Attorney Code #16819

IN THE CIRCUIT COURT OF COOK COUNTY, ILLINOIS
COUNTY DEPARTMENT, CHANCERY DIVISION

IN THE MATTER OF THE REHABILITATION OF	)	
PUBLIC SERVICE INSURANCE COMPANY AND	)	
PUBLIC SERVICE MUTUAL HOLDING COMPANY	)	**No: 17 CH 3790**

NOTICE OF FILING

To: See Service List

YOU ARE HEREBY NOTIFIED that on December 3, 2018 the Rehabilitator of Public Service Insurance Company and Public Service Mutual Holding Company filed the "Joint Stipulation In Support Of Petitions For Order Approving Amended Plan of Rehabilitation, Stock Purchase Agreement, And Channeling Of Certain Assets And Liabilities," with the Clerk of the Circuit Court of Cook County, Illinois.

Respectfully submitted,

J. Kevin Baldwin
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CERTIFICATE OF MAILING

The undersigned, a non-attorney, under penalties as provided by law pursuant to Section 5/1-109, 735 ILCS 5/1-109, hereby certifies that, on December 3, 2018, a true and correct copy of the "Joint Stipulation In Support Of Petitions For Order Approving Amended Plan of Rehabilitation, Stock Purchase Agreement, And Channeling Of Certain Assets And Liabilities," was electronically mailed and sent via regular mailed to the addressees on the attached service list.

Richard C. Abron, Paralegal II

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(CASE NO. 17 CH 3790)

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IN THE CIRCUIT COURT OF COOK COUNTY, ILLINOIS
COUNTY DEPARTMENT, CHANCERY DIVISION

IN THE MATTER OF THE REHABILITATION OF)
PUBLIC SERVICE INSURANCE COMPANY,) CASE NO.: 17 CH 3790

JOINT STIPULATION IN SUPPORT OF PETITIONS
FOR ORDER APPROVING AMENDED PLAN OF REHABILITATION,
STOCK PURCHASE AGREEMENT, AND
CHANNELING OF CERTAIN ASSETS AND LIABILITIES

This Joint Stipulation is entered into and agreed by (i) Jennifer Hammer, Director of the Illinois Department of Insurance (the "**Director**"), acting in her capacities as statutory and court-affirmed Rehabilitator (the "**Rehabilitator**") of each of Public Service Mutual Holding Company, in Rehabilitation, an Illinois-domiciled insurance holding company in court-ordered and supervised rehabilitation ("**PSMHC**"), and its indirectly owned subsidiary, Public Service Insurance Company, in Rehabilitation ("**PSIC**"), an Illinois-domiciled property-casualty insurance company in court-ordered and supervised rehabilitation, and (ii) Premia Holdings Inc., a Delaware holding company ("**Premia**").

This Joint Stipulation is offered in support of petitions and supporting memoranda by which the Director seeks the Court's approval of (a) the channeling of certain policyholder-related assets and liabilities into PSIC, (b) that certain Stock Purchase Agreement, dated as of August 26, 2018 (the "**SPA**" or the "**Agreement**"), by and among the Rehabilitator, PSMHC's indirect subsidiary MCC Financial Holdings, Inc. (which holds the stock of PSIC) (collectively, the "**Seller Parties**"), and (c) the Amended Plan of Rehabilitation (the petition seeking approval of the SPA and channeling order is the "**SPA Petition,**" and the petition seeking approval of the Amended Rehabilitation Plan is the "**Amended Plan Petition**").

The Director and Premia hereby stipulate as follows:

1. Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to them in the Agreement.

2. On October 2, 2017, the Rehabilitator filed Petitions (the "**Sparta Petitions**") to Approve the Rehabilitator's Plan of Rehabilitation and an Assignment, Assumption and Novation Agreement with Sparta Insurance Company ("**Sparta**") in order to effectuate a loss portfolio transfer ("**LPT**") pursuant to Section 5/192(2) of the Code to another licensed insurer of the entirety of PSIC's policyholder liabilities and third party liabilities related thereto ("**Policyholder Liabilities**"), which are classified as priority level "d" and "e" claims under the Code's statutory distribution scheme, 215 ILCS 5/205(1)(d) and (e).

