

Final Resolution of Regulatory Review

Value of Membership Interest

Background

DISB and its counsel assert that the members of Amalgamated Casualty Insurance Company (“Amalgamated” or the “Company”) have an economic interest in the capital and surplus of Amalgamated. DISB counsel cited two cases in other jurisdictions (neither of which Amalgamated believes applies or supports DISB’s position) as well as 31-3931.01(15) of the D.C. Code pertaining to Captive Insurance Companies (the “Captive Law”) which states that “Mutual insurer means an incorporated insurer without any issued and outstanding stock whose capital and surplus are owned by its policyholders”. Amalgamated and its advisers do not believe the Captive Law has any legal relevance in the context of the proposed Amalgamated demutualization and believes that the Demutualization Act applies. The purpose of this memorandum is to, among other things, outline a basis for settlement of this disagreement.

Amalgamated does agree that a policyholder in a D.C. mutual insurance company, by statute, has an economic interest in the capital and surplus, but that such economic interest is limited to two scenarios: (i) when a mutual company pursues a solvent, voluntary dissolution (the “Solvent Dissolution”), in which case policyholders receive the residual assets, and (ii) in a demutualization, in which case the policyholders receive the right to purchase the capital and surplus of the converting company as prescribed by the Demutualization Act.

Amalgamated has noted that a Solvent Dissolution is a purely theoretical scenario for a number of reasons. Assuming the Board of Amalgamated, of which half are also policyholders, would approve such a Solvent Dissolution, such an action would then require DISB approval. Assuming DISB would approve a Solvent Dissolution, which we cannot imagine is likely (e.g., DISB’s 2011 Form A approval of MCW Holdings’ acquisition of American Risk Management included a prohibition on voluntary dissolution of Amalgamated), there are a host of theoretical and practical implications that follow. These include market disruption, loss of employment by Amalgamated’s employees, initiation and timing of any surplus distribution, and the allocation of the distribution among differently situated members. It should be noted that most current members had little to do with the accumulation of the Company’s surplus over the last 80+ years. The average Amalgamated member has maintained their policy with the Company for approximately 4.5 years; the median has maintained their policy with the Company for approximately 2.5 years. 65% of members have maintained their policy with the Company for less than 5 years and 93% of members have maintained their policy with the Company for less than 10 years.

DISB and its counsel acknowledge that the Captive Law cannot mean that in a demutualization, members are entitled to receive all of the capital and surplus of the converting mutual company, as this would directly contradict the statutory scheme established by the Demutualization Act, which is meant to facilitate the creation of capital to support the ongoing business operations of a demutualized insurance company. To reiterate its position, Amalgamated believes that the “appropriate value” to be distributed to members in exchange for their membership interests in the context of a demutualization is explicitly defined in the

Demutualization Act (and that this statutory scheme has been followed in prior D.C. demutualization transactions such as NCRIC’s 2003 demutualization). § 31–906(e)(1) of the Demutualization Act states that a plan of conversion “shall provide that each eligible member is to receive, without payment, nontransferable subscription rights to purchase a portion of the capital stock of the converted stock company.” Amalgamated notes that this position is supported by precedent in the District of Columbia and in other states with similar statutory schemes. Consistent with § 31–906(e)(1) of the Demutualization Act, the Amalgamated Plan states that Amalgamated members will receive, without payment, nontransferable subscription rights.

The Amalgamated board of trustees (the “Board”) made the voluntary decision to enhance the subscription rights granted to policyholders by making them redeemable subscription rights which, objectively, make them more valuable than non-redeemable subscription rights (and thus makes the consideration being offered to Amalgamated members under the Plan superior to what is required pursuant to § 31–906(e)(1) of the Demutualization Act). Once again, the method Amalgamated used to establish the value of the subscription rights to be distributed to policyholders was based on § 26.1-12.2-03 of the North Dakota Demutualization Act (the “North Dakota Act”). The valuation of the subscription rights, consistent with the North Dakota Act, relied on the Black-Scholes option-pricing model. The updated appraisal, performed at DISB’s request, calculated the per-member value of these subscription rights to be approximately \$1,500 (the “Subscription Rights Value”). Amalgamated notes that while most of the inputs in the Black-Scholes option-pricing model are “fixed”, this model does rely on certain more “subjective” inputs, namely the term of the underlying option. Amalgamated notes that its appraiser used a term of 90 days, which is consistent with the term used in the Nodak demutualization.

