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PLAN OF CONVERSION  
OF  
FIRST NONPROFIT MUTUAL INSURANCE COMPANY

Under Article III of the Illinois Insurance Code

Dated as of May 16, 2001,  
as amended on September 21, 2001

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**PLAN OF CONVERSION OF  
FIRST NONPROFIT MUTUAL INSURANCE COMPANY**

**Adopted Under Illinois Insurance Code Section 59.2**

**PREAMBLE**

WHEREAS, First Nonprofit Mutual Insurance Company (the “Insurance Company”) is a mutual property and casualty insurance company organized under the laws of the State of Illinois; and

WHEREAS, the Insurance Company proposes to convert to a stock insurance company under a mutual holding company structure by forming First Nonprofit Mutual Holding Company, a mutual holding company to be organized under the laws of the State of Illinois (the “Mutual Holding Company”) pursuant to Illinois Insurance Code Section 59.2; and

WHEREAS, prior to the Effective Time, the Insurance Company is and will be a mutual property and casualty insurance company organized under the laws of the State of Illinois and on and after the Effective Time, the Insurance Company will be a stock insurance company organized under the laws of the State of Illinois; and

WHEREAS, after the Conversion, the Mutual Holding Company will own 100% of the outstanding capital stock of the Insurance Company; and

WHEREAS, after the Conversion, the Insurance Company will continue its corporate existence without interruption as a stock insurance company under the name “First Nonprofit Insurance Company”; and

WHEREAS, every Policy that is In Force at the Effective Time will continue as a Policy of the Insurance Company, and all policy and contract rights under such Policies will be and remain as they existed immediately prior to the Effective Time; and

WHEREAS, upon the Conversion, each Person who owns a Policy that is In Force at the Effective Time shall become a Member of the Mutual Holding Company, existing Membership Interests in the Insurance Company shall become Membership Interests in the Mutual Holding Company, and all Membership Interests in the Insurance Company shall be extinguished; and

WHEREAS, the Board of Directors of the Insurance Company believes that the Conversion will enhance the Insurance Company’s strategic and financial flexibility by creating a corporate structure that will enable it to more easily raise capital and combine with other mutual insurance companies and mutual holding companies, providing an avenue for expansion, efficiencies of increased size and diversification through a mutual holding company structure; and

WHEREAS, the Board believes that the Conversion will benefit the Insurance Company and be in the best interests of the Policyholders, and at a meeting duly called and held on May 16, 2001, the Board adopted the Plan; and

WHEREAS, the Board has directed that the Plan and the Insurance Company's amended and restated articles of incorporation be submitted to the Director for approval pursuant to Illinois Insurance Code Sections 59.2(5) and 57(2)(b); and

WHEREAS, the Board has directed that the Plan be submitted to the Policyholders for approval pursuant to Illinois Insurance Code Section 59.2(6), subject to the Director's prior review and approval;

NOW, THEREFORE, this Plan is entered into by the Insurance Company.

### **ARTICLE 1: DEFINITIONS**

As used in the Plan, the terms listed below have the following meanings:

"Adoption Date" means May 16, 2001, the date on which the Plan was originally adopted by the Board.

"Board" means the Board of Directors of the Insurance Company.

"Certificate of Authority" means a certificate of authority to engage in the insurance business issued to the Insurance Company by the Director.

"Director" means the Insurance Director of the State of Illinois, or such governmental officer, body or authority as may succeed such Director as the primary regulator of the Insurance Company's insurance business under applicable law.

"Conversion" means the conversion of the Insurance Company into an Illinois stock Insurance Company pursuant to Illinois Insurance Code Section 59.2, with the concurrent transfer of Membership Interests of the Policyholders to the Mutual Holding Company.

"Effective Date" means the effective date of the Plan, as determined in accordance with Section 6.1.

"Effective Time" has the meaning specified in Section 6.3.

"Eligible Member" means a Policyholder of the Insurance Company with an In Force Policy based on the Insurance Company's records as of the Adoption Date.

"Hearing" means the public hearing to consider comments on the Plan, as specified in Section 3.2(a).

“Hearing Officer” means the Director or a hearing officer designated by the Director to preside at the Hearing.

“In Force” has the meaning specified in Section 7.3.

