

SAUCON MUTUAL INSURANCE COMPANY
74 W. Broad Street, Suite 300, Bethlehem, PA 18018

~~POLICYHOLDER~~ MEMBER INFORMATION STATEMENT
AND PROXY STATEMENT
for
SPECIAL MEETING OF MEMBERS
to be held on [~~November 25~~ DATE], ~~2014~~ 2015

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INTRODUCTION

This ~~policyholder member~~ information statement and proxy statement is being given by the board of directors of Saucon Mutual Insurance Company, a Pennsylvania mutual insurance company (“Saucon Mutual”), in connection with its solicitation of proxies from members to be voted at the special meeting of members of Saucon Mutual that is to be held on [~~November 25~~DATE], ~~2014~~ 2015 at [LOCATION] (the “Special Meeting”).

The board of directors has called the Special Meeting to vote on a proposal to approve a plan of conversion to demutualize Saucon Mutual (the “Plan of Conversion”) and a related amendment of Saucon Mutual’s articles of incorporation. The Plan of Conversion provides for Saucon Mutual to be converted from a mutual insurance company to a stock insurance company that will be named “Saucon Insurance Company”. A copy of the Plan of Conversion is attached as Exhibit 1.

Anyone who owns a policy or policies of insurance with Saucon Mutual (~~referred to in this policyholder information statement as a “policyholder”~~) is a member of Saucon Mutual until the termination or non-renewal of such policy or policies.

The board of directors has set August 27, 2014 (the “Record Date”) as the record date for determination of members entitled to notice of, and to vote at, the Special Meeting (and any postponements or adjournments thereof) and to receive consideration as contemplated in the Plan of Conversion. Only members of Saucon Mutual as of the Record Date are entitled to notice of, and to vote at, the Special Meeting (and any postponements or adjournments thereof). The date of this ~~policyholder member~~ information statement is [DATE OF MAILING],[†] and this ~~policyholder member~~ information statement, its exhibits and the accompanying proxy card are being mailed to persons who are members of Saucon Mutual as of the Record Date.

In order to close the transactions contemplated by the Plan of Conversion, the Plan of Conversion must be approved by the vote of at least two-thirds of the members that are cast at the Special Meeting. Each member as of the Record Date is entitled to cast one vote at the Special Meeting, and may vote in person or by properly executed proxy.

The consummation of the transactions contemplated by the Plan of Conversion is subject to approval by the members of Saucon Mutual and by the Pennsylvania Insurance Department.

The proposed demutualization of Saucon Mutual and the other transactions contemplated by the Plan of Conversion are more fully described in this ~~policyholder member~~ information statement. You are strongly encouraged to read it, and its exhibits, in their entirety and consider them carefully.

[†] ~~NOTE TO PENNSYLVANIA INSURANCE DEPARTMENT: Saucon Mutual, in its Plan, requests that on or before October 10, 2014, the Department approve the delivery of this policyholder information statement and related materials so as to permit a special meeting of the policyholders on November 25, 2014.~~

QUESTIONS AND ANSWERS RELATING TO THE SPECIAL MEETING AND THE PLAN OF CONVERSION

Why has this ~~policyholder~~-member information statement been sent to me?

This ~~policyholder~~-member information statement has been sent to all ~~policyholders~~-members of Saucon Mutual as of the Record Date. Because Saucon Mutual is a mutual insurance company, every owner of an insurance policy issued by Saucon Mutual as of that date is a member of Saucon Mutual and, as such, has certain voting rights in his, her or its capacity as a member, including the right to vote on a proposed demutualization of the company.

The board of directors of Saucon Mutual has approved a Plan of Conversion that would, among other things, demutualize Saucon Mutual. That Plan of Conversion is being submitted to the members of Saucon Mutual for their approval, since the closing under it cannot occur unless (among other things) the Plan of Conversion is duly approved by the members of Saucon Mutual.

A Special Meeting of the members of Saucon Mutual has been called so that the members of Saucon Mutual can vote on the Plan of Conversion and the related amendment to Saucon Mutual's articles of incorporation. This ~~policyholder~~-member information statement and the accompanying proxy materials have been sent to you to solicit your proxy to vote in favor of approving the Plan of Conversion and the related amendment to Saucon Mutual's articles of incorporation.

What are the transactions contemplated by the Plan of Conversion?

The Plan of Conversion contemplates the following transactions:

- Saucon Mutual would be demutualized. This means that Saucon Mutual would be converted from a mutual insurance company to a stock insurance company that would be called "Saucon Insurance Company".
- A recently formed stock holding company, called "Saucon Holding Company", would become the sole stockholder of Saucon Insurance Company.
- Saucon Holding Company would issue shares of its capital stock to certain investors by means of a stock offering.
- An entity reorganization would occur immediately after the demutualization that would cause Saucon Insurance Agency, Inc. (the "Agency"), an insurance agency that is currently a wholly-owned subsidiary of Saucon Mutual, to become a wholly-owned subsidiary of Saucon Holding Company (and a sister company of Saucon Insurance Company).

These transactions are collectively referred to in this ~~policyholder~~-member information statement as the "Demutualization Transactions". These transactions are described more fully below under the heading "Description of Demutualization Transactions".

How will the transactions contemplated by the Plan of Conversion affect me?

If the Demutualization Transactions occur, ~~policyholders~~ members of Saucon Mutual as of the Record Date will receive consideration, including cash payments, which is described more fully below under the heading “Description of Consideration to ~~Policyholders~~ Members”.

Additionally, because Saucon Mutual would be demutualized, policyholders would no longer have voting rights (such as the right to elect directors of the insurance company). A description of the changes in the policyholders’ rights ~~of Saucon Mutual~~ that would result from the company’s demutualization is set forth below under the heading “Description of Changes in Policyholders’ ~~rights~~ Rights”.

Policies of insurance issued by Saucon Mutual that are in force at the time of closing of the Demutualization Transactions would remain in full force and effect. Saucon Mutual does not expect that the Demutualization Transactions will have any negative impact on the company’s financial strength ratings nor on its ability to pay claims and policy benefits.

Why does Saucon Mutual want to demutualize?

The board of directors of Saucon Mutual has determined that demutualization is in the company’s best interests for several reasons, including:

- rewarding ~~policyholders~~ members for their loyalty to the company;
- making a charitable contribution in furtherance of the company’s ongoing commitment to the community;
- modernizing the company’s governance structure;
- enabling the issuance of stock and other financial instruments in order to raise capital, to facilitate potential acquisitions of other businesses, and to incentivize employees;
- preparing the company to re-enter the insurance underwriting business; and
- maintaining the independence of the company.

These reasons are explained more fully below under the heading “Background to the Proposed Demutualization of Saucon Mutual – Reasons for the ~~proposed demutualization~~ Proposed Demutualization”.

Will the closing of the Demutualization Transactions affect my insurance policy?

The closing of the Demutualization Transactions will not, in and of itself, affect any of the insurance policies issued by Saucon Mutual, except that: ~~Policyholders~~ policyholders will cease to have voting rights and the right to share in the surplus of the mutual company, as described more fully below under the heading “Description of Changes in Policyholders’

~~rights”; and~~ ~~It is expected that the costs to some policyholders for maintaining existing policies will decrease:~~

- ~~○ In the case of perpetual policies with endorsements that adjust policy limits for inflation, perpetual policyholders would no longer be charged an additional deposit for these inflation adjustments. Furthermore, the increases in policy limits will be based on a rate determined by an index prepared by a third party that estimates replacement cost inflation, rather than a fixed rate.~~
- ~~○ In the case of non-perpetual policies with endorsements that adjust policy limits for inflation, the increases in policy limits will be based on a rate determined by an index prepared by a third party that estimates replacement cost inflation, rather than a fixed rate.~~

~~Other than those changes, Rights.”~~ In all other respects, the insurance policies issued by Saucon Mutual would remain in full force and effect.

