

**IN THE CIRCUIT COURT OF COLE COUNTY
STATE OF MISSOURI**

JOHN M. HUFF, DIRECTOR)
DEPARTMENT OF INSURANCE, FINANCIAL)
INSTITUTIONS AND PROFESSIONAL)
REGISTRATION OF THE STATE OF MISSOURI.)

Plaintiff,)

v.)

NATIONAL STATES INSURANCE COMPANY)

Defendant.)

Case No.: 10AC-CC00219

ORDER

Now on this ~~4~~^{26th} day of October, 2012, John M. Huff, Director, Department of Insurance, Financial Institutions and Professional Registration of the State of Missouri, in his capacity as Liquidator ("Liquidator") of National States Insurance Company ("National States"), appears by and through counsel, Jodi M. Adolf, upon his "Motion for Approval of Assumption Agreement" between National States, National Organization of Life and Health Insurance Guaranty Associations ("NOLHGA"), NOLHGA's members that have elected to participate in the Assumption Agreement in accordance with NOLHGA's participation procedures ("Participating Associations"), and Family Life Insurance Company ("Family Life" or "Reinsurer"), pursuant to Mo. Rev. Stat. § 375.1168.2 (2000). The Court, being well and sufficiently advised in the premises, finds and concludes as follows:

THE COURT FINDS:

1. On April 1, 2010, this Court granted plaintiff's Petition for Rehabilitation, and appointed John M. Huff, the Director of the Missouri Department of Insurance and his successors in office as Rehabilitator of National States and Bruce Baty as Special Deputy Rehabilitator of National States.

2. On November 15, 2010, this Court entered a Judgment, Decree and Order of Liquidation with Finding of Insolvency (the “Order of Liquidation”) against National States. The Order of Liquidation found National States to be insolvent and terminated the rehabilitation proceedings. The Court appointed John M. Huff, the Director of the Missouri Department of Insurance and his successors in office as Liquidator of National States and Bruce Baty as Special Deputy Liquidator (hereinafter collectively referred to as “Liquidator”).

3. Pursuant to the Order of Liquidation and the Insurers Supervision, Rehabilitation and Liquidation Act, Mo. Rev. Stat. §§ 375.1150 *et seq.*, the Liquidator acts for and on behalf of National States and is vested by operation of law with title to all of the property, contracts, rights of action, books and records of National States, is in possession of or is now acquiring the assets of National States, and is administering them under the general supervision of this Court.

4. At the time of the entry of the Order of Liquidation, National States had in effect certain health insurance policies (“Policies”). The holders of the Policies reside in at least 37 states. In each of those states, there is a life and health insurance guaranty association (collectively, the “Affected Guaranty Associations”) that, as a result of the Order of Liquidation and the finding of insolvency of National States, has obligations, subject to statutory conditions and limitations on coverage and applicability, to holders of National States’ Policies who reside within the associations’ jurisdictions (“Covered Obligations”). The Covered Obligations include continuing coverage under National States’ Policies by guaranteeing, assuming or reinsuring the contractual obligations of National States as an insolvent member insurer.

5. NOLHGA is a voluntary association of its members organized as a corporation. Its members consist of life and health insurance guaranty associations established by the laws of the states and other jurisdictions of the United States of America, and include all of the Affected Guaranty Associations.

6. Pursuant to Mo. Rev. Stat. § 375.1182.1(8), the Liquidator may, when deemed appropriate, use assets of an insurer that is under an order of liquidation to achieve a transfer of contractual obligations to a solvent assuming insurer, such as Family Life, if that transfer can be arranged without prejudice to applicable priorities under Mo. Rev. Stat. § 375.1218.

7. After a thorough review and evaluation of the health insurance business of National States, the Liquidator and NOLHGA solicited offers to purchase the Policies.

8. NOLHGA engaged DaVinci Consulting Group, LLC, a national actuarial consulting firm specializing in life and health insurance and managed care products, to complete an independent review of the Policies and to assist in negotiating with potential bidders.

9. Three companies were approached to review the particulars of the Policies. Family Life was the only company that submitted a bid for the Policies.

10. Each Affected Guaranty Association was given an opportunity to agree to and participate in the Assumption Agreement so that its Covered Obligations will be discharged through Family Life's reinsurance and assumption of the Policies.

