

**Office of the Special Deputy Receiver
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Office of the Special Deputy Receiver

To: Robert H. Muriel, Director of Insurance
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Board of Directors
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Executive Summary

Under Article XIII of the Illinois Insurance Code, the Illinois Director of Insurance (“Director”) serves as the statutory conservator, rehabilitator and liquidator of financially impaired and insolvent Illinois domestic insurers, of unauthorized insurers, and as ancillary receiver of certain foreign or alien insurers doing business in the State of Illinois. In accordance with Section 202 of the Insurance Code, Illinois’ Office of the Special Deputy Receiver (“OSD”) assists the Director in performing his duties under Article XIII, and serves as the statutory employer of receivership personnel.

OSD Mission

Achieving consumer protection through receivership resolution expertise and the execution of a resolution strategy appropriate to the unique circumstances of each troubled company is the core mission of the OSD. Since the creation of the office, OSD has administered the resolution of 178 Illinois domestic insurance receiverships, and supervisions, completing and closing 157 as of December 31, 2019. These assignments have included receiverships and supervisions of the following types of insurance entities:

Property & Casualty Insurers
Mortgage Guaranty Insurers
Captive Insurers
Life Insurers
Health Insurers
HMOs
Accident & Health Insurers
Fraternal Benefit Societies

Burial Societies
Group Workers' Compensation Pools
Religious & Charitable Risk Pooling
Trusts
Farm Mutual Insurers
Insurance Exchange Syndicate
Unauthorized Insurers
Mutual Holding Companies

Recent Results

Receivership estate distributions and the expenses associated with their completion are the single most important measure for achieving success for the consumers that are affected by the impairment or insolvency of their insurer. During 2019, the OSD serviced 22 receivership estates for the Director and three supervisions, marshalling and distributing \$454 million to consumers and other estate creditors, including \$38.2 million in benefits paid to consumers by state insurance guaranty associations. OSD's 2019 administrative expenses totaled \$10.2 million, resulting in an annual distribution to expense ratio of 2.2%. OSD's "all-in" average hourly professional services rate, including payroll, benefits, taxes, rent, insurance, and information technology costs, achieved its target of \$105 per hour. The 2019 distributions brought OSD's consumer distribution totals since calendar year 2008 to \$3 billion.

The OSD currently has 52 full time employees. In addition to OSD staff, through the utilization of OSD's scalable and flexible staffing model, four receivership estates continue to employ legacy personnel in key disciplines who assist the OSD in winding down their former company's operations. During 2019 OSD staff directly handled 16,000 consumer telephone inquiries, registered 13,000 new proofs of claim, distributed 10,000 consumer notices, reviewed 10,000 property & casualty policyholder claims and 22,000 consumer health claims, processed the collection and set off of \$31.3 million in reinsurance, and administered the legal affairs, court proceedings, and preparation of state and federal income tax returns for all pending receivership estates. OSD also achieved its annual corporate goal of maintaining a chargeability ratio of 75% (percentage of employee time devoted to estate tasks) and a utilization ratio of 66% (percentage of total employee hours, including time off, devoted to estate tasks), with those metrics reaching 85% and 72%, respectively.

Readiness and the ability to assume the supervision and management of financially troubled insurers is a critical function for state insurance regulators, as is the ability to reform and improve the financial and consumer-oriented results of troubled insurers, preventing against insolvency and providing consumer protection. The OSD stood ready to assist the Director in discharging these responsibilities in 2019, placing five companies into rehabilitation and one in supervision, developing a plan of merger for one troubled company that facilitated its exit from rehabilitation and the continuity of its policyholders' coverage through a recapitalized company with no disruption in benefits, and completed a plan of rehabilitation that facilitated the partial resumption of another company's

business that fully protected its policyholders, and facilitated the resolution of its defined benefit pension plan through a standard pension risk transfer transaction.

Quarterly statutory financial statements for all pending receivership estates were prepared and filed with the Supervising Court, published on the OSD's website, and audited by the independent public and governmental accounting firm of Kerber Eck and Braeckel. Annual financial statements for each estate were also reported to the NAIC's Global Receivership Information Database.

OSD assisted the Director at the National Association of Insurance Commissioners ("NAIC") through participation in the work of the NAIC's Financial Analysis Working Group, Receivership & Insolvency Task Force, Receivership Financial Analysis Working Group, Receivership Model Law Working Group, and the Receivership Large Deductible Working Group.