Who will own the insurance company after it demutualizes?

If the Demutualization Transactions close, Saucon Insurance Company (the stock company into which Saucon Mutual would convert) will become a wholly-owned subsidiary of Saucon Holding Company, a newly-organized corporation.

Saucon Holding Company, in turn, would be owned by those investors who subscribe for capital stock in a stock offering that would close concurrently with the transactions contemplated by the Plan of Conversion, as described more fully below under the heading “Description of Stock Offering of Saucon Holding Company”.

~~Other than the policyholder vote at the Special Meeting, what other approvals are required in order for~~ Have the Demutualization Transactions to close? been approved by the relevant government agency?

~~Under Pennsylvania law, the Demutualization Transactions may close only if~~ Yes. On [DATE], the Pennsylvania Insurance Department ~~approves~~ approved:

- the Plan of Conversion;
- a Form A (Acquisition of Control of, or Merger With, a Domestic Insurer), which must be filed because the transactions will constitute a change of control of Saucon Mutual; and
- the distribution of the stock of the Agency to Saucon Holding Company.

~~The Plan of Conversion and the Form A were filed with the Pennsylvania Insurance Department for its approval on September 2, 2014. Upon filing the Plan of Conversion with the Pennsylvania Insurance Department, Saucon Mutual delivered a notice to all of its policyholders informing them of the filing and notifying them of their right to file comments on the Plan of Conversion with the Pennsylvania Insurance Department within the 30-day period following the filing.~~

The Pennsylvania Insurance Department will ~~The Pennsylvania Insurance Department~~ was required by Pennsylvania law to approve the Plan of Conversion if it ~~finds~~ found that the Plan of Conversion does not prejudice the interests of the ~~policyholders~~ members, is fair and equitable, and complies with the applicable statute. ~~Please be aware that the Plan of Conversion has not yet been approved by the Pennsylvania Insurance Department. The note, however, that the Pennsylvania Insurance Department's approval of the delivery of this policyholder information statement to you and the other policyholders~~ Plan of Conversion should not be taken as constituting the endorsement of the Demutualization Transactions by the Pennsylvania Insurance Department.

~~Will there be a public hearing?~~

~~Under Pennsylvania law~~ On September 2, 2014, Saucon Mutual filed the Form A and the original version of the Plan of Conversion with the Pennsylvania Insurance Department for its approval. Upon filing of that original version of the Plan of Conversion, the Pennsylvania Insurance Department may, but is not required to, order a public hearing on whether the Demutualization Transactions comply with applicable law. If the Pennsylvania Insurance Department orders a hearing, the Pennsylvania Insurance Department must give written notice to Saucon Mutual and to all of Saucon Mutual's policyholders, and all of them will have the right to appear at it. ~~Saucon Mutual delivered a notice to all of its members informing them of the filing and notifying them of their right to file comments on the Plan of Conversion with the Pennsylvania Insurance Department within the 30-day period following the filing. By letter dated January 12, 2015, the Pennsylvania Insurance Department provided a list of additional items necessary to the review of the filing of the original Plan of Conversion and the related documents.~~

On February 4, 2015, the board of directors of Saucon Mutual unanimously approved the amendment and the restatement of the original plan of conversion in the form attached to this member information statement. References in this member information statement to the "Plan of Conversion" refer to this amended and restated plan of conversion. The Plan of Conversion and certain related documents were then filed with the Pennsylvania Insurance Department for its approval on February 6, 2015. Subsequently, on [DATE], the Pennsylvania Insurance Department approved the Plan of Conversion and certain related filings and transactions as indicated above.

What vote of the ~~policyholders~~ members will be required to approve the Plan of Conversion?

Under Pennsylvania law, the Plan of Conversion may be effected only if it is approved by the affirmative vote, in present or by proxy, of at least two-thirds of the members that are cast at a meeting at which a quorum is present that is called to consider and vote upon the Plan of Conversion.

Saucon Mutual's bylaws provide that the presence of five ~~policyholders~~ members, either by being present at the meeting or by proxy, constitutes a quorum at any annual or special meeting of the ~~policyholders~~ members.

The board of directors has called the Special Meeting to occur on [~~November 25~~DATE], ~~2014-2015~~ to consider and vote on the Plan of Conversion. Only ~~policyholders~~members as of the Record Date will be entitled to notice of, and to vote at, the Special Meeting.

Will the Demutualization Transactions require any other votes by the ~~policyholders~~members at the Special Meeting?

Yes. Under Pennsylvania law, the Plan of Conversion may be effected only if, at the Special Meeting called to approve the Plan of Conversion, the amendment of Saucon Mutual's articles of incorporation in the form attached hereto as Exhibit 2 is approved by the affirmative vote, in present or by proxy, of at least two-thirds of the members that are cast at that meeting.

Can I cast my vote at the Special Meeting by submitting a proxy?

Yes. You can participate in the Special Meeting by proxy, by filling out and returning the attached proxy card to Saucon Mutual. Any properly-executed proxy cards received prior to the Special Meeting, and not duly and timely revoked, will be voted at the Special Meeting in accordance with the instructions indicated on the proxies.

Can I change my vote or revoke my proxy after I return my proxy card?

Yes. Any proxy may be revoked before it is voted. Proxies may be revoked by: (i) filing with Saucon Mutual, at or before the taking of the vote at the Special Meeting, a written notice of revocation with a date later than the proxy; (ii) executing a later dated proxy and delivering it to Saucon Mutual by mail prior to the Special Meeting, or any adjournments, postponements, rescheduling or continuations thereof; or (iii) attending the Special Meeting and voting in person (attendance at the Special Meeting will not in and of itself constitute the revocation of a proxy). Any written notice of revocation or subsequent proxy must be sent to and received by Saucon Mutual at 74 West Broad Street, Suite 300, Bethlehem PA 18018, attention: Stephen Bajan, Chief Executive Officer, or hand-delivered to Stephen Bajan at Saucon Mutual before the Special Meeting. Saucon Mutual members may obtain a new proxy by submitting a request to Stephen Bajan at Saucon Mutual, 74 West Broad Street, Suite 300, Bethlehem PA 18018.

Where can I get financial information about Saucon Mutual?

A copy of Saucon Mutual's unaudited, condensed comparative annual statement for the fiscal years ended December 31, 2013 and December 31, 2012 is attached to this ~~policyholder~~member information statement as Exhibit 3.

How does Saucon Mutual's board of directors recommend I vote?

Saucon Mutual's board of directors recommends that you vote "FOR" the proposal to approve the Plan of Conversion and "FOR" the proposal to amend Saucon Mutual's articles of incorporation.

Do I have to vote to approve the Plan of Conversion in order to receive consideration?

No. If the Plan of Conversion is duly approved and the Demutualization Transactions close, all ~~policyholders~~ members of Saucon Mutual as of the Record Date will receive consideration whether they voted “FOR” approval of the Plan of Conversion, “AGAINST” approval, or did not vote at all.

Will I have the right to subscribe for shares of capital stock of Saucon Holding Company?