3. Entering into the LPT with Sparta was identified as the best possible transaction for PSIC, its policyholders and creditors following a thorough 2017 auction process that resulted in eight final bidders, which is more fully described to the Court in the Rehabilitator's October 2, 2017 Petition to Approve the Rehabilitator's Assignment, Assumption and Novation Agreement and the Rehabilitator's supporting memorandum, both of which are incorporated herein by reference (the "**2017 Auction**").

4. After the completion of a notice, comment and hearing process designed to fully inform PSIC's policyholders, creditors, and other stakeholders and afford an opportunity for comment or objection, this Court approved the proposed LPT on November 29, 2017.

5. On or about January 16, 2018 the LPT between the Estate of PSIC and Sparta failed to close pursuant to the terms set forth in the aforementioned Assignment, Assumption and Novation Agreement.

6. Upon failure of the LPT and the striking of the original Plan of Rehabilitation, the Rehabilitator continued to utilize the services of PSIC's investment banker for the 2017 Auction, Griffin Financial Group, LLC ("Griffin"), and began a second round auction process. Griffin invited six of the seven other final bidders from the 2017 Auction to submit updated bids based on

PSIC's financial condition as of December 31, 2017.[1] In connection with this second round auction process (the "**2018 Auction**"), the Rehabilitator provided updated financial information to the bidders, including an updated actuarial report as of December 31, 2017. Final bid instructions were issued on May 28, 2018, setting June 15, 2018 as the due date for second round bids.

7. Five of the six potential bidders undertook a due diligence review. Two of the five potential bidders submitted proposals, while three declined to do so. Based upon the advice and conclusions of Griffin, the Rehabilitator determined that Premia submitted the better of the two proposals presented in the 2018 Auction as well as a solution that was preferable to an immediate liquidation of the Estate of PSIC. Although structured differently, similar to the Sparta LPT, Premia's proposal presented the better option for maintaining coverage and avoiding the liquidation of PSIC's Policyholder Liabilities, and leaving the greatest value and mix of assets in the Estate of PSIC for purposes of allowing the Rehabilitator to satisfy the claims of lower priority level creditors.

8. Upon conclusion of the 2018 Auction, the parties executed a letter of intent and exclusivity agreement, and began finalizing the terms of the SPA while Premia completed its remaining due diligence. The SPA was executed on August 26, 2018 and has been tendered to the Court as Exhibit A to the Rehabilitator's SPA Petition, along with the proposed Amended Plan of Rehabilitation which is attached to the Amended Plan Petition as Exhibit A.

9. The Rehabilitator has reported to this Court that she: (a) negotiated, drafted and reviewed the final version of the Agreement, (b) submitted it to the staff of the Illinois Department of Insurance for further review, (c) is prepared in her capacity as Director and regulator to approve transactions contemplated by the Agreement upon satisfaction of certain applicable statutory and regulatory requirements, (d) has determined in the exercise of her discretion that consummation of

[1] The seventh bidder was not invited to the 2018 auction because it had previously indicated to Griffin that it was only interested in a reinsurance transaction, the form of which did not meet the Rehabilitator's requirements for protecting policyholders.

transactions contemplated by the Agreement is in the best interests of PSIC's policyholders and other creditors of the PSIC Estate, (e) is ready and willing to perform or cause the performance of the obligations imposed on the Seller Parties and the PSIC Estate arising under the Agreement, and (f) recommends that the Court approve the Agreement and the channeling (as explained below) of certain PSIC Estate assets and liabilities that are conditions of the closing (the "**Closing**") of the transaction contemplated by the Agreement and embodied in this Order (the "**Transaction**").