Excluding confidential conservations and supervisions, the following receivership estates were serviced for the Director during 2019:

1. Affirmative Insurance Co., In Liquidation
2. American Manufacturers Mutual Insurance Co., In Liquidation
3. American Motorists Insurance Co., In Liquidation
4. American Country Insurance Company, In Rehabilitation
5. American Service Insurance Company, In Rehabilitation
6. Centaur Insurance Co., In Rehabilitation
7. Community Care Alliance of Illinois, In Rehabilitation
8. Constitutional Casualty Company, In Liquidation
9. Family Health Network, In Rehabilitation
10. Gateway Insurance Company, In Rehabilitation
11. IL Movers & Warehousemen's Risk Mgmt. Group, In Liquidation
12. Interstate Bankers Casualty Co., In Liquidation
13. Land of Lincoln Mutual Health Insurance Company, In Liquidation
14. Legion Indemnity Co., In Liquidation
15. Life Services Network Trust, In Rehabilitation
16. Lumbermens Mutual Casualty Co., In Liquidation
17. Millers Classified Insurance Co., In Rehabilitation
18. Millers First Insurance Co., In Liquidation
19. Public Service Insurance Company, In Rehabilitation
20. Public Service Mutual Holding Company, In Rehabilitation
21. Triad Guaranty Assurance Corp., In Rehabilitation
22. Triad Guaranty Insurance Corp., In Rehabilitation

State insurance guaranty associations also serve as a vital component of the resolution process for insolvent insurers, providing consumer protection and replacement benefits for certain covered insurance lines. Nine of the receivership estates administered during 2019 triggered guaranty association protection for consumers in Illinois and other states.

The OSD effectively coordinated with the guaranty associations in each state, as well as their national organizations, the National Organization of Life & Health Insurance Guaranty Associations and the National Conference of Insurance Guaranty Funds where appropriate. In one rehabilitation that carried the potential to trigger guaranty association protection in 47 states, OSD completed the preparation and testing to transfer electronic policyholder and claim records in the data formats required by the guaranty associations in order to assure immediate protection to consumers in the event that liquidation was necessitated. Claim payment and information sharing technology established between the OSD and the guaranty associations is in place in each of the pending liquidations in order to facilitate accurate financial reporting, reinsurance recovery, guaranty association claim reimbursement, and large deductible collateral need establishment, release, recovery, and reimbursement.

The OSD and the pending receivership estates are subject to an annual statutory audit by an independent outside certified public accountant engaged in the conduct of audits under the State Auditing Act. The Auditor General of the State of Illinois, pursuant to an agreed-upon procedure, further reviews the audit work papers of OSD's outside auditor and approves the audit for adequacy. The OSD and the receivership estates it administered on behalf of the Director were audited in 2019 for the year ending December 31, 2018 by the audit firm of Kerber Eck & Braeckel ("KEB"). KEB rendered clean audit opinions on the financial statements of the OSD and each of the pending receivership estates, finding that the financial statements of OSD present fairly, in all material respects the assets, liabilities, revenue and expenses as of December 31, 2018. Copies of KEB's annual audit report for the OSD and each pending receivership estate are posted on the OSD website at www.osdchi.com

A summary of each of the pending receivership estates is presented below, excluding confidential conservations and supervisions. Additional information on the OSD as well as pending and closed receivership estates, including the Receiver's court filings and other pleadings, can be found at www.osdchi.com

Receivership Estate Summary

AFFIRMATIVE INSURANCE COMPANY ("AIC"), IN LIQUIDATION

AIC was placed in rehabilitation in September of 2015 after the company was required to record amounts exceeding \$40 million in adverse development on pending claim reserves. The company was subsequently placed in liquidation in March of 2016 after the completion of a further review of its financial condition and the inadequacy of its reserves, triggering guaranty association coverage in 15 states. At the time of its rehabilitation, AIC had 174,224 policies in force. Non-renewal notices were issued during rehabilitation to the company's policyholders in accordance with applicable state law, prior to the policy anniversary, minimizing the impact of the policy cancellations at liquidation.