“Information Statement” means the statement containing information relevant to the Special Meeting that is mailed to Eligible Members in accordance with Section 4.2(b).

“Illinois Administrative Procedure Act” means Illinois Statutes 5 ILCS 100/1-1 et seq.

“Illinois Insurance Code” means Illinois Statutes, 215 ILCS 5/1 et seq.

“Insurance Company” has the meaning specified in the Preamble.

“Member” means, prior to the Effective Time, a Person who, by the records, articles of incorporation or bylaws of the Insurance Company, is deemed to be a Policyholder. At and after the Effective Time, “Member” means a Person who, as provided in Section 7.1 or by the records, articles of incorporation or bylaws of the Mutual Holding Company, is deemed to be a member of the Mutual Holding Company.

“Membership Interests” means, prior to the Effective Time, the interests of the Members of the Insurance Company, as specified under the Illinois Insurance Code and the articles of incorporation and bylaws of the Insurance Company. At and after the Effective Time, “Membership Interests” means the interests of Members of the Mutual Holding Company, as specified under the Illinois Insurance Code and the articles of incorporation and bylaws of the Mutual Holding Company.

“Mutual Holding Company” has the meaning specified in the Preamble.

“Person” means an individual, partnership, firm, association, corporation, joint-stock company, limited liability company, trust, government or governmental agency, state or political subdivision of a state, public or private corporation, board, association, estate, trustee, or fiduciary, or any similar entity.

“Plan” means this Plan of Conversion of First Nonprofit Mutual Insurance Company (including all Schedules and Exhibits hereto) as it may be amended from time to time in accordance with Section 9.8.

“Policy” has the meaning specified in Section 7.2.

“Policyholder” means a Person to whom an In Force Policy of insurance has been issued by the Insurance Company.

“Special Meeting” has the meaning specified in Section 4.1.

## **ARTICLE 2: ADOPTION AND APPLICATION**

**2.1 Adoption by the Board.** Resolutions recommending the Conversion, stating the reasons why the Conversion would benefit the Insurance Company and be in the best interests of the Members, and approving the Plan were adopted by unanimous vote of the Board at a meeting duly called and held in Chicago, Illinois on May 16, 2001. The Plan was amended by unanimous vote of the Board at a meeting duly called and held on September 21, 2001.

**2.2 Application.** The Plan will be submitted to the Director for review and approval pursuant to Illinois Insurance Code Section 59.2(5) prior to submission of the Plan to Eligible Members. After completion of the Director's review and finalization of any revisions requested by the Director, the Insurance Company shall submit the Plan to Eligible Members at a Special Meeting provided for in Section 4.1.

## **ARTICLE 3: APPROVAL BY THE DIRECTOR**

### **3.1 Director\*s Approval.**

(a) The Plan is subject to the approval of the Director.

(b) Upon submission of the Plan, the Director shall review the Plan and his approval shall be subject to findings that the provisions of Illinois Insurance Code Section 59.2 have been complied with and that the Plan is fair and equitable to the Members.

(c) The articles of incorporation and the bylaws of the Mutual Holding Company shall be subject to the Director's approval under Illinois Insurance Code Sections 57(2)(b) and 42, respectively and Section 59.2(5)(b).

(d) The amended and restated articles of incorporation of the Insurance Company shall be subject to the Director's approval under Illinois Insurance Code Sections 57(2)(b) and 59.2(5)(b).

### **3.2 Public Hearing.**

(a) In accordance with Illinois Insurance Code Section 59.2(5), the Director shall order a public hearing on the Plan (the "Hearing") to be conducted in accordance with the provisions of the Illinois Administrative Procedure Act;

(b) The Insurance Company, its directors, officers and Eligible Members shall have the right to appear and be heard at the Hearing; and

(c) Notice of the Hearing shall be given by the Director in accordance with the Illinois Administrative Procedures Act.

## **ARTICLE 4: APPROVAL BY ELIGIBLE MEMBERS**

**4.1 Policyholder Vote.** The Plan must be approved by two-thirds (2/3) of the votes cast by Eligible Members voting in person or by proxy at a meeting of the Eligible Members called for that purpose (the “Special Meeting”). At the Special Meeting, each Eligible Member shall be entitled to one vote on the proposal to approve the Plan. No proxy vote shall be effective unless the proxy specifically provides the proxyholder with the authority to vote on the Plan, and unless the proxy is dated subsequent to the date on which the Plan was initially approved by the Board. An Eligible Member may vote at the Special Meeting in person or by proxy if the form of proxy expressly authorizes the proxy agent to vote on such proposal.