(\$000s)	
<u>Proposed transaction "as is" (i.e. redeemable subscription rights)</u>	
Pre-Transaction Capital & Surplus	38,745
Eligible Members	1,589
Subscription Rights (per updated midpoint)	2,850
Subscription Rights Per Member	1,794
Notional Value of Subscription Right (per update)	\$ 0.84
Per Member Value	\$ 1,506.61
Aggregate Value to Members	2,394
% Pre-Transaction Capital & Surplus	6.2%

Notwithstanding the fundamental conceptual disagreement described above, DISB and its counsel have stated that they believe that (i) the redeemable subscription rights granted to members pursuant to the Amalgamated Plan, and the value of such rights calculated using the Black-Scholes option-pricing model, are but one of possibly multiple methods which could be utilized to determine the “appropriate value” to be distributed to members in exchange for their membership interests, and (ii) they would like Amalgamated to engage its independent appraiser to undertake an analysis, using a different methodology, to calculate the “appropriate value” to be offered to members in exchange for their membership interests (the “Alternative Value of Members’ Interest”).

Summary of Approaches

This memo includes three (3) data points for DISB and its counsel to consider in determining the “appropriate value” to be offered to members in exchange for their membership interests. One is the existing Black-Scholes model and the other are two additional methods described herein. Although we have consulted with Boenning regarding the new methods employed below, Boenning has not yet been engaged

to perform any additional analysis and may reach different conclusions, although Amalgamated would not expect any material deviation from the values derived herein.

1. **Nodak comparison.** Based on metrics from the Nodak demutualization in 2017.
2. **Actuarial methodology.** High-level analysis that relies on an accepted actuarial framework where the value of members' interest is deconstructed into two components: (i) value of members' "voting interest" and (ii) value of members' historical contribution to the growth in the mutual company's capital and surplus.
3. **Saucon analysis.** Replicates analysis performed on behalf of the Pennsylvania Insurance Department as part of the Saucon Mutual Insurance Company ("Saucon") 2017 demutualization.

Nodak Comparison

Amalgamated believes that the most applicable data point is the Nodak demutualization in 2017. Like Amalgamated, Nodak's demutualization was a "capital raising exercise", Nodak was a going concern, Nodak was growing its business, and Nodak used the capital to increase the capitalization in its existing insurance companies. Nodak, using the redeemable subscription rights feature Amalgamated has proposed, distributed "total value" to its members of 4.3% of pre-transaction capital and surplus, as shown below:

	Nodak	Amalgamated
Pre-Transaction Capital & Surplus	141,344	38,745
Subscription Rights	9,000	2,850
Eligible Members	27,915	1,589
Rights Per Member	322	1,794
Value Per Right	\$ 0.67	\$ 0.84
Per Member Value	\$ 215.74	\$ 1,506.61
Aggregate Value to Members	6,022	2,394
% Pre-Transaction Capital & Surplus	4.3%	6.2%

Actuarial Methodology

High-level analysis which relies on an accepted actuarial framework where the value of members’ interest is deconstructed into two components: (i) value of members’ “voting interest” and (ii) value of members’ historical contribution to the growth in the mutual company’s capital and surplus.

- **Value of “voting interest”.** There is precedent, primarily from life insurance demutualizations, which supports that a component of the total value of members’ interest is the value of members’ “voting interest”, which equates to a fixed amount per member. Our initial research indicates that this fixed component typically averages less than \$500 per member. For purposes of this preliminary analysis, Amalgamated has ascribed a value of \$500 per member to this “voting interest”.
- **Historical contribution by eligible members to mutual company’s growth in capital and surplus.** In terms of member demographics, Amalgamated’s members have an average tenure of approximately 4.5 years and a median tenure of approximately 2.5 years. 93% of Amalgamated’s members have a tenure of less than 10 years. Here are some data points that are relevant:

(\$000s) <i>Increase (decrease) in capital and surplus</i>	<u>Amalgamated Members</u>		<u>Hypothetical Last 10 Yrs.</u>
	<u>Average</u>	<u>Median</u>	
Period (Years)	4.5	2.5	10.0
Increase (decrease) in capital and surplus	(4,076)	2,530	3,347

Summary of Indicated Values

Even in a hypothetical scenario where Amalgamated distributes to members ten (10) years’ of growth in capital and surplus (which is not consistent with the actual demographics of the Amalgamated membership, and is therefore more generous than what an in-depth analysis which incorporates the specific demographics of the Amalgamated membership would yield), the maximum indicated value is approximately \$4.1 million, or approximately \$2,600 per member.