No. The proposed demutualization of Saucon Mutual has not been structured as a “subscription rights offering”, which means that ~~policyholders~~ members of Saucon Mutual do not, in their capacity as such, have the right to subscribe for the stock that is being offered in the stock offering by Saucon Holding Company.

Where can I get more information about the transactions described in this ~~policyholder~~ member information statement?

You may contact Stephen Bajan, the Chief Executive Officer of Saucon Mutual, at 74 West Broad Street, Suite 300, Bethlehem PA 18018, telephone (610) 868-1832.

BACKGROUND TO DEMUTUALIZATION

Description of Demutualization

A mutual insurance company is structured differently and operated differently than a stock insurance company. The chart that follows contrasts the general characteristics of mutual insurance companies as compared to demutualized stock insurance companies. The chart also illustrates how the rights of policyholders differ in the two structures.

	Mutual Insurance Companies	Demutualized Stock Insurance Companies
Financial benefits of membership in the company	Upon the demutualization of the company and the conversion of it into a stock insurance company, policyholders will have the right to receive consideration as provided in the plan of conversion.	The membership interests of policyholders will have ended.
Disposition of proceeds of a liquidation of the company	If the company were liquidated before being demutualized <u>Upon liquidation of a mutual insurance company</u> , the remaining proceeds (after satisfaction of liabilities and claims) would be escheated to the Commonwealth of Pennsylvania.	The holding company, as the sole stockholder of the company, will have the right to receive the remaining proceeds (after satisfaction of liabilities and claims). If the holding company were liquidated, its shareholders would have the right to receive the remaining proceeds (after satisfaction of the holding company's liabilities and claims).
Voting interests	Members have the right to vote on matters submitted to them. Each member has one vote.	Only shareholders have the right to vote. A shareholder generally has one vote per share.
Transferability of membership or ownership interests	Not transferable separately from the underlying policy. Membership interests end when policy expires or is terminated.	Ownership of the stock of the demutualized company is not related to the status of any insurance policy.
Existence of shareholders	Company has policyholders <u>members</u> but no shareholders.	Company has both shareholders (of the holding company) and policyholders (of the insurance company).
Dividends	Payable to policyholders <u>members</u> if and as declared by the board of directors, and subject to restrictions as provided by law.	Payable to stockholders and/or policyholders if and as declared by the board of directors, and subject to restrictions as provided by law. Policyholders do not have the right to share in the surplus of the company.
Ability to conduct capital transactions	Limited – can only raise capital through borrowing or through sale of subsidiary stock or assets.	Increased ability to raise capital—by selling stock and other financial instruments—and can use stock and other financial instruments to pay for acquisitions.
Ability to provide employees with stock-based compensation	Not possible.	The company may provide employees stock-based compensation such as stock grants and stock options.

Discussion of the Principal Characteristics of Saucon Mutual, and Your Rights as a Policyholder, Before and After Demutualization

Membership interests will be exchanged for economic value. Policyholders of Saucon Mutual have membership interests in Saucon Mutual. Membership interests include the right to vote on matters submitted to ~~policyholders-members~~ (such as the election of directors), the right to share in the surplus of the company, and the right to receive consideration upon demutualization.

Upon the demutualization of Saucon Mutual as contemplated under the Plan of Conversion, all of the membership interests of all ~~policyholders-members~~ will cease to exist and, in exchange, the ~~policyholders-members~~ will receive the compensation set forth in the Plan of Conversion. No ~~policyholder member~~ will have to pay for or give up their policy in order to receive this compensation. The compensation is described more fully below under the heading “Description of Consideration to ~~PolicyholdersMembers~~”.

Potential for competing interests between shareholders and policyholders. A mutual insurance company is generally operated for the benefit of its policyholders, who are its members. After demutualization, the company will be owned by Saucon Holding Company. Saucon Holding Company, in turn, will be owned by the investors who participate in a stock offering by that company as described more fully below under the heading “Description of Stock Offering of Saucon Holding Company”.

Some policyholders may be concerned that their interests and those of the shareholders of Saucon Holding Company might not be the same after demutualization. In particular, shareholders may be more interested in financial performance as it relates to the value of their investment in the stock, while policyholders may be more interested in financial performance as it relates to the ability of their insurance company to pay claims and as it affects the cost of insurance. Saucon Mutual believes that both policyholders and shareholders will benefit from business opportunities that the proposed demutualization will make possible because of increased access to the financial markets, enhanced financial flexibility and improved ability to attract and retain suitable employees. Saucon Mutual believes that it will be able to effectively address the competing interests of shareholders and policyholders.

Policy benefits. The closing of the Demutualization Transactions will not, in and of itself, affect any of the insurance policies issued by Saucon Mutual, except that ~~the endorsements of some policies will change as follows: policyholders will cease to have voting rights and other membership rights.~~ In all other respects, the insurance policies issued by Saucon Mutual would remain in full force and effect.

- ~~• In the case of perpetual policies with endorsements that adjust policy limits for inflation, perpetual policyholders would no longer be charged an additional deposit for these inflation adjustments. Furthermore, the increases in policy limits will be based on a rate determined by an index prepared by a third party that estimates replacement cost inflation, rather than a fixed rate.~~
- ~~• In the case of non-perpetual policies with endorsements that adjust policy limits for inflation, the increases in policy limits will be based on a rate determined by an index prepared by a third party that estimates replacement cost inflation, rather than a fixed rate.~~

Right of Board of Directors to Amend or Withdraw the Plan of Conversion

The Plan of Conversion may be amended, as follows:

~~Before Approval by the Department~~ The Plan of Conversion may be amended at any time before it is approved by the Pennsylvania Department of Insurance by the affirmative vote of two-thirds of the directors of Saucon Mutual.

~~After Approval by the Department.~~ The Plan of Conversion may be amended at any time after its approval by the Department by the affirmative vote of two-thirds of the directors of Saucon Mutual; provided, however, that any such amendment also shall be subject to approval by the Department.

~~After Approval of the Policyholders at the Special Meeting.~~ This Plan may be amended at any time after its approval by the policyholders and prior to closing date of the Demutualization Transactions by the affirmative vote of Under Pennsylvania law, since the Plan of Conversion has already been approved by the Pennsylvania Insurance Department, it may be amended by the affirmative vote of at least two-thirds of the directors of Saucon Mutual; provided, however, that any such amendment also shall be subject to approval by the Department. Also, if such amendment is determined by the Department to be material, such amendment will also be subject to approval Pennsylvania Insurance Department. Once the Plan of Conversion is approved by the members at the special meeting that is being called for that purpose, it can be amended before the closing of the Demutualization Transactions so long as (i) the requirements set forth above are satisfied, and (ii) if the Pennsylvania Insurance Department determines the amendment to be material, the amendment is also approved by the affirmative vote of at least two-thirds of the votes cast at a meeting of the ~~policyholders~~ members called for that purpose.

~~This~~ The Plan of Conversion may be terminated at any time before the closing of the Demutualization Transactions by the affirmative vote of at least two-thirds of the directors of Saucon Mutual then in office.

BACKGROUND TO THE DEMUTUALIZATION TRANSACTIONS

Description of Saucon Mutual.

Saucon Mutual was incorporated in Pennsylvania on May 3, 1832 as the Farmers Fire Insurance Company of Upper and Lower Saucon Townships. It began business in 1832 and has operated as a property insurance company for over 180 years.