Several asset recovery actions commenced by the Liquidator are now settled, including a \$15 million settlement agreement reached with the company's former managing general agent, Confie Seguros Holding II Co. ("Confie") in connection with Confie's contingent liability to the company under the terms of a June 30, 2015 purchase agreement, a \$2.65 million settlement of an adversary proceeding pending in the chapter 7 bankruptcy proceedings of AIC's former holding company related to funds allegedly set aside for AIC's benefit to secure the holding company's obligations to AIC under a tax allocation agreement, and a \$4.75 million settlement in a multi-party mediation of claims against AIC's former directors and officers.

The bar date for presenting timely-filed claims against the Estate of August 28, 2017, and the August 28, 2018 deadline for liquidating timely-filed contingent claims have now expired. 5116 covered claims were sent to 11 state insurance guaranty associations for handling and payment. All but 216 of the claims have now been resolved and returned to the Liquidator. Early access agreements permitting early estate distributions to guaranty associations for expense and claim reimbursement have been put in place. Claims that are not covered by the guaranty associations will be resolved and adjudicated by the Liquidator and entitled to participate in pro-rated distributions of the Estate's assets.

AMERICAN MANUFACTURERS MUTUAL INSURANCE COMPANY ("AMM"), AMERICAN MOTORISTS INSURANCE COMPANY ("AMICO"), and LUMBERMENS MUTUAL CASUALTY COMPANY ("LMC"), IN LIQUIDATION

AMM, AMICO and LMC were placed in liquidation in May of 2013. All three estates were substantively consolidated for purposes of the equitable distribution of the companies consolidated assets. The bar date for presenting timely-filed claims against the Estates was November 10, 2014. The deadline for liquidating timely-filed contingent claims expired on November 10, 2017.

21,179 timely-filed policyholder claims have been asserted against the Estates. The Liquidator's review of approximately 16,255 of these claims has been completed, and are undergoing final settlement negotiation and adjudication before the Supervising Court. 4400 additional policyholder claims remain pending with the state insurance guaranty associations. 2700 guaranty association claims have now been fully resolved and adjudicated. 54 policyholder claims, which were subject to a reinsurance cut through arrangement with National Indemnity Company, continue to be administered and paid in the ordinary course of business by the Liquidator's staff.

The LMC Estate now carries \$299 million in outstanding reinsurance recoverables as of December 31, 2019, which will come due as claims are allowed against the AMM, AMICO or LMC Estates or paid by the guaranty associations. Inception to date reinsurance cessions total \$119 million, with \$113 million or 95% of amounts due collected to date.

Collateral need review and collection activity for 600 large deductible policyholder accounts remain pending. Escrow administration also continues for 47 additional policyholder accounts that were subject to pre-receivership large deductible buy-up agreements.

Four solvent subsidiaries of the LMC Estate, Long Grove Insurance Company of Australia, Lumbermens Casualty Insurance Company, Specialty Surplus Insurance Company (“SSIC”), and the Delta Wetlands water reclamation project have all been sold, with the SSIC sale expected to close in 2020.

2019 estate distributions totaled \$50 million to AMM, AMICO or LMC policyholders, guaranty associations and other estate creditors through the adjustment and return of excess collateral, payment of guaranty association administrative and loss adjustment expenses, early access distributions to guaranty associations for covered claims obligations, large deductible reimbursements, and the payment of policyholder claims on fully collateralized business segments.

AMERICAN COUNTRY INSURANCE COMPANY (“ACIC”), AMERICAN SERVICE INSURANCE COMPANY (“ASIC”) AND GATEWAY INSURANCE COMPANY, IN REHABILITATION (“Gateway”)

Agreed Orders of Rehabilitation were entered against ACIC and ASIC in July 2019 and against Gateway in October 2019, after Gateway was re-domesticated to Illinois from Missouri. All three companies pool their risk through their formation of the ASI Pool. The companies were placed in rehabilitation based upon the findings of the IDOL’s targeted actuarial examination, which identified \$140 M of reserve deficiency at year-end 2018.

The Rehabilitator is working with the companies’ corporate parent, Atlas Financial Holdings, Inc. (“Atlas”), to transition the company’s existing policyholders to alternative insurance markets utilizing the existing platform of Atlas’ wholly-owned Managing General Agency (“MGA”), and has secured Atlas’ financial commitment to contribute 49% of the proceeds of a prospective sale of the MGA to support the resolution of the policyholder obligations of the ASI Pool.