10. Pursuant to an Order entered September 25, 2017, the Rehabilitator provided actual notice to all policyholders and creditors of the PSIC Estate of certain petitions and motions related to a proposed transaction and a proposed amended plan of rehabilitation. The notice included procedures for notice, comment, and hearing, and referred such policyholders and creditors to the Rehabilitation web page as maintained by the Office of the Special Deputy Receiver's website, and required the Rehabilitator to provide constructive notice "of all subsequent filing relating to the Sparta Petitions exclusively by publication" on the webpage. All policyholders and creditors also were given the opportunity to file an appearance. The current SPA and Amended Plan Petitions and the Amended Plan are related to the Sparta Petitions.

11. The Rehabilitator provided notice of the procedures for notice, comment, and hearing: (a) by US First Class mail to (i) all creditors of the PSIC Estate whose claims fall within the levels of priority at set forth in Section 205(f)(federal government) – (h)(guaranty fund certificate holders, capital note holders, surplus note holders) of the Code, 215 ILCS 5/205(f) – (h), as reflected on PSIC's books and records, (ii) the reinsurance intermediaries known as AON Benfield, Guy Carpenter, Willis Re and JLT Re, and (iii) the insurance regulators in each of the fifty (50) states and the District of Columbia; (b) electronic constructive notice through the Rehabilitator's website to all other potentially affected parties, and claimants against PSIC policyholders identified in open claim files; and (c) constructive

notice by publication in the nationally distributed print and electronic editions of The Wall Street Journal and The New York Times.

12. The PBGC is the only interested person who objected to the SPA and Amended Plan Petitions.

13. The Rehabilitator has determined in the exercise of her discretion that the rights of policyholders to coverage under the policy/ies issued to them by PSIC, as well as the rights and interests of third parties asserting claims against such policyholders, are fully protected under the Agreement, and that the terms of the Agreement and the Amended Plan of Rehabilitation are reasonable under the circumstances and fair to all creditors.

14. As provided in the Agreement and summarized herein subject to the express terms of the Agreement, Premia will provide for the continued protection of PSIC's policyholders by means of: (a) acquiring all of PSIC's issued and outstanding stock (the "Shares") in return for a payment to the PSIC Estate of two million five hundred thousand dollars ($2,500,000); and (b) the channeling to, and resumption by, PSIC of (i) all policyholder liabilities, (ii) assumed reinsurance liabilities (including unearned premium reserve liabilities) limited to those arising under a reinsurance agreement between PSIC and its wholly owned subsidiary, Western Select Insurance Company ("WSIC")) (the items described in clauses (i) and (ii) is each a "Post-Closing Liability" and are collectively, the "Post-Closing Liabilities"), and (iii) assets that have a carrying value of one hundred seventy-six million, seventy-five thousand, three hundred seventy-six dollars ($176,075,376), to which Premia has ascribed a current market value (which Premia is willing to accept for purposes of the Transaction only) of approximately one hundred sixty-seven million two hundred twenty-five thousand three hundred seventy-five dollars ($167,225,375) as of December 31, 2017 (the "Post-Closing Assets"). In addition, Premia will provide reinsurance and capital support to raise the risk-based capital of PSIC to three hundred percent (300%), within the meaning of the Code, as of the Closing. From and after the Closing, PSIC will pay to the PSIC

Estate fifty percent (50%) of any Net Collections in excess of seven million one hundred fifty-five thousand dollars ($7,155,000) in Net Collections with respect to the "Reinsurance Recoverables Asset" listed in Schedule 5.16 of the Agreement. "**Net Collections**" means any such amounts actually collected by PSIC with respect to the Reinsurance Recoverable Asset net of any additional premium payments, fees and related collection costs. This provision grants the PSIC Estate an opportunity to recover additional value, but in no event shall the amount paid to the PSIC Estate for Net Collections hereunder exceed four million four hundred twenty-five thousand dollars ($4,425,000). With respect to any and all bank accounts channeled to the resumptive PSIC, the resumptive PSIC shall be solely responsible for outstanding checks that the Rehabilitator has identified to Premia, and for which funds have been designated on the books of PSIC as of the Closing date, and any obligations related thereto or arising therefrom for the escheatment, from time to time, of unclaimed property.

