

In the Matter of
Milwaukee Mutual Insurance Company
and Unitrin, Inc.

STIPULATION
AND ORDER

Case No. 03-C28239

Respondents.

WHEREAS, Milwaukee Mutual Insurance Company (hereinafter also, "Milwaukee Mutual"), 250 North Sunny Slope Road, Suite 250, Brookfield, Wisconsin 53005 is subject to the jurisdiction and control of the Office of the Commissioner of Insurance (hereinafter "OCI") in the State of Wisconsin; and

WHEREAS, Unitrin Inc., One East Wacker Drive, Chicago, Illinois 60601 has consented to the jurisdiction and control of the OCI for purposes of this Stipulation and Order; and

WHEREAS, Milwaukee Mutual filed with the OCI a mutual holding company plan (hereinafter, "MHC Plan"). This MHC Plan includes, among other matters, the formation of a Wisconsin-domiciled mutual holding company to be known as Mutual Insurers Holding Company (hereinafter also, "MIHC") and the conversion of Milwaukee Mutual into a stock insurance company to be known as Milwaukee Insurance Company (hereinafter, "Converted MMIC"); and

WHEREAS, Milwaukee Mutual has represented that it has no current plan or intention that MIHC merge with First Nonprofit Mutual Holding Company; and

WHEREAS, Unitrin Inc. desires that certain of its subsidiaries and affiliates enter into affiliations with mutual insurers; and

WHEREAS, Respondents and the OCI desire to preserve the viability and integrity of the mutual form of organization within the context of these affiliations; and

WHEREAS, the Respondents and the OCI have agreed to certain terms and conditions in conjunction with the OCI's approval of the Respondents' MHC Plan.

NOW, THEREFORE, the Respondents and the OCI do agree and stipulate to the following terms and conditions:

(1) The Respondents shall implement the MHC Plan, as filed in Case No. 01-C27045, in accordance with its terms and with the conditions set forth in this Stipulation and Order.

(2) All policies issued by insurance companies in which MIHC holds a direct or indirect majority ownership interest shall confer membership in MIHC, except where such policies confer membership in another mutual entity.

(3) The board of directors of MIHC and the board of directors of each converted mutual insurer whose policies confer membership in MIHC shall annually review the quota share percentage or other structure of participation under agreements with a subsidiary or affiliate of Unitrin Inc. to determine whether the quota share percentage or other structure of participation should be modified in order to ensure that the converted

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mutual insurer's participation in its own book of business is reasonable and fair to MIHC and the converted mutual insurer. Factors considered in the annual review shall include, but need not be limited to, the following:

- (a) NAIC risk based capital
- (b) Leverage measures, both premium to surplus and liabilities to surplus
- (c) Federal income tax position
- (d) Rating agency measures
- (e) Level of direct written premium, including mix by line of business
- (f) Quality and liquidity of invested assets
- (g) Financial experience of the parties to the reinsurance relationship from inception to date with a view to assuring mutually equitable participation in underwriting results over time
- (h) Recognition that the parties seek a long-term, stable relationship

(4) For purposes of verifying the completion of the annual reviews required under paragraph (3), the Respondents shall, by July 1st of each year, provide the Commissioner a report with the conclusions, and basis for the conclusions, of such annual reviews with respect to converted mutual insurers domiciled in Wisconsin. Each report made pursuant to this paragraph is required under s. 601.42, Wis. Stat., and under this Stipulation and Order. Each report made pursuant to this paragraph is privileged under s. 601.465, Wis. Stat.

(5) Any plan to sell or transfer an insurer or book of business whose policies confer membership in MIHC to an affiliated party that is not under the majority control of MIHC, shall be reported to OCI at least 30 days prior to implementation and shall be subject to disapproval in the event that the plan or program is not reasonable and fair to the interests of Wisconsin policyholders or claimants. This review shall apply to any change of control and to transfers of business or assets among affiliates that are required to be reported to the OCI and are subject to the OCI's disapproval. This requirement is pursuant to this Stipulation and Order and is in addition to any requirements imposed by the Wisconsin Statutes or the Wisconsin Administrative Code.

