to Eligible Policyholders and (2) \$4 million to reimburse the expenses incurred by the Department and SBLI USA in pursuing the Sponsored Demutualization and Acquisition. These amounts will be funded entirely with Prosperity's and Shenandoah's cash on hand (and will not be paid in the form of stock or equity interests in Prosperity). The nature and amount of the consideration to be paid in connection with the proposed Sponsored Demutualization and Acquisition were determined by arm's-length negotiation between Prosperity and SBLI USA.

**(5) The fairness of the Acquisition terms**

Fifth, the Acquisition terms are fair. SBLI USA engaged Sherman & Company as an independent financial adviser for the specific purpose of providing a fairness opinion. On November 22, 2013, Sherman & Company delivered a written opinion to the SBLI USA Board that, as of that date, the consideration to be received by Eligible Policyholders, taken in the aggregate, in connection with the Sponsored Demutualization and Acquisition is fair, from a financial point of view to the Eligible Policyholders. Their opinion was submitted along with the other written materials in the application to demutualize.

**(6) Whether the Acquisition will lessen competition in the relevant insurance market**

Sixth, to the best of my knowledge, the Acquisition will not lessen competition in the relevant insurance market in New York. Rather, it will facilitate SBLI USA's potential plans to offer new insurance products and services in the New York market. The Acquisition of SBLI USA should increase competition in New York by reintroducing an alternative source of insurance products to the market.

**(7) Whether the Acquisition is likely to be hazardous or prejudicial to SBLI USA's policyholders**

Seventh and finally, to the best of my knowledge, the proposed Acquisition is not likely to be hazardous or prejudicial to SBLI USA policyholders. To the contrary, the policyholders should benefit from the transaction for a variety of reasons. First, there will be continuity of service at SBLI USA. Second, the establishment of the Closed Block will protect current policyholders' reasonable dividend expectations. Third, Eligible Policyholders will receive cash compensation in connection with the extinguishment of their Membership Interests. Finally, Prosperity will seek to enhance SBLI USA's operations to better serve its existing customers through the potential development and launch of new insurance products.

**Conclusion**

For the reasons I have described herein, Prosperity is confident that the Sponsored Demutualization and Acquisition is in the best interests of SBLI USA and its policyholders, that it is fair and equitable, and that it should be approved. On behalf of Prosperity, I would like to

thank the Superintendent and his staff and advisors for the opportunity to submit this written statement, and for their hard work in connection with the consideration of the Sponsored Demutualization and Acquisition.

I, Matthew Popoli, affirm that the foregoing statements are true and correct to the best of my knowledge, information, and belief.

A handwritten signature in black ink, appearing to read 'M. Popoli', is written over a horizontal line.

Matthew Popoli  
Director,  
Prosperity Life Insurance Group, LLC