The Rehabilitator entered into a stalking horse bid to sell Gateway’s corporate charter and 47 state insurance licenses to Buckle Corp., and in connection therewith has posted an Invitation for Bids in order to generate the best purchase price from potential bidders.

Policyholder claims continue to be paid during the rehabilitation. A potential Plan of Rehabilitation has been drafted in the event that the Rehabilitator’s financial assessment based on 2019 year-end reserve estimates concludes that rehabilitation is viable.

CENTAUR INSURANCE COMPANY (“CENTAUR”), IN REHABILITATION

In accordance with the court approved Plan of Rehabilitation, Revised Plan of Rehabilitation and Second Revised Plan of Rehabilitation, all of Centaur's timely-filed policyholder obligations were paid as they came due throughout the rehabilitation proceedings. Centaur's general creditor obligations on assumed reinsurance claims have also all been fixed and adjudicated. In total, \$131 million in policyholder claims and defense obligations were paid, and \$103 million in general creditor claims have been fixed. Pro-rated payment of the general creditor claims was delayed pending the resolution and release of certain federal-priority claims of the United States, including claims asserted by the U.S. Environmental Protection Agency ("EPA"), and receipt of a release from the U.S. Department of Justice ("DOJ") of liability under the federal super-priority statute, 31 U.S.C. Sec. 3713. The DOJ's release was received in December of 2019, after the resolution and payment of all of the federal priority claims was completed, permitting the distribution of a final dividend to the Estate's general creditors in the amount of 88.34% and closing of the Estate in early 2020.

CONSTITUTIONAL CASUALTY COMPANY ("CCC"), IN LIQUIDATION

CCC was a single state Illinois auto insurer found to be insolvent and placed in liquidation in 2011. The Illinois Insurance Guaranty Fund was triggered as a result of the insolvency to administer covered claims, which are now all resolved. 1,500 loss claims and 11,000 return premium claims were resolved by the Liquidator and the Guaranty Fund. All outstanding asset recovery litigation has been settled, including a \$5.4 million dollar settlement and recovery from the company's former ultimate control person. The liquidation is now substantially complete. A final policyholder distribution and estate closing is expected in early 2020 upon the receipt of a release from the DOJ of its federal priority claims.

FAMILY HEALTH NETWORK, IN REHABILITATION ("FHN") AND COMMUNITY CARE ALLIANCE OF ILLINOIS ("CCAI")

FHN and CCAI, two affiliated health maintenance organizations, were placed in rehabilitation in March of 2019. FHN had exclusively issued Medicaid business, but had ceased writing at year-end 2017. CCAI had an active book of Medicare Advantage business covering 5000 Illinois residents at the time of its rehabilitation. Given that companies only wrote Medicaid and Medicare Advantage business, coverage by the Illinois Life and Health Insurance Guaranty Association was not available and did not need to be triggered by entry of an Order of Liquidation with a Finding of Insolvency. The Rehabilitator undertook an expedited bid process to sell CCAI to a counter-party that was willing to recapitalize the company and continue the coverage of its Medicare Advantage enrollees. The \$2 million proceeds generated by the sale will be used to support the resolution of the remaining unpaid medical provider claims pending against the FHN Estate. The FHN claim filing deadline expired in October 2019. Final settlement of the provider claims is ongoing and is expected to be completed in 2020.

ILLINOIS MOVERS' & WAREHOUSEMEN'S RISK MANAGEMENT GROUP ("ILLINOIS MOVERS"), IN LIQUIDATION

Illinois Movers was an Illinois domestic qualified group workers' compensation pool that was placed in liquidation in 2012. Based on its licensing status, traditional guaranty association protection was not available to its policyholder members or their workers' compensation claimants. A limited guaranty fund mechanism administered by the Illinois Department of Insurance known as the Illinois Group Self-insurers Insolvency Fund is available to make up the shortfall that injured workers receive on their distributions from the liquidation estate. 347 claims have been settled. There is one remaining contested claim that has been scheduled for a contested hearing before the Supervising Court in April of 2020. An 18% interim dividend was previously distributed on all allowed claims. A final dividend will be calculated and distributed upon the resolution of the last contested claim. The Estate is now expected to close in 2020.

