GOVERNMENT OF THE DISTRICT OF COLUMBIA
INSURANCE ADMINISTRATION
441 4th Street N.W. Suite 870 North
Washington, D.C. 20001

IN THE MATTER OF THE APPLICATION OF ACACIA MUTUAL LIFE INSURANCE COMPANY FOR APPROVAL OF A PLAN OF REORGANIZATION	))))))	**Case Number A-MHC-97-01**

Decision and Order

Jurisdiction

This matter came before Interim Insurance Commissioner Patrick Kelly (Commissioner), District of Columbia Insurance Administration (hereinafter DCIA) on March 27, 1997 and March 28, 1997 pursuant to the Mutual Holding Company Act of 1996 , effective September 20, 1996, (D.C. Law 11-159; D.C. Code Section 35-3721, et seq.) (MHC Act); the Holding Company System Act of 1993, effective October 21, 1993 (D.C. Law 10-44; D.C. Code Section 35-3703, et seq.) (HCS Act); and the D.C. Administrative Procedures Act, D.C. Code Section 1-1501 et seq. (1981) for the purpose of considering whether the proposed reorganization of Acacia Mutual Life Insurance Company (Acacia Mutual), a D.C. domiciled mutual life insurance company chartered by an Act of Congress and subject to the insurance laws of the District of Columbia, should be authorized and approved.

Procedural History

The above-captioned Application Case Number A-MHC-97-01, was filed with DCIA on January 24, 1997. A public hearing was held before the Commissioner on March 27 and 28, 1997, at the District of Columbia Insurance Administration pursuant to the MHC Act and the HCS Act, and notice was duly given, for the purpose of considering whether the proposed reorganization of Acacia Mutual should be authorized and approved by the Commissioner.

Participating at the hearing on behalf of Acacia Mutual were Robert M. Willis, Lead and Regulatory Counsel; Charles T. Nason, Chairman, President and CEO; Robert - John H. Sands, Senior Vice-

President and General Counsel; Paul L. Schneider, Senior Vice President and Chief Financial Officer; Haluk Ariturk, Senior Vice President of Operations and Chief Actuary; Beth A. Andreozzi, Counsel, Charles Carroll, partner, Ernst & Young,; Richard G. Clemens, partner, Sidley & Austin; and Gary R. Stephani, partner, Coopers & Lybrand. Participating on behalf of the Insurance Administration were Reginald Berry, Acting Deputy Commissioner, Rhonda Davis, Attorney Advisor; Kathy Rickford, General Attorney; Leslie Johnson, Legislative Liaison; Larry Hinton, Senior Attorney and Thomas Hampton, Assistant Deputy Commissioner, Financial Examination Bureau.

Acacia Mutual policyholders received notice of the hearing, together with a Policyholders Information Statement containing the information required by the Commissioner on March 5, 1997. Notice of the Public Hearing was published in the D.C. Register on February 28, 1997, 44 DCR 1199.

No policyholders appeared at the hearing and no policyholder presented evidence in opposition to the application for reorganization. However, several policyholders did write letters to Acacia and DCIA expressing concerns as well as inquiring about the reorganization. These letters were introduced into the record at the hearing and representatives of Acacia presented testimony responding to some of these letters. (Government Exhibits 1 - 8).

During the course of the hearing, representatives of Acacia Mutual presented testimony supporting the proposed Reorganization and were cross examined by DCIA. Subsequent to the hearing, and before the record closed, Acacia Mutual forwarded to DCIA copies of written responses they submitted to concerned or interested policyholders regarding the proposed reorganization.

According to Acacia Mutual a Special Meeting of policyholders was held on April 8, 1997, to vote on the proposed Reorganization. Policyholders voted either by mail or in person to approve the reorganization by a margin of 27,752 For and 1,894 Against, or on a percentage basis 93.6% For and 6.4% Against.

At the hearing the Commissioner indicated that the record would remain open for 10 business days until April 11, 1997, at which time all submissions were to be made and the record would close. Acacia Mutual made all submissions before April 11, 1997. A proposed decision and order was required to be submitted by April 21, 1997.