### **4.2 Notice of Special Meeting.**

(a) The Insurance Company shall mail notice of the Special Meeting to all Eligible Members within 45 days of the Director’s approval of the Plan. The notice shall identify in reasonable detail the benefits and risks of the MHC conversion, the reasons for the vote and the place, the day, and the hour of the Special Meeting, and shall be accompanied by a form of written proxy allowing the Eligible Member to vote for or against the Plan. Such notice and form of proxy shall be mailed by first class mail, to the address of each Eligible Member as it appears on the records of the Insurance Company as of the Adoption Date. The notice shall be in a form satisfactory to the Director and shall be mailed to Eligible Members at least 60 days prior to the Special Meeting.

(b) The notice mailed to Eligible Members as provided in subsection (a) of this Section 4.2 shall be accompanied or preceded by information relevant to the Special Meeting, including a copy of the Plan (with a summary of the exhibits thereto) and such other information as the Director may approve or deem necessary. The notice shall state that approval of the Plan by the Director does not constitute a recommendation that Eligible Members approve the Plan.

(c) Promptly after the Special Meeting, the Insurance Company shall file with the Director the minutes of the meeting and a certificate setting forth the vote on the Plan and certifying as to whether or not it was approved by not less than two-thirds of the votes cast by Eligible Members voting in person or by proxy at the Special Meeting. The Insurance Company shall also deliver to the Director the articles of incorporation and bylaws of the Mutual Holding Company and the revised articles of incorporation and bylaws of the Insurance Company, as required by Section 59.2(5)(b)(ii).

## **ARTICLE 5: CERTAIN CONDITIONS PRECEDENT TO CONVERSION**

**5.1 Tax Opinion.** The Plan shall not become effective until the Insurance Company has received either a private letter ruling issued by the Internal Revenue Service or an opinion of Lord Bissell & Brook or other independent legal counsel substantially to the effect that:

(a) Policyholders of the Insurance Company will not recognize gain or loss in connection with the conversion of the Insurance Company from a mutual insurance company to a stock insurance company, the formation of the Mutual Holding Company and the contribution of the stock of the Insurance Company to the Mutual Holding Company (the “Transaction”), and

(b) Neither the Mutual Holding Company nor the Insurance Company will recognize gain or loss in connection with the Transaction.

**5.2 Securities Law Opinion.** The Plan shall not become effective until the Insurance Company has received either (a) a “no-action” letter from the Securities and Exchange Commission relating to matters pertaining to the Securities Act of 1933, as amended and, the Securities Exchange Act of 1934, as amended, or (b) an opinion of Lord Bissell & Brook or other independent legal counsel with respect to federal securities law matters.

**5.3 Other Conditions.** The Plan shall not become effective until (a) the Plan is approved by the Director pursuant to Illinois Insurance Code Section 59.2, (b) organization of the Mutual Holding Company has been approved by the Director; (c) Eligible Members of the Insurance Company have approved the Plan as contemplated by Section 59.2 and Article 4 hereof and (d) the Director has issued an amended Certificate of Authority in the name of the Insurance Company or otherwise authorized the consummation of the Plan.

## **ARTICLE 6: IMPLEMENTATION OF THE MUTUAL HOLDING COMPANY CONVERSION**

**6.1 The Insurance Company and the Effective Date of Conversion.** Following approval of the Plan by the Director, the requisite approval by the Eligible Members as set forth in Article 4 and the satisfaction of the other conditions precedent set forth in Article 5, the Insurance Company shall file with the Director the amended and restated articles of incorporation of the Insurance Company in substantially the form attached as Exhibit A. The “Effective Date” of the Plan shall be the date and time as of which all of the following steps have been completed: (a) the Plan has been approved by the Director, (b) the Eligible Members have approved the Plan, and (c) the articles of incorporation of the Mutual Holding Company and the amended and restated articles of incorporation of the Insurance Company have been approved by the Director. The Insurance Company shall file a certified copy of its amended and restated articles of incorporation with the Cook County Recorder not later than 15 days after the amended articles of incorporation have been approved by the Director. From and after the Effective Date, the bylaws of the Insurance Company shall be substantially in the form attached as Exhibit B.