Saucon Mutual maintains both perpetual and non-perpetual policies for homeowners and dwelling property programs. Perpetual policies are written to have no term, or date, when the policy expires. From the effective start date, the coverage exists for perpetuity. Saucon Mutual also issues policies that do have a set date when the policy expires, these are referred to as non-perpetual policies.

In 1991, Saucon Mutual organized the Agency as a wholly-owned subsidiary. The Agency is an independent insurance agency that sells automobile insurance, homeowners insurance, business insurance and other insurance. The Agency also offers employee benefits consulting.

Saucon Mutual has written very few new insurance policies since 2005. Although Saucon Mutual maintains a level of surplus that satisfies relevant legal requirements, it has only four employees and believes that it does not presently have the infrastructure that would enable it to successfully resume the underwriting of new insurance policies.

Saucon Mutual's unaudited, condensed comparative annual statement for the fiscal years ended December 31, 2013 and December 31, 2012 are attached as Exhibit 3 to this [policyholder-member](#) information statement.

Background to the Proposed Demutualization

Saucon Mutual's board of directors met several times in 2013 and 2014 to discuss the general strategic plan of the company. The board identified its objectives as including the following:

- Rewarding [policyholders-members](#) for their loyalty to the company
- Making a charitable contribution in furtherance of the company's ongoing commitment to the community
- Modernizing the company's governance structure
- Enabling the issuance of stock and other financial instruments in order to raise capital, to facilitate potential acquisitions of other businesses, and to incentivize employees
- Re-entering the insurance underwriting business
- Maintaining the independence of the company

Saucon Mutual's board organized an informal strategic planning subcommittee whose members consisted of Brian T. Regan (Chairman of the Board), Stephen Bajan (the Chief Executive Officer of the company), and board member Michael Crofton. This strategic planning subcommittee presented to the whole board a proposal to address the goals identified above by engaging in the Demutualization Transactions. With the board's authorization and direction, the strategic planning subcommittee discussed the proposed transactions with the Pennsylvania Insurance Department, engaged outside

counsel to prepare the Plan of Conversion and other related documents and filings, and engaged the investment banking firm of Boenning & Scattergood to deliver a fairness opinion with respect to the Demutualization Transactions.

At a board meeting on August 27, 2014, the ~~Plan of Conversion~~ original version of the plan of conversion and the other related documents and filings were presented to the board of directors and were unanimously approved. The board then directed that the original version of the plan of conversion and the other related documents and filings be filed with the Pennsylvania Insurance Department. Saucon Mutual filed the original version of the plan of conversion and the other related documents and filings with the Pennsylvania Insurance Department on September 2, 2014. Saucon Mutual also delivered a notice to all of its members informing them of the filing and notifying them of their right to file, with the Pennsylvania Insurance Department, comments on that original version of the plan of conversion within the 30-day period following the filing. By letter dated January 12, 2015, the Pennsylvania Insurance Department provided a list of additional items necessary to the review of the filing of the original Plan of Conversion and the related documents.

On February 4, 2015, the board of directors of Saucon Mutual unanimously approved the amendment and restatement of the original plan of conversion that had been filed on September 2, 2014. That amendment and restatement was in the form attached to this member information statement, and references in this member information statement to the “Plan of Conversion” refer to this amended and restated plan of conversion. The Plan of Conversion and certain related documents were then filed with the Pennsylvania Insurance Department for its approval on February 6, 2015. Subsequently, on [DATE], the Pennsylvania Insurance Department approved the Plan of Conversion and certain related filings and transactions.

The board of directors of Saucon Mutual has directed that a special meeting of the ~~policyholders~~ members of Saucon Mutual be called to vote upon the Plan of Conversion, and ~~to amend upon the related amendment to~~ Saucon Mutual’s articles of incorporation, in accordance with applicable law.

Reasons for the Proposed Demutualization

Saucon Mutual’s board of directors believes that the proposed demutualization and the Demutualization Transactions are the most appropriate and effective means of enabling the company to achieve the objectives designated by the board.

- Rewarding ~~policyholders~~ members for their loyalty to the company. As described more fully below under the heading “Description of Consideration to ~~Policyholders~~Members”, the consideration that ~~policyholders~~ members of Saucon Mutual would receive upon the closing of the Demutualization Transactions would depend, in part, upon the number of years that the ~~policyholder’s~~ member’s policy had remained in force. This permits Saucon Mutual to reward ~~policyholders~~ members for their loyalty to the company by maintaining their policies. The aggregate amount of the payments to ~~policyholders will be \$1,052,973~~ members will be approximately \$1,064,788, assuming a June 30, 2015 closing date.
- Making a charitable contribution in furtherance of the company’s ongoing commitment to the community. As described more fully below under the heading “Description of Charitable

Contribution”, upon the closing of the Demutualization Transactions, the company would make a \$1 million cash contribution to the Lehigh Valley Community Foundation. The contributions committee of Saucon Insurance Company’s board of directors will then make recommendations as to how those funds should be disbursed for charitable purposes. The members of the contribution committee will not be compensated for their service on the committee.

- Modernizing the company’s governance structure. The board of directors of Saucon Mutual believes that it is in the company’s interest to align the interests of its constituents with the growth and success of the company, and that organization as a stock corporation is a more appropriate structure to accomplish this goal than organization as a mutual company.

The authority to elect directors and make certain other decisions with respect to a Pennsylvania mutual insurance company such as Saucon Mutual lies with its members (*i.e.*, its policyholders). But each ~~policyholder~~ member is entitled to cast one vote—regardless of the type of policy or the amount of coverage—with respect to a matter that is submitted to the ~~policyholders~~ members for approval, which means that there is no particular relationship between a particular ~~policyholder’s~~ member’s commercial relationship with the company and the weight of that ~~policyholder’s~~ member’s vote. By way of contrast, in the case of a stock corporation, each stockholder is entitled to cast one vote per share, which means that a stockholder who wishes to enjoy a greater degree of control over the corporation can do so by acquiring more shares. The board of directors believes that it is in the company’s interest to adopt a governance structure where the voting power of a constituent of the company is more closely aligned to that constituent’s economic interest in the company, as represented by that constituent’s investment in the company to acquire shares.

- Enabling the issuance of stock and other financial instruments in order to raise capital, to facilitate potential acquisitions of other businesses, and to incentivize employees. A mutual company cannot issue stock. A stock corporation, on the other hand, can issue shares of its stock and other financial instruments. Among the reasons that a stock corporation may issue shares of stock or other financial instruments are:
 - To sell the shares to investors to raise capital for the company;
 - To acquire another business, by using the stock or other financial instruments that it issues as some or all of the purchase price for the business; and
 - To incentivize employees through the issuance of stock grants, stock options and other similar equity compensation strategies, because those strategies can give the employees who receive those grants the opportunity to share in the economic benefits of the growth of the company. This can help the company attract and retain suitable employees.
- Re-entering the insurance underwriting business. While Saucon Mutual is in a stable position from a financial point of view (see Saucon Mutual’s unaudited, condensed comparative annual statement for the fiscal years ended December 31, 2013 and December 31, 2012, a copy of which are attached to this ~~policyholder~~ member information statement as Exhibit 3), Saucon Mutual has written very few new insurance policies since 2005. Saucon Mutual’s personnel and business systems are adequate to continue to maintain the existing insurance policies and their renewals in full force and effect, but Saucon Mutual does not presently have sufficient personnel and

infrastructure to enable it to issue new insurance policies. Saucon Mutual's board of directors believes that demutualizing the company would permit the company to implement steps to attract and retain suitable personnel and to develop appropriate infrastructure to assist the company in re-entering the business of issuing new insurance policies.