(6) Any plan or program to systematically transfer policyholders between subsidiaries under the direct or indirect ownership of Unitrin Inc. and subsidiaries under the direct or indirect ownership of MIHC, which involves a Wisconsin-domiciled insurer, shall be reported to OCI at least 30 days prior to implementation and shall be subject to disapproval in the event that the plan or program is not reasonable and fair to the interests of Wisconsin policyholders or claimants. This requirement is pursuant to this Stipulation and Order and is in addition to any requirements imposed by the Wisconsin Statutes or the Wisconsin Administrative Code.

(7) MIHC shall participate in any dividends and special distributions on the common stock of any corporation under its majority control in direct proportion to its

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ownership of the total shareholders' equity of such subsidiaries. Such participation would not apply to any transaction that neither results in a change in the mutual holding company's proportion of ownership in such subsidiaries nor in any distribution of funds to parties outside of a holding company system or subsystem controlled by MIHC.

(8) In the event that a subsidiary of MIHC proposes to issue preferred equity securities, MIHC shall, consistent with its obligations to any minority shareholders of the issuer and other third parties, use its reasonable best efforts to assure that, (a) the terms and conditions of such securities are, in the discretion of the mutual holding company board or a committee thereof, fair and reasonable to the mutual holding company at the time of issuance or, (b) in the case of such securities which provide for dividend payments in an unspecified amount to be determined by the board of directors of the issuer, that all dividends declared with respect to such securities are, in the discretion of the mutual holding company board or a committee thereof, fair and reasonable to the mutual holding company at the time of such declaration.

(9) Any accumulation or prospective accumulation of assets or earnings by MIHC shall inure to the exclusive benefit of its members. In the event that the board of directors of MIHC determines that MIHC has assets in excess of its reasonable needs, the board of directors shall develop a plan for distribution of the excess assets to members by any of the following methods: (a) direct cash dividends to members; (b) rebates of paid premiums to members; (c) increased policy dividends to members; (d) other increased policy benefits made available to members; (e) a comparable distribution method; or (f) some other distribution of value for the members' benefit, whether individually, collectively, or as members of the general public.

(10) MIHC shall file an annual report with the OCI. The form of the annual report shall be as prescribed by the OCI by rule pursuant to s. 644.21, Wis. Stat. In the absence of such a rule, the annual report of MIHC shall be filed with the OCI on or before June 1st for the immediately preceding calendar year, unless a request for extension is approved by the OCI. The annual report shall, at a minimum, include the following: (a) audited statutory financial statements of MIHC prepared on a consolidated basis with its subsidiaries, including the consolidating schedules; (b) a description of the governance structure of MIHC, including directors and officers and their remuneration; (c) a description of MIHC's mission and long and short-term objectives; (d) a description of all classes of financial interest in MIHC's holding company system, and their respective voting rights, including special voting rights, shareholder agreements, the ownership of controlling or large blocks of shares, significant cross shareholding relationships and guarantees; (e) a description of the change in policyholder surplus of each converted mutual insurer whose policies confer membership in MIHC; and (f) a description of any material related-party transactions.

(11) Any incentive compensation programs for directors or officers of MIHC or any corporation in which MIHC holds a direct or indirect majority ownership interest shall be

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reported to the OCI in writing at least thirty (30) days before they are scheduled to go into effect. Any such incentive compensation program may be disapproved by the OCI within the thirty (30) day reporting period if the OCI finds that it would violate the law or would be contrary to the interests of the members of MIHC. This requirement is pursuant to this Stipulation and Order and is in addition to any requirements imposed by the Wisconsin Statutes or the Wisconsin Administrative Code.

(12) MIHC may not pay dividends or make any other payment of income or profits except as approved in writing by the OCI.

(13) Respondents agree that this Stipulation is made without reservation and constitutes a waiver of valuable rights including a hearing, confrontation and cross-examination of witnesses, production of evidence, making a motion for costs, and judicial review. The Respondents consent to the attached Order. The OCI may enforce this Stipulation and the Order.