(\$000s)	<u>Amalgamated Members</u>		<u>Hypothetical Last 10 Yrs.</u>
	<u>Average</u>	<u>Median</u>	
Eligible Members	1,589	1,589	1,589
I. Value of Voting Interest			
Per Member Value of Voting Interest	\$ 500.00	\$ 500.00	\$ 500.00
Aggregate Value of Voting Interest	795	795	795
II. Value from Contribution to Increase in Capital and Surplus			
Period (Years)	4.5	2.5	10.0
Increase (Decrease) in Capital and Surplus	(4,076)	2,530	3,347
Value from Contribution to Increase in Capital and Surplus (min. \$0)	-	2,530	3,347
Total Implied Value of Membership	795	3,324	4,141
% Pre-Transaction Capital & Surplus	2.1%	8.6%	10.7%
Per Member	\$ 500	\$ 2,092	\$ 2,606

Saucon Analysis

DISB and its counsel have referenced an analysis performed by StoneRidge Advisors, LLC (“StoneRidge Analysis”) in the context of the demutualization of Saucon Mutual Insurance Company (“Saucon”), a Pennsylvania mutual insurance company.

Business Context

Saucon was primarily a permanent homeowners company that converted from mutual to stock form in 2017. Saucon had not written new business since 2005; it had been effectively in “runoff” (i.e., “dissolution”) for twelve (12) years prior to its conversion. From a legal and regulatory standpoint, Saucon was a demutualization. From a practical standpoint, it was the acceleration of a runoff process (i.e., a “financial settlement” with members). It was not a “capital formation” exercise (like the Nodak demutualization or the proposed Amalgamated demutualization) and did not result in additional capitalization nor did it have any ongoing favorable benefits to members. Because the business had been in “dissolution” for twelve (12) years, by virtue of their position as members, Saucon policyholders had an interest in the residual capital and surplus of Saucon (the “Residual Capital”). This Residual Capital could either be paid out over a number of years (i.e., over the life of the dissolution) or be paid out up-front at a discounted value. The Saucon demutualization was also effectively an outright acquisition, as 91% of the stock was acquired by three (3) individual investors.

There is very little from a business standpoint that is comparable to the Amalgamated demutualization (other than the fact that Saucon was a mutual and it, from a legal standpoint, “converted” to stock form). The conversion did not deliver to Saucon members any of the benefits that Amalgamated conversion will deliver to members (additional capital to invest in business, technology, grow product offerings, improve financial strength rating, attract high quality employees, etc.). Amalgamated is a going concern, is not in runoff, will continue to write new business for its existing customer segments, and will invest a substantial amount of capital into the demutualized insurance company, etc. – i.e., Amalgamated demutualization is a “capital formation” transaction (not an acceleration of a runoff process already underway) and it will have a positive impact on members prospectively in many ways.

StoneRidge Analysis

Because Saucon was effectively in runoff at the time of its conversion, the StoneRidge Analysis was intended to quantify the value of members’ interest in the Residual Capital of Saucon. The fundamental construct is that mutual policyholders have an economic interest in the capital and surplus of a mutual company in the event of a dissolution effected as a multi-year runoff. In the event of a dissolution, policyholders of a mutual company are entitled to receive, after payment of all debts and liabilities, a pro rata portion of any liquidating distribution that is made of the mutual company’s remaining assets. The StoneRidge Analysis determined the value of members’ interest in the Residual Capital of Saucon to be \$2.4-3.2 million, which equated to 15-20% of stated capital and surplus.

Methodology	Saucon ⁽¹⁾
Capital & surplus	15,875
Discounted Cash Flow	2,209
% Pre-transaction capital & surplus	13.9%
Sum of Parts	3,370
% Pre-transaction capital & surplus	21.2%
Selected Range	2,789
% Pre-transaction capital & surplus	17.6%

⁽¹⁾ For StoneRidge Analysis, midpoint (i.e., Scenario II).