- Maintaining the independence of the company. Upon the closing of the Demutualization Transactions, Saucon Insurance Company (the stock insurance company into which Saucon Mutual would be converted) will become a wholly-owned subsidiary of Saucon Holding Company. The stock of Saucon Holding Company in turn will be owned by the investors in a concurrent stock offering. The investors in that stock offering are individuals who were board members or members of management of Saucon Mutual, rather than being other insurance companies. See "Description of Stock Offering of Saucon Holding Company".

The Demutualization Transactions have been structured to enable the company to achieve its goals without becoming acquired by another insurance company. For this reason, the Demutualization Transactions were designed to, and are expected to, permit the company to maintain its independence.

It should be noted that while it is very difficult for a mutual insurance company to be acquired by another company because a merger with another mutual insurer or a demutualization would be necessary, it would be possible for a third party to acquire control of the stock insurance company by acquiring all or a controlling interest in the stock of Saucon Holding Company. However, the stock of Saucon Holding Company will not be publicly traded, so there is no marketplace through which such a third party can acquire Saucon Holding Company shares. In addition, the shareholders of Saucon Holding Company will enter into a shareholder shareholders agreement that will, among other things, impose restrictions on the transfer of their shares. Changes in control of a Pennsylvania stock insurance company are also subject to approval by the Pennsylvania Insurance Department in accordance with law. For these reasons, Saucon Mutual does not believe that after the Demutualization Transactions close, a subsequent change in control of Saucon Holding Company or of the stock insurance company is likely to occur in the foreseeable future.

In considering the Demutualization Transactions, the board considered Saucon Mutual's current financial condition and future prospects, and considered the advice of its legal and financial advisors. The board thoroughly reviewed its available strategic alternatives and concluded that the approach outlined in the Plan of Conversion was the most attractive alternative from a strategic, financial and operational point of view.

The board of directors believes that the Demutualization Transactions do not prejudice the interests of the members of Saucon Mutual, are fair and equitable, and are not inconsistent with the purposes and intent of Pennsylvania's Insurance Company Mutual-to-Stock Conversion Act and has obtained an opinion to that effect from the firm of Boenning & Scattergood, the company's financial advisor. A copy of that opinion is attached to this policyholder-member information statement as Exhibit 4.

DESCRIPTION OF CONSIDERATION TO ~~POLICYHOLDERS~~MEMBERS

Description of Consideration to ~~Policyholders~~Members

Saucon Mutual's outstanding policies are either perpetual policies or non-perpetual policies. Perpetual policies are written to have no term, or date, when the policy expires. From the effective start date, the coverage exists for perpetuity. Saucon Mutual also issues policies that do have a set date when the policy expires, these are referred to as non-perpetual policies. The consideration that a particular ~~policyholder member~~ will receive will depend upon whether that ~~policyholder member~~ holds a perpetual policy or a non-perpetual policy.

Compensation for ~~Policyholders~~ Members as of the Record Date Who Hold Perpetual Policies

A. *Cash Payment.* A cash payment ~~equal to the~~ computed by multiplying (i) the actual number of years that the policy had been in effect from its issuance until the closing date of the Conversion, multiplied by (including any fractional part of a whole year), by (ii) \$60 (for per year, then rounding that amount to the nearest whole dollar. For example, a member who is a perpetual policyholder whose policy had been in effect for 10 years (i.e., 3650 days) would receive a cash payment of \$600); and a member who is a perpetual policyholder whose policy had been in effect for 10 years plus 120 days (i.e., 3770 days) would receive a cash payment of \$620. The aggregate amount of cash payments to all members who are perpetual policyholders under this paragraph will be \$693,195,704,249, assuming a closing date of June 30, 2015.

B. *Return of Deposits.* A return of 15% of the ~~Eligible Policyholder's member's~~ deposits held by Saucon Mutual, if any. The aggregate amount of deposits to be returned to members who are perpetual policyholders under this paragraph will be \$340,037 approximately \$340,000, less any deposits that are returned before the closing in accordance with policy terms. The balance of a ~~policyholder's member's~~ deposit (the remaining 85%) will be returnable in accordance with policy terms.

~~C. — Amendment to Policy. Many of the perpetual insurance policies issued by Saucon Mutual have an "Annual Adjustment of Limits" endorsement or "Automatic Increase in Insurance" endorsement (collectively, the "Inflation Adjustment Endorsement(s)"). Saucon Mutual's Inflation Adjustment Endorsements are designed to provide policyholders with protection from inflation by increasing the limits of liability for certain coverages provided under policy. If a perpetual insurance policy has an Inflation Adjustment Endorsement, the maximum amount that the policyholder could receive under the policy by reason of an insured loss would increase over time.~~

~~Currently, with respect to perpetual insurance policies that have Inflation Adjustment Endorsements:~~

- ~~○ The perpetual policyholder is charged an additional deposit annually for the increase in policy limits (with limited exceptions); and~~
- ~~○ The increase in policy limits is based on a fixed percentage.~~

~~After the closing of the Demutualization Transactions, and effective with respect to each perpetual policy on the next annual anniversary of the date of issuance of the perpetual policy in question that follows the closing of the Demutualization Transactions, the Converted Insurance~~

Company will implement the following changes with respect to perpetual insurance policies that have an Inflation Adjustment Endorsement:

- ~~The perpetual policyholder will no longer be charged an additional deposit for the increases in policy limits; and~~
- ~~The increases in policy limits will be based on a rate determined by an index prepared by a third party that estimates replacement cost inflation. Saucon Mutual anticipates that this flexible rate will more accurately track inflation as it relates to the repair/reconstruction of an insured property subject to a loss. Also, if it is determined by a third party survey/inspection service that the limits of liability are too high for certain coverages, the limits will be reduced.~~

C. Removal of Charges for Increases in Policy Limits Under Inflation Adjustment Endorsements. Many of the perpetual insurance policies issued by Saucon Mutual have inflation adjustment endorsements, which are either “Annual Adjustment of Limits” endorsements or “Automatic Increase in Insurance” endorsements. Those endorsements generally cause the policy limit of the perpetual policy to be increased each year due to inflation, but they generally require the perpetual policyholder to pay an additional annual deposit to Saucon Mutual because of that increase in the policy limit. After the Conversion, the Converted Insurance Company will discontinue its practice of requiring holders of those perpetual policies to pay those additional annual deposits, commencing on the annual anniversary of the date of issuance of that perpetual policy that follows the closing date of the Conversion.

Compensation for Policyholders Members as of the Record Date Who Hold Non-Perpetual Policies

~~A. Cash payment~~ Payment. A cash payment equal to the sum of:

- ~~The~~ A cash payment computed by multiplying (i) the actual number of years that the non-perpetual policy had been in effect (including all renewals) from its issuance until the closing of the Demutualization Transactions, multiplied by \$60; (for example, a non-perpetual policy that date of the Conversion (including any fractional part of a whole year), by (ii) \$60 per year, then rounding that amount to the nearest whole dollar. For example, a member who is a non-perpetual policyholder whose policy had been issued and then renewed from time to time for a total period of 10 years (i.e., 3650 days) as of the closing date would receive a cash payment of \$600; and a member who is a non-perpetual policyholder whose policy had been issued and then renewed from time to time for a period of 10 years plus 120 days (i.e., 3770 days) as of the closing date would receive a cash payment of \$620. The aggregate amount of cash payments to all members who are non-perpetual policyholders under this paragraph would be \$17,990 will be \$18,739, assuming a closing date of June 30, 2015; plus
- An additional one-time cash payment equal to 15% of the current premium of the policy. The aggregate amount of cash payments ~~the~~ to be made to members who are non-perpetual policyholders under this paragraph would be approximately \$1,751,800.