Issues Considered

The following issues were considered:

1. Whether the interests of policyholders are properly protected under Acacia Mutual's proposed plan or reorganization.

2. Whether Acacia Mutual's proposed plan of reorganization is fair and equitable to the policyholders.

Analysis

The Application of Acacia Mutual is the first to be received and considered by the Insurance Commissioner under this new statute. This matter has its roots in the enactment of the MHC Act. The Council of the District of Columbia, in enacting The MHC Act during 1996, authorized a new corporate structure for D.C. mutual insurance companies. The MHC Act allows a mutual insurance company to reorganize by forming a mutual holding company to be the repository of the membership interests of the mutual insurance company's policyholders (i.e., voting control and rights provided in the charter and bylaws and such other rights as provided by law). The mutual insurance company continues its corporate existence as a stock insurance company. All of the initial shares of the capital stock of the stock insurance company are required to be issued to the mutual holding company and it must at all times directly or indirectly retain ownership and control of a majority of the voting shares of the stock insurance company. This newly authorized reorganization of mutual insurance companies, appears to be innovative. Reorganization under the MHC Act potentially allows D.C. mutual insurance companies needed access to capital markets, while avoiding an immediate public offering of the entire company or the distribution of assets sometimes associated with traditional demutualizations.

Although the statute authorizing this reorganization of D.C. mutual insurance companies is new, procedures for approval are provided in the MHC Act and provisions of the HCS Act have been administered by the Commissioner of Insurance for twenty-three (23) years. The MHC Act provides that the Commissioner of Insurance may approve a proposed reorganization if satisfied that the interests of the policyholders are properly protected and the plan of reorganization is fair and equitable to the policyholders. D.C. Code Section 35-3721 (b). Further, the Commissioner of Insurance by letter dated May 6, 1996, required, inter alia, that the financial condition of Acacia Mutual and the surviving stock insurance company must not be diminished as a result of the reorganization. These approval standards are similar to those provided by other transactions under District of Columbia insurance laws and applied by the Insurance Commissioner for many years.

The standard for approval of the Plan stems from Section 2(b) of the MHC Act, D.C. Code Section 35-3721(b)(1997 Supp.). Section 2(b) expressly states that the Commissioner shall approve a Plan of Reorganization "... if satisfied that the interests of the policyholders are properly protected and that the plan of reorganization is fair and equitable to the policyholders..." Section 2(b) of the MHC Act also states that a reorganization is subject to the provisions of Section 4(g)(1) and Sections 4(a), (b) and (c) of the Holding Company System Act, D.C. Code Section 35-3703.

1. **Whether the interests of the policyholders are properly protected under Acacia Mutual's proposed Plan of Reorganization?**

In order to determine that Acacia Mutual's proposed Plan of Reorganization properly protects the interests of the policyholders. The Plan must comply with the plain language and intent

of the MHC Act. In Jones v. District of Columbia, an appeals court in this jurisdiction explained that "[i]t is elementary that a statute is to be read in the light of the problems it was designed to resolve, and the court must find every intendment in favor of the validity of the act and necessary to its purpose." 212 F. Supp. 438, 443 (D.C.D.C.), aff'd, 323 F. 2d 306 (D.C. Cir. 1963). The MHC Act is intended to permit the formation of mutual insurance holding companies, subject to clearly specified conditions. These purposes include the ability to access external equity capital and engage in mergers and acquisitions. Acacia Mutual has satisfied or is in the processing of satisfying the specific conditions set forth in the MHC Act for approval of a plan of reorganization.

Representatives of Acacia Mutual testified at the Hearing and submitted Memoranda and filings to the Insurance Administration supporting its assertion that it has complied with or is in the process of complying with the statutory requirements and purpose of the MHC Act. For instance, among other testimony, Mr. Sands testified that Acacia Mutual has fulfilled or is working to fulfill the procedural requirements imposed by the MHC Act and the Insurance Administration including, but not limited to, attained approval of the Plan by the Board of Directors, provided policyholders with adequate information to prepare to vote for the Plan (a copy of the Policyholder Information Statement, including the proposed Plan), commenced the voting process by providing notice of the Special Policyholder Meeting and the Public Hearing (mailed to policyholders by first-class mail in a separate prominently marked envelope), holding a vote by ballot and seeking approval or opinion letters from other relevant regulators. Sands Test. pp. 90-95; see also Sands Test. p. 156 (testifying that Acacia's submissions to the Insurance Administration have satisfied the requirements regarding voting rights as set forth in sections 4(a)(b)(c) of the MHC Act); Sands Test. p. 165 (testifying that Acacia's submission of financial statements, the Policyholder Information Statement and the testimony presented at the hearing meets requirements regarding proving the financial condition of the company); Sands Test. pp. 96-100 (listing sections and articles in Acacia's Plan which satisfy statutory requirements.); Acacia Mutual filings to the Insurance Administration dated October 25, 1996, January 24, 1997 and February 3, 1997; Memorandum of Points and Authorities filed with the Insurance Administration on April 21, 1997.