One might ask the question: why are the indicated values of members’ interest (in either the Saucon analysis, summarized above, or the Amalgamated analysis below) different from “stated capital and surplus” on the balance sheet? Consistent with the StoneRidge Analysis, the Amalgamated analysis described herein is based upon liquidation accounting (vs. going concern). As such, the StoneRidge Analysis (and the Amalgamated analysis performed herein) recognizes the practical business realities and economics of an insurance company liquidation, which include: (i) the liquidation of an insurance company does not happen overnight, it is a multi-year process, (ii) there are considerable costs associated with administering the liquidation of an insurance company over the term of the liquidation (which results in a material offset to stated capital and surplus) and (iii) the distributions of Residual Capital are made over the term of the liquidation (and, given the time value of money, the present value of such distributions of Residual Capital are less than their undiscounted value).

Consistent with the StoneRidge Analysis, the Amalgamated analysis described herein approaches things from a liquidation accounting basis (vs. going concern basis). Were Amalgamated to prepare its financial statements based on “liquidation accounting” (which would be consistent with the exercise performed herein), the Company’s stated capital and surplus would be materially lower, as the balance sheet would be adjusted to contemplate the business realities of a liquidation (i.e., declining revenue and ongoing costs of administering liquidation for a multi-year period). Importantly, stated capital and surplus as reported based on going concern accounting (i.e., the basis upon which Amalgamated produces its financial statements and which indicates approximately \$39 million of capital and surplus), is in no way indicative of what capital and surplus might be if Amalgamated were to adopt liquidation accounting (i.e., produce its financial statements using the theoretical construct underpinning this analysis). Once again, the Saucon analysis (and the Amalgamated analysis herein) calculates the value (in present value terms and reflecting the economic realities of a liquidation process) of members’ interest in a mutual company if one were to take the position that the capital and surplus of a mutual company “belongs” to the members.

Preliminary Amalgamated Analysis

Consistent with the StoneRidge Analysis, the Amalgamated analysis described herein is based upon liquidation accounting (vs. going concern). Liquidation accounting contemplates the following: (i) assets that are not readily convertible to cash are liquidated over time in an orderly manner, (ii) revenue is accrued in a manner consistent with the liquidation process contemplated, and (iii) expenses are accrued in a manner consistent with the liquidation process contemplated.

The analysis (i) contemplates the runoff of Amalgamated’s in-force business beginning at year-end 2021, and (ii) calculates the present value of distributions of residual capital and surplus during the term of the

runoff. Consistent with the Saucon analysis, Amalgamated assumes that it writes no new business during a ten-year runoff period, renewing only in-force policies at year-end 2021. Based on historical policy retention rates, the Amalgamated runoff is substantially completed in ten (10) years.

Amalgamated has presented three (3) possible scenarios described below under which undiscounted residual capital and surplus is distributed to members as Amalgamated liquidates. Distributions of residual capital and surplus are then discounted to calculate the present value of distributions of residual capital and surplus during the term of the dissolution (the “Alternative Value to Members”). This Alternative Value to Members can be presented as either a “discounted cash flow” value or a “sum of parts” value.

Policy Runoff Assumptions

- No new business policies in 2022+
- Policy retention rates in line with historical average
- In-force business at year-end 2021 runs off over 10 years
- Business substantially runoff in 10 years (i.e., in-force policies to zero by year 10)

Expense Assumptions

- Maintain only those fixed costs required to manage runoff
- Reduce expenses related to public company status (e.g., board fees, D&O insurance costs)
- Sever employment with FTEs and consultants not essential to administering dissolution
- Total FTEs reduced over time from 25 FTEs (2022) to 10 FTEs (2026 onward)

Investment Assumptions

- Liquid assets invested in investment grade fixed income securities
- Investment yield of 2.0% (10-year UST + 40 bps)

Adjustments to June 30, 2021 Capital and Surplus

- June 30, 2021 capital and surplus is rolled-forward to year-end 2021
- Adjustments made for liquidation of illiquid investments¹
- Year-end 2021 liquid capital and surplus is calculated (i.e., starting point)

¹ Estimate of realizable value, net of transaction costs, through sale to a third-party buyer within 180 days.