~~B. — Amendment to Policy.~~ Many of the non-perpetual insurance policies have Inflation Adjustment Endorsements which provide policyholders with protection from inflation by annually increasing the limits of liability for the policy. This means that if a non-perpetual insurance policy has such an endorsement, the maximum amount that the policyholder could receive under the policy by reason of an insured loss would increase over time.

~~Currently, with respect to non-perpetual insurance policies that have an Inflation Adjustment Endorsement, the increase in policy limits is based on a fixed percentage.~~

~~After the closing of the Demutualization Transactions, and effective with respect to each non-perpetual policy on the next renewal date of the non-perpetual policy in question that follows the closing of the Demutualization Transactions, with respect to non-perpetual insurance policies with Inflation Adjustment Endorsements, the increases in policy limits will be based on a rate determined by an index prepared by a third party that estimates replacement cost inflation. Saucon Mutual anticipates that this flexible rate will more accurately track replacement cost inflation. Also, if it is determined by a third party survey/inspection service that the limits of liability are too high for certain coverages, the limits will be reduced.~~

Special Note Regarding Amendments to Policies

~~In conjunction with the changes to the Inflation Adjustment Endorsements described above, the Converted Insurance Company intends to implement a program to periodically survey each of the properties that it insures which are subject to an Inflation Adjustment Endorsement, and determine the Current Estimated Cost of Replacement (“CERC”) of each of those properties. The survey information would be used to determine if the amount of insurance on a covered property is appropriate and, if not, to adjust upward or downward, as appropriate, the amount of coverage to be in accordance with the CERC for that property.~~

Certain Tax Considerations

This section discusses generally what Saucon Mutual believes to be the principal U.S. federal income tax consequences under current law for the payment of consideration to the ~~policyholders~~ members as contemplated by the Plan of Conversion. This discussion does not address how the federal income tax rules affect all of the possible types of ~~policyholders~~ members, some of whom may be subject to special rules not discussed here, nor does this discussion address state, local or foreign tax consequences, which can vary widely.

Saucon Mutual does not provide tax advice and this discussion is not intended to be tax advice. Please consult your tax advisor to determine the federal, state, local and any applicable foreign tax consequences of the Demutualization Transactions in your particular circumstances.

Return of Deposits to Members Who Are Perpetual Policyholders. Part of the cash payment being made to members who are perpetual policyholders will be a return by Saucon Mutual of a portion of the ~~policyholder's~~ member's funds that are held on deposit. In general, a return of deposits to a ~~policyholder~~ member should not be taxable.

Cash Payments. In general, cash that is paid to a ~~policyholder~~ member as contemplated by the Plan of Conversion (other than the partial return of deposits) is treatment as payment for the ~~policyholder's~~ equity-member's membership interest in Saucon Mutual. The payment generally will result in a long- or short-term capital gain for tax purposes, depending upon whether the ~~eligible policyholder~~ member in question owned his, her or its policy for more than one year at the time the cash is paid to the ~~policyholder~~ member. Most individuals who are U.S. citizens or residents should report the amount of

the cash received as gain from “Saucon Mutual Insurance Company” on Schedule D of IRS Form 1040. Saucon Insurance Company will report cash payments to the IRS and to the ~~policyholders~~ members and withhold any applicable tax payments to the extent required by law.

~~Changes in Endorsements. The changes in the policy endorsements should not be taxable because they reflect a change in the pricing of insurance products provided to or available to policyholders in the future.~~

Effect on Policies Purchased After Adoption of Plan by the Board of Directors

Saucon Mutual does not intend to issue any new insurance policies prior to the closing under the Plan of Conversion. Consequently, Saucon Mutual will not issue any policies after the date that the Plan of Conversion was adopted by its board of directors and before the closing of the Demutualization Transactions.

DESCRIPTION OF DEMUTUALIZATION TRANSACTIONS

The closing of all of the Demutualization Transactions will occur simultaneously except for the entity reorganization that will cause the Agency to become a wholly-owned subsidiary of Saucon Holding Company, which will occur promptly after the closing of the other Demutualization Transactions. The Demutualization Transactions are described below:

Demutualization of Saucon Mutual

Saucon Mutual will be converted from a mutual insurance company into a stock insurance company called "Saucon Insurance Company". Saucon Mutual's articles of incorporation will be amended and restated in the form attached as exhibits to the Plan of Conversion to reflect the name change and to reflect its organization as a stock insurance company, and its bylaws will be amended and restated in the form attached as exhibits to the Plan of Conversion. A description of the material changes in the articles of incorporation and bylaws is set forth below under the heading "Description of Changes in Governance."

Saucon Insurance Company will issue and sell 1,000 shares of its capital stock to Saucon Holding Company for an aggregate purchase price of \$1,425,000. Those shares will constitute all of the outstanding shares of Saucon Insurance Company, so that Saucon Insurance Company will be a wholly-owned subsidiary of Saucon Holding Company.

The directors and officers of Saucon Mutual who are in office immediately prior to closing will remain in office as directors and officers of Saucon Insurance Company.