INTERSTATE BANKERS CASUALTY COMPANY ("INTERSTATE"), IN LIQUIDATION

Interstate was a regional auto carrier that wrote non-standard auto insurance in the Chicagoland area. It was placed in rehabilitation in May of 2014 after losing financial statement credit for an unqualified deferred tax asset. The Rehabilitator immediately ceased selling new business and commenced the non-renewal of Interstate's 11,000 in-force policies. Interstate's last policy expired in May of 2015. Claims totaling approximately \$9 million for unearned premium and insurance losses were paid during rehabilitation.

Interstate was subsequently determined to be insolvent and an Order of Liquidation with a Finding of Insolvency was entered in August of 2015, triggering the Illinois Insurance Guaranty Fund to assume financial responsibility for Interstate's remaining covered claims obligations. A final distribution to the Guaranty Fund in reimbursement of its administrative expenses incurred in discharging covered claims and the closing of the Estate was completed in August of 2019.

LAND OF LINCOLN MUTUAL HEALTH INSURANCE COMPANY ("LLH"), IN LIQUIDATION

LLH was established in 2013 under the Affordable Care Act as a consumer-oriented and operated health plan. The United States federal government ultimately contributed \$160 million to LLH through a start-up loan in the amount of \$16 million, which was converted to a surplus note in February 2016, and access to \$144 million in additional surplus notes that had been fully drawn by February 2016. Under the express terms of the surplus notes, repayment of LLH's federal obligations is subordinate to claims of policyholders

and all other general creditors.

LLH lost in excess of \$160 million during its first three years of operation from 2014 through 2016. The company was determined to be insolvent as of June 30, 2016 based on the calculation of its 2015 risk adjustment liability under Section 1343 of the Affordable Care Act. The company was accordingly placed in rehabilitation by the Circuit Court of Cook County, Illinois on July 14, 2016, and in liquidation on September 29, 2016. During rehabilitation a special enrollment period was created in order to transition LLH's then existing 40,000 policyholders to new insurers, prior to the immediate cancellation of their coverage upon liquidation.

Liquidation of the company triggered the Illinois Life and Health Insurance Guaranty Association, which became responsible for the payment of covered claims and for providing continuing coverage to those policyholders that had not transferred or otherwise cancelled their LLH coverage during the special enrollment period. The Guaranty Association's continuing coverage concluded on November 15, 2016 for group business and on December 31, 2016 for individuals.

The Liquidator assisted the Guaranty Association by retaining staff, systems and office space to discharge its obligation to process and pay covered LLH claims. Claim resolution is now substantially complete. The Guaranty Association discharged \$48.6 million in claim payments and incurred \$6.7 million in administrative expenses. The LLH Estate is also responsible for an additional \$4.5 million in uncovered claims that were not covered by the Guaranty Association. To date the Liquidator has reimbursed the Guaranty Association \$6.6 Million on its administrative expense claim and \$38.4 million or 80% of its policyholder priority claims. An interim dividend on the uncovered claims in the amount of 80% is anticipated in early 2020.

The Liquidator's ability to further reimburse the Guaranty Association and the uncovered claimants is contingent upon an additional recovery being made in LLH's lawsuit seeking in excess of \$100 million on a net basis in federal risk corridor payments due from the United States under Section 1342 of the Affordable Care Act ("ACA"). The Supreme Court of the United States heard argument in the matter in December of 2019 and is expected to rule later this year. The Liquidator previously sold a contingent interest in the recovery to Juris Capital, LLC, netting approximately \$28 million for the LLH Estate, which facilitated the 80% policyholder priority distribution percentage to date.

LEGION INDEMNITY COMPANY ("LEGION INDEMNITY"), IN LIQUIDATION

Legion Indemnity was placed in liquidation in 2003 on or about the time that its affiliate Legion Insurance Co. entered liquidation in Pennsylvania. Primarily writing as a surplus lines insurer, guaranty fund coverage was not available to policyholders and claimants residing outside of the states of Illinois and New Jersey where Legion Indemnity had been licensed.

Claim payments totaling \$115.7 million (representing 100% of the amount due on timely-filed claims by policyholders and general creditors, and 75% of the amount due on late-filed policyholder priority claims) have been distributed by the Liquidator to date on both timely and late-filed claims. The late-filed policyholder priority claims that have been allowed, but not yet paid in full, currently total \$24.9 million and will be entitled to share in additional *pro rata* distributions of the Estate's remaining and additional assets marshalled. The Estate is expected to close in 2020 after the final collection of several outstanding reinsurance recoverables due to the Estate based on the claims allowed, and the satisfaction and release of Legion Indemnity's federal income tax obligations.