15. The PSIC Estate's assets and liabilities will have been adjusted by means of channeling in order to separate policyholder-related obligations and assets from all other obligations and assets of the PSIC Estate. Such channeling of assets and liabilities are express and integral conditions of, and will facilitate, the Transaction. The assets remaining in the PSIC Estate are the "**Residual Estate Assets**" and the liabilities remaining in the PSIC Estate are the "**Residual Estate Liabilities,**" as defined in the Agreement.

16. Additional conditions of, and consideration for, the Transaction include the entry of this Order and indemnification, by the PSIC Estate, of PSIC and its respective parents, owners, equityholders, subsidiaries, affiliates (including, but not limited to WSIC and Premia; collectively, "**Affiliates**"), or any of each of their respective officers, directors, employees, agents, owners and other representatives (collectively, "**Representatives**") for any Residual Estate Liabilities. This right of indemnification is expressly limited and shall not exceed $2.5 Million, and this right of indemnification shall not constitute a bar of any kind to the Rehabilitator's ability to make

distributions on lower priority level claims. Premia has declared that it would not enter into the Transaction, and the Closing would not occur, without the channeling provisions, releases and injunctive relief set forth in the proposed orders approving the SPA and the Amended Plan. The parties believe, and have endeavored to ensure, that these channeling provisions and related releases and injunctions are appropriately and narrowly tailored to effectuate the Transaction and implement the Amended Plan.

17. The Rehabilitator has determined in the exercise of her discretion that the $2.5 Million and other substantial consideration provided by Premia to the PSIC Estate under the Agreement is good, valid and valuable consideration for the injunctions set forth in the proposed approval order for the SPA in favor of Premia and the release of Premia from any and all Residual Estate Liabilities.

18. The Director has endeavored to obtain (and in her capacity as regulator and receiver has found and determined in the exercise of her discretion that) the Agreement is the best possible contract in the interests of the policyholders and other creditors of PSIC, and is fair and reasonable.

19. The Agreement is the result of substantial negotiation and has been undertaken in the best interests of the policyholders, creditors, and the public.

20. The Seller Parties have negotiated the Agreement at arm's length and in good faith.

21. The one hundred fifty-two million, three hundred thousand dollars ($152,300,000) of channeled loss reserves, comprising the Post-Closing Assets, are channeled to resumptive PSIC specifically for concomitant policyholder liabilities that otherwise would have been paid by way of a distribution of PSIC Estate assets at level (d) of the statutory schedule of priorities, 215 ILCS 5/205(1)(d).

22. The one million, five hundred thousand dollars ($1,500,000) of channeled reserves arising under the ninety percent (90%) quota share reinsurance agreement (the "90% QSA")

entered into by and between PSIC and WSIC is intended to be a distribution of PSIC Estate assets at level (a) of the statutory schedule of priorities, 215 ILCS 5/205(1)(a).

23. The parties intend that as a result of the Transaction, Premia will become the owner of legal and beneficial title to the Shares.

24. In order to preserve so far as possible the rights of PSIC policyholders and other creditors, the PSIC Rehabilitator has contracted for their continued protection by and through the Agreement.

25. After accounting for future administrative expense obligations of the Estate of PSIC, the Rehabilitator has determined that Estate of PSIC has sufficient funds, although not the liquidity, to pay all of the Policyholder Liabilities in full, i.e., claims against the Estate of PSIC falling at the policyholder priority levels of the Illinois statutory distribution scheme, 215 ILCS 5/205(1)(d) and (e).

26. Upon Closing of transactions contemplated by the SPA, PSIC will also receive a capital infusion sufficient to bring its RBC to at least three hundred percent (300%). The Director has determined that resumption of PSIC as a fully licensed insurer subsequent to closing, including the infusion of additional capital and liquidity, will better protect the interests and expectations of policyholders than if PSIC remained a part of the Estate of PSIC in rehabilitation with its illiquid asset mix and questionable ability make timely payments on claims in the future.