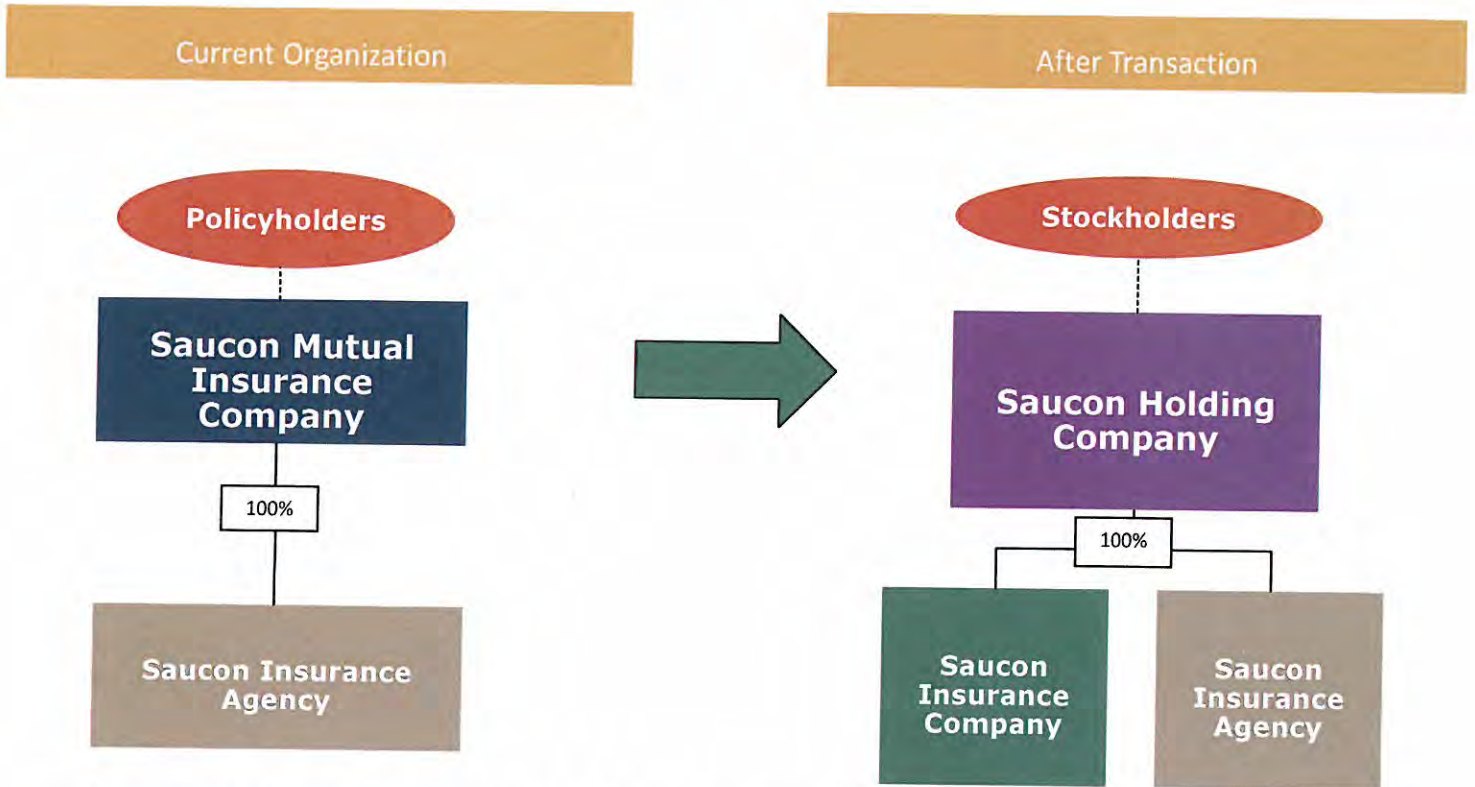
Charitable Contribution

The converted company will make a \$1,000,000 charitable contribution to the Lehigh Valley Community Foundation, to be held and applied as described in this ~~policyholder~~-member information statement under the heading "Description of Charitable Contribution".

Closing of Stock Offering by Saucon Holding Company

Saucon Holding Company will sell 3,250,000 shares of its capital stock to investors for a subscription price of \$1.00 per share, as described in this ~~policyholder~~-member information statement under the heading "Description of Stock Offering of Saucon Holding Company". The stock of Saucon Holding Company being issued in that capital offering will constitute all of the outstanding shares of capital stock of Saucon Holding Company. As a result, the investors in that capital offering will hold all of the outstanding stock of Saucon Holding Company.

The following diagram illustrates the effect of the transactions:



Immediately following the closing, the following transactions will occur:

Entity Reorganization of the Agency

Saucon Insurance Company will make a distribution to Saucon Holding Company (its sole stockholder) of all of the capital stock of the Agency, with the result that the Agency will become a direct wholly-owned subsidiary of Saucon Holding Company and will be a sister company (rather than a subsidiary) of Saucon Insurance Company. This distribution will occur immediately after the closing of the demutualization.

As promptly as practicable following the closing, the following transactions will occur:

Payment of Consideration to ~~Policyholders~~Members

Saucon Insurance Company will pay to each of the Saucon Mutual ~~policyholders~~members their respective consideration as described in this ~~policyholder~~member information statement under the heading “Description of Consideration to ~~Policyholders~~Members”.

Circulation of New Insurance Policy Declarations and/or Amendatory Endorsement

Because of ~~the changes in the endorsements of the insurance policies (as described in this policyholder information statement under the heading “Description of Consideration to Policyholders”)~~ and the changes in the policyholders’ rights (as described in this ~~policyholder~~member information statement under the heading “Description of Changes in Policyholders’ Rights”), Saucon Insurance Company will prepare either new declarations and/or an amendatory endorsement for its insurance policies and will deliver them to the policyholders following the closing.

DESCRIPTION OF CHANGES IN POLICYHOLDERS' RIGHTS

Saucon Mutual is a Pennsylvania mutual insurance company. The policyholders' current rights in their capacity as members of the company are set forth in Saucon Mutual's articles of incorporation and bylaws, and under the Pennsylvania Business Corporation Law. From and after the closing of the Demutualization Transactions, policyholders of Saucon Insurance Company (the stock insurance company into which Saucon Mutual will be converted) will no longer be members of the company and will therefore no longer enjoy those rights. This section summarizes the material changes in rights that the policyholders of Saucon Mutual will experience upon the closing of the Demutualization Transactions.

Voting rights.

Policyholders in their capacity as members of a mutual insurance company have the right to vote on certain matters, such as electing the company's board of directors and approving certain fundamental transactions such as a demutualization, a merger, a liquidation of the company or a sale of all or substantially all assets. Once the company demutualizes and becomes a stock corporation, those voting rights are enjoyed by the company's stockholders rather than its policyholders.

Dividends.

The board of directors of a mutual insurance company has the right to cause the company to declare and pay dividends (subject to restrictions under applicable law), which are then paid to the policyholders in their capacity as members. Once the company demutualizes and becomes a stock corporation, dividends may be payable to stockholders and/or policyholders if and as declared by the board of directors, and subject to restrictions as provided by law. Policyholders will not have the right to share in the surplus of the company.

It should be noted that Saucon Mutual has not declared or paid any dividends in at least the past 25 years, and the board of directors does not have any present plans to declare or pay any dividends in the foreseeable future, whether or not the Demutualization Transactions close, with the exception of the distribution of the stock of the Agency to Saucon Holding Company, as described under the heading "Description of Demutualization Transactions".

Excess of liquidation proceeds over liabilities.

Pennsylvania law provides that upon the voluntary dissolution of a mutual insurance company that is not a life insurance company, after discharging or making adequate provision for the company's liabilities, the assets that may not be properly credited to policyholders and members are to be escheated to the Commonwealth of Pennsylvania. This contrasts with the right of stockholders of a stock corporation, who generally have the right to share in the distribution of the assets of a liquidating corporation that remain after discharging or making adequate provision for the discharge of all of the corporation's liabilities.

Because the policyholders of a mutual insurance company incorporated in Pennsylvania do not have the right to share in the liquidation proceeds, Saucon Mutual does not believe that the Demutualization Transactions will materially affect the rights of its policyholders with respect to a liquidation of the company.

DESCRIPTION OF CHANGES IN GOVERNANCE

Upon the closing of the Demutualization Transactions, the articles of incorporation and bylaws of Saucon Mutual will be amended in order to reflect its conversion into a stock insurance company. The following table summarizes the key changes in the governance of Saucon Mutual:

	Saucon Mutual Insurance Company (before closing)	Saucon Insurance Company (after closing)
Authorization of Stock	None.	1,000 shares of capital stock authorized, all of which will be issued to Saucon Holding Company.
Election of Directors	Election by members of Saucon Mutual (1 vote per member)	Election by Saucon Holding Company, which will be the company's sole stockholder
Initial Makeup of Board of Directors	Brian T. Regan (Chairman) Susan C. Drabic (Vice Chairman) Phillip J. Bell Michael Crofton Martin C. Gilchrist Donna B. Donna Jean Goss Riek Richard E. Santee, Jr. Bernard J. Story	No change. The incumbent board members will continue to serve until the expiration of their terms, or until their death, resignation or removal. These individuals will also be the initial board members of Saucon Holding Company.
Initial Officers	Brian T. Regan (Chairman) Susan C. Drabic (Vice Chairman) Stephen Bajan (CEO) <u>Brian T. Regan (President)</u> Phillip J. Bell (Secretary) Martin C. Gilchrist (Treasurer)	No change. The incumbent officers will continue to serve until the expiration of their terms, or until their death, resignation or removal. These individuals will also be the initial officers of Saucon Holding Company.
Board members' term of office	Three years. The board is divided into three classes with overlapping terms of office so that approximately one-third of the board members are subject to election every year.	No change.
Term limits of directors	Saucon Mutual's bylaws provide that all directors other than Phillip J. Bell and Susan C. Drabic may be elected to a maximum of five three-year terms.	No change, except that the closing will result in the "reset" of term limits so that all incumbent directors will be considered to be serving their first term.
Holding company	None	Saucon Holding Company will be the company's sole stockholder. The stockholders of Saucon Holding Company (who will be the investors who acquired stock in the stock offering described in this memorandum under the heading "Description of Stock Offering of Saucon Holding Company") will elect the directors of Saucon Holding Company, having one vote per share. The bylaws of Saucon Holding Company will be substantially similar to those of the converted insurance company. The boards of directors of both companies will consist of the same individuals.