Representatives of Acacia Mutual maintain that policyholders' membership interests remain unchanged and are not prejudiced by the reorganization. Among other testimony at the Hearing regarding this issue, Acacia's Chairman, President and CEO testified that this proposed reorganization will not change the premiums or reduce policy benefits, values, guarantees or any other obligations of Acacia Mutual to its policyholders. (Nason Test. p. 24.) Further examples of Acacia Mutual testimony include statements of Haluk Ariturk that the reorganization will not change but reposition policyholder rights to align them with the new corporate structure and explaining that the reorganization will separate the contract rights and membership interests of the policyholders, (Ariturk Test. p. 174); Testimony of Robert-John H. Sands explaining that the nature of the policyholder's interests does not change by virtue of the reorganization, (Sands Test pp.134-136); Testimony of Charles Carroll that [w]hen a mutual company converts to a stock company either as part of a demutualization or in this case in connection with the formation of a mutual holding company, the participating policyholders' contractual rights to participate in the company's earnings are not affected. (Carroll Test. p. 178).

Testimony presented at the Hearing also included evidence that Acacia Mutual has undertaken appropriate measures to ensure the interests of current policyholders are not adversely effected. Examples of that testimony are as follows: Sands Test. pp. 96-100 (itemizing specific articles and sections in the Plan which protect policyholders' interests.); Ariturk Test. pp. 175-76 (explaining that Acacia has made a commitment to ensure that future dividends will continue to be paid as declared by the Board of Directors of Acacia Life); Carroll Test. pp. 183-84 (reiterating the three significant commitments Acacia Mutual made to ensure policyholders interests in dividends are not prejudiced in Annex F to the Policyholder Information Statement.); Annex F to the Policyholder Information Statement.

Representatives of Acacia Mutual proffered that under the proposed plan, policyholders' membership interests are transferred to the mutual holding company, Acacia Mutual Holding Company. Acacia Mutual Holding Company will own 100% of the common stock of the reorganized stock life insurance company. In short, policyholders' membership interests are not "given up" but they are simply transferred to the mutual holding company. Under the Plan, as is the case before the reorganization, policyholders' membership interests will not consist solely of voting rights. As specified in Annex F, protections are afforded for the maintenance of policyholder dividends. In the unlikely event of a dissolution or liquidation of a solvent mutual holding company, the members of the mutual holding company will be entitled to a liquidating distribution from its assets in the same way that members of a solvent mutual life insurance company would presently be entitled to a liquidating distribution.

They further proffered that as a general principle, membership interests do not include a right to a distribution of surplus as a result of this proposed reorganization. Membership interests in a mutual insurance company or mutual insurance holding company are not common stock or the equivalent of stock or a security. Until a distribution is made, a policyholders has no title to any part of the surplus. See Greef v. Equitable Life Assurance Society of United States, 160 N.Y. 19, 54 N.E. 712 (NY Ct. App. 1899). Policyholders do not have a divisible and vested interest in the surplus of a mutual insurance company. See Ashurst v. Preferred Life Assurance Society of Montgomery, 209 So. 2d 403 (Ala. 1968).

According to the Acacia, the Plan and conversion to a stock life insurance company does not reduce the equity (i.e. surplus) which supports the liabilities owed to policyholders. Moreover, under Section 5(a) of the MHC Act the assets of the mutual insurance holding company are available to satisfy claims of the stock life insurance company's policyholders in the event of the insurance company's insolvency. The Plan permits Acacia Mutual to access the equity markets and, thus, increase the equity available to satisfy liabilities owed to policyholders. Since the Plan includes specific protections for the payment of dividends (see Annex F to the Policyholders Information Statement), there is no basis for concluding that the Plan would prejudice the policyholders or reduce the security of policyholders' interests.