**6.2 The Mutual Holding Company.** Prior to the Effective Date, the Mutual Holding Company shall be duly organized as a mutual holding company under the provisions of the Illinois Insurance Code, and, on the Effective Date, its articles of incorporation shall be in substantially the form attached as Exhibit C and its bylaws shall be in substantially the form attached as Exhibit D. The Mutual Holding Company shall be subject to the same requirements and provisions of Article III of the Illinois Insurance Code and any other provisions thereof applicable to mutual companies, that are not inconsistent with Section 59.2, except that the Mutual Holding Company shall not have the authority to transact insurance pursuant to Section 39(1) of the Illinois Insurance Code and no Certificate of Authority shall be issued to the Mutual Holding Company pursuant to Section 51 thereof.

**6.3 Results of Conversion at the Effective Time.** At 12:01 a.m. on the Effective Date (the “Effective Time”):

(a) The Insurance Company shall become a stock insurance company and all of the initial shares of the capital stock of the Insurance Company shall be issued to the Mutual Holding Company.

(b) The following Member rights, to the extent they exist in the Insurance Company, shall be extinguished:

(1) any voting rights of the Members in the Insurance Company that were provided under the Policies; and

(2) any rights to share in the surplus of the Insurance Company provided for under the Articles of Incorporation of the Insurance Company, its bylaws or Policies. The Insurance Company has not issued any participating policies and no Policyholders have previously received any dividends.

(c) The Members of the Insurance Company shall immediately become Members of the Mutual Holding Company.

(d) The Insurance Company\*s bylaws, without further action or deed, shall be amended and restated to read in substantially the form set forth in Exhibit B.

## ARTICLE 7: MEMBERSHIP AND INSURANCE POLICIES

**7.1 Membership in the Mutual Holding Company.** As of the Effective Time, each member of the Insurance Company shall become a Member of the Mutual Holding Company, and after the Effective Time any Person who becomes a Policyholder of the Insurance Company shall simultaneously become a Member of the Mutual Holding Company. A Person's membership in the Mutual Holding Company shall continue so long as that Person continues to be a Policyholder under a Policy which remains In Force. Any proxy which has been granted by a Member of the Insurance Company shall remain effective in accordance with its terms so long as such Person is a Member of the Mutual Holding Company and shall empower the holder of the proxy to vote for directors of the Mutual Holding Company and such other matters as are authorized by the proxy.

**7.2 Policy.** Each insurance policy that has been issued by the Insurance Company or applied for as provided in Section 7.3, excluding reinsurance contracts, is deemed to be a Policy for purposes of this Plan. The mailing address of a Policyholder as of any date for purposes of the Plan shall be the Policyholder's last known address as shown on the books and records of the Insurance Company as of such date.

### **7.3 In Force.**

(a) A Policy shall be deemed to be in force ("In Force") as of any date if, as shown in the Insurance Company's records, such policy has been issued by the Insurance Company and has not been terminated by cancellation or non-renewal or if the Insurance Company's administrative office has received with respect to such policy an application, complete on its face, together with all required underwriting information and payment of the initial premium, *provided* that any policy so applied for is accepted by the Insurance Company for policy issuance.

(b) A Policy shall not be deemed to be In Force merely because, prior to the date on which the Policy was issued, insurance coverage may have been temporarily bound through use of a binder

(c) The date of the cancellation or nonrenewal of a Policy shall be as shown on the Insurance Company's records.

**7.4 Effect of the Conversion on Policies.** All Policies of the Insurance Company in effect on the Effective Date shall continue to remain In Force under the terms of those Policies following the Conversion, except that any voting or other Member rights of Policyholders of the Insurance Company provided for under the Policy or the Illinois Insurance Code shall be extinguished as of the Effective Time.

## **ARTICLE 8: POST CONVERSION INSURANCE COMPANY DIVIDEND PRINCIPLES AND POLICY**

Prior to the Effective Date, the Insurance Company has not issued and will not issue any participating or dividend paying policies. Following the Effective Date, the Insurance Company will not issue any participating or dividend paying policies.