DESCRIPTION OF CHARITABLE CONTRIBUTION

Upon the closing of the Demutualization Transactions, Saucon Insurance Company will make a \$1,000,000 contribution to the Lehigh Valley Community Foundation, which is to be used to establish the “Saucon Insurance Company Foundation Fund.” The Lehigh Valley Community Foundation is a philanthropic foundation established in 1967 that promotes and encourages philanthropy in the Lehigh Valley region, which is the region in which Saucon Mutual’s operations are conducted and where most of its ~~policyholders~~ members are located. Its website is <http://www.lehighvalleyfoundation.org/>. Saucon Mutual determined that the contribution to the Lehigh Valley Community Foundation was more cost-effective and straightforward than establishing a separate, new foundation.

The Lehigh Valley Community Foundation will make disbursements from that fund from time to time for charitable purposes in accordance with recommendations made by the contribution committee of the Converted Insurance Company’s board of directors. The members of that contribution committee will not receive compensation for serving on that committee or attending its gift recommendation meetings.

The Lehigh Valley Community Foundation will be entitled to receive a fee for maintaining the Saucon Insurance Company Foundation Fund. Bernard J. Story, the President and CEO of the Lehigh Valley Community Foundation, is a member of the board of directors of Saucon Mutual, but will receive no compensation directly tied to the Converted Insurance Company’s contribution to the Foundation.

DESCRIPTION OF STOCK OFFERING OF SAUCON HOLDING COMPANY

Stock Offering

As part of the Demutualization Transactions, Saucon Holding Company will close an offering of capital stock to certain investors concurrently with the closing under the Plan of Conversion. The investors who subscribe for stock of Saucon Holding Company in that offering will become all of the stockholders of Saucon Holding Company.

The investors in the Saucon Holding Company stock offering will subscribe for 3,250,000 shares of Saucon Holding Company’s common stock at a subscription price of \$1.00 per share. This means that if the closing occurs, Saucon Holding Company will receive \$3,250,000 in gross proceeds from the stock offering.

Description of Saucon Holding Company

Saucon Holding Company was organized for the purpose of the transactions contemplated by the Plan of Conversion. It has not issued any shares of capital stock and it has not engaged in any business activities. Upon the closing of the Demutualization Transactions, Saucon Holding Company will become the sole stockholder and parent company of Saucon Insurance Company (the stock insurance company into which Saucon Mutual will be converted when it demutualizes). Immediately after the closing by virtue of the entity reorganization described under the heading “Description of Demutualization Transactions – Entity Reorganization of the Agency”, Saucon Holding Company will

also become the sole stockholder and parent company of the Agency. The articles of incorporation and bylaws of Saucon Holding Company are attached as exhibits to the Plan of Conversion.

Participants in Stock Offering

The proposed demutualization of Saucon Mutual is not a subscription rights demutualization. This means that ~~policyholders~~ members of Saucon Mutual, in their capacity as such, are not being offered the right to participate in the capital offering and subscribe for shares of stock of Saucon Holding Company. Instead, the ~~policyholders~~ members of Saucon Mutual will receive the consideration described in this ~~policyholder~~ member information statement under the heading “Description of Consideration to ~~Policyholders~~ Members”.

Nine individuals were invited to, and are expected to, subscribe for stock of Saucon Holding Company in the offering. These individuals are board members and members of management of Saucon Mutual. Saucon Mutual expects that three of these individuals will acquire, in the aggregate, approximately 91% of the Saucon Holding Company shares that will be offered, and the other six individuals will acquire, in the aggregate, the balance of the Saucon Holding Company being offered. In order to ensure that the stock offering would be treated as an offering exempt from the registration requirements under federal and state securities laws to minimize the costs and expenses of the stock offering, and in order to assure a continuity of control of the company, no other investors were invited to participate in the stock offering.

Use of Proceeds of Stock Offering

Saucon Holding Company intends to use the proceeds of the stock offering as follows:

Use	\$
Costs and expenses of the Demutualization Transactions (which include the fees of Saucon Mutual’s financial advisor to prepare and deliver the fairness opinion, the fees and expenses of counsel, the fees and expenses of tax and accounting advisors, filing fees with the Pennsylvania Insurance Department, and printing, filing and mailing expenses).	\$700,000 (estimated)
<u>Purchase of 1,000 shares of capital stock of Saucon Insurance Company</u>	<u>\$1,425,000</u>
Cash reserve to be held by Saucon Holding Company	\$2,550,000 <u>\$1,125,000</u> (estimated)

The proceeds of the stock offering will exceed the sum of the cash payments to be made to the ~~policyholders~~ members of Saucon Mutual, the amount of the charitable contribution to be made by Saucon Mutual, and the estimated costs and expenses of the Demutualization Transactions. This means that after the closing of the Demutualization Transactions, the total assets of Saucon Holding Company on a consolidated basis will be greater than the total assets of Saucon Mutual before the closing.

FAIRNESS OPINION OF BOENNING & SCATTERGOOD

Saucon Mutual engaged the firm of Boenning & Scattergood as its advisor in connection with the Demutualization Transactions and to provide to the board of directors its opinion as to whether those transactions prejudice the interests of the members of Saucon Mutual, are fair and equitable to the company, and are consistent with the purposes and intent of Pennsylvania's Insurance Company Mutual-to-Stock Conversion Act, from a financial point of view. Boenning & Scattergood is an investment banking firm that specializes, among other things, in representing financial institutions such as mutual insurance companies.

On August 27, 2014, Boenning & Scattergood orally delivered, and subsequently confirmed in writing, its opinion to the board of directors of the company that, based on certain analyses and studies it performed, and subject to certain assumptions and caveats outlined in its opinion and in its accompanying presentation, the Demutualization Transactions did not prejudice the interests of the members of Saucon Mutual, were fair and equitable to the company, and were consistent with the purposes and intent of Pennsylvania's Insurance Company Mutual-to-Stock Conversion Act, from a financial point of view, as of that date. The full text of that opinion is attached as Exhibit 4 to this ~~policyholder~~ member information statement.

RECOMMENDATION OF THE BOARD OF DIRECTORS

On ~~August 27~~ February 4, 2014 2015, the board of directors of Saucon Mutual unanimously approved and adopted the Plan of Conversion. **The board of directors of Saucon Mutual recommends that you vote:**

“FOR” the adoption of the Plan of Conversion; and

“FOR” the related amendment of Saucon Mutual's articles of incorporation.