Date

Daniel R. Doucette
President and Chief Executive Officer
Milwaukee Mutual Insurance Company

Date

Donald G. Southwell
President and Chief Operating Officer
Unitrin, Inc.

Date

Guenther Ruch, Administrator
Division of Regulation & Enforcement
Office of the Commissioner of Insurance

ORDER

NOW, THEREFORE, based upon consideration of the Stipulation in this matter, I hereby order that:

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(14) The Respondents shall implement the MHC Plan, as filed in Case No. 01-C27045, in accordance with its terms and with the conditions set forth in this Stipulation and Order.

(15) All policies issued by insurance companies in which MIHC holds a direct or indirect majority ownership interest shall confer membership in MIHC, except where such policies confer membership in another mutual entity.

(16) The board of directors of MIHC and the board of directors of each converted mutual insurer whose policies confer membership in MIHC shall annually review the quota share percentage or other structure of participation under agreements with a subsidiary or affiliate of Unitrin Inc. to determine whether the quota share percentage or other structure of participation should be modified in order to ensure that the converted mutual insurer's participation in its own book of business is reasonable and fair to MIHC and the converted mutual insurer. Factors considered in the annual review shall include, but need not be limited to, the following:

- (a) NAIC risk based capital
- (b) Leverage measures, both premium to surplus and liabilities to surplus
- (c) Federal income tax position
- (d) Rating agency measures
- (e) Level of direct written premium, including mix by line of business
- (f) Quality and liquidity of invested assets
- (g) Financial experience of the parties to the reinsurance relationship from inception to date with a view to assuring mutually equitable participation in underwriting results over time
- (h) Recognition that the parties seek a long-term, stable relationship

(17) For the purposes of verifying the completion of the annual reviews required under paragraph (16), the Respondents shall, by July 1st of each year, provide the Commissioner a report with the conclusions, and basis for the conclusions, of such annual reviews with respect to converted mutual insurers domiciled in Wisconsin. Each report made pursuant to this paragraph is required under s. 601.42, Wis. Stat., and under this Stipulation and Order. Each report made pursuant to this paragraph is privileged under s. 601.465, Wis. Stat.

(18) Any plan to sell or transfer an insurer or book of business whose policies confer membership in MIHC to an affiliated party that is not under the majority control of MIHC shall be reported to OCI at least 30 days prior to implementation and shall be subject to disapproval in the event that the plan or program is not reasonable and fair to the interests of Wisconsin policyholders or claimants. This review shall apply to any change of control and to transfers of business or assets among affiliates that are required to be reported to the OCI and are subject to the OCI's disapproval. This requirement is pursuant

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to this Stipulation and Order and is in addition to any requirements imposed by the Wisconsin Statutes or the Wisconsin Administrative Code.

(19) Any plan or program to systematically transfer policyholders between subsidiaries under the direct or indirect ownership of Unitrin Inc. and subsidiaries under the direct or indirect ownership of MIHC, which involves a Wisconsin-domiciled insurer, shall be reported to OCI at least 30 days prior to implementation and shall be subject to disapproval in the event that the plan or program is not reasonable and fair to the interests of Wisconsin policyholders or claimants. This requirement is pursuant to this Stipulation and Order and is in addition to any requirements imposed by the Wisconsin Statutes or the Wisconsin Administrative Code.

(20) MIHC shall participate in any dividends and special distributions on the common stock of any corporation under its majority control in direct proportion to its ownership of the total shareholders' equity of such subsidiaries. Such participation would not apply to any transaction that neither results in a change in the mutual holding company's proportion of ownership in such subsidiaries nor in any distribution of funds to parties outside of a holding company system or subsystem controlled by MIHC.

(21) In the event that a subsidiary of MIHC proposes to issue preferred equity securities, MIHC shall, consistent with its obligations to any minority shareholders of the issuer and other third parties, use its reasonable best efforts to assure that, (a) the terms and conditions of such securities are, in the discretion of the mutual holding company board or a committee thereof, fair and reasonable to the mutual holding company at the time of issuance or, (b) in the case of such securities which provide for dividend payments in an unspecified amount to be determined by the board of directors of the issuer, that all dividends declared with respect to such securities are, in the discretion of the mutual holding company board or a committee thereof, fair and reasonable to the mutual holding company at the time of such declaration.