Illiquid investments for liquidation	Stated Value	Liquidation Value	Impl. Adjustment
Real estate			
ACIC Consolidated Properties LLC	8,744	5,380	(3,364)
Private funds			
Private funds (total)	4,112	3,931	(181)
Private equities			
Trustar Bank	217	163	(54)
stream-it.app	500	375	(125)
EAS Investors I, LP	870	653	(218)
Total	14,443	10,501	(3,941)
Est. @ year-end 2021 capital & surplus			
Capital & surplus (June 30, 2021)	38,745		
Est. 2H21 comprehensive gain (loss)	(750)		
Capital & surplus (year-end 2021)	37,995		
Liquid capital & surplus (year-end 2021)			
Capital & surplus (year-end 2021)	37,995		
Asset liquidation adjustment	(3,941)		
Liquid capital & surplus (year-end 2021)	34,054		

Weighted Average Cost of Capital

- 11.9% weighted average cost of capital
- Long-term risk-free rate of 2.1% in October 2021
- Beta of 1.3²
- Equity risk premium of 6.0%³
- Additional premium for size of 1.0%⁴

Runoff Scenarios

Scenario I

- Residual capital and surplus distributed at end of dissolution (i.e., year 10)

Scenario II

- 20% of aggregate projected future losses retained as “capital cushion” until full dissolution
- Remaining capital (i.e., net of 20% “capital cushion” described above) being “unencumbered capital”
- 10% of “unencumbered capital” returned each year via extraordinary dividend⁵
- Remaining residual capital and surplus distributed at end of dissolution (i.e., year 10)

² Based on historical beta of small company U.S. stocks (1926-2018).

³ Same as StoneRidge Analysis.

⁴ Same as StoneRidge Analysis.

⁵ Would theoretically require annual DISB approval of an extraordinary dividend.

Scenario III

- 100% of “unencumbered capital” paid on Day 1 via extraordinary dividend⁶
- Remaining residual capital and surplus distributed at end of dissolution (i.e., year 10)

Summary of Indicated Values

Following the methodologies of the StoneRidge Analysis, the range of indicated values is approximately \$3.8 million to \$7.3 million, or approximately \$2,400 to \$4,600 per member.

Scenario	Amalgamated		
	I	II	III
Pre-transaction capital & surplus	38,745	38,745	38,745
Liquid capital & surplus (i.e., runoff starting point)	34,054	34,054	34,054
Undiscounted values			
Liquid capital & surplus (i.e., starting point)	34,054	34,054	34,054
Undiscounted net loss during full-term dissolution	(23,269)	(23,778)	(24,495)
Undiscounted residual liquid capital & surplus	10,784	10,275	9,558
Discounted Cash Flow Presentation			
Undiscounted distributions			
Initial distribution	-	-	6,130
Other distributions	10,784	10,275	3,428
Undiscounted distributions	10,784	10,275	9,558
Present value of distributions			
Initial distribution	-	-	6,130
Other distributions	3,822	4,988	1,215
Present value of distributions	3,822	4,988	7,345
% Pre-transaction capital & surplus	9.9%	12.9%	19.0%
Sum of Parts Presentation			
Liquid capital & surplus (year-end 2021)	34,054	34,054	34,054
Present value of gross profit on in-force business ⁽¹⁾	7,979	7,979	7,979
Present value of cost of dissolution ⁽²⁾	(27,016)	(27,016)	(27,016)
Impact of timing of distributions of residual surplus	(11,195)	(10,029)	(7,672)
Pro forma value	3,822	4,988	7,345
% Pre-transaction capital & surplus	9.9%	12.9%	19.0%
Per Member Basis			
Eligible Members	1,589	1,589	1,589
Indicated Value Per Member	\$ 2,405	\$ 3,139	\$ 4,622
^{(1), (2)} Assumes 9.0% discount rate (per StoneRidge Analysis).			

⁶ Would theoretically require annual DISB approval of an extraordinary dividend.