Representatives of Acacia Mutual testified that the appropriate interpretation of the term "policyholders" in the MHC Act means policyholders as of the date of the Commissioner's decision regarding approval of the Plan or, in other words, current policyholders. Robert-John H. Sands of Acacia Mutual testified that the MHC Act requires that the "[P]lan is fair and equitable to our existing policyholders." He also explained that the Commissioner's fairness determination should be measured with regard to those who are policyholders at the time of the determination. See, Acacia Mutual's Memorandum of Points and Authorities filed with the Insurance Administration on April 21, 1997 giving legal support for their position.). Acacia Mutual also presented testimony specifically regarding protections to the policyholder. See infra pp 6-7

Acacia Mutual contends that sufficient regulatory supervision is in place to protect the interests of Acacia Mutual policyholders and to comply with the MHC Act. Representatives of Acacia Mutual testified that the plain language of the MHC Act, Section 2(b), supports its proposition by expressly stating that the Commissioner of Insurance shall retain jurisdiction over the mutual insurance holding company and shall have the power to issue regulations, if necessary, to protect the interests of the policyholders. Richard Clemens and Rob Sands both mentioned during the course of their testimony that the Commissioner retains jurisdiction at all times over any mutual insurance holding company to assure that policyholders' interests are protected..

Several criticisms filed opposing the Plan are, in essence, expressing dissatisfaction with the statute itself. For example, the contention that the regulatory power of the Commissioner would be weakened by the mutual holding company statute, is inappropriate and not pertinent to the question of whether a particular reorganization would properly protect policyholders interests. After the proposed reorganization, Acacia Mutual will continue to be regulated by the Commissioner under the MHC Act and other provisions of District of Columbia insurance law. Under such supervision, the Commissioner has the authority to promulgate any additional regulatory requirements to protect the interest of policyholders, should the need arise.

ACCORDINGLY, the Commissioner finds that the interests of the policyholders are properly protected by the Acacia Mutual Plan of Reorganization. However, pursuant to Section 2(b) of the MHC Act, the Commissioner retains jurisdiction over Acacia Mutual to assure that policyholder interests are continuously protected in the future.

2. **Whether Acacia Mutual's proposed plan of reorganization is fair and equitable to the policyholders?**

Pursuant to Section 2(b) of the MHC Act the Commissioner shall approve a proposed plan of reorganization after a public hearing if two requirements are satisfied. The first requirement that must be satisfied is whether the interests of the policyholders are properly protected, discussed supra. The second requirement that must be satisfied is whether the proposed plan of reorganization is fair and equitable to the policyholders.

Acacia Mutual's witnesses testified that the Plan will not jeopardize the Company's financial stability or reduce the security of policyholder interests, but it will better serve Acacia's financial strategic interests. Paul Schneider, Senior Vice President and Chief Financial Officer explained that the Plan will give Acacia the flexibility to finance future growth, currently unavailable with the mutual organizational structure, so it may remain competitive in the industry. He also testified that Acacia Mutual is a financially strong company and explained several one time events which contributed to the company's statutory loss for 1996. Mr. Schneider also testified that "[c]onsummation of the reorganization is not intended to adversely affect Acacia's current insurance business." He explained that the Plan will create more flexibility for the planning and operating of Acacia's businesses including supporting the following strategic initiatives: building supplemental distribution channels, making all distribution channels more economical, positioning Acacia to more effectively raise capital through mergers and acquisitions and growing Acacia's business to achieve economies of scale and profitability. Additionally, he testified that, despite Acacia's financial strength, it is facing serious challenges to maintain market share in an increasingly competitive industry. Schneider also explained that the mutual structure confines the company's ability to combat challenges resulting from a consolidation movement in the industry, new entrants into the industry such as mutual funds and banks and the pressure to offer competitive value added products.). He also testified that industry rating agencies have generally reacted favorably to industry consolidation and can be expected to focus on rating a company based on its ability to grow and survive in the current atmosphere.

Acacia Mutual's witnesses testified that the Reorganization is believed to offer many benefits to Acacia Mutual and its policyholders. Several benefits were noted, such as, additional strategic flexibility; positioning the company to gain access to capital for growth; increased operating efficiencies, a larger revenue base over which to spread product, operating and other cost; facilitate potential acquisitions by providing the ability to pursue stock to stock mergers, as well as, mutual to mutual mergers; the use of debt or equity as a consideration in addition to cash to finance any acquisition transaction; potential of avoidance or mitigation of the differential earnings tax imposed on mutual insurance companies; responsiveness to increasing emphasis by rating agencies on the ability of a life insurance company to raise capital; and positioning to take advantage of future diversification opportunities.