27. Upon Closing of transactions contemplated by the SPA, one of the Residual Liabilities of the Estate of PSIC is its obligation as a member of its former control group for the joint and several liability related to the unfunded benefit liabilities of the Pension Plan pursuant to 29 U.S.C. § 1362(a),(b). This liability has been classified at priority level "f" of the Illinois statutory distribution scheme, 215 ILCS 5/205(1)(f), pursuant to this Court's order dated September 5, 2018.

28. After resolving the Policyholder Liabilities in connection with the SPA, the Rehabilitator's financial projections demonstrate that the Residual Assets of the Estate of PSIC will be sufficient to fund a standard termination of the Pension Plan. By completing a standard termination of the Pension Plan, the Estate of PSIC will save several million dollars in projected termination premiums that would otherwise accrue under 29 U.S.C. § 1306, if the Pension Benefit Guaranty Corporation instituted an involuntary termination under 29 U.S.C. § 1342. Funding for termination of the Pension Plan can only occur, however, after the Rehabilitator has identified with certainty that higher priority Policyholder Liabilities can be discharged indefinitely. Given the long-tail nature of the Policyholder Liabilities, such certainty could take several years to achieve. The SPA brings that certainty upon closing, and will permit the Rehabilitator to complete the standard termination.

29. The Director has determined that after discharging PSIC's priority level "d," "e" and "f" obligations, the Estate of PSIC will be insolvent with respect to its ability to discharge its obligations to general creditors whose claim are recognized at priority level "g" of the Illinois statutory distribution scheme, 215 ILCS 5/205(1)(g). Due to its insolvency at the general creditor priority level, the Estate of PSIC is not projected to have sufficient assets to make any payments to its surplus note holders, whose claims are prioritized at level "h" of the Illinois statutory distribution scheme, 215 ILCS 5/205(1)(h). The SPA provides certainty that the Policyholder Liabilities have been addressed and resolved, and permits the Rehabilitator to timely address and distribute *pro rata* dividends in accordance with Section 210 of the Code, 215 ILCS 5/210, to each of these successive creditor classes according to their priority.

30. J. Kevin Baldwin is the Acting Special Deputy Receiver for the Rehabilitator, and had full power and authority to execute this Stipulation. Mr. Baldwin is admitted to practice law in the State of Illinois, and hereby verifies that the facts set forth in the Rehabilitator's Amended

Plan Petition and supporting memoranda are true and correct to the best of his knowledge, information and belief.

31. William O'Farrell is the Chief Executive Officer of Premia.

Dated this 30th day of November 2018.

PREMIA HOLDINGS INC.

William E. O'Farrell, individually and on behalf of Premia Holdings Inc.

Under penalties as provided by law pursuant to Section 1-109 of the Code of Civil Procedure, by his signature above, William E. O'Farrell, certifies that the statements of fact set forth in paragraphs 1, 8, 14-16, 19-24, and 31 of this Joint Stipulation are true and correct, and he is informed as to matters stated in paragraphs 2-7, 9-13, 17, 18, 25, and 26-30 from his review of the record in these proceedings, his participation in the Agreement and the Transaction, and from his communications with the Director and her agents, and therefore verily believes the same to be true.

JENNIFER HAMMER, Director of the Illinois Department of Insurance as Rehabilitator of Public Service Insurance Company and Public Service Mutual Holding Company

J. Kevin Baldwin, individually and as Acting Special Deputy Receiver of Public Service Insurance Company and Public Service Mutual Holding Company

Under penalties as provided by law pursuant to Section 1-109 of the Code of Civil Procedure, by his signature above, E Kevin Baldwin, certifies that the statements of fact set forth in this Joint Stipulation are true and correct, except as to matters therein stated to be on information and belief and as to such matters he certifies as aforesaid that he verily believes the same to be true.