Summary of Methodologies

The table below summarizes the range of values derived from the methodologies described above:

Methodology	% Capital & Surplus ⁽¹⁾			Implied Value ⁽²⁾			Implied Value Per Member		
	Low	Mid	High	Low	Mid	High	Low	Mid	High
Black-Scholes (Amalgamated)	6.2%			2,394			\$ 1,507		
Other Data Points									
Black-Scholes (Nodak)		4.3%			1,666			\$ 1,048	
Actuarial Analysis	2.1%	8.6%	10.7%	795	3,324	4,141	\$ 500	\$ 2,092	\$ 2,606
Amalgamated Run-Off Analysis (i.e., Saucon)	9.9%	12.9%	19.0%	3,822	4,988	7,345	\$ 2,405	\$ 3,139	\$ 4,622
Max	9.9%	12.9%	19.0%	3,822	4,988	7,345	\$ 2,405	\$ 3,139	\$ 4,622
Average	6.0%	8.6%	14.8%	2,308	3,326	5,743	\$ 1,453	\$ 2,093	\$ 3,614
Median	6.0%	8.6%	14.8%	2,308	3,324	5,743	\$ 1,453	\$ 2,092	\$ 3,614
Min	2.1%	4.3%	10.7%	795	1,666	4,141	\$ 500	\$ 1,048	\$ 2,606
⁽¹⁾ Expressed as % of pre-transaction capital and surplus.									
⁽²⁾ Based on Amalgamated June 30, 2021 capital and surplus.									

Amalgamated continues to believe that the Demutualization Act requires that its Plan grant to members nontransferable subscription rights, and that the Demutualization Act is controlling. Once again, Amalgamated chose to enhance those rights, making them redeemable subscription rights vs. non-redeemable subscription rights, through use of the Black-Scholes model. The valuation of the rights reflect the economic reality created by the Demutualization Act. Nevertheless, as requested by DISB, we offer the other alternatives summarized above.

Conclusion of Regulatory Review

Amalgamated understands the last demutualization in D.C. was in 2003 and therefore this is not a familiar transaction structure to DISB staff. Amalgamated believes it has been both patient and responsive throughout the regulatory review process. Amalgamated believes the Plan is wholly consistent with D.C. law and believes that DISB's legal and financial advisers have confirmed that this is in fact the case. There is clear business rationale (see [Exhibit B](#)). Amalgamated will, unequivocally, need to raise capital within 24-36 months. Converting from mutual to stock form is a process that has been utilized by many other mutual insurance companies to raise capital. There is clear precedent in D.C. (NCRIC demutualization in 2003). The NCRIC regulatory approval process took 49 days from start to finish. Amalgamated submitted its application on February 12, 2021. The Amalgamated Board voluntarily enhanced the Plan vs. what is required under D.C. law by providing redeemable subscription rights vs. non-redeemable subscription rights. Our financial adviser stated that he has never seen a board voluntarily enhance a plan for the benefit of policyholders beyond what is required by statute. As it currently stands, Amalgamated has a Plan that was unanimously approved by the Board and which, based on policyholder feedback (which was unanimous) is something that the members support. We believe all policyholders will strongly support the Plan when they are advised of the distribution they are entitled to receive. Yet, after nearly 8 months, Amalgamated has been unable to successfully reach the conclusion of the regulatory review process, a step that is required in order to take the Plan to Amalgamated members for their vote. The regulatory review process, and the demutualization transaction as a whole, has been a considerable drain on valuable resources at Amalgamated. Amalgamated is, understandably, seeking to conclude the regulatory review process expeditiously.

Value of Membership Interest

It is Amalgamated’s belief that the only remaining item of substance is the “appropriate value” to be offered to members in exchange for their membership interests. Once again, at DISB’s request, Amalgamated has provided additional data herein based on “alternative analyses”. Based on the methodologies described herein, the Alternative Value to Members ranges from approximately \$795 thousand to approximately \$7.3 million, or approximately \$500 to \$4,600 per member.

	% Capital & Surplus	Implied Value	Value Per Member
Max	19.0%	7,345	\$ 4,622
Min	2.1%	795	\$ 500
Black-Scholes (Amalgamated)	6.2%	2,394	\$ 1,507

While DISB and its counsel have indicated that they do not have a “specific view” as to the “appropriate value” per se, it is our belief that DISB is seeking a higher amount than is indicated based on the proposed Plan. Amalgamated notes that DISB’s apparent desired goal for a significant capital distribution is diametrically opposed to the fundamental business purpose of the Demutualization Act, which is meant to facilitate “capital formation” (and which is the sole business purpose underpinning the Amalgamated demutualization). However, in order to reach a final resolution of this regulatory review process and move toward the completion of the demutualization transaction, which has cost Amalgamated in excess of \$2.3 million to-date and has required well over a year of work by Amalgamated’s Board and management, Amalgamated is proposing the following:

1. Agree Upon Methodology for Valuing Membership Interest

DISB Response Requested: We request that DISB advise if any of the methodologies that produce a higher value to policyholders than originally proposed is acceptable and, if so, which methodology is the DISB’s desired methodology. The methodologies, and their indicated values, are summarized below:

Methodology	Implied Value	Per Member
Actuarial Analysis		
Based on median policyholder term	3,324	\$ 2,092
Based on assumed 10-year term	4,141	\$ 2,606
Amalgamated Run-Off Analysis (i.e., Saucon)		
Scenario I	3,822	\$ 2,405
Scenario II	4,988	\$ 3,139
Scenario III	7,345	\$ 4,622

Resolution: Once (i) DISB advises Amalgamated as to the acceptable methodology, (ii) DISB has advised that the terms and conditions summarized in Exhibit A are acceptable, and (iii) DISB provides notice of the public hearing in the D.C. Register to review the Amalgamated Plan with a hearing date as close as practicable to November 30, 2021, Amalgamated will then incur the substantial additional expense to engage Boenning to prepare the final analysis of the Alternative Value to Members, which will be submitted to DISB upon completion. Amalgamated will then also (i) update its Plan to reflect the changes described herein, (ii) have Boenning update its independent appraisal to reflect the changes described herein, (iii) update its proxy materials to reflect the changes described herein, and (iv) make such changes to its SEC

offering statement, and any other transaction documents or filings as needed, to reflect the changes described herein.

Plan Amendments: Amalgamated will amend its Plan and remove entirely the concept of redeemable subscription rights. Instead, the Plan will contemplate that the Alternative Value to Members (which will be based upon DISB's desired methodology), will be delivered to members through the payment of an extraordinary cash dividend to be made concurrent with the closing of the demutualization and conversion offering. Amalgamated will request that Boenning update its appraisal of Amalgamated to contemplate the changes to the Plan described herein. It is expected that the appraised value of Amalgamated will decline as a result, lowering the offering size and the overall capitalization of the Company on a pro forma basis. Amalgamated notes that because the Alternative Value to Members will be paid as an extraordinary dividend (i.e., not redeemable subscription rights), the expected changes to the appraised value of Amalgamated will have no impact whatsoever on the "value distributed to members".

2. Agree Upon Other Business Terms and Conditions

The other key business terms and conditions, some of which Amalgamated believes have been resolved (and some which have not yet been resolved and which Amalgamated would expect to be included in DISB's approval order), are outlined in Exhibit A. We request that DISB advise that these terms and conditions are acceptable.

Final Resolution

If (i) no methodology followed herein is acceptable to DISB or (ii) any of the other terms and conditions summarized in Exhibit A are not acceptable to DISB, we would appreciate it if DISB would advise us immediately. If Amalgamated has not received a written response by October 29, 2021, it will assume that none of this is acceptable to DISB.

Exhibit A

Key Business Terms and Conditions

Item	Amalgamated Demutualization
Member Voting Items Resolved	
Quorum requirement	Majority
Internet and phone voting bylaws amendment	Yes
Remaining Items	
Net transaction proceeds to carrier	80% (NCRIC was 75%)
Extraordinary dividend paid to members ⁷	\$[___] million ⁸
Extraordinary dividend paid per member	\$[___] ⁹
Prohibition on re-domestication	3 years
Prohibition on common stock dividends	3 years

⁷ Extraordinary dividend paid to Eligible Members as part of Plan. Paid concurrent with closing of offering.

⁸ Subject to selected methodology and Boenning final analysis.

⁹ Subject to selected methodology and Boenning final analysis.

Exhibit B

Reasons for Conversion

While not specifically cited in the most recent interactions, DISB initially raised the question of whether Amalgamated needs additional capital. DISB and its counsel have stated that they do not believe that Amalgamated needs additional capital today. While we have addressed this issue, in our belief satisfactorily, we suspect that there remains underlying skepticism and that this is driving DISB's seemingly related concern around the value of the consideration offered to members in exchange for their membership interests in Amalgamated. Based on the nature of our interactions with DISB over the last few months, it is our belief that were Amalgamated (i) in financial distress and in need of capital to restore its financial position or (ii) operating at a ratio of premiums written to capital and surplus of closer to 1:1 on a historical basis, DISB would not have the concern that the Amalgamated Plan does not adequately set forth the reasons for the proposed conversion in a manner that adequately complies with § 31-906(a) of the Demutualization Act nor would it have the seemingly related concern around the value of the consideration offered to members in exchange for their membership interests in Amalgamated.