Membership interests do not include a right to a distribution of surplus as a result of this proposed reorganization. Until a distribution is made, a policyholders has no title to any part of the surplus. (See, discussion supra under issue 1).

An identical legal analysis has been made in a number of cases in which mutual savings and loan associations converted to stock form. In these cases, subscription rights in common stock were offered to the depositors, but no mutual holding company was formed. In the case of Lovell v. The One Bancorp., 614 A. 2d 56 (Supreme Judicial Court of Maine 1992). The court said: "Courts have held consistently that the concept of ownership in the mutual savings context is quite different from our common understanding of equity ownership [citing cases]...Significant characteristics of ownership are missing in the mutual context." Id. at 66-67. The court points out that the depositors in a mutual institution have no legal title to the surplus of the institution. The court states at 67: "A

depositor's interest in a pro forma distribution of the bank's surplus is a mere contingency and cannot be realized unless the bank liquidates while solvent; an unlikely event. Plaintiffs are not entitled to receive cash or free stock for an interest that 'hardly rises to the level of an expectancy.' [Society for Savings of Cleveland v.] Bowers, 349 U.S. at 150, 75 S. Ct. at 611." Similarly, in the case of York v. Federal Home Loan Bank Board, 624 F. 2d 495 (4th Cir. 1980), the court said that the interest of depositors "is essentially that of creditors of the association and only secondarily as equity owners... and their only opportunity to realize a gain of any kind would be in the event the savings and loan association dissolved or liquidated." Id. at 499-500.

Finally, it should be noted that the MHC Act, unlike demutualization laws in states such as New York, does not require any distribution to policyholders in connection with the mutual holding company reorganization. Since only the form of organization is changed by the reorganization and the members retain membership interests in the mutual holding company, nothing is "given up" in this proposed Plan, which does not include a distribution of surplus. The reorganization only changes the corporate form of the membership interest.

ACCORDINGLY, the Commissioner finds that Acacia Mutual's proposed Plan of Reorganization is fair and equitable to the policyholders since there is no distribution of surplus and no current issuance of stock. However, the Plan does allow and anticipates the issuance of stock. In order to protect the future interest of policyholders, the Commissioner retains jurisdiction to approve distribution of surplus and the fair and equitable treatment of policyholders resulting from future stock offerings.

The ability of the intermediate stock holding company to issue debt raises the concern that policyholder interests may not be subordinated to the rights of debtholders. In the event the intermediate holding company proposes to issue debt, the Commissioner retains authority to determine whether such transaction is a "material change" under the HCS Act and whether such transaction impairs or subordinates the protection and interests of policyholders.

Findings of Facts

The Commissioner makes the following findings of fact based on the record as a whole:

1. That Acacia Mutual has filed its standard application (the "Application") with the Commissioner of Insurance, presented its Plan of Reorganization attached thereto ("Plan of Reorganization"), submitted its proposed reorganization ("Reorganization") pursuant to The MHC Act Sec. 2 to the Commissioner, and requested that the Reorganization be authorized and approved.

2. That Acacia Mutual filed in conjunction with and as a part of its Application a Statement Regarding the Reorganization.

3. That Acacia Mutual's Board of Directors unanimously approved the Plan or Reorganization on February 25, 1997.

4. That Acacia Mutual received due notice of the public hearing.

5. That Acacia Mutual policyholders received notice of the hearing duly given, together with a Policyholder Information Statement containing the information required by the Commissioner of Insurance by letter dated May 6, 1996. Notice of the Public Hearing was published in the D.C. Register on February 28, 1997, 44 DCR 1199.

6. That Acacia Mutual presented four (4) corporate officers and three (3) independent professionals as witnesses to testify and be examined at the hearing. No other individuals appeared to either offer testimony or to examine Acacia Mutual's witnesses. The Staff of the D.C. Insurance Administration cross-examined Acacia Mutual's witnesses and elicited additional evidence. No policyholders nor policyholder representatives appeared at the hearing to present testimony.