LIFE SERVICES NETWORK TRUST (“LSNT”), IN REHABILITATION

LSNT was a Religious and Charitable Risk Pooling Trust that was placed in rehabilitation in late 2009. Based on its licensing status, no guaranty fund protection was available to its policyholders and creditors, whose claims resulted from workers' compensation injuries.

A Rehabilitation Plan was approved by the Supervising Court and commenced in April 2010. The Rehabilitation Plan called for the collection of approximately \$11.2 million in assessments levied by the Rehabilitator upon LSNT's former members and settled under judicially approved payment plans, and for claims against the Estate to be paid as they came due at a rate of 70% of the amount due. The Supervising Court subsequently approved an additional supplemental dividend in the amount of 6.25% after all of the pending claims had been resolved, bringing the total claim payment rate to 76.25%. The Estate was closed in May of 2019.

MILLERS FIRST INSURANCE COMPANY (“MFIC”), IN LIQUIDATION AND MILLERS CLASSIFIED INSURANCE COMPANY (“MCIC”), IN REHABILITATION

MFIC was a wholly owned subsidiary of Affiliated Mutual Holding Company (“AMHC”). Under its mutual holding company structure, the assets of AMHC were held in trust and have been used for the benefit of MFIC and its policyholders and creditors.

MFIC entered rehabilitation in 2012 based upon its failure to meet Illinois' minimum capital and surplus requirements, after experiencing significant catastrophe storm losses during the 2010 to 2012 time period in its key markets in Missouri and Illinois. At rehabilitation the company ceased writing new business, and was also required to stop the renewal of its in-force business. Its last policy of insurance expired in July 2013.

At the commencement of the rehabilitation, MFIC's primary business focus had shifted to personal lines insurance, but it was continuing to service the run-off of discontinued operations that included long-tail workers' compensation claims. MFIC was placed into Liquidation on August 30, 2017 based on a finding of insolvency, which triggered the state

insurance guaranty associations to administer these remaining long-tail exposures in the future.

MFIC also supported a traditional defined benefit pension plan for its former employees. Although the pension plan was frozen several years prior to MFIC's rehabilitation, legacy administrative and financial obligations remained. Administration was transitioned by the Rehabilitator to a third party pension plan servicer, Principal Financial Group, in early 2015. Shortly after that transition was complete, the Pension Benefit Guaranty Corp. ("PBGC") invoked involuntary termination of the pension plan, and assumed all plan assets and liabilities as of September 30, 2015. MFIC's liability for funding its terminated pension plan is a priority level "f" creditor obligation of the Estate, subordinate to the payment of its policyholder obligations, which the Estate is not capable of fully discharging.

MFIC's wholly owned subsidiary, MCIC, was also placed in rehabilitation in 2015, after its re-domestication from Wisconsin to Illinois. MCIC's pending policyholder claims have now all been fully resolved and paid in full. The Rehabilitator entered into a settlement agreement with the PBGC in late 2019 resolving the MCIC Estate's liability as a member of the MFIC control group for MFIC's undischarged pension liability to the PBGC. MCIC's small remaining surplus will be distributed to the MFIC Estate either through a merger or dividend in 2020.

PUBLIC SERVICE MUTUAL HOLDING COMPANY ("PSMHC") AND PUBLIC SERVICE INSURANCE COMPANY ("PSIC"), IN REHABILITATION

PSMHC AND PSIC were placed in rehabilitation on March 16, 2017 after PSIC was not able to formulate a satisfactory RBC action plan to address its Risk Based Capital deficiencies under section 5/35A-15 of the Insurance Code. PSIC is an Illinois domestic stock property & casualty insurance company located in New York City, New York. PSIC was previously organized as a mutual insurance company, and upon its conversion to a stock company became a subsidiary of its mutual holding company, PSMHC. In accordance with the provisions of the Agreed Order of Rehabilitation, the Rehabilitator cancelled all of PSIC's in-force policies as of June 30, 2017, and continued the administration and payment of policyholder claims, while suspending payment of lower priority general creditor claims.