## **ARTICLE 9: ADDITIONAL PROVISIONS**

**9.1 Continuation of Corporate Existence.** Upon the Conversion of the Insurance Company under the terms of the Plan and Section 59.2 of the Illinois Insurance Code, the Insurance Company's corporate existence as a stock insurance company and all of its privileges, immunities and powers shall be a continuation of its prior corporate existence as a mutual insurance company with the original date of incorporation of the former mutual Insurance Company. Upon Conversion, all the rights, franchises and interests of the former mutual Insurance Company in and to every type of property, real, personal and mixed, and things in action thereto belonging to the former Insurance Company immediately prior to the Conversion shall be deemed transferred to and vested in the converted stock Insurance Company without any deed or transfer. Simultaneously, the stock Insurance Company shall be deemed to have assumed all the obligations and liabilities of the former mutual Insurance Company existing immediately prior to the conversion.

### **9.2 Officers and Boards of Directors.**

(a) Upon Conversion, the directors and officers of the Insurance Company and the Mutual Holding Company serving immediately prior to the Effective Time shall continue to serve until their successors have been duly elected and qualified.

(b) No director, officer, agent or employee of the Insurance Company, or any of its subsidiaries or affiliates or any other person shall receive any fee, commission or other valuable consideration whatsoever, other than his or her regular salary and compensation, for in any manner aiding, promoting or assisting in the transactions contemplated by this Plan, except that the Insurance Company may pay fees, compensation and expenses to attorneys, accountants, actuaries and other experts, none of whom are directors, officers, agents or employees of the Insurance Company or any of its subsidiaries or affiliates.

**9.3 Dividends or Distributions by Mutual Holding Company.** In order to comply with applicable federal securities law, the articles of incorporation of the Mutual Holding Company shall provide that the Mutual Holding Company shall not pay dividends or make other distributions to its Members, except as directed or approved by the Director or distributions of assets to which Members may be entitled, as provided in the articles of incorporation of the Mutual Holding Company remaining after payment of creditors' claims in the event of the dissolution, liquidation or winding up of the Mutual Holding Company, subject to Article XIII of the Illinois Insurance Code.

**9.4 Dividends and Other Income Payable to the Mutual Holding Company.**

Dividends, if any, and other income received and held by the Mutual Holding Company shall inure to the benefit of its members. Such income, net of applicable taxes and expenses, may be used to pay the dividends or other distributions, if any, described in Section 9.3 and/or to purchase (i) additional shares of common stock or other equity or debt securities of the Insurance Company or its affiliates or (ii) securities of a type authorized for investment by domestic insurance companies.

**9.5 Dissolution, Liquidation or Conversion of the Mutual Holding Company.**

The articles of incorporation of the Mutual Holding Company shall provide that it shall not be dissolved or liquidated without the prior approval of the Director, except as otherwise required by judicial order. However, the Mutual Holding Company may be converted as provided in Sections 59.2(13) and 59.1 of the Illinois Insurance Code to a stock holding company upon compliance with the requirements and provisions of those sections.

**9.6 Sale of Stock of the Insurance Company.** There are no present plans for the sale of stock of the Insurance Company. The Insurance Company represents and warrants that in the event common stock is offered to the general public directly by the Insurance Company or through an intermediate stockholding company formed in the future for that purpose, subscription rights with respect to such shares first will be offered to all of the then existing members of the Mutual Holding Company, except to members residing in a jurisdiction, domestic or foreign, where compliance with securities laws or other law would be onerous or impracticable for reasons of cost or otherwise.

**9.7 Mutual Holding Company Merger Plans.** Prior to the adoption of the Plan by the Insurance Company's Board, the Insurance Company has been engaged in discussions with another mutual insurance company about the possibility of a merger of the Mutual Holding Company formed pursuant to this Plan with a mutual holding company to be formed by the other mutual insurer. In the event that any definitive agreement is reached with respect to such a merger or affiliation, the transaction will be presented to the Director and the Members for approval.