7. That policyholder and other interested persons letters were submitted to and reviewed by the Commissioner. That the Commissioner requested Acacia Mutual to respond to such correspondence. That Acacia Mutual responded to such correspondence and Acacia Mutual's reply letters were submitted to and reviewed by the Commissioner of Insurance.

8. That Acacia Mutual's witnesses testified that Acacia Mutual is facing increasing competition from all types of financial institutions; that many of these organizations are larger than Acacia Mutual and have access to capital to support growth from sources not presently available to Acacia Mutual; that internal sources of capital will not be sufficient to support the growth necessary if Acacia Mutual is to maintain its competitive viability.

9. That Acacia Mutual's witnesses testified that the Reorganization is believed to offer many benefits to Acacia Mutual and its policyholders. However, no policyholder presented testimony in opposition to Acacia Mutual's application.

10. That the Policyholder Information Statement provided adequate information and disclosure as to all material facts to Acacia Mutual policyholders for them to make an informed decision regarding the proposed Reorganization. Further, that the Policyholder Information Statement noted in bold face type that policyholders could call Acacia's Reorganization Information Center at a toll free 800# or the Insurance Administration if they had any questions or needed assistance.

11. That at a Special Meeting of the policyholders of Acacia Mutual held on April 8, 1996, the policyholders voted to approve the Plan of Reorganization by a vote of 27, 752 For and 1,894 Against, or on a percentage basis, 93.6% For and 6.4% Against.

12. That the MHC Act authorizes the reorganization of Acacia Mutual as requested in its Application, and as more particularly set out in the Plan of Reorganization, upon the authorization and approval of the Commissioner of Insurance.

13. That the Articles of Incorporation of Acacia Mutual Holding Company, ("AMHC"), a copy of which is attached to the Plan of Reorganization, and the formation of Acacia Mutual Holding Company pursuant to the Reorganization is before, have been forwarded to the Office of the Corporation Counsel for review and approval.

14. That upon the Reorganization the policyholders of Acacia Mutual will become members of Acacia Mutual Holding Company and their membership interests in Acacia Mutual will become membership interests in Acacia Mutual Holding Company and their membership interests in Acacia Mutual will be extinguished.

15. That the Reorganization will not reduce, in any way, change the premiums or reduce policy benefits, values, guarantees or other policy obligations of Acacia Mutual to its policyholders. That policy dividends will continue to be paid as declared by the Board of Directors of Acacia Life in accordance with the same principles and policies in place prior to the Reorganization, although, dividends may vary from year to year. That the evidence demonstrated that Acacia Mutual's "Post-Reorganization Dividend Principles and Policy" set forth in Annex F to its Policyholders Information Statement provides proper protection to policyholders and there is no need to establish a "closed block" for the benefit of the policyholders.

16. That the Amended and Restated Articles of Incorporation of Acacia Mutual, a copy of which is attached to the Plan of Reorganization, by which Acacia Mutual changes its name to Acacia Life Insurance Company, a stock company, is before to the Office of the Corporation Counsel for review and approval.

17. That the Articles of Incorporation of Acacia Financial Group, Ltd. ("The Acacia Group"), a copy of which is attached to the Plan of Reorganization, and the formation of Acacia Financial Group, Ltd. ("The Acacia Group"), pursuant to the Reorganization, have been forwarded to the Office of the Corporation Counsel for review and approval.

18. That the corporate existence of Acacia Mutual after the Reorganization continues as Acacia Life Insurance Company without interruption from March 3, 1869, the date of its original incorporation.

19. That the financial condition of Acacia Mutual before the Reorganization and the subsequent and probable future financial condition of Acacia Mutual as a stock life insurance company have been assessed, and the financial condition of Acacia Mutual and the surviving companies will not be diminished or adversely affected by the reorganization.

20. The Plan, as presented, will not jeopardize Acacia Mutual's financial stability or reduce the security of policyholders' interests. Further, the policyholders' membership interests are not prejudiced as a result of the reorganization.

Conclusions of Law

The Commissioner makes the following conclusions of law pursuant to the Mutual Holding Company Act of 1996,(D.C. Law 11-159 ; D.C. Code Section 35-3721, et seq.) ; the Holding Company System Act of 1993, (D.C. Law 10-44; D.C. Code Section 35-3703, et seq.)