The Rehabilitator's first Plan of Rehabilitation was presented to the Supervising Court and Estate creditors in September of 2017. That plan included the transfer of all of PSIC's remaining policyholder-priority obligations to another licensed direct insurer, Sparta Ins. Co., which was the winning bidder selected after a thorough auction process. The transaction with Sparta failed to close, effectively ending the first Plan of Rehabilitation.

The Rehabilitator filed an Amended Plan of Rehabilitation for presentation to the Supervising Court in September of 2018. The Amended Plan of Rehabilitation

contemplated a stock purchase agreement (“SPA”) of 100% of the stock of PSIC by Premia Holdings, Inc., a partial resumption of PSIC’s business, as well as the channeling of all of PSIC’s remaining policyholder priority obligations to the resumptive and re-capitalized PSIC. After notice, comment and hearing, the Supervising Court approved the SPA and the Amended Plan of Rehabilitation on December 3, 2018. The transaction closed on January 9, 2019.

The transfer of 100% of PSIC’s policyholder liabilities under the transaction eliminated the need to liquidate PSIC and trigger state insurance guaranty associations to protect PSIC’s policyholders. The transaction and the Amended Plan of Rehabilitation facilitated the Rehabilitator’s ability to preserve the pensions of the company’s former employees through a pension risk transfer and pension plan termination. The pension risk transfer was completed in June of 2019, and the pension plan termination is expected to be completed and approved by the PBGC in 2020. Any remaining Estate assets will be used to resolve the claims of the PSIC Estate’s general creditor class.

TRIAD GUARANTY INSURANCE CORPORATION (“TGIC”) AND TRIAD GUARANTY ASSURANCE CORPORATION (“TGAC”), IN REHABILITATION

TGIC and its wholly owned subsidiary TGAC were placed in rehabilitation in December of 2012. The companies were based in Winston-Salem, North Carolina and were authorized to transact the business of mortgage guaranty insurance. After encountering financial troubles stemming from the historic national housing collapse that began in 2007, the companies ceased issuing new insurance commitments in 2008 and were operating in run-off under corrective orders issued by the Director in 2009. The corrective orders provided that TGIC could only pay 60% of the amount due on mortgage insurance claims, and required TGIC to hold escrow funds for the remaining 40%. In early 2012, due to its further financial deterioration, TGIC sought relief from the provision in the corrective order that required the 40% escrow. In connection with TGIC’s request for relief from the escrow requirement of the corrective order, the Director conducted a public administrative hearing, which resulted in the Director’s denial of relief from the escrow requirement and the placement of TGIC and TGAC in rehabilitation.

A Plan of Rehabilitation was approved by the Supervising Court in October of 2013. As of year-end 2019, \$1.1 billion has been distributed to policyholders under the Plan of Rehabilitation. Claims are paid in the ordinary course of business at the rate of 75% of the amount due, with a deferred payment obligation created and carried as a liability of the Estate for the remaining 25%. Due to the nature of the mortgage insurance business, approximately 80% of TGIC’s obligations inure to the benefit of Fannie Mae and Freddie Mac as federal participants in the mortgage backed security business.

TGIC was wholly owned by Triad Guaranty Inc. (“TGI”), which was a publically traded Delaware corporation. TGI sued the Rehabilitator in an adversary proceeding brought in TGI’s federal bankruptcy proceeding over the ultimate ownership and control of TGIC’s

carry-forward net operating losses (“NOLs”) of approximately \$900 million. TGI asserted that as TGIC’s parent and as its consolidated federal income tax filer, it retained ultimate control over TGIC’s NOLs and was seeking payment from the Rehabilitator in order for the TGIC Estate to continue to use its NOLs to offset taxable income earned by the TGIC Estate under its Plan of Rehabilitation. The Federal Bankruptcy Court ruled in the Rehabilitator’s favor in August of 2014. The U.S. District Court for the District of Delaware affirmed the Bankruptcy Court’s ruling in June of 2016. The District Court’s decision preserved the Rehabilitator’s ability to reduce federal income tax liability on the TGIC Estate’s income, and resulted in a 2018 settlement agreement obligating TGI to reimburse the TGIC Estate for any of the excess NOLs that TGI may use to reduce taxes on its future operations after its bankruptcy reorganization.