SUMMARY OF THE TERMS OF THE ASSUMPTION AGREEMENT

11. The Assumption Agreement, *inter alia*, provides:

a. Effective December 1, 2012, the Participating Associations and National States shall cede to Family Life, and Family Life shall assume from the Participating Associations and National States on an assumption reinsurance basis, 100% of the contractual obligations under all Transferred Policies¹;

b. From and after December 1, 2012, Family Life shall be liable for the payment of benefits on the Transferred Policies in accordance with the terms and conditions of the Transferred Policies and the Assumption Agreement, and for handling

¹ The term "Transferred Policies", means any of the Policies that do not become Excluded Policies. The Transferred Policies are identified in Exhibit G to the Assumption Agreement.

all benefit payments that are due on or after the Effective Date, except for those benefit payments for which the Company or the Participating Associations shall be liable as identified in Sections 2.6 and 2.7, respectively, of the Assumption Agreement;

c. Family Life shall issue an assumption certificate to each holder of the Transferred Policies in substantially the form attached to the Assumption Agreement as Exhibit B, within 60 days following the later to occur of (1) the receipt of all insurance department approvals necessary for the delivery of the assumption certificate to the holder and (2) the Closing Date. The form of assumption certificate has been or will be filed by Family Life with all applicable regulators, and Family Life is responsible for obtaining any insurance department approval of the assumption certificate that may be required by the law of any state;

d. The Liquidator, NOLHGA and Family Life have agreed to a transfer of assets at closing, which is set forth in Exhibit A-2 to the Assumption Agreement. No estate assets will be transferred to Family Life as part of this transaction;

e. NOLHGA, the Participating Associations and Family Life do not assume any legal obligations of National States with respect to commissions, policy fees, service fees, and/or producer compensation under third-party, independent contractor, producer, agent or broker commission contracts or administrative contracts between National States and third persons in connection with the Transferred Policies or administration for the Transferred Policies (“Commissions”); and

f. The Transferred Policies shall not be recaptured.

THE ASSUMPTION AGREEMENT IS IN THE BEST INTERESTS OF NATIONAL STATES, ITS POLICYHOLDERS AND CREDITORS

12. The health insurance business to be transferred pursuant to the Assumption Agreement consists of approximately 3,082 policies in 37 states.

13. Family Life, a B+ rated insurer by A.M. Best, is licensed in all states in which Transferred Policies are in-force, and pursuant to the Assumption Agreement, Family Life will assume all Transferred Policies effective December 1, 2012.

14. No estate assets will be transferred to Family Life as a part of the transaction.

IT IS HEREBY ORDERED, ADJUDGED AND DECREED that:

1. The Assumption Agreement is fair and reasonable to National States, its policyholders and creditors;

2. The Assumption Agreement and the closing and implementation of the transaction contemplated thereby, is approved in the form submitted;

3. NOLHGA, the Participating Associations and Family Life have no obligation to pay Commissions in connection with the Transferred Policies as provided for in Article IX of the Assumption Agreement;

4. The liability of Family Life under the Assumption Agreement is limited as set forth in Section 2.2 of the Assumption Agreement;

5. The conduct and actions of the Liquidator, including his employees, agents and counsel, in connection with the Assumption Agreement are hereby affirmed and approved in all respects;

6. Subject to the satisfaction of the terms and conditions of the Assumption Agreement, the Assumption Agreement is a legal, valid and effective agreement, and the transaction is fair and reasonable to National States, its policyholders and creditors and without prejudice to applicable priorities under Mo. Rev. Stat. § 375.1218;

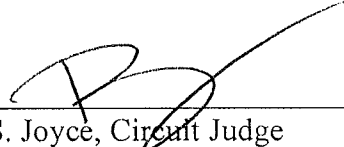
7. The terms and conditions of the Assumption Agreement may be waived, modified, amended or supplemented by the written and signed agreement of the parties without

further approval of the Court, provided that any waiver, modification, amendment or supplement is not material;

8. The parties to the Assumption Agreement are authorized to enter other and further documents as may be necessary to effectuate the transaction without further approval of the Court;

9. Family Life is assuming only those obligations specified in the Assumption Agreement and neither Family Life, nor any of its officers, directors, employees, agents or representatives shall be responsible for any action or failure to act of National States, the Liquidator, NOLHGA or the Affected Guaranty Associations, or any of their officers, directors, employees, agents or other representatives; and

10. There is no just reason for delay and this Order constitutes a final judgment fully resolving all issues relating to the Assumption Agreement.



Patricia S. Joyce, Circuit Judge
Division IV

STATE OF WISCONSIN
COUNTY OF COCONINO
IN SENATE, January 11, 2011
The Court of the State of Wisconsin, County of Coconino, do hereby certify that the within and foregoing is a true and correct copy of the original as the same appears on the records of the Court.

STATE OF MISSOURI } SS
COUNTY OF COLE }

Clerk of the Circuit Court of Cole County, Missouri, hereby certify
that the above and foregoing is a full true and correct copy of

ORDER

as fully as the same remains of record in my said office.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed
the seal of my said office this 26 day of October 2012

[Handwritten Signature]

Clerk
Circuit Court of Cole County, Missouri