**9.8 Amendment or Withdrawal of Plan.**

(a) At any time prior to the Effective Date, the Insurance Company may, by resolution of not less than two-thirds of the Board, amend or withdraw the Plan (including the Exhibits thereto). Following the Director's approval of the Plan, any amendment shall require the written consent of the Director. No amendment may change the Plan after its approval by the Eligible Members in a manner that the Director determines is material unless the Plan, as amended, is submitted for reconsideration by the Eligible Members pursuant to the provisions of Sections 4.1 and 4.2. No amendment may change the Adoption Date of the Plan.

(b) After the Effective Time, the amended and restated articles of incorporation of the Insurance Company and the articles of incorporation of the Mutual Holding Company adopted pursuant to this Plan may be amended pursuant to the provisions of the articles of incorporation and Section 57(2)(b) of the Illinois Insurance Code.

**9.9 Corrections.** Prior to the Effective Time, the Insurance Company, with the prior consent of the Director, may make such modifications as are appropriate to correct errors, cure ambiguities, clarify existing items or make additions to correct manifest omissions in the Plan or any exhibits thereto.

**9.10 Undertakings and Agreements with the Director.** The Insurance Company may adopt undertakings or enter into agreements with the Director or with other parties covering such matters as the Director may require as a condition of the Director\*s approval of this Plan. The Insurance Company may also enter into other undertakings or agreements with other regulatory agencies in connection with the Plan. The Insurance Company shall notify the Director in writing of the terms of any such agreements with other regulatory bodies which it intends to enter into.

**9.11 Agreements Among Affiliates.** The Mutual Holding Company or any of its subsidiaries or affiliates may enter into tax sharing agreements, management agreements, service contracts, other cost-sharing arrangements, and similar agreements with another affiliate, subject to any required regulatory approval by the Director pursuant to the Illinois Insurance Code.

**9.12 Assets in Trust.** The assets of the Mutual Holding Company shall be held in trust, under such arrangements and on such terms as the Director may approve, for the benefit of the policyholders of the Insurance Company. Any residual rights of the Mutual Holding Company in such assets or any assets of the Mutual Holding Company determined not to be held in trust shall be subject to a lien in favor of the Policyholders of the Insurance Company under such terms as the Director may approve.

**9.13 Notices.** If the Insurance Company complies substantially and in good faith with the requirements of Section 59.2 of the Illinois Insurance Code with respect to the giving of any required notice to policyholders, the failure of any policyholder to receive any required notice shall not impair the validity of the actions and proceedings taken under Section 59.2.

**9.14 Limitation of Actions.** Any actions or proceeding challenging the validity of or arising out of acts taken or proposed to be taken pursuant to Section 59.2 of the Illinois Insurance Code shall be commenced within 30 days after the Effective Date of this Plan. No Person shall have any rights or claims against the Insurance Company or its Board based upon the withdrawal or termination of this Plan.

**9.15 Costs and Expenses.** All costs, including the costs of outside advisors and consultants of the regulatory agencies, related to the Plan shall be borne by the Insurance Company or the Mutual Holding Company, as applicable.

**9.16 MHC Conversion will not diminish the Financial Condition of the Insurance Company.** The Conversion will not diminish the financial condition of the Insurance Company. The costs and expenses of the Conversion will not be material to the financial condition of the Insurance Company. Capital necessary to create the Mutual Holding Company will be advanced by the Insurance Company in exchange for a \$2 million guaranty fund note issued by the Mutual

Holding Company. Terms of the note shall be subject to Section 56 of the Illinois Insurance Code. The note shall be held as an asset of the Insurance Company. It is anticipated that the note will be an admitted asset of the Insurance Company valued initially at its face amount. No other aspects of the Conversion are expected to affect the financial condition of the Insurance Company.

**9.17 Headings.** Article and Section headings contained in this Plan are for convenience only and shall not be considered in construing or interpreting any of the provisions hereof.

**9.18 Governing Law.** The Plan shall be governed by and construed in accordance with the laws of the State of Illinois, without regard to such State\*s principles of conflicts of law.

IN WITNESS WHEREOF, First Nonprofit Mutual Insurance Company by authority of its Board of Directors, has caused this Plan to be duly adopted and executed this 16th day of May, 2001, and subsequently amended on September 21, 2001.

FIRST NONPROFIT MUTUAL INSURANCE COMPANY

By: \_\_\_\_\_  
Philip R. Warth  
President and Chief Executive Officer

ATTEST:

\_\_\_\_\_  
Witness