(22) Any accumulation or prospective accumulation of assets or earnings by MIHC shall inure to the exclusive benefit of its members. In the event that the board of directors of MIHC determines that MIHC has assets in excess of its reasonable needs, the board of directors shall develop a plan for distribution of the excess assets to members by any of the following methods: (a) direct cash dividends to members; (b) rebates of paid premiums to members; (c) increased policy dividends to members; (d) other increased policy benefits made available to members; (e) a comparable distribution method; or (f) some other distribution of value for the members' benefit, whether individually, collectively, or as members of the general public.

(23) MIHC shall file an annual report with the OCI. The form of the annual report shall be as prescribed by the OCI by rule pursuant to s. 644.21, Wis. Stat. In the absence of such a rule, the annual report of MIHC shall be filed with the OCI on or before June 1st for the immediately preceding calendar year, unless a request for extension is

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approved by the OCI. The annual report shall, at a minimum, include the following: (a) audited statutory financial statements of MIHC prepared on a consolidated basis with its subsidiaries, including the consolidating schedules; (b) a description of the governance structure of MIHC, including directors and officers and their remuneration; (c) a description of MIHC's mission and long and short-term objectives; (d) a description of all classes of financial interest in MIHC's holding company system, and their respective voting rights, including special voting rights, shareholder agreements, the ownership of controlling or large blocks of shares, significant cross shareholding relationships and guarantees; (e) a description of the change in policyholder surplus of each converted mutual insurer whose policies confer membership in MIHC; and (f) a description of any material related-party transactions.

(24) Any incentive compensation programs for directors or officers of MIHC or any corporation in which MIHC holds a direct or indirect majority ownership interest shall be reported to the OCI in writing at least thirty (30) days before they are scheduled to go into effect. Any such incentive compensation program may be disapproved by the OCI within the thirty (30) day reporting period if the OCI finds that it would violate the law or would be contrary to the interests of the members of MIHC. This requirement is pursuant to this Stipulation and Order and is in addition to any requirements imposed by the Wisconsin Statutes or the Wisconsin Administrative Code.

(25) MIHC may not pay dividends or make any other payment of income or profits except as approved in writing by the OCI.

(26) Milwaukee Mutual and its successors, MIHC and Converted MMIC, and where applicable, Unitrin Inc., shall comply with all agreements made in this Stipulation and Order.

(27) This Order shall continue until modified or rescinded by the OCI, with written notice to the Respondents.

Dated at Madison, Wisconsin, this _____ day of _____.

Jorge Gomez
Commissioner of Insurance

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(28) Mutual Insurers Holding Company agrees that the OCI has the authority under s. 601.41, Wis. Stat., to make this order and that grounds exist under this statute for entry of this order.

(29) Mutual Insurers Holding Company consents to entry of this order and to the jurisdiction of the OCI.

(30) Mutual Insurers Holding Company is aware of its right to demand and have a hearing with respect to this order, to cross-examine and confront witnesses, to compel production of evidence and testimony, to obtain review by appeal to a court and other rights provided under Chapters 600 to 646 and Chapter 227, Wis. Stat., and the Wisconsin and United States Constitutions. Mutual Insurers Holding Company knowingly and voluntarily waives those rights.

(31) Mutual Insurers Holding Company acknowledges that the OCI may make additional orders or subsequently modify or supercede this order by making a subsequent order. However, this stipulation applies only to this order as originally issued, and Mutual Insurers Holding Company reserves its right to contest any other orders of the OCI or any modifications to this order.

(32) This order does not supercede or modify any other order applicable to Mutual Insurers Holding Company.

(33) The undersigned agrees to this stipulation on behalf of Mutual Insurers Holding Company. The undersigned has the authority to so agree and this stipulation is binding on Mutual Insurers Holding Company.

Mutual Insurers Holding Company

By its duly authorized representative:

Attest:

Daniel R. Doucette
President
Mutual Insurers Holding Company Inc.

Joseph C. Branch
Secretary
Mutual Insurers Holding Company Inc.