1. The Plan is consistent with the statutory requirements and purpose of the MHC Act;

2. The interests of current policyholders are properly protected and the plan is fair and equitable to current policyholders subject to the conditions and undertakings cited below;

3. Except for the conditions and undertakings set forth below, additional regulatory requirements are not necessary to comply with the Mutual Holding Company Act or protect policyholder interests; and

4. The Commissioner of Insurance is authorized to retain jurisdiction over Acacia Mutual Holding Company to assure that policyholder interests are protected, and that AMHC, any intermediate insurance holding company, and Acacia Life Insurance Company will be subject to ongoing regulation by the Commissioner of Insurance.

Order

IT IS THEREFORE ORDERED that the proposed Reorganization of ACACIA MUTUAL LIFE INSURANCE COMPANY pursuant to The MHC Act, D.C. Code, Sec. 35-3705, and as required by the Commissioner of Insurance by letter dated May 6, 1996, as provided in the Plan of Reorganization be and IS HEREBY AUTHORIZED AND APPROVED subject to the satisfaction of the following five (5) conditions and two (2) undertakings:

IT IS FURTHER ORDERED that in the event the company decides to initiate a stock offering, the plan must be submitted for the Commissioner's review and approval of the fair and equitable treatment of policyholders.

Conditions:

1. The articles of incorporation of Acacia Mutual Holding Company ("AMHC") and the amended and restated articles of incorporation of Acacia Life and the articles of incorporation of The Acacia Financial Group, Ltd. ("The Acacia Group") must be approved and certified by the Corporation Counsel for the District of Columbia;

2. Acacia Mutual Life Insurance Company ("Acacia Mutual") must receive certain opinions or letters on tax matters pursuant to Sec. 3.3(c) of the Plan of Reorganization;

3. Acacia Mutual must receive certain opinions or letters on securities matters pursuant to Sec. 3.3(d) of the Plan of Reorganization;

4. The Office of Thrift Supervision ("OTS") shall not have objected to or, alternatively, shall have approved the Reorganization; and

5. The Commissioner of Insurance for the District of Columbia must re-issue Acacia Mutual's certificate of authority as Acacia Life Insurance Company, a stock life insurance company.

UNDERTAKINGS

1. Acacia Mutual Holding Corporation ("AMHC") shall not, without the prior written approval of the Commissioner of Insurance of the District of Columbia, engage in any business or make any investment except that AMHC may invest in insurance companies or intermediate stock holding companies as permitted by The Mutual Holding Company Act of 1996 and may engage in any business, make any investment or own any subsidiary permitted to be engaged in, made or owned by a domestic insurer or a subsidiary of a domestic insurer under the insurance laws of the District of Columbia, including, without limitation, D.C. Code Sections 35-634 and 35-2702. If an investment by a domestic insurer is permitted to be made under the insurance laws of the District of

Columbia but is subject to limitation based on the domestic insurer's admitted assets or surplus, such limitations shall not apply to AMHC so long as such investments are made in companies or other entities engaged in any business reasonably ancillary to the insurance business, such as a depository institution, investment company, investment advisor, broker-dealer, finance company, mortgage banking company, financial intermediary, firm providing financial services or services relating to the operation of a financial services business (e.g., actuarial, claims, data processing, accounting, etc.), or similar entity. If such investments do not relate to ancillary businesses and would be subject to limitation if made by a domestic insurer, such investments by AMHC shall be limited to the lesser of 10% of AMHC's assets or 50% of AMHC's net worth unless otherwise approved by the Commissioner of Insurance.

2. Regarding post-reorganization dividend principles and policy, Acacia Life Insurance Company ("Acacia Life") commits to continue to follow the dividend principles and policy outlined in Annex F of the Policyholder Information Statement until the last pre-reorganization policy has terminated, unless otherwise approved by the Commissioner. To provide assurances to the Commissioner that the dividend principles and policy outlined in Annex F continue to be followed by Acacia Life, the following will be implemented:

a. Dividend apportionment practices will be a specific area of review as part of periodic regulatory examinations.

b. The Commissioner will be notified annually of all dividend scale actions affecting pre-reorganization policies.

c. Acacia Life will provide annually to the Commissioner a certification by its Chief Actuary to the effect that the dividend principles and policy outlined in Annex F continue to be followed.

Dated this 21st day of May, 1997.

Patrick Kelly
Interim Commissioner of Insurance

Released June 3, 1997.