In the Company's experience, financial regulators are generally concerned about lack of financial strength (not vice versa), and as a result, the Company did not provide as much detail in its initial application around long-term capital planning as, in retrospect, perhaps it could have. The Company concedes that the outside observer, without adequate context or understanding of the Company's long-term business plan, which was developed over the course of 2020 and which will guide the Company's operations for the next ten years, could reasonably question whether Amalgamated does in fact require additional capital at this time. To address this concern, the Company provided considerable detail around its long-term business plan (see Exhibit A to the "Interrogatories Response Letter" dated September 10, 2021) and believes it has articulated a clear business rationale for increasing its capital position at this time in a manner wholly consistent with § 31-906(a) of the Demutualization Act.

As previously stated, Amalgamated acknowledges that it is not in financial distress and its capital position is adequate to support its existing business today. However, the capital planning process is not a backward-looking exercise, nor is it a point-in-time exercise; rather, it must be done so with a mind toward the prospective capital needs of the Company. Capital planning is a forward-looking exercise. In other words, what is relevant in determining the capital needs of the Company today is not the past or the present, but the Company's best estimate of the future. As mentioned, the Board, which is comprised of a highly qualified group of experienced business executives, many of whom have operated businesses in regulated industries such as insurance and banking for decades, holds a fundamental view that a financial institution such as Amalgamated should at all times be financially strong and inspire confidence. This fundamental view has guided the capital planning process, and the Board has placed considerable emphasis on financial strength and flexibility in the context of the Company's long-term business plan. And, as a result, the Board is of the belief that the Company would be ill-advised to undertake its ten-year business plan without (i) a strong capital position, as viewed in the context of the Company's best estimate of the future, and (ii) the flexibility to raise additional capital in the future. The Company's business plan contemplates meaningful growth in gross premiums written (\$100 million by 2031 vs. 2021 estimate of \$9.5 million). Amalgamated, which, for the reasons previously described, seeks to maintain and, potentially, improve its A.M. Best financial strength rating, believes that a ratio of gross written premium to statutory surplus of 1:1 is prudent. Based on its business plan, the Company believes that it will likely reach a ratio of gross written premium to pre-offering capital and surplus of 1:1 within 24-36 months.

An outside observer might question whether the Company should not, perhaps, wait until it is closer to this 1:1 ratio before seeking to raise additional capital. The answer to this question is in part subjective, and

dependent upon an organization's fundamental views toward enterprise risk management, and in part practical, and dependent upon an organization's practical access to capital. As stated previously, the Amalgamated Board holds a fundamental view that a financial institution such as Amalgamated should at all times be financially strong and inspire confidence. The Amalgamated Board has approved, and Amalgamated management is currently executing, a long-term business plan that will unequivocally necessitate that the Company raise additional capital at some point in the next 24-36 months. Consistent with the execution of its long-term business plan, the Company is making long-term financial commitments (e.g., technology system, staffing, etc.). As fiduciaries of the Company, the Board must ensure that the Company's capital position is in sync with and adequate to support making these long-term financial commitments. While the concept of "just in time" capital raising is a theoretical ideal, the practical reality is that any capital raise will be either "too early" or "too late". Consistent with the Board's fundamental view that a financial institution such as Amalgamated should at all times be financially strong and inspire confidence, the Amalgamated Board is of the belief that, quite simply, "too early" is preferable to "too late". We would hope that our financial regulator would agree. As it relates to Amalgamated's practical access to capital, once again, while the concept of "just in time" capital raising is a theoretical ideal, from the vantage point of a mutual company such as Amalgamated, it is simply not a practical reality. Amalgamated has been in business for 83 years and has accumulated approximately \$40 million in capital. The Company has been working on its demutualization transaction for over a year and is still several months away from completing the offering and raising the capital. Consequently, the Board does not believe, from the vantage point of a mutual company, that augmenting its capital position is either "quick" or "easy". It is for these reasons that the Board made the decision to proceed with the demutualization plan. The Demutualization Act is the statutory framework by which a mutual insurance company, such as Amalgamated, can raise equity capital. It is a statutory framework that has been used by many mutual companies over the years, including companies in the District of Columbia, seeking to raise capital to support their businesses.